

CREATIVITY AND INNOVATION IN THE MUSIC INDUSTRY

by
PETER TSCHMUCK



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PREFACE

When my *Habilitation* (the tenure research document for my professorship) was published for the first time by StudienVerlag in 2003, I did not expect that a scientific study such as this would reach such a large readership in the German-speaking world. However, public discussion at that time was coincidentally focused on the structural break within the music industry, culminating in a controversial debate about the causes and consequences of that revolution. While I did not intend to address the current discussion regarding the development of the music industry, it nonetheless appeared to be the right time to publish such a book. Timing, in other words, matters!

The unexpected acceptance of my book by the Austrian and German readership inspired me to consider publishing it in English as well. The book provides an explanation for the emergence of innovation and creativity in the music industry by retelling and interpreting its history, from Thomas Alva Edison's invention of the phonograph in 1877 to the latest innovations such as MP3-files and iPods. The global nature of this history causes me to believe that this book is going to be of interest to an international readership as well. My hope is that this translation will be received with the same level of warmth and generosity that the publication of the German original enjoyed.

Vienna, August 31st 2005

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Although the book cover identifies me as the sole author, this book would not exist in its present form without its translator, Marco Abel. I would like to thank him for his engaging translation of the German original; his labor gave rebirth to my work in a faithful, yet stylistically autonomous manner. I hope that we will have the opportunity to collaborate on many more projects in the future. I would also like to thank Jennifer Wijangco, who invested so much time in her thorough editing of the book. With the help of her precise and reliable proofreading abilities, she put the finishing touch on the text. Since a translation of a book is very costly, this project would not have been possible without Springer's financial and moral support of the translation process. I would like to extend my sincere gratitude to Cathelijne van Herwaarden for believing in this project from the start and for promoting it, and I wish to thank Herma Drees for her assistance in the preparation of the manuscript. In addition, I greatly appreciate the Austrian Ministry of Education, Science, and Culture's generous support of the translation in order to make my book available to an international readership. Last but not least, I would like to thank all my colleagues, students, and friends for helpful feedback and comments on the German version of the book.

INTRODUCTION

1. AIM AND STRUCTURE OF THE BOOK

The book's title, *Creativity and Innovation in the Music Industry*, might lead some readers to believe that I will offer the ultimate explanation for how creative and innovative music is made. My intention, however, is not to provide a manual for "creative" or "innovative" work. Rather, I will subject "creative" or "innovative" work to a precise analysis. Nevertheless, I hope the reader will not discard the book out of disappointment and instead accompanies me on a journey through the history of the music industry during the 20th century in order to eventually obtain *one*, though not *the*, answer to the question of how novelty is created in the music industry.

I speak quite consciously of the "music industry," even though for good parts of this book I will be concerned specifically with the history of the phonographic industry. The term "phonographic industry" refers to a business area in which a large part of the creation of value is accomplished through the production and distribution of phonograms. To solely focus on the producers of phonograms would, however, result in a completely distorted picture of the connections within the industrial production of music. The production of phonograms is unthinkable without the music publishers providing the "creative" raw material for the production of music in the form of copyrights. Further, the distribution of phonograms is inextricably connected with the promotion of music content. In the efforts to distribute music to the public, broadcasting plays as crucial of a role as concert promoters, whom the phonogram companies consider advertisers of their products. In this network of industrial music production we must also consider the royalties-collecting societies that regulate the compensation of musicians, as well as the publishing and phonographic companies. Likewise, the music instrument industry is closely related to the phonographic industry, not only because it provides part of the technical equipment used for the production of music in the studio, but also because phonograms became the most important advertising medium for its products (i.e., electric guitars, drums, synthesizers, etc.) ever since the birth of rock music. All these relations can be made visible only when turning the entirety of the music industry into an object of and for scientific research.

It should thus be obvious that my use of the term "music industry" does not pejoratively label the big phonographic industries, as this is sometimes the case in everyday language. Rather, with the term "music industry" I delineate a network in which the production and distribution of music occurs in a process relying on the division of labor and the help of the latest technologies. In such a way, the mass consumption of music becomes possible.

This type of music production can be traced back to the end of the 18th century when the system of feudal rule began to disintegrate and its cultural outlet, the court, lost its social dominance due to socio-economic circumstances. Artists and especially musicians, whose existence had been enabled by the court-system up until that point, had to continue their work in a new context, which did not transpire without crises in the transitional period. What today might appear as the former court musicians' emancipation from a feudal-absolutist aristocracy constituted for many nothing short of a social catastrophe. At the end of the 18th century, the court laid off many composers and musicians, because the aristocracy could not or did not want to pay for expensive court orchestras anymore. Since the structures of a market economy were not yet sufficiently developed, only a few of the newly unemployed succeeded at building a new life. These few, however, recognized the economic opportunities afforded by the emergence of a music publishing industry and a public concert culture. For instance, in the 1780s Wolfgang Amadeus Mozart managed to escape the court of the archbishop of Salzburg, where he served as an organist, and started an independent economic existence as a composer and musician in Vienna (Braunbehrens 1986). Likewise, Joseph Haydn, who for the better part of his life worked as a court musician, managed to succeed economically as a composer after the termination of the Esterházyian "Hofkapelle" (Somfai 1989). Mozart and Haydn were precursors of a new generation of self-confident composers who generated their income in the free market and no longer needed attachment to the court. Ludwig van Beethoven is without a doubt the prime example for this new type of composer; though surrounded by courtly benefactors, Beethoven did not depend on them for his livelihood anymore, since as an independent artist he sold his efforts in the marketplace (Tschmuck 2001a).

However, Beethoven's rise as a music titan was possible only because of new production conditions. As a music composer, he now dealt with an anonymous, largely bourgeois audience that received his works in various ways, as opposed to negotiating only with one prince or his royal household. The most important basis for this new form of reception was printed sheet music, which offered piano extracts as well as adaptations for other instruments and small ensembles. A labor-sharing, industrial production process had to replace one based on small business structures, since music was now made for a mass audience rather than for a small courtly circle of music lovers. Music publishers, which were small companies in the 18th century, developed into industrial corporations in the 19th century that rationalized each individual aspect of the labor process. Large print runs and cost advantages could thus be attained.

Until the beginning of the 20th century, the music publishing industry sat center-stage in the music industry's value-added chain. This changed around 1900, however, due to the quick distribution of phonograms and phonographs that surfaced. Thus, the invention of the phonograph triggers a process by which the phonographic industry becomes part of the music industry. Chapter 1 describes this process by showing how these new technological possibilities were integrated with the existing structures of music production. Although the phonographic industry was not yet at the center of the music industry, it began to dramatically alter the production and distribution processes. I will map out the changing conditions of

The formation of the explanatory model for creativity and innovation in the music industry (chapter 11) is based on an interactive analytical approach (see Hasitschka 1997: 35-41) that merges the level of value of the industrial production of music (music as cultural symbol) with the level of practice (agents in the music industry and their interactions). The result is a model of action that fashions creativity and innovations as part of an interactive process that considers social, economic, technological, legal, and other aspects. Hence, insights from economic disciplines (such as innovation theory) contribute as much to the model as those gained from the arts and sciences or sociology. I thus offer a study that might very well be one of the first to exemplify an extended application of the research principles of culture institution studies.

production not only on the economic and technological level, but also on the level of music aesthetics. The goal is to enable an integrated, quasi-systemic, view of technological, economic, social, and aesthetic processes of change.

Chapters 2 through 9, then narrate the many facets of the music industry's history in the 20th century. This description, however, does not merely constitute a chain of historical facts. Rather, the aim of this descriptive method is to point out structural connections and breaks between the phenomena of change. Therefore, in chapters 2 and 3 I will clearly show how in the 1920s a structural break—the Jazz revolution—allowed the broadcasting industry to assume a dominating role in the music industry's value-added chain, thus enabling it to enforce its logic of production and distribution onto music publishers and phonogram producers. Chapters 4 and 5 describe the rise and fall of the broadcasting medium as the most important factor in the industrial production of music, while simultaneously documenting the fall and subsequent resurgence of the phonographic industry. Chapter 6 calls attention to a second structural break—the Rock 'n' Roll revolution of the 1950s—that once again completely altered the music industry's logic of production, distribution, and reception. This break allowed the phonographic industry to assume power in the value-added process and to subordinate all other protagonists to its own logic of production and distribution. Since the 1950s, the music industry is at its core a “phonographic industry,” and chapters 7 through 9 present its evolution from the 1960s to the present in great detail. Chapter 9 finishes the descriptive part of this book by calling attention to a possible new structural break caused by digitizing music content.

Up until this point this book could be read as a history of the music industry during the 20th century, though I lay no claim to having exhausted the subject matter. I describe and analyze the most important technological and aesthetic innovations, but not all. Because it did not help my later modelling of the process of creativity and innovation in the music industry, I omitted a discussion of various dance fashions. For the same reason, I mention only in passing phenomena such as Reggae, World music, Folk music, and regionally significant music styles. Likewise, I did not investigate the connection between music industrial centers and peripheries, partly because some excellent studies have already addressed this issue (Wallis and Malm 1984, Gebesmair and Smudits 2001), and partly because the development and ruptures of the music industry reveal themselves more forcefully at its centers. Specific music styles and genres are not covered throughout their entire existence—to accomplish this one would have to write an encyclopedia—but are addressed only during the period in which those styles and genres had their greatest impacts. For example, I follow the evolution of Jazz music only into the 1950s, after which point it lost its dominating power in the music industry and retreated into market niches such as Bebop, Cool Jazz, Hard Bop, Free Jazz, and various revivals.

Nonetheless, this book can be read as a first approximation of an international history of the music and phonographic industry. The few existing studies dealing with this subject either limit their focus to the music industrial development in the United States, especially the history of popular music (Gillet 1971, Chapple and Garofalo 1977, Hamm 1983, Sanjek and Sanjek 1991, Garofalo 1997); or assume international perspectives but lose themselves in anecdotal details (Riess 1966,

Gronow and Saunio 1998). Only one study (Kuhnke et al 1976) successfully presented the music industry's conditions of production on a global scale with all the attendant social, economic, and technological implications; unfortunately, its analysis does not extend beyond the 1950s and covers only the production of popular music. A history of the music industry comprehensively covering industrial music production throughout its existence and in all its aspects is yet to be written.

This study has recourse to the history of the music industry in order to accomplish another goal – the search for an explanation for the emergence of novelty in the music industry. To this end, I will critically discuss in chapter 10 various theories of innovation and creativity. However, these theories, which were developed in very scientific contexts, are insufficient for my purposes; therefore, I found a need to develop a more general explanatory model. Specifically, an integrated model of innovation and creativity is required that, on one hand, encompasses already existing approaches, and, on the other, is capable of explaining processes of change that occurred throughout the history of the music industry. In chapter 11, I derive this explanatory model from the empirical material presented in the preceding chapters. Rather than pretending to offer a generally valid theory of creativity and innovation, I see my work expressing an epistemological humility: I am merely concerned with generating a model capable of explaining how different levels of novelty emerged and succeeded in the music industry of the 20th century. In the final chapter, I will apply this model to the value-added chain as it currently continues to dominate the industrial production of music and investigate the industry's current potential for creativity and innovation.

2. IMPLICATIONS OF CULTURE INSTITUTIONS STUDIES

Consistent with my own theoretical approach, I view the explanatory value of this study not in generating completely new models but in synthesizing already existing explanations into new approaches. To this end, I use typically disparate scientific fields of study, such as theories of innovation based on economic research and psychological and sociological theories of creativity, and combine them with the discourse of popular music research. This interdisciplinary approach and application of different fields of scientific study corresponds to a scientific method approach promoted by culture institutions studies as practiced at the Institute of Culture Management and Culture Studies at the University of Music and Performing Arts in Vienna.

The scientific approach of culture institutions studies derives from Werner Hasitschka's work and aims for an "interdisciplinary, scientific explanatory knowledge of culture institutions" (Hasitschka 1997: 89), with "culture institutions" meaning "(institutional) organizations that primarily offer values and norms (ideas)" (88). However, "culture institutions" refers not only to organizations but also explicit rules and implicit patterns of action and convention that constitute and stabilize cultural praxis (Hasitschka, Tschmuck and Zembylas 2002) and thereby converge to an institutional frame. A culture institution is thus an institution that specializes in the production of cultural symbols. This production of symbols is,

however, only one side of the coin. The flipside, which cannot be separated from the production of symbols, is the economic transformation of cultural symbols into cultural goods. It is the emergence of cultural goods, especially in advanced industrial and market-economy societies, that provides the focus for the scientific efforts of culture institution studies (Figure a).

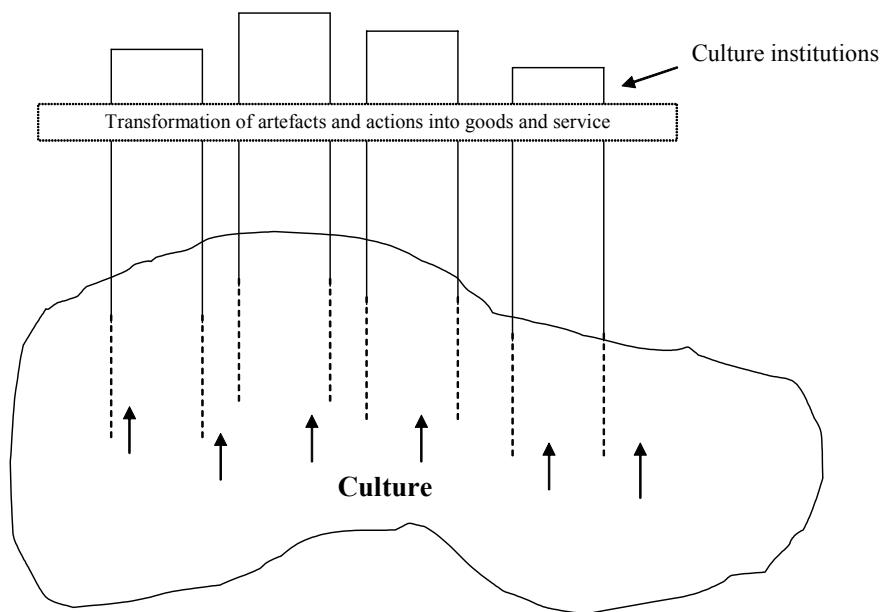


Figure a. Emergence of cultural goods.

However, cultural goods and services should not automatically be viewed as scarce. The phenomenon of scarcity emerges only when the availability and existence of these goods and services is perceived to be insufficient. Scarcity is a product of the exchange function inherent to goods and services through which they acquire economic value. The exchange function can thus be called an economic function as well. Cultural goods and services acquire this exchange function if they are perceived to be scarce. They acquire a quasi-economic charge without losing their cultural symbolic function in the process. They differ from other economic goods primarily in that the simultaneity of the symbolic and economic functions are implicit and thus impossible to eliminate. Cultural goods must therefore be accounted for in their entire functionality—symbolically as well as economically. Their economic function cannot be fully understood without their symbolic function and vice versa.

Since culture institutions—organizationally and sociologically—comprise cultural goods, culture institutions studies focuses its attention on organizational

structures of the institutional frame of action and the processes developing within it. The goal is to ensure a simultaneous explanation of the economic and symbolic function of cultural goods and services.¹ This concept is understandably more than a management theory of cultural organizations. While culture management studies focuses purely on how to adapt management tools to art and culture, culture institution studies encourages the concurrent analysis and interpretation of social, political, and economic functions of cultural symbols. Culture institution studies thus gains its insights from cultural studies and economics; yet, culture institution studies should not be understood as merely being part of the other disciplines but instead as providing new contributions offering different qualities.²

In summary fashion we can say that culture institution studies emphasizes the following research agendas (see Hasitschka, Tschmuck, and Zembylas 2002):

- (1) The explanation of the process by which cultural goods form significant, symbolically charged entities and of their transformation into objects possessing economic exchange value.
- (2) The analysis of those cultural practices and their institutional embedding that characterize the production and circulation of cultural goods in a constitutive and regulative way.
- (3) The research of the specific characteristics of cultural institutions as organizational entities.
- (4) The examination of the social organization of art and cultural jobs as well as other activities (i.e., consumption, reception, etc.).

The book at hand participates in the area of research delineated by culture institution studies. The music industry is understood as an institution in which cultural symbols (music) are turned into objects of exchange, thus charging the symbolic entities economically. The interdisciplinary approach is meant to prevent, for instance, economic aspects becoming the sole object of investigation and instead to ensure consideration of this field's cultural practices in their entirety. In so doing, this study emphasizes the creation of novelty in front of the institutional background provided by the music industry. We have to answer the question of how novelty emerges and prevails under the respective conditions of the culture institution "music industry." Methodologically, this study mobilizes a historical context analysis that allows us to consider the respective peculiarities of the conditions of the emergence of novelty in the context of the music industry's development. The historical-descriptive chapters 1 through 9 specifically attend to this task.

¹ Compare the action-theoretical approach of culture institution studies developed by Zembylas (2002).

² For an extended justification of culture institution studies as an interdisciplinary approach, see Zembylas (2004).

CHAPTER 1

THE EMERGENCE OF THE PHONOGRAPHIC INDUSTRY WITHIN THE MUSIC INDUSTRY

1. THE PHONOGRAPH AS BUSINESS MACHINE

The music industry did not originate with the invention of the phonograph and the record but with the beginning of mass distribution and the commercial use of music. We can thus speak of a music industry from the moment that music production and consumption severed ties with the context of the feudal court and church. Of course, we cannot determine an exact date, since we are talking about a developmental process characterized by a seamless transition from a feudal court culture to that of a bourgeois-capitalistic one. Even though the printing of sheet music was invented in 1501, this alone did not constitute an industry as such; it was merely a business, since the technology of copper engraving allowed for all but a few manually produced copies designated for an elite of aristocratic consumers.

The foundation of the industrial basis for the music industry only resulted from the interplay between a blossoming music publishing business and an emerging public music concert culture in the 18th century.³ Concert and opera promoters arranged successful public performances of music; music publishers subsequently distributed these performances in forms of sheet music and adaptations for various instruments. Consequently, music publishers and concert promoters assumed the function of institutional gatekeepers who decided which music reached the public and in what specific form, thus determining the parameters within which creativity was able to unfold (Tschauder 2001a). They decided the fortunes of composers and practicing musicians' careers, which led Heinrich Heine to write a pamphlet attacking the omnipotent Parisian music publisher Moritz Schlesinger: "I witnessed with my own eyes how certain famous musicians cowered at his feet and crawled and wagged their tails in order to receive some praise in his journals; and about our highly-praised virtuosos, who in all of Europe's capitals are being celebrated like princes, we could justly say that the dust of Moritz Schlesinger's boots is still visible on their laurel crowns."⁴

These gatekeepers did not just control artists but also dominated the subsidiary elements of the value-added chain. Owners of coffeehouses and dance bars, as well

³ The first publicly accessible opera house was the Teatro San Cassio in Venice, which opened in 1637. Violin virtuoso John Bannister gave the first public concert in London in 1672. In Paris, public concerts regularly took place from 1683, in Germany from 1743, and in Vienna from 1772.

⁴ Heinrich Heine (*Lutetia-Berichte über Politik, Kunst und Volksleben: Musikalische Saison 1843.. Paris, den 20. März 1843*).

as operators of amusement parks, concert halls, and opera houses, depended on the impresarios' mediating activities. In addition, the steady increase in music instrument production, especially that of pianos, would have been unimaginable without the exponential growth of repertoire available on sheet music.

At the heart of the music industry during the last third of the 19th century were music publishers and promoters, whose market power depended on the technological base of music concerts and the subsequent distribution of music through mass-produced sheet music.

Sheet music was the vehicle for the mass dissemination of music, and music publishers were at the center of the music business (Garofalo 1997: 17).

Their power became most obvious in Tin Pan Alley, a street section in New York City that encompassed parts of Broadway and 28th Street, where countless music publishers and songwriters lived and worked.⁵ In close proximity to the vaudeville theatres, publishers controlled the mainstream of U.S. entertainment music and had enough power to turn songwriters, lyricists, and singers into stars. A primary means for accomplishing this feat was the printed sheet music of popular songs that were currently played in vaudeville comedies. Thus, more than 2.4 million copies of "All By Myself" sold in 75 weeks, 2 million of "Nobody Knows" in 70 weeks, and more than 1.7 million of "Say it with Music" in 75 weeks (Goldberg 1930: 218). And 5 million copies of Tin Pan Alley composer Charles K. Harris' "After the Ball" sold in just a few years after its publication in 1892 (Hamm 1983: 285).

The control of printed sheet music was the technological prerequisite for the music publishers of Tin Pan Alley to be commercially successful. If, on top of this, they also bet on the right horse at the right time—that is, if they published the right song at the right time—they could harvest enormous profits. However, the potential for such profits was mitigated by the financial risk of poorly selling sheet music.

In all of this, little room existed for technological and musical experiments, and the latest invention of Thomas Alva Edison—a machine to record the human voice—did thus not draw the attention of the various Tin Pan Alley protagonists. The invention of the phonograph, as it was soon called,⁶ was probably not even noticed by the centers of the music industry.

Yet, it was not simply the mighty of the music industry but also Edison himself who initially failed to recognize the commercial potential of his invention. This is all the more remarkable since shortly after Edison presented the phonograph to the public, the possibility of music reproduction was indeed recognized but not seriously considered.⁷ Even before the patent for the Edison-phonograph was issued in the

⁵ "Tin Pan Alley" became synonymous with those musicians who worked under contract with music publishers. According to legend, the term "Tin Pan Alley" was coined by a New York journalist who alluded to the tin-like sound of the ill-tuned pianos that could be heard playing in the music publishers' saloons.

⁶ Abbé Lenoir first used the term "phonograph" in October 1877 in an article he wrote for the magazine *La Semaine du Clergé*.

⁷ The Edison-phonograph was introduced to the publishers and editors of *Scientific American* in the magazine's rooms on December 7, 1877.

spring of 1878,⁸ a letter by *Scientific American*'s publisher, entitled "A Wonderful Invention—Speech Capable of Infinite Repetition from Automatic Records," reported, among other things, about the future applicability of this new invention.⁹ The author raved that from now on it would be possible to archive voices of the deceased or to record phone calls, but also operas and speeches "sung by the greatest living vocalists [that] thus recorded [are] capable of being repeated as we desire." Edison himself had considered the possibility of recording music from the beginning. In an article written for the *North American Review* in June 1878, he lists ten areas of application for his invention. In addition to the possibilities of dictating letters in advance, developing phonographic books for the blind, or storing phone calls, Edison also saw the potential for reproducing music (Gelatt 1955: 29; Galloppi 1987: 11-12; Gronow 1998: 1). That he did not immediately seize upon the possibility of the last application, however, was not merely because of the poor quality of the phonograph's recording and playing—at first, only the human voice could be reproduced with clarity—but also because of Edison's initial dislike for abusing his invention as a "toy" for playing recorded music.

On April 24, 1878, Edison founded the Edison Speaking Phonograph Company. To this end, he assembled financiers who were all closely connected with the telephone industry, which just like the recording industry was still in its infancy. These financiers regarded the future of the phonograph to be in its ability to store phone messages and in its use as an office machine—essentially as a Dictaphone—to store speech.¹⁰

The phonograph was initially viewed as a telephone industry innovation that could be used in an office. The responsible protagonists thus completely fixated on its application as an office machine. The Edison Speaking Phonograph Company was instructed to produce and distribute the phonograph to government agencies and large corporations. However, commercial success remained elusive, and after having produced about 600 machines, production seized in 1879 due to a lack of demand. Before 1879, Edison had already turned away from his invention in order to successfully experiment with electricity and electric light. Astonishingly, after the euphoric celebration of the phonograph's initial success, Edison's invention was soon forgotten.

From 1879 to 1887 the phonograph went into torpid retirement. The tin-foil apparatus had had its day; the public had lost interest; the glorious prophecies were unfulfilled (Gelatt 1955: 33).

No industry had formed around the phonograph. The formation of the phonograph industry occurred ten years after the original invention of the phonograph—as a result of an act of imitation. In 1880, Alexander Graham Bell

⁸ The patent was listed with the number 200.521 at the U.S. patent office on February 19, 1878.

⁹ *Scientific American*, November 17, 1877; cited in Read and Welch (1976: 11-12).

¹⁰ In addition to Edison, the first five shareholders of the Edison Speaking Company were Gardiner G. Hubbard, George L. Bradley, Charles A. Cheever, Hilbourne L. Roosevelt, and Uriah H. Painter. Hubbard was the father-in-law of the inventor of the telephone, Alexander Graham Bell. Hubbard was also simultaneously active in the management of the Bell Telephone Co. and the New England Telephone Co.

created the Volta Laboratory in Washington D.C. with prize money awarded to him by the French Academy of Sciences for his invention of the telephone.¹¹ At the lab, Chichester Bell, his cousin, and Charles Sumner Tainter researched electro-acoustic phenomena. However, the results of their research remained thin. Until 1885 they had applied for only five patents. Among them, though, was a machine called the “Graphophone,” a modified version of the Edison-phonograph. Bell and Tainter had substituted a layer of wax for the tinfoil covering the cylinder, and they had altered the design of the stylus that transmits sound vibrations onto the cylinder during the recording process.¹²

The Graphophone patent was recorded on May 4, 1886,¹³ and Bell, together with Tainter, founded the Volta Gramophone Co., which was taken over in 1887 by a group of investors and renamed American Gramophone Company. However, Bell and Tainter continued to control the production of the Graphophone in Bridgeport. Earlier, they had attempted to come to an agreement with Edison about a collaborative improvement of the phonograph. Edison, however, declined any form of collaboration and began with some urgency to work on an improved version of his phonograph. In 1888 alone, Edison applied for 17 new patents that he incorporated into the development of the “improved phonograph.”¹⁴

Edison accused Bell and Tainter of plagiarizing his invention, claiming that they had merely altered a few minor details. Bell and Tainter, in turn, accused Edison of having copied their patent, since his “improved phonograph” now featured the wax-layered cylinders as well. These arguments would have surely guaranteed the financial losses of the commercial use of the phonograph had it not been for the appearance of entrepreneur Jesse H. Lippincott in 1888.

Having made a fortune in the glass industry, Lippincott had just sold his share of the Rochester Tumbler Company and was looking around for a promising investment opportunity. He noticed the commercial potential of the Graphophone and bought the exclusive distribution rights from the American Graphophone Company for \$200,000. Production remained in the hands of Bell and Tainter. Only in Virginia, Delaware, and the District of Columbia was Lippincott not allowed to operate his business, since the distribution rights for these states had earlier been sold to an investor group consisting of shareholders and leading employees of the American Gramophone Co. These investors eventually founded the Columbia Phonograph Company in January 1889.

However, Lippincott had also cast his gaze on Edison’s “improved phonograph” and invested an additional \$500,000 to purchase the patent rights. Production remained with Edison Phonograph Works. For the purposes of the simultaneous commercial exploitation of the Edison-phonograph and the Graphophone, Lippincott

¹¹ Emperor Napoleon III founded the Prize of the Academy of Sciences in honor of the French physician and researcher of electricity André Volta.

¹² Read and Welch (1976: 31) explain: “The only change which had been made was that instead of using tin foil, wax had been embedded in the grooves of the iron cylinder and into this way the voice vibrations had been incised, rather than indented.”

¹³ U.S. patent number 341.214.

¹⁴ The “improved phonograph” was registered as patent number 386.974.

founded the North American Phonograph Company, which sold distribution licenses for both machines to regional partners. Thus, the same company ended up exploiting both the phonograph and its initial commercial opponent, the Graphophone (Figure 1).

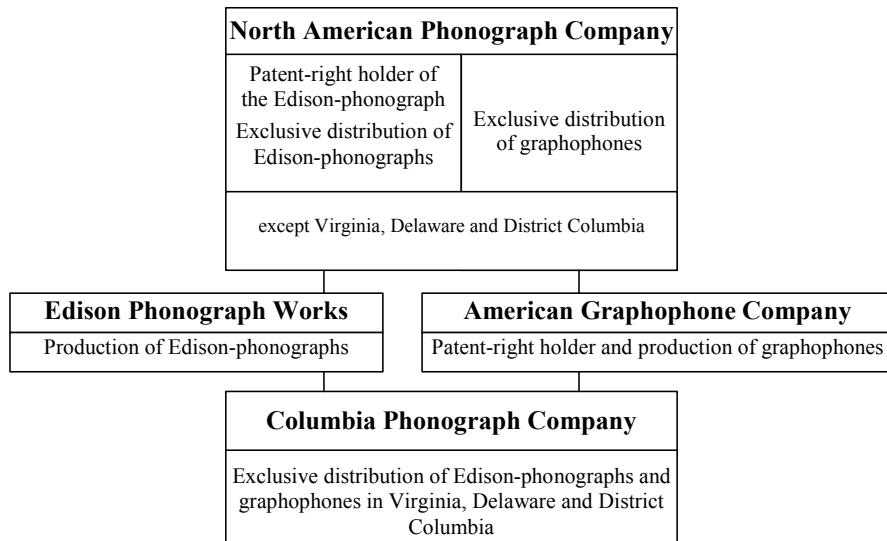


Figure 1. The phonographic industry in the U.S. at the end of 1889.

Still, the protagonists of the phonographic industry continued to assume that the phonograph and Graphophone were primarily machines that were supposed to replace stenographic recordings used at government agencies and courts of law. North American Phonograph therefore began to sell distribution licenses to investors in individual states and urban areas. In a short period of time, distribution companies were founded in 33 regions, which in 1890 began to cooperate and regularly meet under the umbrella of the National Phonograph Association.

At the first plenary meeting on May 28-29, 1890 in Chicago, stenographers and office employees protested against the introduction of the phonograph as a dictation machine. This is one more piece of evidence that in its early period the phonographic industry was a part of the office machine industry. The design of the machines signified their use as office machines. They had large dimensions, were unwieldy, and the Edison-phonograph, improved with the help of an electric motor, was extremely heavy because of its batteries. The machines were not sold but rented for a rather stiff fee of \$40-60 annually. Though the use of the phonograph as a machine for musical entertainment was also discussed, this idea did not assume any significant role at this convention.

Despite his commercial talent, Lippincott underestimated the potential for the phonograph to succeed as entertainment equipment. To him, the phonograph was

merely a dictation machine that was to be primarily used in a business environment. In this area, however, the phonograph was anything but a success. Only a few governmental agencies and some larger corporations purchased the new dictation machine. Overall demand was lacking, since a stenographer could much more easily take a dictation than the phonograph. And so it happened that in the fall of 1890, the North American Phonograph went bankrupt. Edison took over Lippincott's shares and from then on took it upon himself to see to the commercial exploitation of the phonograph.

2. “COIN-IN-THE-SLOT”-MACHINES

But just like Lippincott before, so Edison regarded the phonograph merely in terms of office application.

He could not or would not countenance the potentialities of the phonograph as a medium of entertainment (Gelatt 1955: 44).

When some relatively independent distribution companies intensified their efforts to sell the phonograph as a type of music box for bars, restaurants, and beer gardens, Edison argued against this kind of commercial use.

Those companies who fail to take advantage of every opportunity of pushing the legitimate side of their business, relying only on the profits derived from a “coin-in-the-slot,” will find too late that they have made a fatal mistake. The “coin-in-the-slot” device is calculated to injure the phonograph in the opinion of those seeing it only in that form, as it has the appearance of being nothing more than a mere toy, and no one would comprehend its value or appreciate its utility as an aid to businessmen and others for dictation purposes when seeing it only in that form.¹⁵

The Pacific Phonograph Company, which owned the West-coast distribution license for the Edison-phonograph and Graphophone, was the pioneer in the business with the jukebox's precursors. Already in 1889, Louis Glass, the company's chairman, added a coin-in-the-slot mechanism and four headphone pairs to the “dictation machines,” which were featured as music boxes at the Royal Saloon in San Francisco. “For a nickel per listener per play, patrons could avail themselves of the sounds of a prerecorded ‘entertainment’ cylinder. These ‘nickel-in-the-slot’ machines were so successful that within a year Glass had placed machines in eighteen other locations, some of which began bringing in as much as \$1,200 annually” (Garofalo 1997: 19).

Other distribution companies of the North American Phonograph joined in the profitable business of the “coin-in-the-slot” machines. Saloons, amusement parks, and retail shops developed a steady demand for the music box. They were also installed in waiting rooms of train and ferry stations, as well as in beer gardens and ice parlors. The music boxes constituted a profitable business for the owners, as the income recouped the initial investment in no time at all.

¹⁵ An excerpt of an article written by Edison, published January 1891 in his newsletter “The Phonograph”; cited in Gelatt (1955: 45).

The Columbia Phonograph was particularly successful with the business of music boxes; they indeed had a special place amongst the distribution companies. Unlike other regional organizations, Columbia Phonograph had not relinquished the exclusive rights for its three regions to the North American Phonograph. However, Columbia's management began to bet on entertainment once their dictation machine business was bound for bankruptcy. Fred Gaisberg (1943: 10), who worked in the phonographic industry from its beginnings when he was still a teenager, reports in his memoirs regarding Columbia's original intentions:

Their purpose was to exploit it as a dictating-machine for office use. In this respect, however, it proved a failure. I remember some hundreds being rented to Congress and all being returned as impracticable. The Columbia Company seemed headed for liquidation at this failure, but it was saved by a new field of activity which was created, almost without their knowledge, by showmen at fairs and resorts demanding records of songs and instrumental music.

The unexpected success in the entertainment business persuaded Columbia's chairmen to concentrate their efforts on this business segment. By 1891, Columbia already owned a 10-page long catalog with recordings of waltzes, polkas, marches, national anthems, opera excerpts, and an adaptation of a part of Verdi's "Il Trovatore." These music pieces were recorded by the United States Marine Band, which was conducted by band leader John Philip Sousa. The catalog also contained recordings by artistic whistler John Y. AtLee, who worked as a government employee during the day and whistled popular folk songs at night. In 1893, the Columbia catalog already comprised 32 pages, and in addition to marches, polkas, and waltzes, it now contained recordings of singing in various genres, recitations of excerpts from Shakespeare's works and other oratories, as well as a number of instructional courses in foreign languages.

Columbia's board of directors,¹⁶ which unlike Edison had completely focused on music production since 1890, decided in 1893 to terminate their cooperation with North American Phonogram and take over the majority of its shares. The Graphophone was supposed to outdo its competitor, the Edison-phonograph. The Graphophone was completely redesigned so that it could play Edison cylinders as well as Graphophone cylinders. The Graphophone Co., however, did not stop with technological changes but began a new round of patent disputes. Small companies that tried to find their way into the business were flooded with patent lawsuits and soon disappeared from the market. The Graphophone Co. did not even hesitate to file a lawsuit against the Edison Empire because of alleged patent rights violations. They argued that Bell and Tainter were the real inventors of the phonograph and that Edison had merely contributed some important improvements to the original machine. In turn, Edison claimed that he could prove that he had invented the phonograph in 1877 and that Bell and Tainter had stolen his invention. Thus, heated patent rights disputes, which lasted until 1896, were fought in courts. American Graphophone seized the opportunity provided by these legal disputes to purchase the stock of Columbia Phonograph and merge the two companies. Graphophone Co.

¹⁶ Edward D. Easton, R. F. Cromlin, Andrew Devine, and James Clephane.

remained responsible for the development and production of the Graphophone, whereas Columbia took care of the distribution of the machines and the recording and sale of music cylinders. In 1895, they relocated headquarters of the new company to New York and opened regional branch offices in Chicago, Philadelphia, St. Louis, Baltimore, and Buffalo.

Edison's answer was to liquidate North American Phonograph, thus causing regional distribution companies to be cut off from the phonograph and later file for bankruptcy. In order to regain control of distribution, Edison founded in 1896 the National Phonograph Company, which became the exclusive U.S. distributor for the Edison-phonograph. 1896 marks the year in which Edison finally recognized the potential of the phonograph as an entertainment instrument. Edison Phonograph Works' main factory began to produce "coin-in-the-slot" machines.

At last, the phonographic industry had evolved into the music-box industry. In Europe and in the United States, more and more music-box producers joined the business.¹⁷ This, in turn, increased the demand for music cylinders, which were not only produced by Edison and Columbia but also by a whole range of locally operating small businesses that could not care for patent rights. Before long, the production and rental of "coin-in-the-slot" machines for the purposes of music production became its own business area, which in later years was only indirectly related to the phonographic industry, even though it once emerged from it.

The empirical evidence shows that the process of innovation was not just a multi-levelled process but also a collective one. It takes more than just one person who is capable of recognizing and enforcing new combinations. We must also consider the field of innovation that supports or prevents innovation as a result of its complex network. This environment is characterized by specific routines of thought that guide the actions of the main protagonists. The routine for the office environment was to use stenographers for the recording of speech. They would have been replaced with the phonograph only after the latter's use would have solved the problem of recording speech in a more satisfying and cost-saving manner. This, however, was not the case. The phonograph's playback quality was simply miserable, while its cost was so high that it was only possible to lease, not buy, the machine. Under these circumstances it was not even feasible to consider mass production in order to fully exploit the "economics of scale."

The development of the phonographic industry as a segment of the office machine industry was a dead end, despite Edison's talent for invention and Lippincott's talent for business. Their way of thinking was so fixated on the machine's office use that they never seriously saw alternative possibilities. Edison and Lippincott even considered it damaging to their product's image after some regional distribution companies began to redesign the phonograph into a music box.

¹⁷ In 1893, the Polyphon was developed in Germany, which was soon thereafter marketed in the U.S. In 1898, M & J Paillard introduced the Criterion, and in the same year the German Symphonion was introduced to the public. In France, the brothers Pathé founded a company that produced the Pathé-phonograph and the necessary cylinders. Until 1908, the peak moment of the music box industry, ever-new producers entered the market only to disappear as quickly as they appeared.

This innovation existed outside of their realm of thought and was thus not just ignored but actively fought, despite its obvious commercial success.

That Columbia Phonograph was the deciding innovative force responsible for pushing the industry in the direction of music production was rather ironic. This company owned the exclusive distribution rights for the Edison-phonograph and Graphophone in Delaware, Virginia, and the District of Columbia mostly by happenstance. Because they had beaten Lippincott to the punch for those rights, Columbia never directly belonged to his corporation. But it is precisely this marginal and exceptional position during the phonographic industry's infancy that enabled this act of innovation. Since Columbia Phonograph was not bound by the directives of North American Phonograph, they were able to pursue without interference the "coin-in-the-slot" machines business once the phonograph's lack of success as a dictation machine became obvious. In contrast, the distribution companies belonging to Lippincott's corporation were not allowed to install music boxes and produce music cylinders; hence, by 1890, when there was still no breakthrough for the phonograph as a dictation machine, these companies lacked a second leg to stand on, and North American Phonograph had to file for bankruptcy.

3. RECORDS AND GRAMOPHONES

The future of the phonographic industry, however, did not lie in the music cylinder and music box but in the development of a phonogram that could be mass-produced. This phonogram had existed since 1888 when German immigrant Emile Berliner introduced the record to the public at the Franklin Institute in Philadelphia. It is telling that Berliner did not come out of the already established phonographic industry; instead, he was an outsider who experimented with the phonograph in his spare time. Berliner was a textile merchant with a knack for chemical and physical experiments. For a while he was even an employee of the Bell Telephone Co. after he had invented a transmitter. But Berliner started concerning himself with the recording and replaying of sound after a two-year stint in Germany where he worked in his brother's telephone factory in Hanover. With the money he earned in Germany, he established a small laboratory in Washington D.C. and began to study the Phonautograph invented by Léon Scott in 1857.¹⁸ Berliner was particularly interested in the technique Scott developed to record sounds with a needle on a medium turning horizontally. For four years Berliner experimented in his house in Washington without any exposure to the development of the phonograph. On September 26, 1887, Berliner applied for a patent in Washington for his sound recording instrument under the brand name of "Gramophone."¹⁹

However, the Gramophone was still far removed from being ready for practical use. The engraving process was complicated and unreliable. During this period Berliner profited from his knowledge of chemistry. He began to experiment with

¹⁸ Léon Scott's real name was Edouard Léon Scott de Martinville, and he was a French hobby-scientist who experimented with sound recordings long before Edison.

¹⁹ The registered patent number is 372.786.

recording media into which one could etch rather than engrave sound grooves. In March 1888, Berliner was able to undertake his first recordings of music with local musicians from Washington. The results were very satisfying, and, importantly, the reproduction of the recordings did not present a problem. The chrome-acid bath allowed the reproduction of a recording within 15 to 20 minutes.

Yet, Berliner failed to solicit a positive response after he had publicly presented his Gramophone in Philadelphia and explicitly alerted his potential investors to the mass production of Gramophones. No investor was interested in producing his invention despite the clearly visible advantages of this new technology. Berliner, however, did not give up. He improved the method of reproduction by pressing a negative of a metal plate that he had first etched as a positive. Hard rubber turned out to be an ideal transmission medium. In this manner, large numbers of hard-rubber plates could be pressed. The advantage becomes especially obvious when considering that the cylinder for the phonograph could not be reproduced. Each cylinder had to be produced as an original. When recording music, it was thus necessary to use ten recording devices simultaneously in order to produce ten copies of one recording session. In order to produce 100 music recordings of one piece, a musician had to perform at his best ten times in a row in one day. With this recording technology, the mass production of phonograms was impossible. In contrast, it was possible to press numerous negatives of a record positive, which then could be used as matrices for the mass production of records at different production locations.

But the mass production of phonograms was not the intention of the pioneering companies of the phonographic industry. In contrast, Berliner's aim had always been to make music recordings and copy them. Since he did not find success in the U.S., he returned to Germany in 1889 where he located the toy factory Kämmerer & Reinhardt in Waltershausen to be a producer for his Gramophone. It became a runaway hit throughout all of Europe. After three years, however, the market appeared to be satiated, and Kämmerer & Reinhardt turned to other ventures.

In the meantime, Berliner had returned to the U.S. where, inspired by his European success, he tried once again to exploit his invention commercially. With his savings and additional money given by friends and relatives, he established the United States Gramophone Company in Washington, D.C in 1893. However, his initial capital was sufficient to serve only the local Washington, D.C. market. Since Berliner saw the commercial potential of the Gramophone in the recording and mass-production of music, in 1894 he hired the 20-year old pianist Fred Gaisberg as a talent scout for music recordings (Gaisberg had previously worked as a piano accompanier for Columbia Phonograph). Soon he provided United States Gramophone with local musicians who recorded memorable music pieces. In most cases, the musicians were so unknown that they were not even mentioned on the records. The goal was to offer as many recordings of music pieces on record as possible, not to acquire recognizable recording artists.

Berliner tried once again to find capable financiers to market the Gramophone throughout the U.S. This time he approached the Bell Telephone Company in Boston where Berliner was ridiculed for his "toy".

Has poor Berliner come down to this? How sad! Now if he would only give us a talking doll perhaps we could raise some money for him (cited in Gelatt 1955: 67).

Bell's responsible representatives jeered in response to his request for financial support. In the fall of 1895, Berliner nevertheless managed to find a small group of investors that provided him with \$25,000. Not a single one was from the phonographic industry. Instead, two investors were major merchants of steel for construction, two more were developers, and one was a small factory owner. With money from this illustrious investors' group, the Berliner Gramophone Company was founded in Philadelphia on October 8, 1895; and, as a license holder of the United States Gramophone Company, Berliner Gramophone began to mass-produce Gramophones and records. After further experiments, it was discovered that the phonogram could be improved through the use of shellac as the basic material, which positively affected its reproducibility.²⁰

The Gramophone's initial main weakness was the need to operate a crank-handle. Even the best-trained user was not capable of maintaining an even rotational speed. So that the Gramophone could compete with the phonogram, it had to be furnished with an independent motor. In 1896, Eldridge R. Johnson, a 29-year old owner of a small factory in New Jersey that produced knitting machines, was approached to develop a cheap motor for the gramophone. In the summer of 1896, Johnson presented a spring motor to representatives of the Berliner Gramophone Company, which could be wound up like a clock without causing any additional distracting noises. The most important aspect, however, was that this motor could be produced cheaply. Hence, Johnson was instructed to produce 200 motors. At the same time, Frank Seaman, an experienced New York advertising expert, was hired to take over the exclusive distribution for Berliner Gramophone for the next 15 years. To this end, Seaman founded the National Gramophone Company in 1896, which immediately launched an advertising campaign for the Gramophone.

By 1896, three (more or less) autonomous partners were active in the Gramophone business. United States Gramophone functioned as a caretaker of the original patent rights, and Berliner Gramophone produced the records and machines that received their motors from the Johnson Motor Company in Camden, NJ. Seaman's National Gramophone Company took care of the U.S.-wide distribution of "hard- and software" (see Figure 2).

Technical improvements and Seaman's intense advertising activities finally brought about the hoped-for success for the Gramophone. In 1898, National Gramophone announced it had reached the \$1 million mark in revenue. Johnson was unable to keep up with the production of motors and, therefore, invested in the construction of two new fabrication buildings. The sales success also led some prominent musicians to become interested in the new machine. The existing repertoire could therefore be expanded by additional musical highlights, and in 1898 John Philip Sousa and his band began to record exclusively for the Berliner group.

²⁰ Shellac is a mixture of tree resin and wax secretions especially of a scale insect, which exists only in certain parts of India.

A year earlier, William Barry Owen, a former colleague of Seaman, established a trade organization in London in the name of Emile Berliner with the help of a \$5,000 capital investment made by landowner Trevor Williams; the goal of this organization was to develop the European market for the Gramophone.²¹ Eldridge Johnson's factory provided the machines, and Berliner Gramophone provided the records. In the summer of 1897, Fred Gaisberg and Josef Sanders were sent to London as representatives of the Berliner corporation. Gaisberg was instructed to establish a recording studio in London and to collect music recordings throughout Europe. Sanders was sent to Hanover where he successfully negotiated the redesign of the telephone factory "Berliner" into a record plant, which resulted in the founding of the Deutsche Grammophon Gesellschaft. Owen took care of generating demand through aggressive advertising, which resulted in such a fantastic Christmas season that both Gramophones and records were sold out by the end of the year. Subsequently, they decided to create an independent record production organization in Europe, and to this end "the Gramophone Company Ltd." with Trevor Williams as president and William B. Owens as chairman, was founded in 1899. This company immediately purchased the British and European patent rights for the Gramophone and the record and financially invested in the Deutsche Grammophon Gesellschaft. The same year also saw the creation of more branch companies throughout Europe. The Deutsche Grammophon, with its headquarters in Berlin and production site in Hanover, founded subsidiaries in the Austrian-Hungarian Empire and Russia. In France, the Compagnie Française du Gramophone was set up, with a subsidiary in Spain.

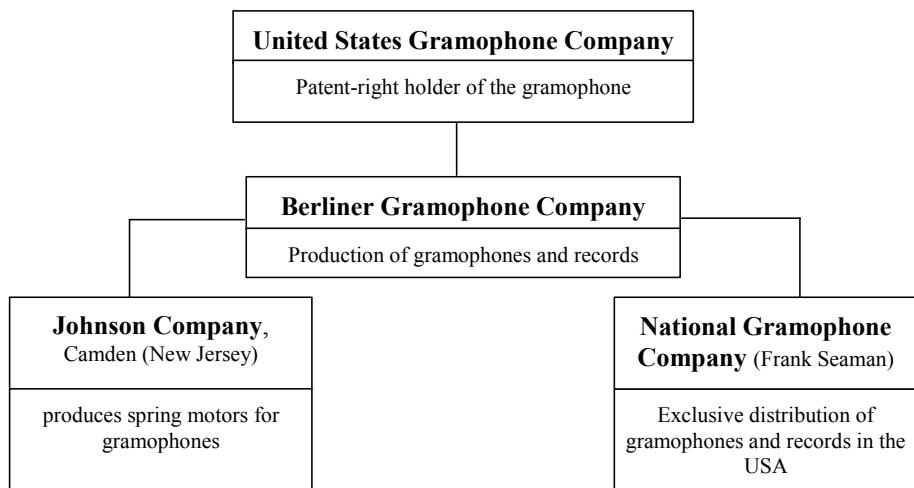


Figure 2. The gramophone-conglomerate in 1896.

²¹ For more about the history of the Gramophone, see Martland (1997).

Due to the unexpected success of the Gramophone, the competition began to grow restless. At first, the strategists from Edison and Columbia tried to complain about the recording quality's lack of authenticity, but soon they mobilized more forceful arguments. In 1898, the American Graphophone Company accused Emile Berliner of intellectual theft of the Bell-Tainter patent. They sued, however, Frank Seaman's National Gramophone Company rather than the United States Gramophone Company. Despite the untenable accusations, the claimant succeeded in getting the New York judge to issue a provisional court order based on the National Gramophone Company's alleged violation of patent rights. Seaman fought this ruling and was victorious in the spring of 1899.

Seaman took the attacks on his company as an opportunity to demand a greater part of the profits. He believed that he contributed more than anyone else to the rise of Gramophone and requested that his share of the profits reflect this—a demand that the others denied him. As long as the patent rights remained with Berliner, Seaman's hands were tied. Consequently, Seaman began to plan a coup in the spring of 1899. First, he transformed the "National Gramophone Company New York" into the "National Gramophone Company Yonkers." The latter founded a subsidiary, the Universal Talking Machine Company, which began to build a production site for Gramophones in New York. The Berliner company ignored Seaman's activities and was surprised by the introduction of the so-called Zonophone in the fall of 1899. Essentially, the Zonophone was nothing but a slightly modified copy of the Gramophone. But Seaman achieved his real success in court. On May 5, 1900 he accepted the settlement with American Graphophone Company and admitted that the Gramophone had violated patent rights. Two weeks later it was announced that the National Gramophone Company, now known as Universal Talking Machine Company, entered into an alliance with American Graphophone and Columbia Phonograph. The alliance agreed that the Zonophone would be produced and distributed by the two former competitors. A court order furthermore ensured that no one but the contract's parties would be allowed to call a sound recording machine a Gramophone. Seaman's chess move had the paradoxical consequence of Emile Berliner's companies not being allowed to market the Gramophone in the United States under its original brand name.

After the Berliner representatives recovered from their first shock, they filed a lawsuit against Seaman and his company, charging patent violation. But as long as the provisional court order made it impossible to use the brand name "Gramophone," these machines could not be marketed under this name. In addition, the Berliner company had lost its valuable distribution network overnight.

This, in turn, made Eldridge Johnson nervous. He had invested a lot of money in the creation of a second production building—an investment that was now in jeopardy. Being in a desperate situation, Johnson had recourse to a technical improvement that he himself had advanced in secret. Instead of hard rubber plates Johnson used wax plates, which could be pressed in mass-production as well. With this product innovation secured, in 1900 Johnson founded the Consolidated Talking Machine Company. In an advertising offensive in the fall of 1900, he marketed the new Gramophone records as qualitatively better phonograms. Johnson's company

simultaneously offered Gramophones for the low price of \$3. This low price strategy succeeded, and by the end of 1900 Johnson managed to avoid bankruptcy.

Seaman, of course, responded to the new competitor, accusing Johnson of being nothing but a puppet of the Berliner company, and sued for patent violation. But instead of being issued a provisional court order, which would have stopped production, Johnson was merely forbidden to use the brand "Gramophone" for his machines. This, however, left Johnson rather cold. In any case, he did not want to run afoul with Berliner and did not intend to produce Gramophones. Consequently, Johnson called his phonographs "Victor Talking Machines" and the replay media "Victor Records."

In 1901, Johnson and Berliner emerged as the undisputed winners of the lawsuits, and the federal court terminated the provisional court order against the Berliner companies. From now on, they once again were allowed to call their machines "Gramophones."

The fortunate ending of the patent disputes inspired Johnson and Berliner to work more closely. Berliner owned the patent rights for the production of the Gramophone, but he had lost his distribution network. Johnson produced Victor Talking Machines since 1901, as well as the necessary wax records, and he commanded his own distribution network. Berliner and Johnson agreed, therefore, to found a new company in 1901 that would incorporate the patent rights of the Berliner group and Johnson's production sites and distribution network. Thus, on October 3, 1901, the Victor Talking Machine Company was founded.

The Graphophone-Columbia group felt that this new company threatened its leading market position. Furthermore, it realized that the future belonged to the record, not to the cylinder. It was thus necessary to join in the production of records. They managed to do this, because Johnson never patented the invention of his wax records. Instead, one Joseph W. Jones had already applied for a patent for the method of recording sound with the help of wax records in 1897, after he had worked for one summer in the Washington laboratory of Emile Berliner. The patent was only granted four years after his application, on December 10, 1901. Graphophone-Columbia immediately reacted and bought the patent off of the 25-year old Jones for \$25,000. This enabled Graphophone and Columbia to begin the production of records and Gramophones. In January 1902, the Graphophone factory in Bridgeport shipped the first machines, called Columbia Disc Graphophone, together with the matching records.

Further legal patent disputes appeared to be inevitable. With its production of wax records, Victor Talking Machine violated the patent rights of Graphophone-Columbia, which in turn violated the patent for the production of Gramophones. But in this case it did not come to a court dispute, since both parties managed to agree on the mutual use of their respective patents.

The record had thus established itself as the standard of music storage, even though Edison continued to bank on the cylinder. He improved the replay quality, expanded the storage time to four minutes, and eventually even managed to mass-produce music cylinders. But at this stage Edison was already trailing behind the record-producing companies. Though sales numbers for the Edison-cylinder increased throughout the first boom period before World War I, they did not match

the sales increases of records. When the introduction of the Amberol cylinder in 1912 failed to generate sufficient success, Edison finally relented and began producing the Diamond-record, and a matching player. His entrance into the record business occurred one year too late, however, and Edison's Phonograph Company did not play any important role in the U.S. market.

With the agreement between the Victor Talking Machine and the Graphophone-Columbia-group regarding the mutual use of the record patent rights, we can consider 1902 as the birth of the phonographic industry as part of the music industry. From this moment on, emphasis was not placed on recording and replaying machines but on phonograms that were first and foremost media for the storage of music. Thus, competition shifted from hardware to software or, better put, to the musical content of phonograms.

4. "HERR DOCTOR BRAHMS PLAYS THE PIANO"

During the pioneer phase of the phonographic industry, the constant improvement of the recording and replaying machines remained in the foreground. The phonograms, whether in cylinder or record form, were merely a provisional concern. This was reflected in the available repertoire recorded during the phonogram's early phase. Initially, what was of true importance was to simply convince the people of the wonders of recorded and stored speech. Hence, Edison's representatives travelled the world in 1878 and 1879 to demonstrate at phonograph shows what advertising posters announced as the "wonderful speaking-machines." Visitors of these shows were allowed to speak some words into the funnel, which would then be replayed by the machine. Even statesmen such as the British Prime Minister Gladstone or the German Chancellor Bismarck, as well as crowned leaders such as the German Emperor Wilhelm II and the Austrian Emperor Franz Joseph, donated a few words in the name of technological progress.²²

These early recordings had mere documentary and historical value. This was probably also the reason for Edison's assistant, Theo Wangemann, to visit the Viennese composer Johannes Brahms in December 1889 in order to record his piano playing on wax cylinder. The quality of the recording of the "1st Hungarian Dance," which Brahms personally interpreted on the piano, was so miserable that one might think that the artist played behind a closed door. Mr. Wangemann's announcement, "Herr Doctor Brahms plays the piano," is the clearest part of the entire recording.²³

The sciences, too, became aware of the documentary function of the phonograph. Harvard professor Jesse Fewkes was the first ethnologist of music who in 1890 recorded the singing of Passamaquoddy Indians in Maine. Many ethnologists and anthropologists followed his lead, collecting folk songs on wax cylinders, just like the composer and researcher of folk songs Béla Bartók, who since 1906, with the

²² The earliest sound recording still in existence is of the British General-Governor of Canada, Lord Stanley, whose opening words, spoken at the industry fair in Toronto of September 1888, were recorded.

²³ The original wax cylinder is now completely unusable, but a copy exists that was made in 1930 and recently digitally reconstructed in the Phonogram Archive of the Austrian Academy of Science.

help of the Edison-phonograph, conserved the folk songs of his homeland Hungary and of neighboring people on wax cylinders.

All of these recording activities had no commercial interests in mind and thus cannot be counted as music industry activities. The delivery of music boxes with pre-recorded music cylinders was, however, the earliest field of application in which the music repertoire played a role. Companies were not interested in producing new and creative music; instead, they recorded particularly popular songs and instrumental standards. As we have already seen, Columbia Phonograph was especially active in the recording of such music. The United States Marine Band, conducted by John Philip Sousa, recorded popular Johann Strauß waltzes and Irish folk songs such as “Little Annie Rooney” or “Down Went McGinty.” By 1892, Columbia already owned more than 100 recordings of the Marine Band, which were sold for \$2 per cylinder (Garofalo 1997: 20). The government employee and amateur whistler John AtLee was also well liked; he whistled such popular songs as “The Mockingbird” and “Home Sweet Home” onto wax cylinders. In addition to a few more musicians known by name, however, there are many artists during the early period of music recordings whose names do not appear either in the Columbia catalog or on the music cylinders. It was simply not necessary to name musicians who, at the time, did not financially share in the success of phonogram sales or received royalties based on copyright laws.

Royalties would not have made any sense to begin with, since music cylinders could be produced only in limited numbers and no collecting societies existed that could have controlled the number of public performances. But even when Emile Berliner introduced mass-produced records, they did not have labels identifying the recording artists. In 1900, the phonogram and the music repertoire it contained were not at the center of the companies’ commercial interests. The phonographic industry simply published everything that was demanded by local music-box operators. Especially in demand were so-called “coon songs,” which were rather yelled than sung, because it aided the then existing recording technology.

The competition shifted towards the level of the music repertoire only once the standardized technological design of the phonogram and the industry standard “record” prevailed as recording media. At first, however, artists, made popular through phonograms, were hired away by competing companies. Thus, Victor managed to obtain Fred Gaisberg, the Columbia stars AtLee, George J. Gasken, Russell Hunting, and the U.S. Marine Band for recordings. Columbia had to let go of their successful artists simply because exclusive recording contracts did not yet exist (Gaisberg 1943).

Victor Talking Machine and its European subsidiary, the Gramophone Co., were the first to comprehend the significance of the music repertoire. In 1901, they sent the brothers Fred and Will Gaisberg on a trip through European cities (London, Paris, Milan, Zurich, The Hague, Vienna, Budapest, Brussels, Lwow, Breslau, Königsberg, St. Petersburg, Stockholm, and Helsinki) in order to record in hotel rooms singers and musicians, selected by local agents, who enjoyed local popularity. After the recording, the produced matrices were immediately sent to the record plant in Hanover, where records were produced for each individual local market. After the Gaisbergs had exhausted the European centers, they turned their attention to

more exotic parts of the world. They travelled to larger Russian cities and recorded prayer songs of Jewish cantors in Vilnius, Tatar-songs in Kasan, or Georgian choruses in Tiflis. In the fall of 1901, they travelled India, Burma, Thailand, China, and Japan to conquer these markets for the Gramophone Company as well. The recordings they made had no documentary character and were instead done for purely commercial reasons. The idea was to provide each geographic market with locally popular music. The Gaisberg brothers were so successful in “conquering the world market” that before long the capacities of the record plant in Hanover were insufficient, and branch plants in England, France, Spain, Austria-Hungary, Russia, and even India had to be built.

CHAPTER 2

THE MUSIC INDUSTRY BOOM UNTIL 1920

1. THE GLOBAL COMPETITION IN THE PHONOGRAPHIC INDUSTRY

The companies of the phonographic industry were already globally acting corporations around 1900. Between 1902 and 1910, the U.S. and European companies expanded their business activities into the most remote regions of the world. For instance, in 1910 a sound engineer of the British Gramophone Company gave an account of a recording tour through the Caucasus where he recorded the folk songs of the native Cossacks onto record (Noble 1913, cited in Gronow 1983: 58). But the sound engineers from Paris, London, and New York were also sent to other regions of the world, such as Central Asia, India, China, Southeast Asia, South and Central America, North Africa, etc., in order to record locally performed music. Subsequently, the central record plants in Europe and the U.S. reproduced these recordings and re-imported them as records to the music's countries of origin.

The phonographic companies built new record plants in regions that promised a particularly high profit. In 1910, for example, the Gramophone Company operated record plants not only in Hayes near London, Hanover, and Paris, but also in Barcelona, Aussig (Austria-Hungary), Riga, Moscow, St. Petersburg and Tiflis (Russia), Milan, and even Calcutta (India).²⁴ Local distribution partners aided in the development of other promising markets; eventually, a network of branch offices and distribution companies covered the entire world (Figure 3). The U.S. subsidiary of Gramophone, the Victor Talking Machine, controlled the North American market from its headquarters in Camden, New Jersey and Montreal, and it also operated agencies in Central and South America, China, Japan, and the Philippines.

During the early years of Victor/Gramophone, the only real competition they had to take seriously was Columbia. In August 1897, Frank Dorian established a sales organization for Columbia in Paris, the Columbia Graphophone Company; it distributed Grafonolas—Graphophones and music cylinders imported from the U.S.—throughout Europe.²⁵

²⁴ Another reason to build such record plants abroad was to circumvent high import duties levied on records.

²⁵ See Martland (1997) for a discussion of the history of Columbia Phonograph's European subsidiary.

Since 1899, Columbia produced recordings specifically for the French market in order to compete with the Pathé brothers who up until then held a monopoly on this music recording market.²⁶ In the same year, Columbia established an office in Berlin to build up the German, Austrian-Hungarian, Danish, Swedish, Norwegian, Polish, and Russian markets. The Parisian headquarters, in turn, provided branch offices in Holland, Switzerland, Spain, Portugal, Italy, Serbia, and Egypt with Graphophones and music cylinders. To deal with these completely different markets, Columbia created a distribution network in which the European branch offices participated. With the help of Columbia-U.S., the International Zonophone Company of Berlin was founded in 1900 after Frank Seaman and American Graphophone came to an amicable agreement to settle the patent disputes surrounding the Gramophone out of court. Columbia's European headquarters were moved from Paris to London in order to compete with Gramophone, which was already located there, for the profitable British market including its colonies. Gramophone was anything but pleased with Columbia's business expansion into record production. To stop such development, Gramophone first tried to file a patent lawsuit against the Zonophone. After this failed, Gramophone decided in London to engage in a hostile takeover. Ignoring the wishes of F. M. Prescott, the chairman of the International Zonophone Company, Gramophone issued an acquisition offer so generous that the American majority shareholders could not refuse it. Thus, in 1903 Gramophone acquired the majority of Zonophone. The U.S. shares were sold to Victor, and the European branch offices were integrated into the corporation. Gramophone conserved only Zonophone's record label, which was positioned in a low-cost market segment (Gelatt 1955: 124-125).

This coup was a slap in the face of Columbia's European subsidiary, which lost part of its distribution network. Desiring to reduce its dependency on Columbia-U.S., it created a production site with a capacity of 10,000 cylinders per day in London in 1904. In the following year, the factory was expanded with the addition of a record plant producing 5,000 records per day (Martland 1997: 102). The numbers show that Columbia still focused its business activities on music cylinders. However, the increasingly stiff European competition shifted its focus more and more to the record, which could be produced at lower costs per unit than the music cylinder, even though the latter was mass-producible since 1902 as well.

Gramophone had mixed feelings about the emerging boom in the European phonographic industry around 1905. On one hand, the new companies expanded the

²⁶ During the 1890s, the brothers Charles and Emile Pathé operated the "Bar américain" at the Place Pigalle in Paris. At a fair in Vincennes they had seen an Edison-phonograph and imported the machine from England in order to install it in their bar to amuse their patrons. The success was so immense that the brothers decided in 1894 to have the machines rebuilt in the Parisian suburb of Belleville and, simultaneously, to manufacture the requisite cylinders in the suburb of Châlou. They called their company "Les Phonographes Pathé," which produced a technologically very simple cylinder, the "Le Coq." The rooster concurrently served as the brand sign for the wax cylinders. The Pathés furnished the sound studios at their Parisian headquarters in the Rue de Richelieu where locally well-known singers and musicians of the Parisian music scene recorded popular songs and music pieces. In 1899, the Pathé catalog already listed 500 titles.

demand for phonographs and records; on the other hand, Gramophone feared the emergence of new, serious competitors. Yet, no immediate danger existed as long as most of the newly founded companies lacked sufficient capital and operated mostly locally.²⁷ However, Gramophone had slipped into self-inflicted financial troubles. Chairman William B. Owen did not trust the company's increasing success. He believed that the success was a bubble that would burst any day and, in response, began to diversify his business operations. He purchased the patent for a new Lambert typewriter and thus entered the typewriter business. Gramophone was renamed into Gramophone & Typewriter Ltd. The Lambert typewriter, however, did not succeed in the market and caused such high losses that Owen had to resign as chairman in 1905. Fortunately for the company, the continuing boom in the record market ensured that the losses could soon be recouped, and Gramophone remained the market leader.²⁸

From 1905 on, Gramophone continued its expansion activities. That year, daily production at the Deutsche Grammophon record plant in Hanover was already 21,000, equivalent to a yearly capacity of 7-8 million records. The plant in Riga managed to produce 12,000 records per day and the one in Cambridge, Massachusetts, 38,000. Gramophone's total production in 1905 was estimated at 21 million units (Galoppi 1987: 21).

The temporary weakness of the market leader resulting from the "typewriter disaster" intensified the competition in Europe. In Germany alone, numerous companies were founded in 1904 and 1905: Homophon, Favorite, Lyrophon, Beka, Janus, and others succeeded by offering cheap records. In 1907, the last boom year, the company statistics provided by the Statistical Reich-agency in Berlin listed 181 companies with 4,599 employees that were active in the production of records and speech machines (Krebs 1925: 11). This represented the highest level before World War I. From 1908 on, many insufficiently capitalized companies disappeared due to the sated European market and stiff price competition; before long, the larger companies folded these upstarts into their corporate structures. Until 1914, a steady market concentration occurred, which I now want to demonstrate with recourse to the situation in Germany.

In Germany, only the Deutsche Grammophon and its sole competitor, the Lindström Company, anticipated the market consolidation. In 1897, the Swedish native mechanic Carl Lindström established a workshop in Berlin where he produced the so-called Lyra-Phonograph. The machine, however, was unable to compete with the Gramophone, and the company went bankrupt in 1903. A business consortium with the former employee of the Löwenherz Bank,²⁹ Max Straus, at its center bought the company from the bankruptcy assets and added

²⁷ The Pathé brothers were primarily active on the French market. The A.C.I.I., in existence since the late 1890s, mostly focused on the Italian market, just like the Società Italiana di Fonotipia, which was founded by opera composer Umberto Giordano ("Andrea Chénier" or "Fedora") in 1904.

²⁸ The Gramophone & Typewriter Company became once again the Gramophone Company in 1907.

²⁹ Since the Löwenherz Bank was Lindström's largest creditor, former bank employees Max Straus, Heinrich Zuntz, and Otto Heinemann had first-hand insider information at their disposal about Lindström's solvency.

record production to its already existing machine-building business. Lindström Ltd. managed to find a foothold in the market with the help of cheap record players and a program that focused exclusively on popular songs and operettas. Like so many other record companies founded after 1904, Lindström profited from the continually growing domestic market. The sales and profits increased annually, and in 1908 the private limited company was transformed into a stock company. With this step, they could raise the necessary capital for the upcoming expansion. Each year, more increases in capitalization occurred, which were invested in the expansion of production and, from 1910 on, in the acquisition of smaller record labels.³⁰ In 1910, Lindström acquired the financially weak Beka-Record stock company, which was founded in 1906. With Beka, Lindström purchased not only the first record label that had market recognition but also a well-developed distribution network, which was even more important.

In the following year, Lindström entered the international market. He purchased the majority of the Fonotipia Ltd., London, in 1911. Fonotipia, in turn, was the holding company of Odeon. In 1910, the former chairman of Zonophone, F. M. Prescott, and the former French representatives of Zonophone, the brothers Ch. & J. Ullmann, founded Odeon as the “International Talking Machine Company.” The central site was erected in Weissensee near Berlin, where they produced Odeon Talking Machines and Odeon records. The records were a special success, for they were playable not only on one side but on two—an innovation that, of course, immediately found imitators.³¹ In the year of the takeover by Lindström, Fonotipia Co. Ltd. also encompassed the Cie Française des Disques et Machines Odéon et d’Instruments de Musique (Paris), the Società Italiana di Fonotipia (Milan), the International Talking Machine Ltd. (Berlin), the Odeon-Hermann Unmassen Ltd. (Vienna), and the Barcelona subsidiary that was founded in 1911. With one stroke, the Lindström Corporation had a worldwide production and distribution network at its command.

Lindström continued its expansion with the help of its new subsidiaries. International Talking Machine created record plants in Rio de Janeiro, Buenos Aires, and Santiago de Chile. Likewise, even before the war they established plants in Great Britain and Switzerland (St. Croix). In 1912, Lindström eliminated its immediate German competitor, the Grünbaum & Thomas Company, by buying its subsidiaries—the Lyrophonwerke (Berlin), the Dacapo-Record Ltd. (Berlin), and the Favorite Record Ltd. (Hanover)—and with them Grünbaum & Thomas’ branch offices and sales organizations in France, Russia, and Austria-Hungary. In only five years, Lindström mutated into a globally acting corporation that was comparable to the world market leaders Victor, Gramophone, and Columbia (Figure 4).

³⁰ When the stock company was founded in 1908, capital stock amounted to 700,000 Marks. In 1909, an increase of capital to 1,250,000 Marks occurred, in 1910 to 2 million, 1911 to 3.5 million, and finally, in 1913, to 5 million Marks (Schulz-Köhn 1940: 21).

³¹ In 1904, Columbia-U.S. had already produced records that could be played on both sides, but they temporarily had to seize production due to a provisional court order requested by International Talking Machine. Only in 1907, after a settlement with International Talking Machine, was Columbia once again allowed to manufacture double-sided records.



Figure 4. The Lindström-conglomerate in 1913.

2. THE U.S. MARKET BEFORE WORLD WAR I

In contrast to Europe, the level of competition for the pioneering companies in the United States remained stable. Whereas in Europe the record had prevailed as the industry standard, the U.S. market was still split. The record market witnessed Victor Talking Machine and Columbia fiercely competing for customers, whereas the Edison Corporation and Columbia Phonograph fought for the domination of the music cylinder market.³² Gronow (1983: 55) characterizes the years 1915-1916 as the period of competition for technological standards. Companies manufactured

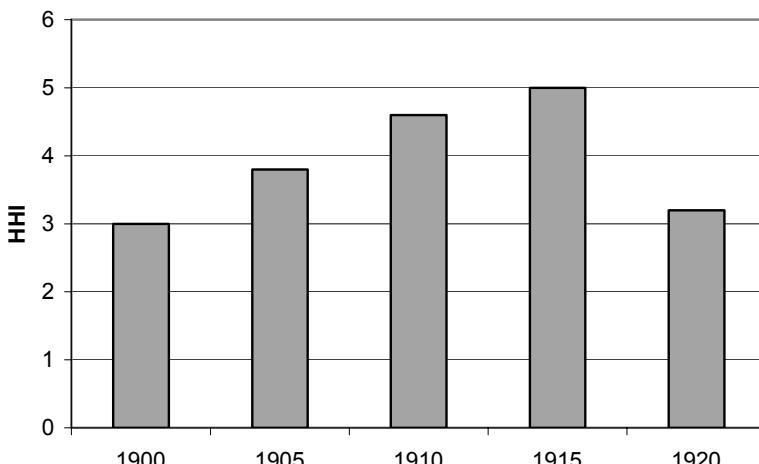
³² In 1912, Columbia stopped producing phonographic cylinders, whereas Edison's Phonograph Company continued to supply the market with music cylinders until 1929.

phonographic systems that were made for sound recording and sound replay. In this context, the main competition took place on the level of phonographic machines (the Edison-Phonograph and Berliner-Gramophone) and not yet on the level of phonograms, which were considered mere supplements at the time.

Records were a sideline to help the sale of furniture (Gronow 1983: 55).

In this competitive market, Columbia experienced even more difficulties, because it tried to offer both systems. This dual strategy caused higher costs that could not be recouped in the long run. Thus, Columbia Phonograph accrued more and more losses; hence, in 1908, it was facing the specter of bankruptcy until its British subsidiary averted this catastrophe by providing financial support. The consequences for Columbia were still grave. Except for London, all European offices had to close, and all business representatives had to be laid off. The new board of directors of the now solely British-owned Columbia put a halt to the production of music cylinders and focused all its energy on the production and distribution of records.

Thus, since at least 1909, the record had prevailed as the phonographic standard and competition shifted exclusively to the level of phonographic content.³³ Whereas in Europe, after a period of intense competition, a market concentration took place in 1908, the U.S. market remained oligopolistic throughout 1914. Between 1909 and 1914, only eighteen producers of phonographs and records were registered (Figure 5).



Source: Alexander (1994: 116); Herfindhal-index (HHI) = square-sum of the companies' market share in an industry.

Figure 5. Concentration ratio in the U.S. market (1900-1920).

³³ The French Pathé had already seized production of cylinders in 1906 in order to attend exclusively to the production of records.

With the beginning of the war in Europe, the development of the U.S. phonographic industry completely changed. Even before the outbreak of the war, dance euphoria had broken out in the U.S. Dance halls sprouted all over the country, which were wildly committed to shaking a leg to dances such as Tangos, One-Steps, or Bostons. Victor and Columbia immediately jumped on board and provided the music for this latest craze. Sales of records and phonographs quickly rose to new highs. Victor's assets increased from \$13.9 million in 1913 to \$37.8 million in 1919. By 1920, Victor was so cash rich that it was able to provide massive financial aid for its European subsidiary, Gramophone, which was seriously weakened by the European war; in turn, though, Victor acquired 50% of Gramophone (Gelatt 1955: 88-89).³⁴

Because some of the most important phonographic patents had expired, new providers entered the U.S. market. In October 1914, the Sonora Company entered the phonographic business and was joined in November of the same year by Aeolian and in 1916 by the producer of bowling equipment, the Brunswick-Balke-Collender Company. Many more providers followed suit.

Table 1. Number of phonographic companies in the U.S. market (1913-1916).

Year	Number of Companies
1913	3
1914	9
1915	27
1916	73

Source: Gelatt (1955: 190-191).

In 1919, already 166 companies operated in the phonographic industry (Alexander 1994: 116-117). This founding boom also had positive effects on the number of phonographs that were being produced at the time. Whereas in 1909 and 1914 a total of 345,000 and 514,000 machines were assembled, respectively, in 1919 the number increased to 2,230,000 (Gronow 1983: 59). The newcomers especially profited from the continually growing phonogram market. In contrast to the pre-war years, the relation between "hard- and software" had reversed itself. Whereas before 1913-1914, records were merely supplementing the music "furniture," by no later than 1919 phonographs were no longer the U.S. market's main focus either.

The established companies (Victor and Columbia) did not recognize this development. They believed they would be able to keep expanding their customer base by constructing more and more complexly designed phonographs. They supplied

³⁴ Gramophone's profits had decreased from £150,000 to £25,000 in 1920 (Martland 1997: 77).

everything ranging from small, cheaply made machines to \$1,000 luxury “furniture.” The new, smaller enterprises did not even have the capital to invest in the production of elaborately designed phonographs. Therefore, they concentrated on the production of phonograms. Small innovative companies such as Black Swan Music, which was one of the first labels to record “black music,” took care of the expansion of the music repertoire. The market leaders initially looked down their noses at “black music”; simultaneously, the African-American community had very little purchasing power. Hence, Victor and Columbia left this particular segment of the music industry to small, specialized labels. Only after the phonographic business incurred losses did the majors begin to concern themselves with the “black music” segment. By then, however, it was too late. The entire industry was affected by the economic downturn that fundamentally altered the industry’s structures and resulted in the appearance of new protagonists on the horizon.

3. THE EUROPEAN MARKET DURING WORLD WAR I

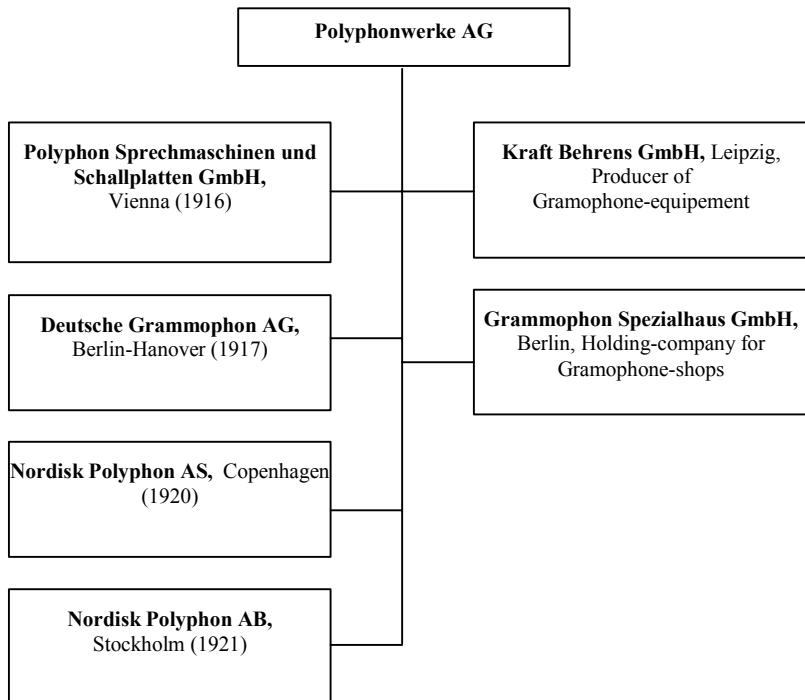
World War I forever changed the ownership structures of the phonographic industry in Europe. The globally acting corporations lost their branch offices that were now located in enemy territory. Already at the beginning of August 1914, the French government confiscated the Odeon factory of the German Lindström Corporation in Paris. Subsequently, Lindström lost its offices in Great Britain, Spain, and Italy. Further, the board of directors was forced to terminate the production of records permanently, due to the lack of domestic demand resulting from the ongoing war. Instead, they produced war material until 1918. Only a few labels such as Beka, Odeon, Gloria, and Parlophon survived the war.

The fate of the British Gramophone resembled that of Lindström. With the onset of war, the corporation lost its headquarters in Berlin and its most important record plant in Hanover. The government of the German Reich confiscated the Deutsche Grammophon as enemy property and turned it over to German hands. In 1917, the stock company Polyphon Musikwerke of Leipzig acquired the Deutsche Grammophon. Polyphon was a conglomerate that manufactured everything from typewriters to automobiles (from 1904 to 1909 the brand “Dux”).³⁵ One business unit focused on the production of music and speech machines, as well as “Polyphon” branded records. This unit took over the Deutsche Grammophon in 1917 and, using this name, distributed its phonograms domestically. After the war, Polyphon used the past business connections of its subsidiary in order to become active in Denmark (1920), Sweden (1921), and Paris (1929). But the first subsidiary was already founded in 1916 in Vienna. In foreign countries, Polyphon operated with its export-brand “Polydor,” since due to trademark protection reasons, they could not continue to use the brands “His Master’s Voice” and “Deutsche Grammophon.”

The war had destroyed the international corporate structures of the European phonographic businesses, which led to a strong market concentration in the national

³⁵ Polyphon was founded in Leipzig in 1885. They first produced all kinds of music machines and in 1903 started to manufacture cylinders following the Edison method (see Wicke 1998: 97).

markets. The two largest European markets were controlled by a duopoly. In Britain, the Gramophone Company and Columbia Gramophone faced each other,³⁶ in Germany it was Polyphon and Lindström. In France, the Pathé brothers could, with the help of the war, regain its formerly held monopoly status.



Source: After Schulz-Köhn (1940: 15-16).

Figure 6. Polyphonwerke, Leipzig-Wahren in 1921.

4. THE MUSIC REPERTORY ON RECORD BETWEEN 1900 AND 1920

4.1. Waltzes and Operas From Europe

After the music content of phonograms had become the key aspect for the competition within the phonographic industry, the industry perfected the strategy

³⁶ After the near bankruptcy of its U.S. parent company, Columbia Graphophone emancipated itself under the leadership of Louis Sterling. External signs of this emancipation were the name change to “Columbia Graphophone Company” (instead of “Columbia Phonograph Company General”) in 1913 and the creation of a limited company in 1917. In the same year, Columbia Graphophone acquired the Herford Record Company and its attendant record plants that previously belonged to the Lindström Corporation.

developed by the Gaisberg brothers who worked for Gramophone—to record regionally well known and popular music pieces, press them at a central plant, and export them back to their respective regions. That way, the heterogeneous European market could be commercially exploited without much risk. However, these “folksy” recordings suffered from their pejorative reputation as being common entertainment for common people. In order to achieve broader social acceptance of the phonograms, the repertoire had to be expanded to include more sophisticated entertainment music.

The key idea to accomplish this feat was provided by Gramophone’s agent in St. Petersburg, Pan Rappaport, who operated the luxurious Gramophone salon at the Newski Prospect. His establishment was exclusively frequented by the high society of the capital of the Czarist Empire, which did not satisfy itself with folk songs and chansons. When Fred Gaisberg stopped in St. Petersburg on his 1901 recording tour and met Rappaport, the latter suggested making recordings that would be special in terms of both content and external presentation. For content, Rappaport proposed a recording of the opera star Fedor Chaljapin, who was enjoying great successes at the opera houses in St. Petersburg and Moscow.³⁷ Visually, a red record label would document this special recording event. Overcoming some difficulties, Gaisberg managed to get the opera star in front of the recording funnel. In addition to songs such as “How the King Went to War,” “Arise Red Sun,” and “Elegy,” he recorded the aria “Le veau d’or” from Gounod’s “Faust,” Prince Galitzki’s aria from Borodin’s “Prince Igor,” and Sousanine’s aria from Glinka’s “A Life for the Czar.” Thus, Gramophone produced the first record of an opera star, which was offered for sale on the “red label” for the luxury price of £1. A few days after the recording session with Chaljapin, Gaisberg recorded other opera arias for Gramophone with different Russian opera singers such as Sobinow and Dawidow, which turned out to be huge successes on the Russian market.

Gaisberg continued to apply the strategy of having opera stars record arias popular with contemporary audiences, which succeeded in Russia. In March 1902, he persuaded the young star tenor of La Scala in Milan, Enrico Caruso, to make a few recordings. Caruso demanded the astronomical fee of £100 for the recording of ten arias, which Gaisberg granted him despite the explicit objections of his employers.³⁸ The money was well invested, though, since it took no time at all to recoup the £100 and make a big profit.

The success of the Caruso recordings inspired Gramophone to gain more opera stars for recording purposes. All branch offices were instructed to persuade local opera stars to come to the recording studios. By September 1902, Gramophone offered a sophisticated recording catalog that almost exclusively included recordings

³⁷ Riess (1966: 7-80) recounts in great depth and with all anecdotal details how the first recording of an opera star occurred.

³⁸ On March 18, 1902, Caruso, accompanied on piano by Maestro Cortone, recorded in Gaisberg’s hotel room “Questa o quella” from “Rigoletto,” “O dolce incanto” from “Manon Lescaut,” “Una furtive lagrima” from “L’elisir d’amore,” “Giunto sul passo estremo” and “Dai campi, dai prati” from “Mephisto,” “E lucevan le stelle” from “Tosca,” “Serenata” from “Iris,” “Celeste Aida” from “Aida,” as well as “No, non chiuder” and “Studenti! Udite!” from “Germania.”

of European opera stars: Pol Placon, Maurice Rénaud, Antonio Scotti, Suzanne Adams, and Emma Calvé, to name but a few. At the end of December 1902, the Italian star-tenor Francesco Tamagno was the first opera singer to receive a royalties contract.³⁹ Tamagno received a 10% share of each record sold. A special “Tamagno label” marked these records that were extremely expensive at a price of £1. Expecting great business from these Tamagno records, Gramophone granted the singer an additional advance of £2,000. In this manner, a number of additional star labels were created, such as the “Patti label” and the “Melba label.”⁴⁰

These so-called “red label” recordings did not directly affect Gramophone’s profits, which grew from £79,348 in 1901 to £137,268 in 1902 to £252,285 in 1903. They still derived their main income from recordings of popular songs and marching music. The share of star recordings amounted to only 1% of all sales, but the positive promotional effect was immeasurable, especially since at this time the record had not yet prevailed against the music cylinder as the industry standard in Europe. The artists, in turn, did not just profit from generous payments but were able to introduce themselves to a larger audience beyond their national boundaries. Indeed, Enrico Caruso became the very first international opera star with the help of the record. Of course, Caruso had already been a celebrated star at La Scala, but he was less known outside of Italy. This drastically changed with his record releases. Their success eventually led to his engagement with the New York Metropolitan Opera (The Met), where he had his debut as Count in “Rigoletto” on November 23, 1903 (Riess 1966: 91).

The often-recounted success story of how Caruso became a world-famous opera star with the help of Gaisberg and Gramophone hides, however, the fact that Gramophone was neither the first company to record Caruso, nor the first to produce the recording of an opera singer. This particular claim to innovation instead belongs to a small Milan-based producer of phonographs and wax cylinders, the Anglo-Italian Commerce Company (A.I.C.C.). A.I.C.C. already produced wax cylinder recordings of a number of singers working at the Milan opera houses around 1900. These included three recordings of a certain Enrico Caruso. Since A.I.C.C. owned a good program but an insufficient distribution network, it began to cooperate with Pathé in Paris. That the Italian company’s concept had not yet prevailed and recordings of opera arias had been disseminated earlier was simply due to the inferior technology of cylinder reproduction.

However, the idea to include opera stars into a music company’s repertoire was no guarantee for commercial success. Even before Victor Talking Machine licensed the rights from Gramophone Co. to begin producing seven recordings of Caruso’s

³⁹ The first record contract was already signed on October 15, 1898 by the darling of London music halls, Albert Chevalier. In this contract, Gramophone guaranteed Chevalier a payment of 1 shilling per 12 records sold (see Martland 1997: 55).

⁴⁰ Adelina Patti (her real name was Baroness Cederström) was an already aging opera diva who, at the age of 63, recorded her first record. In 1905, she recorded for Gramophone a number of songs and opera arias for the “red label” series. Nellie Melba, too, was a celebrated opera star who made some recordings for Gramophone in July 1904 (see Riess 1966: 102-110 and Martland 1997: 59-60).

⁴¹ Legend has it that The Met’s artistic director, Heinrich Conried, first heard Caruso at Gramophone’s Parisian office and immediately hired him there.

Milan production, as well as other recordings of well-known opera stars, Columbia-U.S. had released 32 records with some stars from The Met as “Grand Opera Records”. For the first time, the stars were even paid generously. Marcella Sembrich received \$3,000 for three recordings⁴² and Edouard de Reszke \$1,000 for the same number of recordings (Gelatt 1955: 137). The “Grand Opera” series did not turn out to be a big sales success. Although Columbia did not incur any losses, the gains did not justify any further recordings.

In contrast, Victor found considerably more success with the European recordings of Caruso & Co and introduced them as part of the “Red Seals” series in the U.S. market. This series’ name alluded to the red labels that Rappaport used in St. Petersburg and were taken over by Gramophone as “Red Label.” Subsequently, a recording studio was installed at New York’s Carnegie Hall, where The Met stars had recorded for Victor since the end of April 1903. Once Caruso was hired by The Met, he was contracted for more recording sessions. In order to prevent rivals from approaching Caruso with recording requests, Victor Talking Machine signed the tenor to the first exclusive record contract in the history of the music business on January 28, 1904. Herein, Caruso agreed not to record with any other company for the next five years; in turn, he received \$4,000 for his first 10 recordings and an additional \$2,000 per year for exclusive recordings in Victor’s sound studios (Gelatt 1955: 139).

The star principle and exclusive contracting had thus become key criteria for success in the phonographic industry. In this way, the phonographic companies attained control of the artistic-creative input, which became the most crucial factor in the entire value-added chain. Even the best known opera stars received enormous financial advantages from exclusive recording contracts, not the least of which was a regular income for the contract’s duration. Caruso was thus able to earn \$2,000,000 solely from his recordings and the resulting royalties until his early death in 1921.⁴³

Although the “Red Seal” series was initially no real barnstormer, Victor managed to enthuse more and more music lovers for opera recordings with the help of improved recording methods and intense advertising campaigns. Once the “Red Seal” series began to produce continually increasing profits, all stars of the New York Met were already under contract with Victor; thus, the opera market proved to be slim pickings for potential competitors. The “Red Seal” series was the most profitable flagship of the Victor Corporation. Even though the records were priced above average, it stressed the recordings’ elite character.⁴⁴ Prices ranged from \$1.50 to \$7, depending on which star or how many stars one could hear on the record. At \$7 the most expensive record was the sextet “Lucia” from Verdi’s “Rigoletto” sung

⁴² These recordings were an aria from Verdi’s “Ernani” and “La Traviata,” as well as a vocal arrangement from Strauss’ “Spring-Voices Waltz”.

⁴³ During this period, Caruso made 234 recordings, not counting the ones he made for A.C.I.I. In contrast to this, The Met paid him \$960 per performance in his first year. Only later, when his performances became more scarce, did Caruso demand \$2,500 for each performance (Riess 1966: 178-179). Hence, Caruso would have had to appear 800 times to match the income he derived from his recording activities.

⁴⁴ The \$3.50 cost of a Caruso record equaled the weekly earnings of a trained worker.

by Sembrich, di Scotti, Caruso, Journet, Serverina, and Daddi. “The Victor people were well aware that \$7 was an exorbitant price for a single-sided four-minute record, but they knew also that a \$7 record had great publicity value. In an aside to the trade, Victor confided:

Do not underestimate the value of the Sextet as an advertising medium. This feature of the record is very much more valuable to the average dealer than the actual profit he may make on its sales. Not all of our customers can afford to purchase a \$7.00 record, but the mere announcement of it will bring them to your store as a magnet attracts steel (cited in Gelatt 1955: 149).

In 1912, the “Red Seal” catalog comprised 600 different recordings. In the same year, the “Victor Book of the Opera” was released as a sort of guide; in 375 pages, it described 70 operas and provided translations of the most important arias, while pointing out which arias could be heard on the “Red Seal” records.

These and similar marketing activities were by now part and parcel of the phonographic industry’s sales strategy. Consumers could be bound to the company with the help of a targeted brand policy. Thus, the label “His Master’s Voice”—first developed by the British Gramophone Co. and also used by Victor (“Victor’s Dog”) in 1905—represented not a specific record but the record in general.⁴⁵ In 1905, Victor Talking Machine installed for the first time a larger-than-life billboard on an office building on 37th Street and Broadway depicting Nipper the dog in front of a funnel. In 1913 alone, Victor’s advertising budget amounted to \$1.5 million while profits added up to \$13.9 million (Riess 1966: 131).

Competitors had a hard time joining the lucrative opera segment. Columbia, though it was the first to motivate The Met stars to record, discontinued its “Grand Opera” series once initial success did not continue. In 1907, when Columbia wanted to rejoin the opera business, all The Met stars had already been contracted by Victor. They thus began to establish contact with the European labels Odeon and Fonotipia in order to license their opera recordings and distribute them in the U.S. In March 1908, Columbia re-entered the market with the help of the European recordings. However, Columbia was dissatisfied with the recording quality of the Odeon and Fonotipia recordings and cancelled the licensing contracts in 1910. Subsequently, Columbia approached the opera houses of Boston and Chicago. Eventually, Columbia succeeded in building an opera repertoire with the help of some Odeon and Fonotipia stars who were directly contracted for the U.S. market, as well as singers of the opera houses in Boston and Chicago; yet, Columbia’s success paled in comparison to Victor’s.

Victor was the leader—in artists, in repertoire, in advertising, and in sales. Columbia tagged along in the wake of Victor’s initiative and picked up the leavings (which were plentiful) (Gelatt 1955: 156).

⁴⁵ The label “His Master’s Voice” depicted a dog that attentively listened to a Gramophone. French painter Francis Barraud, who lived in London, created this brand sign. Out of enthusiasm for the Edison-phonograph, he painted his dog Nipper in front of such a machine. Since the Edison Company could not use this painting, Barraud approached Gramophone, which used the artistic rendering after painting over the Edison-phonograph with a Gramophone..

In Europe, the International Zonophone Company, Columbia's European subsidiary, aggressively focused on the opera star repertoire from 1902 on, in an attempt to compete with Gramophone for the opera market. Similar to the "Red Seal" series, they conceived a "Light Blue" series for which they hired stars that had already recorded for Gramophone. The hostile takeover of Zonophone by Gramophone in 1903 can very well be traced back to the success of the "Light Blue" series that had emerged as a serious threat for Gramophone. It is little surprise that immediately after the acquisition of International Zonophone, the "Light Blue" series was terminated and "Zonophone" positioned as a low-price label.

Other record producers tried to succeed with the opera repertoire, but they soon had to concede that this market segment was thoroughly dominated by Gramophone with its "Red Seal" series.⁴⁶ With the emergence of exclusive recording contracts, the European opera star market was soon thoroughly picked over. Whoever wanted to succeed on this segment had to discover new, not yet recorded repertoire.

The German Lindström, which initially concentrated only on the production and distribution of phonographs, strongly succeeded at this task. The company owners realized that a popular repertoire was necessary for attaining commercial success. But in 1904, when Lindström's new owners began anew the production of machines after the company's bankruptcy, most opera stars were already under contract with Gramophone and its regional branches. Further, Lindström lacked the financial means to develop unknown singers into stars. Hence, Straus, Heinemann, and partners hedged their bets with recordings of successful operetta pieces from Berlin and Vienna that had long been declared dead. This investment in an operetta repertoire paid off sooner than expected. For when the posthumously named "silver operetta era" started after the first performance of Léhar's "The Merry Widow" on December 30, 1905 at the Theater an der Wien in Vienna, Lindström had already positioned itself in the operetta market.⁴⁷ Although Gramophone managed to contract a few Viennese and Berlin operetta stars as well, Lindström essentially controlled the Berlin market.⁴⁸ In particular, the company produced the most popular operettas of Berlin composers Paul Lincke, Jean Gilbert, and Walter Kollo.

The Berlin music revue, popular since the turn of the century and initially brought to the city by Metropol theater impresario Viktor Holländer, constituted

⁴⁶ The International Talking Machine Company, founded by former Zonophone chairman F. M. Prescott, produced for the Odeon label recordings of the already 60-years old former Wagner heroine, Lilli Lehmann and of the young tenor John McCormack. The Société di Fonotipia, located in Milan, tried to position itself with the help of a number of artistically authentic recordings of arias, including recitations in their original length, directed by opera composer Umberto Giordano ("Andrea Chénier" or "Fedora"). The French Pathé Company initially produced operas on cylinders; these, however, were first complemented with the Pathé disc in 1906 and then fully replaced by it. Although Pathé managed to establish a monopoly position in France, its activities remained limited to the French market, with the exception of a cooperation with the Anglo-Italian A.I.C.C.

⁴⁷ In addition to Franz Léhar, Oscar Straus with "A Waltz Dream" (first performed May 2, 1907 at the Carl Theatre in Vienna) and Leo Fall with "Der fidele Bauer" (first performed July 27, 1907 in Manheim) were part of the founding members of the "silver operetta era."

⁴⁸ On June 22, 1906, Gramophone recorded the most popular songs of the success operetta with the first "Merry Widow," Mizzi Günther and the first "Danilo," "Louis Treumann." As well, the Viennese operetta stars Fritzi Massary and Alexander Girardi worked for Gramophone..

another business area that Lindström was the first to make available for the phonograph.⁴⁹ Likewise, they recorded chansons that were popularized by Ernst Ludwig Freiherr von Wolzogen since the founding of the cabaret “Überbrett” located on the Berliner Alexanderplatz. Lindström was the first company to commercially exploit so-called popular songs on record—songs taken from operettas, music revues, and cabarets that were exceptionally popular with audiences that, as it were, had entered the audience’s minds with a “punch.”⁵⁰

Thus, a large part of the music repertoire available on record consisted of operas and operettas in addition to folk songs, as well as marching and dancing music. Other music forms, such as instrumental and orchestral music, were not yet suited for recording in the age of acoustic recording techniques. Violins and pianos could only be reproduced by incurring enormous sound losses, and orchestras, if they did not exclusively consist of horn instruments, could be reproduced only as diffused sound mush.⁵¹ Even though Gramophone had tried to expand the star concept to instrumental virtuosos, such as the violinists Joseph Joachim, Pablo de Sarasate, Jan Kubelik, Joseph Szigeti, Fritz Kreisler, Mischa Elman, or the pianists Josef Hofmann and Ignace Jan Paderewski, the poor recording quality prevented resounding success.

The situation was similar for orchestral recordings. In 1905, Gramophone’s Italian subsidiary recorded with the Scala orchestra popular Italian opera overtures, but the experiment was not repeated. In 1909, Odeon, which was part of the Lindström Corporation, produced the first full recording of Tchaikovsky’s “Nutcracker Suite” on four double-sided records. In 1910, Gramophone followed with an abbreviated version of Grieg’s piano concert performed by soloist Wilhelm Backhaus, and in 1911 Columbia-U.S. produced Schubert’s “Unfinished”. A few more orchestral recordings by Columbia and Gramophone followed, but it was the first complete recording of Beethoven’s “5th Symphony” by the Berlin Philharmonic conducted by Arthur Nikisch in 1913 that was epochal. Nikisch was the first maestro who conducted a recording for a record label, in this case Gramophone. Other star conductors such as Richard Strauss, Thomas Beecham, and Henry Wood followed. Nevertheless, until the introduction of electric sound recording technology in 1925, orchestral music remained a marginal phenomenon in the catalogs of the phonographic companies. Whereas opera lovers were able to choose from 1,200 excerpts from about 100 operas in 1915, the rubric “Symphonies-

⁴⁹ Noteworthy are, for instance, the revues “Berlin Laughs” (1899), “Specialties” (1900), “One Only Lives Once” (1901), “Berlin Remains Berlin” (1902), “Maxim’s Gentlemen” (1904), “To the Metropol” (1905), or “The Devil Laughs” (1906).

⁵⁰ Translator’s note: The author puns here on the German word for “popular song,” “Schlager,” which carries connotations of “punching” or “beating” (“schlagen”). In German, therefore, a popular song is a song that is “eingeschlagen,” that has entered listeners’ ears with force, or with a “punch.”

⁵¹ In order to render the violin usable for acoustic sound recordings, the London instrument builder Charles Stroh invented in 1901 the aptly named “Stroh violin,” the resonating body of which was directly connected to the recording funnel. The first successful orchestral recordings were made by the Deutsche Grammophon together with bandleader Bruno Seidler-Winkler, who managed to rearrange original scores so that a similar effect could be achieved on record as in a concert hall.

excerpts from” encompassed merely 15 recordings (Gronow and Saunio 1998: 22-23).

4.2. *The Tin Pan Alley Monopoly*

Around 1900, when the phonographic industry had emerged as part of the music industry, the music publishing houses of Tin Pan Alley dominated mainstream music in the U.S. “Tin Pan Alley songwriters soon reached a stylistic plateau, a much more homogenous style than had ever before been the case in the history of song in America” (Hamm 1983: 290). Tin Pan Alley can be called a music factory that simultaneously served and formed the music taste of the “white” upper and middle classes. The music repertoires consisted in large parts of saccharine waltz melodies, marching music, and numbers from music revues and vaudeville theaters.⁵² Composers and lyricists who were rooted in European culture and capable of producing sheet music created this special sound. Sheet music was the economic basis of the music publishing industry around which the music industry’s value-added chain had formed.

Once the phonographic industry achieved enormous profit increases through the sale of records, the music publishers saw their economic position threatened. The phonographic industry used the publishing industry’s music repertoire without paying for it.⁵³ Furthermore, the passive consumption of recorded music was bound to substitute for the actual making of music at home based on commercial sheet music, thus endangering the lifeblood of the music publishers. In order to eliminate a situation that was clearly unacceptable from the perspective of the music publishers, they intensified their lobbying efforts for the introduction of codified copyright law; musicians had long demanded such a law, but up until this time their wish had not been granted (see Tschmuck 2002). In 1909, John Philip Sousa, one of the most successful record stars of the early days, and composer Victor Herbert demanded a revision of copyright law in favor of a fee that was to be levied on mechanical reproduction; the music publishers provided massive support for this demand. The Copyright Act of 1909 was in large part a direct consequence of these lobbying activities and stipulated a fee of 2 cents for each music cylinder, record, and piano-roll. However, the Copyright Act’s economic effects manifested themselves only in 1914 with the founding of ASCAP, an organization that collected the fees.⁵⁴ From here on, the interests of Tin Pan Alley and those of the phonographic industry were inextricably interwoven.

⁵² In order to boost sales of their own artists, publishing houses hired their own “song-pluggers,” whose job it was to make sure certain songs would be used in variety programs. “A song-plugger visited the singer backstage, sang a song, and tried to persuade the singer to perform it in his show; the plugger went to managers, band-leaders, and visited beer gardens. He always carried a bunch of so-called sheet music with him” (Kuhnke et al 1976: 213; translation from the original German).

⁵³ Around 1900, most music publishers were both publisher and composer in one person such as, for instance, Charles K. Harris, who used to work as a pawnbroker.

⁵⁴ ASCAP is short for “American Society of Composers, Authors and Publishers.”

The music theater market was the connecting link between music publishers and phonogram producers. Due to copyright law, music publishers profited from both live performances in music theaters and the sales of phonograms. The music theaters—called Vaudeville Theatres based on the French model—had been experiencing a boom period in the United States since the turn of the century. Around 1900, a network existed that consisted of hundreds of theaters that were controlled by two event organizations: in the East, the Vaudeville Managers Association (VMA) headed by the impresario duet Keith & Albee, and in the West, Martin Beck's Orpheum Circuit, which programmed the theaters between Chicago and the Pacific coast. United Booking Office (UBO), a subsidiary of VMA, booked the artists performing at these theaters (for more detail, see Sanjek and Sanjek 1991: 8-10). Thus, Vaudeville operators and Tin Pan Alley shared many interests. The former needed the mass product supplied by Tin Pan Alley; in turn, Vaudeville operators ensured the latter's access to a mass audience. Thanks to copyright law, the phonographic industry was able to partake in this conglomerate of commercial interests. Records functioned as an advertising medium for music theaters and as business cards for Tin Pan Alley composers, who, like the music publishers, profited from copyright fees. It is thus hardly surprising that the phonographic repertoire primarily comprised Tin Pan Alley's songs popularized by Vaudeville Theatres.

The commercial exploitation of Broadway star Al Jolson is a prime example that helps to illustrate the overlapping interests of music publishers, Vaudeville Theatres, and phonogram producers. Jolson premiered with great success in March 1911 at the New York Winter Garden in the show "La Belle Paree" in which he sang Tin Pan Alley songs of Jérôme Kern and Frank Tours. Later, in November 1911, Jolson was such a success in the premiere of Edmund Eysler's Broadway show, "Vera Violetta," at the Winter Garden that on December 22 of the same year, Victor Talking Machine recorded two of Jolson's songs on record—"That Haunting Melody" and "Rum-Tum-Tiddle." In the following years, Victor, and later Columbia, too, produced more Tin Pan Alley songs from Broadway shows with Al Jolson.

The cooperation between music theater operators, music publishers, and phonographic companies reached its peak with the dance fever that quickly spread all over the United States around 1910. Since 1907, when Florenz Ziegfeld, inspired by the Parisian original, introduced music and dance revues to New York, they were big audience magnets.⁵⁵ Tin Pan Alley provided the music for these as well as Vaudeville shows, which were also recorded. Hits such as Irving Berlin's "Everybody's Doin' It," Alexander's "Ragtime Band," or Gilbert & Muirs' "Waiting for the Robert E. Lee" were arranged for new dances, including the Turkey Trot, the Tango, or the One-Step, and recorded by house orchestras (Garofalo 1997: 31).

In addition, a kind of music was recorded for the first time that had its cultural roots in African-American folk music: Ragtime. Ragtime's popularity, however, was not based on the phonogram but on the pianola. The pianola was a mechanical

⁵⁵ One of the first and most successful revues was the one by Vernon and Irene Castle and their dance ensemble, which essentially triggered the dance boom.

piano capable of playing music with the help of punched tape. This technology, widely available in the U.S. in the 1890s, was rather convenient for early Ragtime musicians such as Scott Joplin, James S. Scott, and Joseph Lamb, since they could play a song on the pianola while it simultaneously punched into tape.

Military and amateur bands already practiced the typical Ragtime style Scott Joplin⁵⁶ had developed around 1880.⁵⁷ Joplin combined the marching band style with European salon music and thus created a novel kind of dance music that was composed rather than improvised. Once the dance fever caught on, Tin Pan Alley turned to Ragtime as well; however, its composers mainstreamed Joplin's Ragtime style, polishing its rough edges. Tin Pan Alley thus invented the Ragtime song, which differentiated itself by the fact that syncopated turns occurred only rarely.⁵⁸

By and large, this music could be offered to a "white" audience; in retrospect, therefore, we can speak of "white music played black" (Berendt and Hausmann 2001: 23). Hamm (1983: 321) adds:

A pattern was established with the ragtime song that was to recur time and again in the twentieth century: white popular music skimmed off superficial stylistic elements of a type of music originated among black musicians, and used these to give a somewhat different flavor to white music. Though Scott Joplin and a handful of other black ragtime musicians realized a modest profit from their music, the important money went to the white publishers, performers, and composers of ragtime songs.

This insight is not only valid for Ragtime. The "white" music industry picked up many other music styles emerging from "black" folk music traditions. In adapting them for the tastes of a "white" mainstream audience, they made the original styles almost unrecognizable. The Blues and Jazz suffered the same fate, with the latter possibly being *the* musical innovation in the U.S. of the early twentieth century.

Blues and Jazz have their roots in the Mississippi Delta, especially in New Orleans.⁵⁹ In our context, we can consider Blues and Jazz as innovations, that is, as novel artistic activities that succeeded commercially. Thus, I am not speaking of the traditional music activities that go back to the period of slavery; rather, what I have in mind here is the kind of music that was practiced by music shows touring urban amusement quarters of the South in the interest of earning a living. In this context, music ethnologist David Evans (1971) distinguishes between two kinds of musicians. On one hand, there were rural Blues musicians who played in bars in order to try to earn a living; these can be characterized as "folk professionals." On

⁵⁶ The African-American Scott Joplin was born 1868 in Texas, but he was trained in the European tradition of music composing. In addition to more than thirty Rags, including the famous "Maple Leaf Rag" or "The Entertainer," Joplin also composed a symphony and two operas.

⁵⁷ Berendt and Huesmann (2001: 21) characterize Scott Joplin's piano-Rags as the "highpoint of a long development of a range of Ragtime styles".

⁵⁸ Examples of this style are the Ragtime songs of Tin Pan Alley composer Irving Berlin such as "Play Some Ragtime" (1909), "Stop that Rag" (1910), "Dat Draggy Rag" (1910), "O, That Beautiful Rag" (1910), or "Alexander's Ragtime Band" (1911).

⁵⁹ By now, research has shown that local Blues traditions also existed outside the Mississippi Delta and that New Orleans was not the only birthplace of Jazz; yet, both regions clearly play a special role in the development of their respective music styles.

the other hand, there were professional musicians who incorporated the Blues into parts of their stage performance; their activities established the Blues as a commercial music style.

This commercial style of the Blues first existed in minstrel shows practiced by African-Americans.⁶⁰ Evidence shows that Ma Rainey, who worked as a singer in a number of minstrel shows, already incorporated the Blues into her stage show in 1902 (Work 1940: 32).⁶¹ A much cited anecdote claims the successful African-American Tin Pan Alley composer William C. Handy as the “father of the Blues.”⁶² Truth is that Handy was the first to offer a blues song, the “Memphis Blues,” as printed sheet music in 1912 (see Handy 1957: 106-121). Leroy White’s “Nigger Blues” and Wand/Garrett’s “Dallas Blues” appeared that same year as well. These so-called “Blues” songs were quickly incorporated into the repertoire of dance bands and soon found their way onto records; yet, these songs had little in common with those Blues songs performed by minstrel shows and were nothing at all like the original Mississippi Delta Blues that was first recorded in the 1920s. In other words, Tin Pan Alley subjected the Ragtime and the Blues to its own logic of production and stylistically adapted them to the repertoire of popular music that was customary at that time. The phonographic industry, which between 1900 and 1920 existed in a sort of symbiotic relationship with the music publishers, produced Ragtime and Blues music in the “domesticated” version of the Tin Pan Alley.

The music publishers and phonographic companies had even less use for the improvised musical forms of Jazz. Music that, in its essence, was not made for sheet music was not a promising business for music publishers. But even the phonographic industry needed a long time, for it was not until 1917 that the Original Dixieland Jass Band (ODJB) produced the first recording in the history of Jazz.⁶³ Not surprisingly, it was a group of exclusively “white” musicians who made the first Jazz record.

ODJB’s musicians all came from New Orleans and practiced a style of music prevalent among local “black” orchestras. This early form of Jazz, the so-called New Orleans style,⁶⁴ constituted a mix of African-American, Creole, and “white”

⁶⁰ We can trace back commercial minstrel shows to 1842 when four unemployed actors, so-called “black face entertainers,” conceived of the “Virginia Minstrels” and successfully performed in New York. “Black face entertainers” were really “white” actors who imitated African-Americans in a racist manner during breaks of theater performances. Minstrel shows turned this filler into the main attraction consisting of funny dialog, slapstick comedy, and music performances; overall, these shows depicted “blacks as thieves, idiots, dimwits, and lazy people” (Kuhnke et al 1976: 125). In contrast, minstrel shows that were exclusively performed by African-American entertainers did not emerge until 1867, that is, until after the end of the Civil War and the abolition of slavery.

⁶¹ Ma Rainey herself claims that she had first heard the Blues played by a young woman on a stop of her touring minstrel show in a small town in Mississippi. Ma Rainey learned from this woman a song complaining about the loss of a lover and incorporated it into her repertoire.

⁶² W. C. Handy maintains that he first heard the Blues played by an amateur band that performed upon audience request at a dance festival in Cleveland, Mississippi where his orchestra played as well.

⁶³ On February 26, 1917, Victor Talking Machine recorded with ODJB the “Original Dixieland One Step” and the “Livery Stable Blues”.

⁶⁴ French music theoreticians Robert Goffin (1932) and Hugues Panassié (1934) coined the term “New Orleans style.”

music traditions, and especially profited from the many cultures coming together in a harbor city like New Orleans. In Storyville, the city's amusement quarter, numerous "black" bands were already practicing in the 1890s an expressive playing style based on intensely heated improvisations aptly called "hot play." "White" bands such as "Papa" Jack Laine's, the already mentioned ODJB, and the New Orleans Rhythm Kings picked up on this style but smoothed out the harmonies and melodies and, for the most part, forewent the expressive "hot play."

Whatever may now be regarded as the Ur-form of Jazz, one thing is clear: Jazz was created far away from the centers of the music publishing business and phonogram production. This musical innovation took place outside the music industry in cities such as New Orleans, which for the longest time did not even have a recording studio. The music industry took note of Jazz only once it had already assumed well-defined forms in the Dixieland or New Orleans style.⁶⁵ This explains why it took almost a quarter of a century for the first Jazz song to be played by "white" musicians in New York and, even later, for the first "black" Jazz to be recorded in Los Angeles and Chicago. Chapter 3 will discuss this in more detail.

In conclusion, we can say that the phonographic repertoire between 1900 and 1920 was determined by, on the one hand, technological restrictions—acoustic recording technology and a recording capacity of only 2-3 minutes per side—and, on the other, by aesthetic requirements of a music industry keen on providing entertainment. Before 1900, during the pioneer period of the phonograph, the phonographic industry recorded the kind of regional music that was demanded by local audiences; subsequently, however, the entertainment conglomerate consisting of music publishers, music theatre houses, and phonographic companies formed the music taste of large parts of the population. It was a mutually reinforcing process: music providers produced that which was popular with a mass audience and, in turn, reproduction served and intensified this demand. A music mainstream was thus created, which repeatedly offered new packaging for the tried and tested. This mainstream was characterized by simple variations of common patterns; consequently, we cannot necessarily speak of musical innovation. If novelty emerged, it did so not as a result of an intentional process, but as the outcome of an evolutionary process of incremental change.

At first, the phonographic industry picked up all that which had proved to be commercially successful in a different context: opera highlights, operetta gaiety, dance music, cabaret-chansons in Europe, Tin Pan Alley songs in the U.S., etc. Music such as the Blues and Ragtime that emerged outside of the music industry and did not fit the music providers' conventional schemas was altered in such a way that the music's original innovative impulses got lost. A Blues composed by W. C. Handy or Ragtime by Irving Berlin had hardly anything in common with the innovative models. The music industry absorbed these musical innovations and made them essentially unrecognizable in order to make them palatable to the average listener's taste. This was the phonographic industry's recipe for success,

⁶⁵ "Dixieland" was the folksy term used for the American South.

which was characterized by continually growing sales numbers between 1900 and 1920—despite, or perhaps even because of World War I.

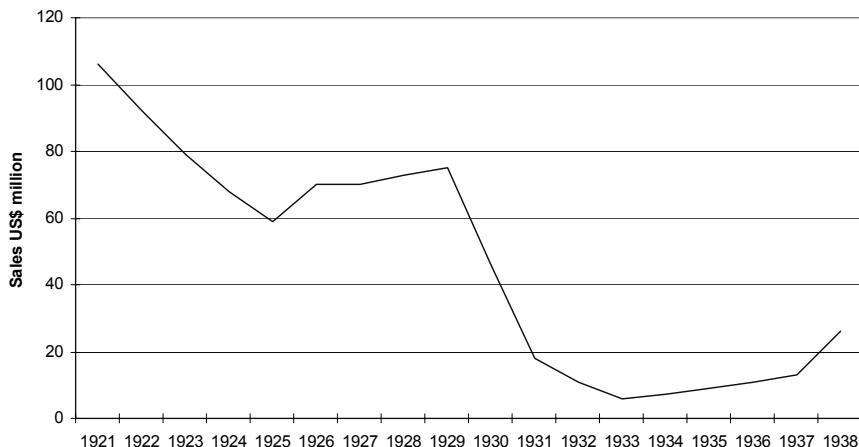
Shortly after the war, at the pinnacle of the boom, the music mainstream appeared to have run its course. This would have meant the premature end for an entire industry had it not been for innovative impulses generated from outside the system of the “music industry”. They emerged, on one hand, from technological novelties such as the invention of broadcasting and electrical recording procedures and, on the other hand, from musical innovations such as the Jazz and the Blues. These innovations subsequently revolutionized the structures and processes of the music industry and especially those of the phonographic industry as the former’s integral component.

CHAPTER 3

NEW TECHNOLOGY AND THE EMERGENCE OF JAZZ

1. THE PHONOGRAPHIC INDUSTRY'S BUSINESS CYCLE FROM 1920 TO 1945

In 1921, U.S. record sales reached a historic high of \$106 million. This figure was not exceeded until 1945 when it reached \$109 million. During this time period, the phonographic industry experienced a steady sales decline between 1921 and 1925. From 1925 through 1929, sales boomed for a last time before the market crash of 1929 initiated a drastic decline that reached its lowest point in 1933 with only \$6 million in sales. After 1934, the phonographic market began to recover slightly (Figure 7).



Source: After Gronow and Saunio (1998: 38).

Figure 7. U.S. record sales (in US\$ million) between 1921 and 1938.

Based on Figure 7, we can identify a total of two recessions and two periods of expansion, with the latter characterized by different growth rates.

1921-1925, 1st Recession: During this period, the U.S. phonographic industry declined annually by about 15%. In 1925, sales amounted to only 55% of the base year, 1921.

1926-1929, 1st Period of Expansion: In 1926, a sales increase of 19% from 1925 covered the losses from the previous year. In 1927, market volume remained constant, and the years 1928 and 1929 saw modest annual growth of 4% and 3%, respectively. This momentary upturn, however, could not compensate for the total losses incurred since 1921. In 1929, sales only reached 75% of the level of the base year.

1930-1933, 2nd Recession: The years following the market crash were years of depression for the phonographic industry. Annual sales saw dramatic declines. The largest decline occurred in 1931 at a rate of 61%. In 1933, little was left of the phonographic market. Sales were a mere 6% of those in 1921.

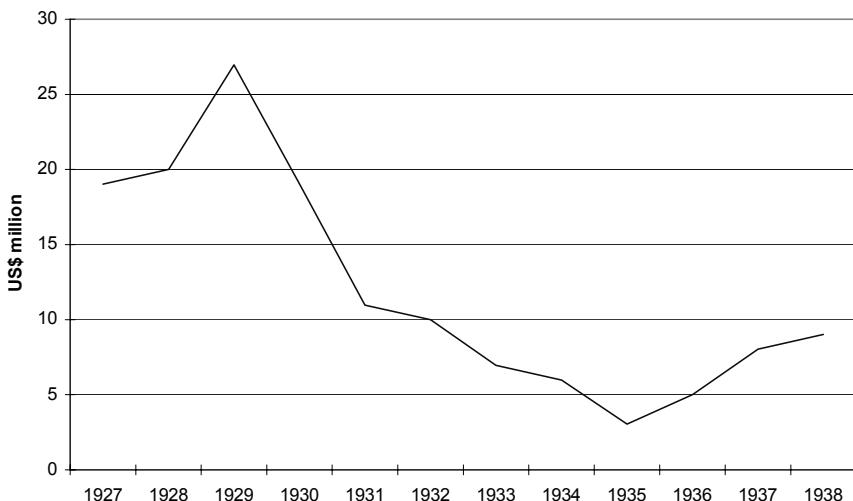
1933-1945, 2nd Period of Expansion: After the absolute low of 1933, the market slowly began to recover. Until 1937, the growth rate remained moderate at 17-29%. In 1938, however, sales doubled. Nevertheless, the market reached only 25% of the volume of the base year 1921.

The development of the European market after World War I cannot be reconstructed quite as precisely as that of the U.S. market, because the available data for sales and market shares is rather incomplete. It is not even possible to develop a complete sales timeline for one single European country. The best data set available is for Germany, representing a complete sales progression from 1927 to 1938 (Figure 8).

Germany had also seen strong market growth in 1929. For the last time, sales rose by 35% compared to the previous year. But then, just like in the U.S., a full-on depression set in. The market annually declined by double-digit percentage rates.⁶⁶ The worst decline, 50%, occurred in 1935. That year, the market recession hit an absolute low, with sales reaching a mere 16% of the base year (11% of annual sales in 1929). Subsequently, sales showed once again improving growth rates.⁶⁷ Nonetheless, in 1938, the last year before the beginning of World War II, sales remained 50% below the level of 1927 (and were merely one-third of the level of 1929). Since Germany constituted the largest national European record market after Great Britain's, we can reasonably assume this sales development to be fairly representative for other European countries.

⁶⁶ 1930: -30%; 1931: -42%; 1932: -9%; 1933: -30%; 1934: -14%; and 1935: -50%.

⁶⁷ 1936: +67%; 1937: +60%; 1938: +13%.

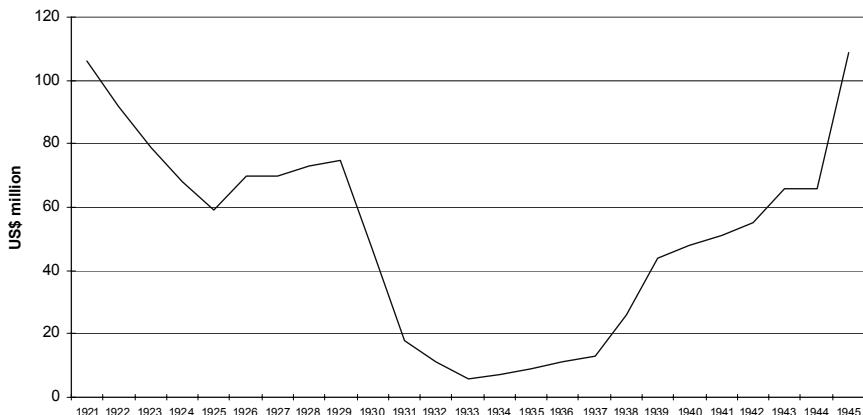


Source: After Gronow und Saunio (1998: 38).

Figure 8. Record sales in Germany from 1927 to 1938.

For the years of World War II, it is impossible to produce a reliable sales chart for the European market. In contrast, in the U.S., which entered the war in December 1941, the phonographic industry experienced a new boom. Between 1938 and 1939, record sales increased by 69% (from \$26 million to \$44 million), in 1940 by another 9% (to \$48 million), and in 1941 by 6% (to \$51 million). However, with the U.S. entry into the war, the record industry was cut off from crucially needed shellac imports from India. This lack of raw materials led the majors to limit production exclusively to mainstream music. Music for ethnic minorities ("Race," Gospel, and Latin) and Country music, which was pejoratively called "Hillbilly," was no longer recorded (Chappel and Garofalo 1980: 18).

Nevertheless, the war economy did not affect industry sales all that negatively. From 1942 to 1943, sales increased by a solid 20% (from \$55 million to \$66 million). Only in 1944 did sales stagnate at \$66 million. During the last year of war, even this stagnation was overcome, and a jump in sales occurred of more than 65% to \$109 million. With this number, the phonographic industry had finally eliminated all losses from the preceding 24 years and exceeded the peak number of 1921 (\$106 million).



Source: After Gronow und Saunio (1998: 38).

Figure 9. U.S. record sales between 1921-1945.

2. THE PHONOGRAPHIC INDUSTRY AND BROADCASTING IN THE U.S. AND EUROPE

Which forces were responsible for this business cycle? Let's start with the U.S. market, where the ongoing overproduction of phonographs and records became obvious between 1921 and 1925. A number of smaller labels had to go out of business, and even Columbia got into trouble. Total sales had declined by a factor of 2.5 between 1920 and 1921 (from \$47 million to \$19 million). The gains of 1920 had turned into a net loss of \$4.4 million. In response, Columbia-U.S. was restructured and re-founded as "The Columbia Graphophone Manufacturing Co." Due to persisting financial troubles, however, Columbia Graphophone had to file for insolvency in 1922; the company's British subsidiary seized this opportunity to repurchase the company shares owned by its parent. From then on, the British Columbia was an independent company began being listed in 1923 as a stock company at the stock exchanges in London and New York. In contrast, the former U.S. parent company was unable to recover despite the sale of its British offices and abandonment of the Dictaphone segment. In 1923, assets of \$19 million were juxtaposed with liabilities of \$21 million. Columbia was hopelessly in debt and had to file for bankruptcy. The three main creditors subsequently merged and continued the business of the financially weak company under the name of "Columbia Phonograph Co. Inc." (Gelatt 1955: 209).

The only serious competitor on the U.S. market, the Victor Talking Machine, also got into trouble in the early 1920s. Due to increasing losses, it had to eliminate high priced phonographs from its catalog and replaced them with common models. However, the increase in record sales since 1925 covered the weakness of phonographs' sales. Victor primarily profited from the sale of Jazz records, which had become popular around 1920. Indebted to the American middle class, however,

Victor mostly recorded “white” Jazz. At the same time, small record labels were carving out a market position for themselves. Using the majors’ rejection of “black” music, they catered to an African-American audience by providing them with recordings of “black” Jazz and Blues songs. In 1921, William C. Handy and Harry Pace founded Black Swan, the first label owned by African-Americans; its repertoire consisted primarily of popular music. Other small labels founded by African-Americans such as Meritt, Sunshine, and Black Patti quickly disappeared from the market. The OKeh label, founded by Otto Heinemann, formerly a member of the German Lindström’s board of directors, rendered outstanding services to the dissemination of “black” music.⁶⁸ In 1920, OKeh recorded the first original Blues with Mamie Smith and in the 1920s had the most “black” Jazz bands under contract. Additional labels that can be considered pioneers of “Race music” recordings include Paramount,⁶⁹ Gennett,⁷⁰ and Vocalion.⁷¹

The reason for the declining phonographic market between 1921 and 1925 was due not only to the majors’ hesitant acceptance of musical innovations in the form of Jazz and the Blues but also to the emergence of new competition from a new medium—broadcasting. The Italian inventor Guglielmo Marconi founded the technological base for broadcasting with his development of wireless telegraphy. In 1897, he founded the Marconi Wireless Telegraph Company Ltd. in London. In 1900, its first competitor emerged with the Telefunken-Company for Wireless Telegraphy, which was founded as a mutual subsidiary of Siemens & Halske and AEG. After endless patent disagreements between Marconi and Telefunken, the two companies agreed in 1912 to exchange patents and pool their resources. In the meantime, both companies had founded subsidiaries in other countries and overseas. At first, however, the outbreak of World War I prevented the commercial exploitation of wireless telegraphy. Instead, the Navy used telegraphy as a communication instrument. As a result, technical improvements were made, without which area-wide broadcasting would not have been possible. After the war, U.S. President Wilson insisted at the Parisian peace conference that this communication technology should not remain a British monopoly and stay in the hands of Marconi. The U.S. Navy even demanded that relevant U.S. patents be relinquished into government hands. This, however, did not agree with interests of General Electric (GE), Westinghouse, and American Telephone and Telegraph (AT&T), which had produced the first communication machines for domestic use. Eventually, a compromise occurred: all Marconi patents and business agreements in the U.S. were to be surrendered to a holding company called “Radio Corporation of America” (RCA) in exchange for stock shares of the new company. In essence, this

⁶⁸ In 1918, OKeh Records was founded in New York as a replacement company for the General Phonograph Corporation, which before the war had operated as the importer-general of the Lindström labels, Odeon, and Fonotipia.

⁶⁹ Paramount Records was founded in the early 1920s as a subsidiary of the Wisconsin Chair Company in Port Washington.

⁷⁰ The Starr Piano Factory located in Richmond, Indiana founded Gennett in the early 1920s.

⁷¹ The Vocalion label belonged to Aeolian Records, which was founded in 1914. Aeolian, which owned production sites in the U.S. and Great Britain and initially produced primarily phonographs, entered the “Race music” market with Vocalion in 1920.

compromise meant the quasi-nationalization of broadcasting in the U.S. Foreign ownership of RCA was limited to 20%, and a U.S. government representative became a member of the board of directors. This constellation allowed GE, Westinghouse, and AT&T to gain control over RCA to varying degrees. AT&T produced transmitters, GE built radio parts, and RCA took care of marketing. With the electrical companies' financial help, the new medium quickly spread all over the country. RCA founded a number of broadcasting stations, which collectively merged as the National Broadcasting Company (NBC) in 1926. RCA owned 50% of the new company, GE 30%, and Westinghouse 20% (Sanjek und Sanjek 1991: 29).

The two market leaders of the phonographic industry in the U.S. reacted to the spread of broadcasting at first with ignorance, then with anger. Instead of realizing and using the important promotional function of broadcasting for record sales, company headquarters viewed radios as dangerous competition for the phonograph. The example of the legendary founder of Victor, Eldridge Johnson, most powerfully exemplifies the prevailing attitude held by the responsible parties of the phonographic industry. Even in 1924, he did not believe that radio might become a real substitute for phonographs and he explicitly disallowed the production of radio receivers in the company's main production site in Camden, New Jersey. A quote from David Sarnoff, who later became RCA's president, tellingly illuminates the business blindness of the responsible Victor people:

I remember when the Victor Talking Machine Co.—and those who founded it did a great job in their day—could not understand how people would sit at home and listen to music that someone else selected for them to hear. They contended that music on the air would be infested with static; they rated the “radio music box” and radio broadcasting as a mere toy (quoted in Chappel and Garofalo 1977: 2).

Neither the responsible parties at Victor nor those at Columbia correctly judged the potential of broadcasting. This misjudgement had consequences for the oligopolistic market structure. Smaller phonographic producers, who had correctly assessed the situation, began to profit from the new development by producing radio-phonographs in 1922, when the radio boom started. In 1923, Sonora entered the new market segment by offering the Sonoradio. In March 1924, the Brunswick Company announced its plans to cooperate with RCA. RCA's popular Radiola was integrated into the Brunswick Phonograph. With the help of these radios, RCA doubled their sales between 1922 and 1923.

The crisis of the phonographic industry, which suffered a sales loss of more than 25% between 1920 and 1925, was due not merely to its rejection of the radio but also to its slow appropriation of new technologies. Since 1919, experiments with electrical recording were independently conducted in England and the U.S. In England in 1920, two amateurs applied this new method for the first time to record a ceremony at Westminster Abbey held in honor of the Unknown Soldier. However, neither thought in terms of commercial exploitation. In the U.S., the Bell Telephone Laboratories had also been working on electrical recordings since 1919. After five years of intense research, they were able to present a technically mature electrical recording method. Bell had developed an electrical phonograph that did not require

musicians to gather in front of the recording funnel (Read and Welch 1976: 237-254).

This new recording method thus revolutionized sound recording. The advantage was obvious. With the help of microphone technology, it became possible to record entire symphony orchestras in a concert hall and entire operas in an opera house. One would expect that the market leaders of the phonographic industry would have immediately embraced the new method. This was not the case. When Bell's engineers presented the new machine to Victor in the spring of 1924, Victor was not at all taken by this new technology. The entire method too closely resembled radio technology, which company founder Eldridge Johnson rejected wholesale.

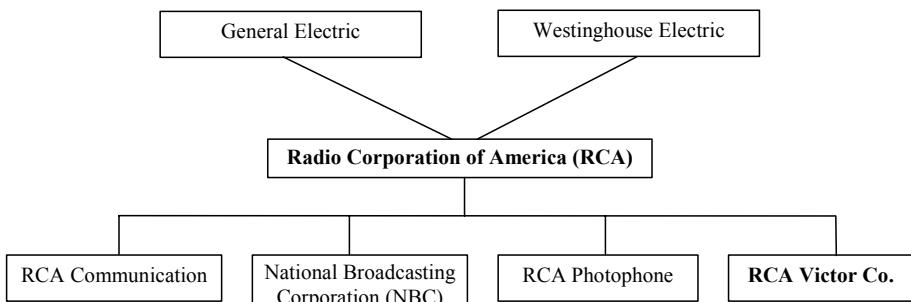
Electrical recording eventually arrived at the phonographic industry via several detours. Hoping to derive some capital from their efforts, the Bell people sent their trial recordings to other record companies, including Pathé's subsidiary in Brooklyn. The chairman himself, Frank Capps, could not see any use in these recordings, but he sent some examples to his friend in London, Louis Sterling, who was the chairman of the British Columbia. Sterling was so enthusiastic about the recording quality that he came to New York at the end of December 1924 to begin negotiations with the patent owners of the new recording method, the Western Electric Company.⁷² However, he discovered that Columbia Phonograph of New York had already accepted an offer to cooperate. Since the British and U.S. Columbia had been independent companies since 1922, Sterling was unable to access this innovation. But Columbia-U.S. still stood on shaky financial legs; thus, the British Columbia bought 60% of its former parent company. This happened a few weeks before Victor and Bell signed a contract promising cooperation with each other after the disastrous Christmas business of 1924.

At once, Victor was at a disadvantage. In order to catch up with its competition, in 1925 Victor agreed with RCA that the Radiola would be incorporated into the Victor machines. The new electrical recording technology was quickly used in order to be able to offer a reasonably comprehensive repertoire on record. The new machine, the Orthophonic Victrola, was introduced to the public on November 2, 1925 via the company's largest advertising campaign thus far (\$6 million). As a result, \$20 million worth of orders were issued; hence, what had looked like a sure loss at mid-year now turned into a profit of \$123,000 (Gelatt 1955: 227).

The technology of microphone recording and the incorporation of a radio into a phonograph allowed the industry to flourish once again. Columbia-U.S. was in the black, and Victor's sales once more reached lofty heights at \$48 million in 1926. Attracted by the profits of 1926, two New York bank houses, Speyer & Co. and J. & W. Seligman & Co., offered the founder of Victor, Eldridge Johnson, to buy his stock portfolio. Johnson, who had already been suffering from bad health, agreed and sold his 245,000 shares for \$28 million to the banking consortium. Speyer and Seligman also bought the remaining shares worth \$12 million and thus controlled 100% of Victor Talking Machine. People suspected that Speyer and Seligman did not truly intend to enter the music industry and instead were merely keen on

⁷² Western Electric was the production company and license holder of AT&T equipment.

profiting from market speculation; in 1928 the longstanding rumor was confirmed: Speyer and Seligman sold Victor to RCA.⁷³ On January 4, 1929, the sales contract was signed and Victor incorporated as the RCA-Victor division into the RCA empire (Figure 11). RCA was actually interested less in the phonograph and records and more in the well-developed production facilities in Camden and the tight distribution network. Instead of producing Victrolas, the factory in Camden now manufactured radios and record players for domestic use. They continued to produce records but not with the same energy as in previous years. They cancelled recording contracts with musicians and conductors and terminated the complicated recordings of orchestras.



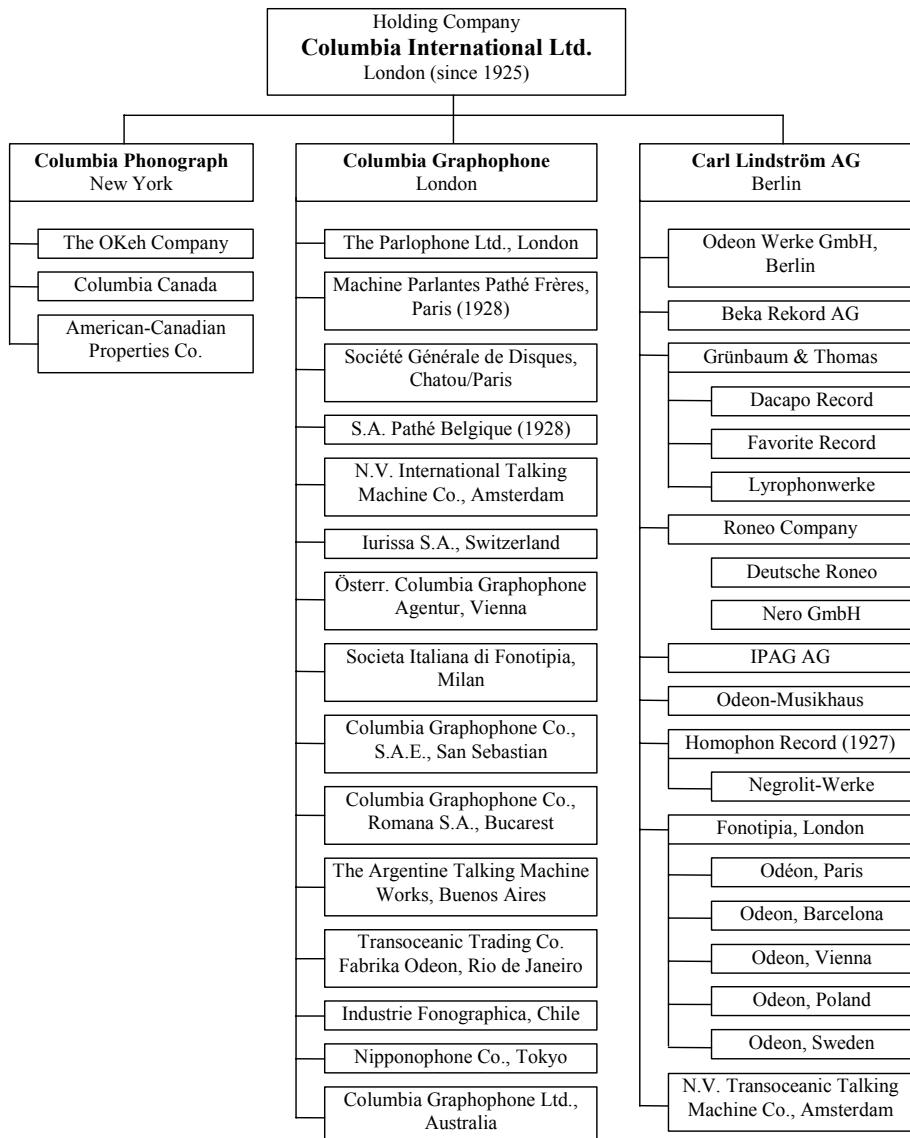
Source: After Schulz-Köhn (1940: 72).

Figure 10. The RCA conglomerate in 1930.

RCA-Victor was only one of many branches of the entire corporation. RCA Communications was responsible for the commercial exploitation of radio technology. NBC was a holding company for a new network of national radio stations, and RCA Photophone Inc. was active as a producer of sound-film apparatuses and a film licensee. However, RCA was first and foremost an operator of national broadcasting stations through its ownership of NBC. Thus, we can simplify and say that a broadcasting company purchased Victor.

In Europe, significant merging activities within the phonographic industry began in the mid-1920s. In 1926, the British Columbia took over the majority of shares of the German Lindström and its Dutch subsidiary, Transocean Trading, which encompassed Lindström's foreign branch companies. Transocean Trading was incorporated into Columbia International Ltd., which was founded in 1925, and Lindström continued to operate as the German subsidiary of the corporation.

⁷³ Sanjek und Sanjek (1991: 23) speculate that Speyer and Seligman merely functioned as straw men for RCA, since Eldridge Johnson would have never sold his shares to a broadcasting corporation.



Source: After Schulz-Köhn (1940: 25-26 and 47-48).

Figure 11. The Columbia conglomerate in 1926.

With the help of the new parent company, Lindström had more capital for acquisitions. In 1926, Lindström bought the Berliner I. Polack Apparatebau AG (IPAG). In 1927, it purchased, together with Columbia, 85% of the largest Japanese record company, Nipponophone Co., in Tokyo. Additionally, Columbia obtained

the Homophone private limited company in Berlin and its Nigrolit factories, both of which were added to Lindström; as well, Columbia acquired the Parisian Pathé in 1928. During the industry's last boom year, the British Columbia became the world's largest phonographic company. Essentially, it was active in all parts of the world and had at its disposal a tight distribution network (Figure 11).

Due to Columbia's expansion throughout the 1920s, Gramophone Co. in Hayes lost its position as the market leader. Since 1920, Victor Talking Machine had owned 50% of Gramophone, which internationally was positioned as "His Master's Voice."⁷⁴ Nevertheless, HMV maintained its independence and, together with Victor, carved up the world into spheres of influence (Figure 12).

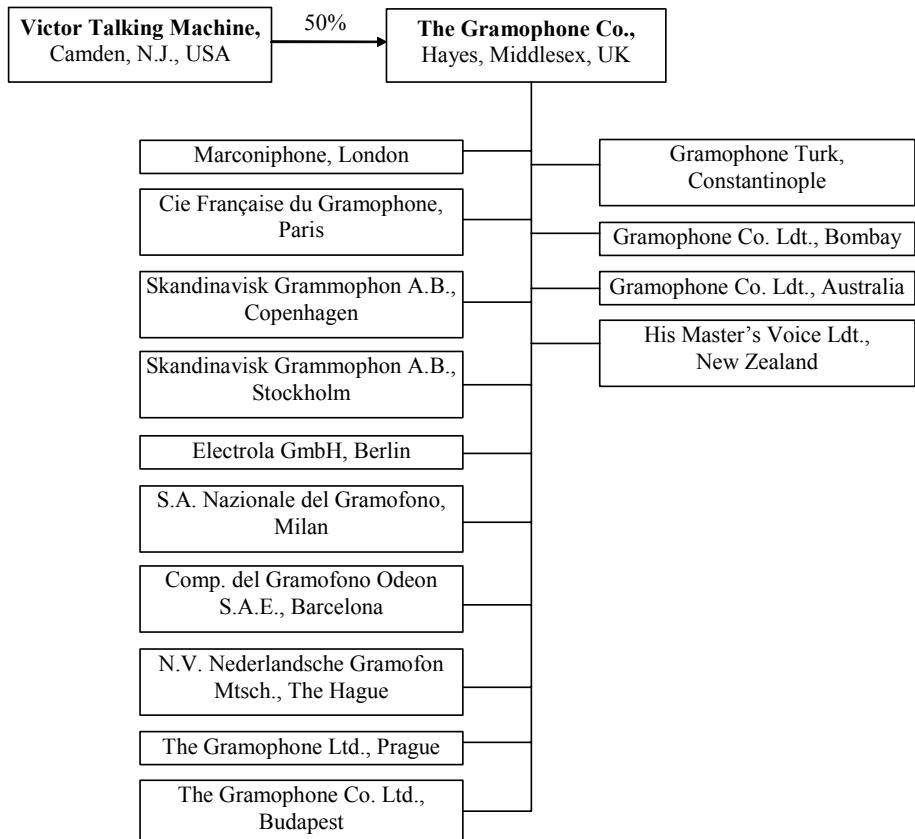
Victor controlled North and South America, Japan, China, and Southeast Asia, whereas HMV handled Europe, Australia, New Zealand, and India (that is, the rest of the world). Gramophone took advantage of the boom of the mid-1920s to expand. In 1925, they founded the Electrola private limited company in Germany—because of trademark protection reasons, they were not allowed to use HMV—which initially operated solely as an import company. A factory was built in Nowawes near Potsdam that first built Gramophones and then, later, records. In order to better deal with the German market, Gramophone established so-called authorized Electrola sales agencies (AEVs) in Germany's larger cities; bypassing wholesalers, these AEVs sold Electrola and HMV products directly to customers. This example shows that the larger corporations continually tried to control the entire value-added chain from music production to retail.

RCA's takeover of Victor Talking Machine in 1929 inspired the responsible parties at HMV to contemplate a change in their business strategy. In 1929, they acquired the largest British producer of radios, Marconiphone, in order to gain some leveraging power in the broadcasting industry. However, more had to be done, since sales in the phonographic industry drastically declined with the onset of the worldwide economic crisis. Whereas in 1930 the British Columbia and Gramophone produced a combined gain of £1.45 million, in 1931 they managed only £160,000 (Martland 1997: 136). These alarming figures caused Columbia Graphophone and HMV Gramophone to found Electrical and Musical Industries Ltd. (EMI) in April 1931. EMI actually functioned as the holding company into which Columbia and HMV were incorporated. This is how the world's largest company of the phonographic industry was founded. With branch offices all over the world, EMI dominated everywhere but in the U.S., since the shares of Columbia-U.S. had to be transferred to the bank consortium Grigsby & Grunow so that the merger would not be endangered by anti-trust legislation in the U.S.

EMI, however, was more than just a phonographic corporation. It was active in the production of bicycles and motorcycles (Rudge-Whitworth Co.), the manufacturing of radios (Sterling Telephone & Electric Co.), the building of refrigerators and other electric household appliances (HMV Household Appliances),

⁷⁴ In Germany, Gramophone was not allowed to use its brand name "His Master's Voice," or "Die Stimme seines Herrn," since in 1917 the former German subsidiary Deutsche Grammophon transferred this brand to its legal successor, the Polyphon company.

and the developing of television (Marconi-EMI television Co.). Although most of EMI's sales came from its phonographic business, it was primarily an electrical and broadcasting corporation.



Source: After Schulz-Köhn (1940: 45 and 68).

Figure 12. The Gramophone Co. (HMV) in 1929.

3. “RACE MUSIC” AND “HILLBILLY”

Before the beginning of the recession, there was not much variation among the music majors’ record repertoire. The repertoires’ general similarity originated with the music publishers of Tin Pan Alley. Of course, those songwriters absorbed influences from outside the music mainstream; however, as Hamm (1983: 379) explains:

Tin Pan Alley songs were for white, urban, literate, middle- and upper-class Americans.

Under the leadership of Tin Pan Alley, the music industry was for a long time uninterested in music that originated and was practiced outside this horizon. This was true not only for the music of African-Americans, which, among other reasons, was rejected for racist motives, but also for the music of the “white” lower class, especially that of the rural population of the American South.

The U.S. majors—Columbia and Victor—ignored these music forms, since they existed outside the aesthetic canon of commercially successful dance and entertainment music. It was therefore up to small independent labels, founded during the brief post-War boom years, which had to found their base of existence far away from the mainstream music segments occupied by the majors. For that very reason, OKEh Records pioneered the recording of the music of the “black” and “white” lower classes. After unsuccessful efforts to gain a foothold in the market with typical Tin Pan Alley repertoire, OKEh representatives became cognizant of African-American culture in the U.S., albeit more due to chance than foresight. Unexpectedly, Vaudeville star Sophie Tucker had cancelled a recording session at OKEh’s New York studio due to health reasons. Trying to fill the slot, Perry Bradford, who worked as a producer and songwriter for the company and was at the time one of the few African-Americans with some decision-making power in the music industry, convinced OKEh to record the ballad “You Can’t Keep a Good Man Down” with African-American Blues singer Mamie Gardner Smith in February 1920 (see Bradford 1965: 116-118). In August 1920, the single, together with a recording of “That Thing Called Love” as a B-side, was released without much advertising fanfare, relying solely on the support of the “black” press in New York and Chicago.⁷⁵ In a short amount of time, the record became a hit, especially with the African-American population,⁷⁶ leading to more recording sessions to be scheduled for August 10, 1920. Under the direction of Perry Bradford, the studio orchestra, renamed the “Mamie Smith Jazz Hounds,” recorded with the singer “Crazy Blues” and “It’s Right Here For You” (Bradford 1965: 125). These were the first recordings of Blues in the history of music, which cleared the way for a great variety of further recordings with well-known Blues interpreters.

The OKEh catalog collected these recordings under the heading “Race Records,” which was supposed to signal that this music was made by African-American musicians for an African-American audience.⁷⁷ However, the Blues recorded in these initial years had abandoned its roots in the rural American South. In contrast to the “Country Blues,” we might call the Blues that first became available on record as “City Blues” or “Classic Blues.”

In the cities, the myriad blues styles were codified into an eight-bar and sixteen-bar pattern, as well as the twelve-bar form that became the standard for classic blues...

⁷⁵ That the recording’s release was delayed by six months was due to a legal disagreement with Victor; the latter accused OKEh and other small labels of violating patent rights with their double-sided records.

⁷⁶ Garofalo (1997: 47) reports initial sales of 7,500 records per week.

⁷⁷ OKEh continued to use the term until 1949. Garofalo (1997: 63) speculates that Ralph Peer, the company’s chief sales agent who allegedly invented the term, had merely stolen it from the African-American press, which had been using “Race Music” as a generic term for “black” music.

There also developed a “pianistic adjunct” to the city blues, which was known as boogie-woogie (Garofalo 1997: 47).

In contrast to “Classic Blues” and Boogie-Woogie, the “Country Blues” was played by single interpreters who accompanied themselves with a banjo, guitar, or, occasionally, a violin. This Ur-form of the Blues was first recorded on record in 1924 when the independent label Paramount produced “Papa” Charlie Jackson’s “Lawdy Lawdy Blues.” Only then followed recordings with Blues greats such as Arthur “Blind” Blake, Blind Lemon Jefferson, Charlie Patton, Son House, and especially Robert Johnson.

Up until then, however, small independent labels such as Black Swan,⁷⁸ Sunshine, Meritt, Black Patti,⁷⁹ Vocalion, or Gennett produced the standardized and smoothed-out “Classic Blues.” Columbia joined as the first major in the Blues business only after the smaller labels’ sales successes could no longer be ignored. In 1923, they produced “Downhearted Blues” with Bessie Smith who later was called the “Empress of Blues”; the song was such a great hit—780,000 records sold in merely six months—that Bessie Smith could later claim that she saved the then financially weak Columbia from bankruptcy.

Music by African-Americans had thus become an important business factor in the industry, and phonogram producers began to take interest in other “black” music styles. In June 1922, the mini-label Nordskog recorded in Los Angeles the first Jazz title interpreted by African-Americans with Kid Ory’s band, which for the purposes of the recording called itself the “Spike’s Seven Pods of Pepper Orchestra.”⁸⁰ Up until then, Jazz had been equated with the kind of syncopated dance music first recorded in 1917 by the Original Dixieland Jass Band (ODJB) whose members were all “whites.”⁸¹ The real New Orleans Jazz, which ODJB emulated, found its way onto record only after a few years’ delay—but then all the more emphatically. After Kid Ory, the labels invited more musicians from New Orleans into their recording studios. In 1923, Gennett recorded Jelly Roll Morton and King Oliver with his Creole Jazz Band; that same year, Paramount worked with Freddie Keppard and his Jazz Cardinals; and in 1925, OKeh recorded Louis Armstrong and His Hot Five.

Euro-American folk music of the “white” lower classes was another discovery made by these smaller labels. The first recording of such original Country music must once again be credited to OKeh Records. Encouraged by the financial success of “Race music,” the company’s Artists & Repertoire manager, Ralph Peer, undertook a recording tour in 1923 that led him to Atlanta, Georgia. He had been particularly interested in the local African-American music but ended up recording,

⁷⁸ Black Swan was founded in 1921 by Tin Pan Alley composers William C. Handy and Harry Pace and was thus the first record company that was owned by African-Americans.

⁷⁹ Meritt, Sunshine, and Black Patti were additional labels founded by African-Americans in the 1920s. These labels specialized in the production of “Race music” but soon disappeared from the market.

⁸⁰ The first titles that were recorded were: “Ory’s Creole Trombone” and “Society Blues.” At the same session, two more singles were recorded with “Krooked Blues” and “When You’re Alone” as well as “Maybe Someday” and “That Sweet Something Dear.”

⁸¹ ODJB also popularized Jazz in Europe during its recording sessions for Gramophone that took place in London between 1919 and 1921. In Europe, everything that sounded like “American” music was simply called Jazz, without being aware of the creative influences of African-American folk music.

as an afterthought, the “white” folk singer Fiddlin’ John Carson, who had not even left a lasting impression on Peer. Okeh Records realized the commercial potential of this kind of music only after orders for Carson’s record, which included interpretations of “Little Old Log Cabin,” “The Old Hen Cackled,” and “Rooster’s Going to Crow,” did not stop. In its catalog, the company listed this kind of music first as “Old Time Music” and later as “Hillbilly.”⁸²

It is no coincidence that “Race music” and “Hillbilly” were discovered at the very moment when the first radio stations began to operate.

With the advent of commercial radio and “talkies” after World War I, record companies found their sales slipping and looked about for new markets, discovering in the process a sizable African American market for blues recordings by black artists as well as an untapped market for so-called hillbilly music (Garofalo 1997: 62).

The phonographic companies considered the rapid spreading of radio in the U.S. as immediate competition, since the radio stations used the type of mainstream entertainment music that up until 1920 was distributed only by the phonographic industry. The record companies’ search for a new repertoire and new markets can be traced back directly to the “threat” embodied by the broadcasting networks. The recording of “black” music presented an alternative to the common dance music repertoire, since it assumed a marginal position on radio programs that primarily catered towards a “white” audience. Furthermore, African-American households often owned a phonograph but not a radio due to the slow speed at which electricity was brought to the economically underdeveloped South. The supply of this market segment with “Race music” initially constituted the foundation for the existence of smaller independent labels. This is also evidenced by the fact that during the period of declining record sales between 1920 and 1925 recordings of “Race music” and “Hillbilly” enjoyed considerable sales increases.⁸³ In contrast, the majors, especially Victor and Columbia-U.S., suffered painful sales declines. Their repertoire primarily consisted of popular dance music and Tin Pan Alley songs, which could be enjoyed more cheaply and in better quality on the radio. But since the phonographic corporations regarded broadcasting as a competitor that had to be eliminated, these companies did recognize neither what a positive promotional effect radio could have for their products nor the technical potential of electrical sound recording.

They were like the three Hindu monkeys—they could see no radio, could hear no radio, and refused as far as they were able to do so to permit the recording artists to engage in any radio broadcasting (Read and Welch 1976: 255).

Radio began to shape public taste in a lasting manner. With the help of radio stations’ electric recording methods, it was possible to reproduce frequencies that had gotten lost in acoustic recordings; consequently, high-pitched female voices, the piano, the violin, and other string instruments, as well as the sound of orchestras, became audible in a differentiated and complete manner.

⁸² According to Garofalo (1997: 51), the term “Hillbilly” can be traced back to a string group under contract with Okeh in 1925 that called itself “Hill Billies.”

⁸³ In 1920 alone, 10 million “Race” records were sold in the U.S., which, at the time, had an African-American population of 11 million people (Sanjek und Sanjek 1991: 15).

4. ELECTRICAL RECORDING

In February 1925, Victor Talking Machine became the first record label to arrange a radio program when it sponsored a performance of violin player Renée Chemet on New York WEAF. From this moment on, the responsible parties of the phonographic industry comprehended the superiority of broadcasting. Although this act was one of the last to be produced acoustically, the very next recordings were made with Western Electric's electrical recording method. Initially, however, the "electric" record was unable fully to exploit its sound advantages, since it still had to be played on old acoustic machines. Only for the Christmas business of 1925 did Victor present the Orthoponic Victrola that was furnished with electrical reproduction technology. This, as well as the competition's introduction of record players, caused the industry's sales numbers to rise again from 1926 and on. They did not merely replace the old acoustic phonographs with new electrical record players but also transformed old acoustic recordings into electrical ones, which allowed them to sell again the old but still popular repertoire.

But the record market, which had been stagnating for years, was revitalized not only through the quasi-doubling of its repertoire but also through the production of new repertoire. Because of the microphone, it was now possible to record larger music ensembles in satisfying sound quality. In order to demonstrate the newly gained sound volume, Victor recorded Johann Sebastian Bach's choral-prelude in d-minor, "We All Believe In One God," with the Philadelphia Orchestra conducted by Leopold Stokowski. Columbia responded with a choir recording of the Italian Christmas song "Adeste Fidelis"; according to the advertising leaflet, a staggering 4,850 voices could be heard on the recording. Aside from this marketing-induced megalomania, it was the recording of orchestra pieces that managed to lastingly establish the market segment of "classical music." In June 1925, Victor released the first electrical recording of an orchestral piece—Camille Saint-Saëns' "Dance Macabre" recorded by Stokowski's Philadelphia Orchestra; that same year, they also released a recording of Tchaikovsky's entire "4th Symphony" on Gramophone's "His Master's Voice" label. Subsequently, the majors created entire "classical" series. Thus, in 1927 Columbia took the opportunity of the 100th anniversary of Beethoven's death to record all of his symphonies. Columbia-U.S. released 29 Beethoven pieces on a total of 100 records; and on "His Master's Voice," a selection of his oeuvre appeared on 53 records. In 1928, Victor started the "M-series" with a recording of Dvořák's "9th Symphony" conducted by Stokowski. Until the end of the shellac era, this series released more than 1,000 recordings of orchestral pieces (Gronow und Saunio 1998: 42).

The majors now began to apply the star concept wholesale to the "classical" segment, since it had worked so successfully in other areas. Labels lured those conductors and orchestras already known from concert halls with lucrative exclusive recording contracts. Leopold Stokowski was one of the first star conductors whose fame was based not just on concert performances but also on recordings. Since 1912, Stokowski acted as chief conductor of the Philadelphia Symphony Orchestra

with which he was contracted at Victor and eventually at Columbia-U.S. In addition, Stokowski did not hesitate to conduct film soundtracks⁸⁴ or, for Walt Disney, to record music for animated films.⁸⁵ In contrast, Arturo Toscanini was a star conductor when the phonographic industry was still in its infancy. He had already recorded his first records in 1920—still in the acoustic era—but he did not regularly work in a sound studio until microphone technology was used. Conductors such as Toscanini, Felix Weingartner, Sergej Koussevitzky, and Wilhelm Furtwängler, who recorded his first record in 1926,⁸⁶ considered the record merely a means to increase their popularity, for they continued to acquire their fame in concert halls.

The case was similar for instrumental virtuosos. Neither Fritz Kreisler nor Wilhelm Backhaus, who both had already made acoustic recordings, can be considered recording stars in the real sense of the term. Rather, they were stars that made recordings for records. With the onset of electrical recording methods, these artists' repertoires expanded to include instrumental concerts and chamber music pieces. Thus, in 1926 and 1928 Kreisler recorded violin concerts of Beethoven, Brahms, and Mendelssohn; Backhaus played Beethoven's "5th Piano Concert" in 1927 and his "4th Piano Concert" in 1929—both times with the London Symphony Orchestra conducted by Landon Ronald. In addition to a multitude of orchestral works, which in the late 1920s and 1930s were recorded with the stars of the concert podiums, chamber music pieces were now included in the record repertoires as well. Particularly noteworthy is the trio Alfred Cortot, Jacques Thibaut, and Pablo Casals, who recorded Schubert's "Piano-trio in h-major" in 1926. A year later, Bronislaw Hubermann and Ignaz Friedmann recorded Beethoven's "Kreutzer Sonata" for Odeon, and in 1927 the legendary pianist Moritz Rosenthal recorded his very first records at the advanced age of 65 for Parlophone. But also the young generation of instrumental virtuosos, including the child prodigies Yehudi Menuhin and Jascha Heifetz, seized the opportunity to make records.

The situation was slightly different for opera stars that in the wake of Chaljinin, Caruso, Patti, and Melba were recognized as record stars, too. Benjamino Gigli, Richard Tauber, Hermann Jadlowker, and the Jeritza not only served the audience with opera highlights but also commanded the whole range of easy listening, which included everything from operettas to popular songs. But this was the kind of repertoire that was already available during the acoustic era. In the age of the microphone, it was now also possible to record entire operas. After live recordings of excerpts from Wagner's "Parsifal" and the "Ring of the Nibelungen," which the British Columbia recorded in Bayreuth in 1927, the company recorded the entirety of "Tristan and Isolde" conducted by Karl Elmendorff one year later; this recording was subsequently released numerous times. This success encouraged the British

⁸⁴ For example, he conducted "The Big Broadcast of 1937" (U.S.A. 1936) and "One Hundred Men and a Girl" (U.S.A. 1937).

⁸⁵ For the animated 1940 film "Fantasia," Stokowski arranged music by Schubert, Tchaikovsky, Dukas, Stravinsky, Ponchielli, and others.

⁸⁶ In 1926, Furtwängler recorded with the Berlin Philharmonic Beethoven's "5th Symphony" for Deutsche Grammophon.

Columbia, as well as Gramophone, to make more recordings of entire operas at La Scala in Milan.

The recording of operas, choirs, and orchestras, as well as chamber music, had been the domain of the European record labels. In the U.S., Victor and Columbia-U.S. hesitated with their entry into the “classical” segment. They preferred to leave these recordings to their European partners and simply exploited European matrices for the U.S. market. This wait-and-see attitude of the U.S. majors in relation to the “classical” repertoire is due to the fact that they were only imitators in this area.

It must be pointed out that recording of the greater artists was originated by the Victor Co.—that it had begun on an extensive commercial basis in Europe even before 1900...
The first uncut symphonies and concerts were also recorded in Europe before this was achieved in the U.S. (Read and Welch 1976: 256-257).

Before 1924, Victor only occasionally offered “classical” lovers pieces of operas, operettas, and religious works, as well as orchestral songs and instrumental solos, through its “Red Seal” series. Only then, in 1924, did Victor make its first complete recording of an orchestral piece, which, of all things, was Schubert’s “Incomplete Symphony” conducted by Stokowski with the Philadelphia Symphony Orchestra. Even the electrical recording method did not cause Victor and Columbia-U.S. to invest more in the “classical” segment.⁸⁷ Recordings were imported from Europe through the trade of matrices and then compiled into their own series such as the “Music Arts Library of Victor Records” or the “Columbia Fine Arts Series of Musical Masterworks.” Only with the close collaboration between Victor and Stokowski and the introduction of the “M Series” in 1928 did the U.S. majors themselves become active in the “classical” segment of the recording industry.

Still, they continued to focus on the production of popular dance music. The latter gradually began to incorporate Jazz elements, which manifested in crossover experiments. Arguably the most important of these was the concert given at New York’s Aeolian Hall, which on February 12, 1924 was announced as “An Experiment in Modern Music” by Paul Whiteman. The concert program promised pieces that would make tangible the tensions between “classical” composition and Jazz rhythms.⁸⁸ Included among the pieces was also George Gershwin’s “Rhapsody in Blue,” which the composer, playing the piano, and Paul Whiteman and His Orchestra premiered. This piece was a particularly huge success, and Victor recorded it in June of the same year with Gershwin and the Paul Whiteman Orchestra. “Rhapsody in Blue,” however, was not the first completely composed “classical” work that used the sound colorings of Jazz—“E-music” composers such as Debussy, Stravinsky, and Hindemith had already integrated Jazz elements into

⁸⁷ “Even after the development of electrical recording, the same trend continued, with a great part of the recordings of the Victor album sets originated in Europe, and an even greater percentage of the Columbia Masterworks Series” (Read und Welch 1976: 258).

⁸⁸ Two years later, Paul Whiteman wrote: “my idea for the concert was to show... skeptical people the advance which had been made in popular music from the day of discordant early jazz to the melodious form of the present” (quoted in Leonard 1962: 79).

their compositions.⁸⁹ Truly noteworthy, however, is that a dance orchestra, rather than a symphonic orchestra, gave the first performance of the piece and was also the first to record it.

During the 1920s, Paul Whiteman's orchestra was the most popular and influential dance orchestra. Whiteman came from Denver, Colorado.⁹⁰ Before the U.S. entry into World War I, he worked as a violinist and violist for the Denver Symphony Orchestra and, later, for the San Francisco Symphony Orchestra. Right after the war, he founded his first band, which performed at the famous Fairmont Hotel in San Francisco. Motivated by his success, Whiteman soon founded more ensembles that played at the Santa Barbara Belvedere Hotel and the Los Angeles Alexandria Hotel. In 1920, the phonographic industry took note of this "orchestra entrepreneur." On August 9, 1920, his first three recording sessions for Victor took place at the Ambassador Hotel in Atlantic City. Just in time for Christmas business, they compiled three records from these sessions, all of which turned into sales hits.⁹¹

Paul Whiteman and His Ambassador Orchestra (named so for the recording location) was one of the first examples of a larger Jazz instrumentation.⁹² Instead of the usual five or six musicians, Whiteman arranged for nine musicians—saxophone, brass, banjo, and violin—which resulted in a new sound that can be considered the forerunner of the Big Band sound. The latter, however, could develop fully only with electrical recording technology. Until 1925, record labels preferred instrumentations with a focus on brass. In addition to Paul Whiteman, a range of other bandleaders existed who led not just one but multiple orchestras, from which they subsequently recruited ensembles for recording sessions.⁹³ These orchestras played dance music enriched with Jazz elements, which gave the music a somewhat exotic flair. In 1923, the press named Paul Whiteman the "King of Jazz," which really meant the "King of Dance Music," since his music had nothing to do with the original New Orleans Jazz. Instead, his music was sophisticated dance music for a "white" middle-class audience. As we learned earlier, it was the small labels that were the first to record "black" Jazz beginning in 1922.

But not all "black" bands also played "black" Jazz. The African-American bandleader Fletcher Henderson created a sound that can be understood as an appropriation of "black" Jazz for "white" music taste. Henderson belonged to the small African-American bourgeois middle-class and was socialized with European art music. In 1921, he assumed the role of music director of the just founded Black Swan label. In the name of this first African-American-led record label, Henderson founded "Black Swan Jazz Masters," an eight-men orchestra that was used to accompany Blues acts. Soon, however, Henderson began to record with his

⁸⁹ Consider, for instance, Debussy's piano suite "Children's Corner," which imitated Ragtime in its final part, "Golliwog's Cakewalk"; Stravinsky's "Ragtime"; or Hindemith's "Suite 1922" for piano.

⁹⁰ See: www.garlic.com/~tgracky/whiteman.htm (accessed: March 26, 2002).

⁹¹ In November and December 1920, they released three records with the following titles: "Avalon—Just Like a Gypsy" and "Best Ever Medley"; "Whispering" and "The Japanese Sandman"; and "Anytime, Anyday, Anywhere" and "Wang-Wang Blues."

⁹² From 1921 on, record labels printed only "Paul Whiteman and His Orchestra."

⁹³ The impresario Jean Goldkette ran 20 orchestras at once in the middle of the 1920s.

orchestra on his own, making records that can barely be differentiated from those of “white” dance music bands. Using this style, Henderson’s orchestra regularly performed and even had steady engagements with New York dance halls such as the Roseland, which was a “white-only” venue.

Henderson and Whiteman were harbingers of a trend that was first pushed forward by broadcasting and then by electrical recordings: namely, the trend of ever-growing orchestras and the resulting Big Band sound. A number of musicians who had played in the above named orchestras—including Louis Armstrong, Don Redman, Benny Carter, who all played for Henderson, and Frankie Trumbauer, Jack Teagarden, and Tommy Dorsey, who played for Whiteman—later founded their own bands that were totally committed to the Big Band sound. They formed the kind of mainstream that was called the “Swing era” from the mid-1930s on. The representatives of this style (i.e., Benny Goodman, Duke Ellington, Count Basie, Harry James, Glenn Miller, Lionel Hampton, Artie Shaw), which remained dominant until the late 1940s, were already completely tied to the logic of broadcasting. Their performances were frequently broadcast live from the clubs and ballrooms of the large hotels during the broadcasting networks’ primetime programming hours; when successful, these performances were later produced as records. Paul Whiteman and Fletcher Henderson, too, had already worked for radio. Whiteman had regularly performed on the radio since the early 1920s, and since 1923, Fletcher Henderson and his orchestra regularly sat in as guests at live concerts for the New York radio station WHN. On the side, Henderson also acted as the head of the “Down South Music Publishing Company,” which was founded as the subsidiary of the large Jack Mill’s Publishing Company. In this function, Henderson coordinated all his business interests. “Down South Music” sold ready-made productions to record companies. That is, “Down South” hired musicians and provided the compositions, which, of course, came from its own catalog; all the record companies had to do was to record the songs.

That way, the respective publishers were ensured in advance of the royalties for records sold and potential broadcasts of the recordings (Kuhnke et al 1976: 235).

This business model probably reflects best the new production circumstances in the music industry after broadcasting had established itself in the U.S.

These new production circumstances became easily visible in the commercial exploitation of “Hillbilly” as well. “Hillbilly” as original “white” music did not find the same level of rejection by the American middle-class as did “Race music.” Thus, soon after the first recordings of “Hillbilly,” radio stations incorporated this style of music into their programs. First, it was the radio stations of the rural South and Midwest, such as the Atlanta-based WSB, that knew how to make use of John Carson’s popularity. Since 1924, the Chicago-based station WLS produced the “National Barn Dance Radio Show” that played nothing but “Hillbilly”; the show could be heard all across the nation. In 1925, the Nashville-based WSM also started a “Barn Dance” show, which as the “Grand Ole Opry” broke all listening records from 1927 on (Garofalo 1997: 57).

The “Father of Country music,” Jimmie Rodgers, can be viewed as a typical product of this symbiosis of the broadcasting and phonographic industry. By 1927,

Rodgers still toured as a completely unknown “black-face” entertainer as part of a minstrel show through the American South and Midwest. His first audition for Victor turned into the recording of his first record that became an instantaneous commercial success.⁹⁴ In the following years, Rodgers’ records were played all day long by radio stations belonging to the RCA network. He obtained his own radio show and went on a tour that was sponsored by RCA and Victor. Thus, the industry “manufactured” its first Country music star in Jimmie Rodgers, who was already a legend by the time of his early death in 1933.

⁹⁴ Ralph Peer, who had previously worked for Okeh Records, discovered Jimmie Rodgers at an audition commissioned by Victor. At this time, Peer was an independent producer and music publisher who was supposed to build up a “Hillbilly” catalog at his own cost and risk. In turn, he received all copyrights for the recorded songs; thus, he secured all royalties for both recordings and broadcastings. By 1928, Peer thus ended up in control of one-third of the non-classical music produced by Victor.

CHAPTER 4

THE MUSIC INDUSTRY AS RADIO INDUSTRY

1. RECESSION AND DEPRESSION ON THE U.S. PHONOGRAPH MARKET

After the stock market crash in October 1929, the phonographic industry plummeted into its worst crisis to date. Thomas A. Edison Inc.'s production of phonographs became the first prominent victim. On November 1, 1929, the company announced that it would stop the production of phonograms and phonographs. Since 1925, they had desperately tried to find a way back into the market, but Edison's refusal to make electrical recordings prevented successful market performance. Edison also displayed hostilities with regard to Jazz. He is quoted as saying that he would only play Jazz records backwards, since they would sound better that way (quoted in Leonard 1962: 32). Brunswick-Balke-Collender also found itself in trouble and was forced to sell its phonograph division to the Warner Bros. film studios in April 1930. Headquarters were transferred to New York. The company stopped its classical music program, and incorporated that of Deutsche Grammophon/Polydor instead. In 1931, the Brunswick Record Corporation was founded, which was eventually absorbed by the Consolidated Film Industries Inc.

The recording industry in the U.S. suffered through the trough of the recession in 1932 and 1933. By 1934, the first signs of recovery appeared, not the least of which because of U.S. President Franklin D. Roosevelt's New Deal politics. At the end of 1934, a new record label entered the U.S. market, the Decca-U.S. The new business was founded by Jack Kapp who received his capital from London-based stock market broker E. R. "Ted" Lewis—the same Lewis who had just taken over Decca's management in Britain.⁹⁵ But Decca-U.S. was not a subsidiary of its British namesake; rather, it was an independent company of which Warner Bros. owned 25%. Decca-U.S. pursued, however, a low-price strategy similar to that of Decca-U.K., which had been very successful with it. Sales grew drastically; advertising intensified; and well-known and popular entertainment musicians such as Bing Crosby, the Dorsey Brothers, Guy Lombardo, Fletcher Henderson, the Mills Brothers, and others were lured away from Brunswick. In 1939, Decca-U.S. was the second largest record company in the U.S. after RCA-Victor.

In 1934, the phonographic industry went through significant changes. The bank consortium Grigsby & Grunow, which was the sole owner of Columbia Phonograph, had to file for bankruptcy. The American Record Corporation (ARC) seized the

⁹⁵ Decca-U.K. had been active as a producer of Gramophones since 1914 and evolved into a large electric corporation, which also manufactured phonograms since 1930 (Sieben 1991: 81).

opportunity and bought Columbia for \$70,500, including its production sites in Bridgeport, a catalog encompassing three decades worth of music, and the well-established label. Consolidated Film Industries had founded ARC in 1929 in order to reorganize the record companies it had acquired over three decades. Although ARC's parent company was primarily active in the movie business, in 1927 it had purchased the New York-based Pathé Phonograph and Radio Corporation, which operated a number of additional labels. In 1931, ARC also acquired Brunswick and, finally, Columbia in 1934. The purchase of Columbia, however, brought ARC new troubles instead of the longed-for commercial success. Consolidated Film was not able to rehabilitate its record corporation and thus sold it in 1938 to the Columbia Broadcasting System (CBS).

William Paley, a former employee of RCA, founded CBS in 1927 in order to build up a second broadcasting network in the U.S.⁹⁶ With the help of a tobacco corporation, Paley managed to come up with the necessary capital to found the new broadcaster. In 1931, the CBS network already earned a higher income than RCA. In 1935, CBS owned 97 stations in the U.S., all of which were profitable. In order to compete with RCA on the level of content as well, CBS purchased ARC together with its well-developed label portfolio in 1938. In this manner, traditional record labels in the U.S. ended up in the hands of broadcasting.

Over the course of the last 10 years before the beginning of World War II in Europe, the phonographic industry's structures were dominated by drastic changes. The once proud phonogram companies—Victor Talking Machine and Columbia—had become more or less dependent branch divisions of the two large U.S. broadcasting networks. The reason for their dependency was not merely the worldwide economic crisis that claimed so many other labels as its victims but also the record companies' ignorance of broadcasting technology. Both phonogram companies were unwilling to apply the new technology. In the early 1920s, it would have been possible for them to found their own radio stations and to promote their own records through this new medium. But at that time, both companies identified themselves as producers of phonographs and, in that capacity, believed that they competed directly with the radios manufactured by RCA. Instead of recognizing the synergies between record and radio, they publicly criticized the technical quality of broadcasting and consequently regarded radio stations as competition rather than partners. The demise of the traditional phonographic industry in the U.S. was thus sealed. The years between 1929 and 1938 demarcate a structural break that permanently altered the phonographic industry. Whereas one company after the next had to file for bankruptcy or was taken over by a competitor, most often broadcasters, the power of both broadcasting networks, CBS and RCA/NBC,

⁹⁶ Interestingly, Columbia Records participated in the founding of CBS. In 1926, Columbia offered financial help worth \$165,000 to the United Independent Broadcasters (UIB), a loosely organized network of radio stations, on condition that the latter would reorganize as "Columbia Phonograph Broadcasting Company" (CPBC). When CPBC accrued a loss of \$100,000 in its first month of operation and thus required further financial aid, Columbia sold its shares to an investor group led by William Paley, which continued the broadcasting network as "Columbia Broadcasting System" (CBS) from 1927 on (Sanjek and Sanjek 1991: 23).

continually grew larger. In 1926, 19 stations participated in the founding of the NBC broadcasting network, and CBS controlled 16 by 1927. In 1938, NBC owned 138 radio stations, and CBS supplied 110 subsidiary stations with its programs (White 1947: 35).

2. MARKET CONCENTRATION IN EUROPE

Of course, the economic depression caused a strong decline in demand in Europe as well. This manifested itself in the phonographic industry in the form of a number of company breakdowns. However, in Europe, too, broadcasting and the electrical recording technique played an important role in the complete restructuring of the industry.

In Germany, public broadcasting started on October 29, 1923.⁹⁷ In the years following, the number of radio listeners quickly grew. In 1926, there were already more than one million listeners and in 1928 more than two million.⁹⁸ Whereas in 1930 the record market caved in, the number of people participating in the Deutsche Reichsrundfunk increased to three million, in 1932 to four million, and in 1934 to five million (Pohle 1955: 333).⁹⁹ Just like in the U.S., the German record companies regarded broadcasting as competition rather than complementation. In 1932, a number of phonogram companies joined together and declared “war” against the Reichsrundfunk by freezing any delivery of records to radio stations. This strike resulted in a compromise: for the time being, only 60, instead of the previous 120, hours of record-based programming per broadcasting district were allowed. The deal also stipulated that all labels were supposed to receive an equal amount of on-air time (Schulz-Köhn 1940: 138). These measures taken by the record industry against broadcasting indicate that they did not believe in the effectiveness of radio; otherwise, they would have increased rather than decreased the total amount of time their records could be played on the radio, and they would have viewed radio as an ally rather than an opponent.

Throughout Europe, the crisis of the phonographic industry resulted in a significant market concentration. Focusing on the two most important markets, Germany and Great Britain, I will depict this move towards oligopolization. In Germany in 1929, a number of smaller labels were active along with the big three corporations—Lindström, Deutsche Grammophon/Polyphon, and Küchenmeister. We have evidence that more than a hundred labels existed in Germany in the 1920s, of which barely more than a dozen survived during the 1930s (Schulz-Köhn 1940: 100-101). In 1930, small record companies such as Artiphon, Star Record, Homophon, or Biberphon disappeared from the market. But the crisis did not only affect smaller labels but also some of the larger traditional companies. Initially

⁹⁷ For details about the beginnings of broadcasting in Germany, see Schütte (1971) and Lenk (1997).

⁹⁸ In 1926, when BBC obtained its broadcasting license in Great Britain, 25% of the British household possessed a radio. In 1931, it was already 35% and in 1939 about 80% (Martland 1997: 142).

⁹⁹ Translator’s note: The Deutsche Reichsrundfunk was the state-owned broadcasting station of the German Reich. For reasons of readability, the original German name is maintained throughout.

founded as Tegesti in 1920, the subsequently renamed Vox-Schallplatten and Sprechmaschinen AG already had to be liquidated in early 1929. Vox was one of the best-known labels in Germany between the wars and also operated a number of record stores in Berlin.

Germany's phonographic industry suffered its greatest quake when in 1931 the Küchenmeister Corporation broke down, and its record division, the Ultraphon AG, had to cease payments. "Ultraphon" was registered as a trademark of Heinrich J. Küchenmeister in 1922 in order to commercially exploit his speech machine patents. Until 1929, the Küchenmeister GmbH produced high quality speech machines under the name "Ultraphon"; that same year, the company bought the Orchestrola-Vocalion AG in order to enter the record business.¹⁰⁰ Simultaneously, Ultraphon was founded, which, as the producer of "Ultraphon-records," was incorporated into Orchestrola-Vocalion. Branch offices were established in France, Switzerland, and the Netherlands, and Ultraphon diversified into related business areas. In order to be able to control the varying business areas, they founded a holding corporation in Amsterdam, the N. V. Küchenmeisters Internationale Mij. Voor Accoustiek (N.V.K.I.). Attached to it was the Ultraphon head organization ("N. V. Küchenmeisters Internationale Ultraphon Mij. Amsterdam-Berlin"), which encompassed all record companies and phonogram producers. In addition, Küchenmeister operated a sound-film company and a broadcasting company. In 1931, they had four record companies in Germany—Ultraphon, Orchestrola-Vocalion, Clausophon, and Adler—as well as three foreign subsidiaries—the Dutch Ultraphoon, the Société Ulraphone Française, and the Swiss Turcaphon. Furthermore, in 1931 the corporation also founded the specialty label "Musica Sacra," which concentrated on religious music (Figure 13).

Küchenmeister became the victim of its rapid expansion during the last years before the market crash. The quickly made acquisitions began to eat up the liquidity of individual subsidiaries. When, after the crash trading partners failed to make their payments according to schedule, the company was left without any cash reserves. By the end of July 1931, Dutch and German banks, which were the main creditors, rescinded their credit lines, and only two days later, Ultraphon terminated its payments. Tobis Tonfilm AG fared considerably better, as it did not suffer as much from the general economic decline. It was able to continue on as an independent company after Küchenmeister's bankruptcy. In contrast, Ultraphon and Orchestrola-Vocalion followed the Küchenmeister Holding into insolvency. Telefunken-Platten GmbH purchased Ultraphon from the bankruptcy assets.

This is how Telefunken advanced almost overnight to become one of the world's largest record companies. Telefunken was founded in 1903 as a mutual subsidiary of AEG (Allgemeine Electricitäts-Gesellschaft mbh) and Siemens & Halske for the purpose of wireless telegraphy. In time, Telefunken grew to become an independent electric corporation that was active in the movie and music industry (as a producer of radios). Founded in 1932, Telefunken-Platten acquired for 100,000 Reichsmark

¹⁰⁰ Orchestrola-Vocalion had just acquired the record company that in 1928 resulted from the merger between the Adler Phonograph AG and the Clausophon GmbH.

(RM) the matrices storage facility, the factories, and the brand name “Ulraphon” out of the bankruptcy assets of the Küchenmeister Corporation.

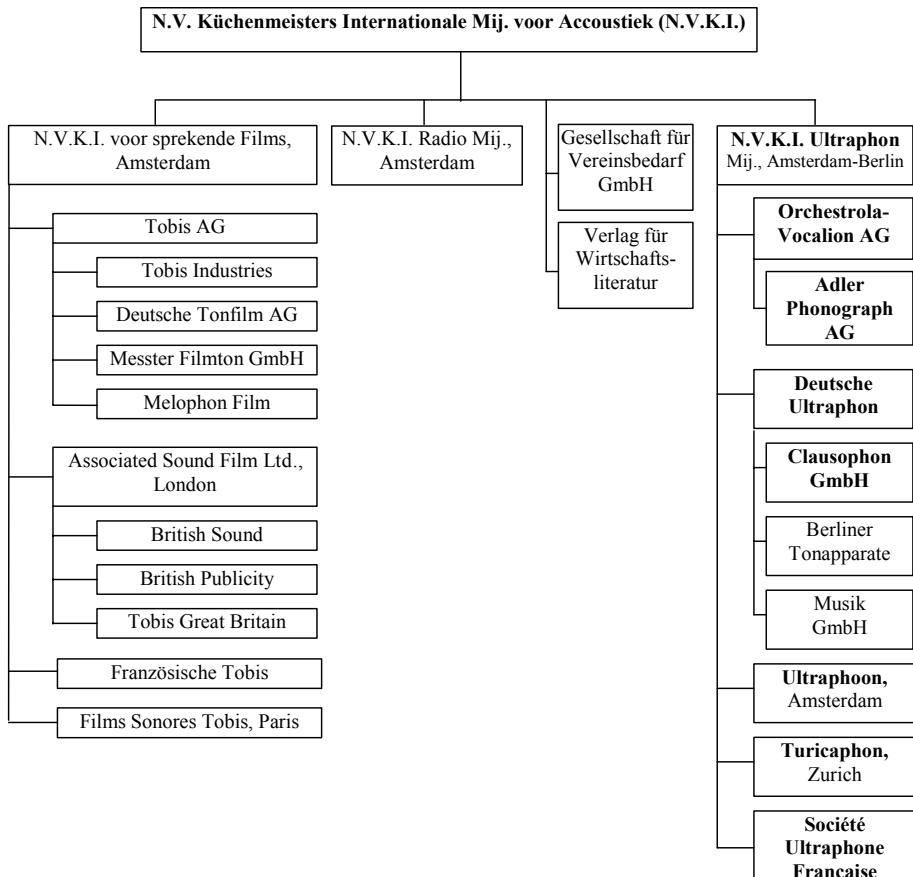


Figure 13. The Küchenmeister corporation in 1931.

Entering a shrinking market definitely constituted a great risk. The Deutsche Grammophon, already suffering from declining sales, was not at all pleased to see the appearance of another competitor and sued Telefunken for patent rights violation. Telefunken, which was primarily in the business of producing broadcasting machines and wireless telegraphy, was able to deal with the post-market crash economic crisis surprisingly well; in contrast, the Deutsche Grammophon slid into ever increasing economic turbulences. By 1937, the Deutsche Grammophon-AG Leipzig was so financially weakened that it had to be liquidated. The Deutsche Bank and Diskontogesellschaft, as well as Telefunken, took over its shares. Even though the Deutsche Grammophon and Telefunken remained

independent labels, production was concentrated in Hanover and headquarters moved to Berlin.

Before the Deutsche Grammophon was integrated into the Telefunken Empire, it already had lived through a mixed history. In the boom years before 1929, it financed the expansion of Polyphon-Grammophon abroad with the help of a series of capital increases.¹⁰¹ Already in 1921, the Deutsche Grammophon had founded Nordiska-Polyphon in Stockholm, which, however, operated only as a distribution organization. To strengthen sales activities in Germany, in 1924 the Deutsche Grammophon established the Polyphon-Grammophon distribution company in Berlin. In 1928, the corporation set up the Nippon Polydor Chikuonki KK to expand into the Asian market, and in the same year they joined with Siemens and AEG to create the Klangfilm GmbH Berlin. In 1929, the Swedish and Danish Nordisk joined forces to found a branch company in Paris, the Société Phonographique Française Polydor, which was responsible for the distribution and the production of Polydor records for the French market. In the same year, Polyphon also purchased the Organon Lehrplatten und Lehrfilm- GmbH Berlin (Fetthauer 2000: 50).¹⁰²

When after the stock market crash in 1929 the entire corporation felt the sales crisis, the response was to restructure, which resulted in the founding of the Polydor-Holding AG in Basel in March 1930. Polyphon incorporated into this holding its four subsidiaries in Copenhagen, Stockholm, Vienna, and Paris. A contract guaranteeing dividends ensured the financial connection to the parent corporation, which still encompassed the Deutsche Grammophon and its distribution companies, Nippon-Polydor, Organon, and Kraft Behrens GmbH in Leipzig (Hein 1963: 23). Yet, this restructuring did not avert the financial decline of the corporation. In 1931, Polyphon was unable to produce any gains, and its stock market value, which in 1929 was still at 486% of the initial public offering price, had fallen to a mere 50.5%. The corporation's dour economic situation led to the liquidation of the Deutsche Grammophon AG and the Kraft Behrens GmbH in 1932. Their remaining assets were transferred to Polyphonwerke AG, which was renamed "Deutsche-Grammophon-Aktiengesellschaft" and which moved its headquarters from Berlin to Hanover. In the same year, Polyphon sold Klangfilm GmbH, and one year later it sold its shares of the Tobis-Polyphon-Filmgesellschaft mbH ("Topoly"), which had been acquired only one year earlier.

After the Nazis assumed power in Germany, two Jewish members of the board of directors of the Deutsche-Grammophon-AG, Bruno Borchard and Fritz Schönheimer, went into Swiss exile. Earlier, they had taken care that the Basel-located Polydor-Holding-Gesellschaft would be independent of its German parent and that the dividend contract would be cancelled. When in March 1933 the Deutsche Grammophon was forced into line (meaning: faithful NSDAP¹⁰³ party members were given positions on the board of directors), the company had already lost its foreign subsidiaries (Fetthauer 2000: 56). It retained, however, Brunswick-

¹⁰¹ In 1925, capital increased by 10 million RM and in 1928 by another 12.8 million RM.

¹⁰² "Lehrplatten" and "Lehrfilme" are, respectively, records and films produced for educational purposes.

¹⁰³ NSDAP stands for "Nationalsozialistische Deutsche Arbeiterpartei" (National-Socialist German Workers Party).

Balke-Collender as an international partner with whom it had signed a contract in 1926 agreeing to exchange matrices. In 1935, a similar agreement was negotiated with the Decca-U.K. in London (Schulz-Köhn 1940: 91).

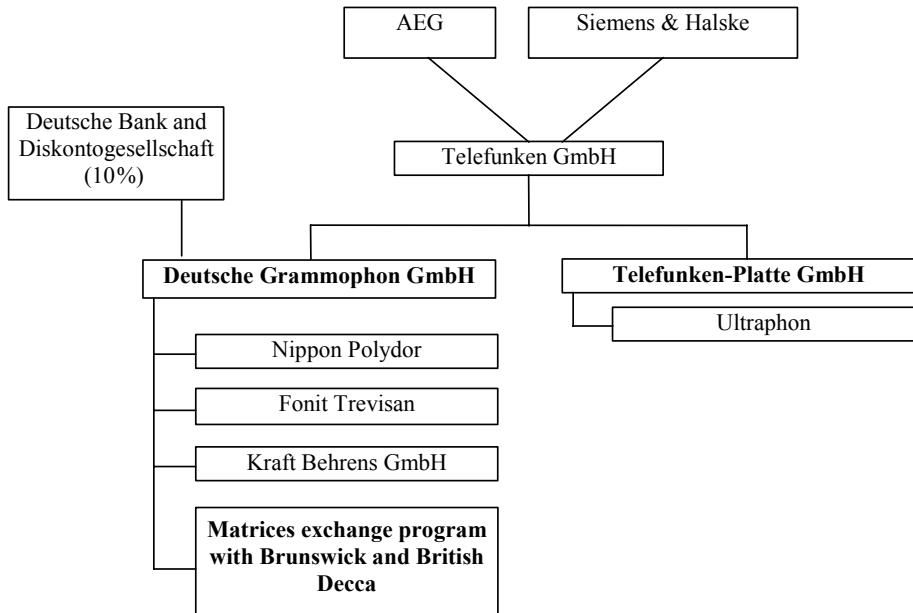


Figure 14. The Telefunken corporation in 1938.

Nevertheless, the economic situation of the Deutsche Grammophon remained tense. In 1935, it sold the machine park of the inoperative Polyphon factory in Leipzig. Employees had to work part-time or were laid off. By the end of 1929, the company still employed 600 workers at its factory in Hanover; by 1936, only about 100 remained (Hein 1963: 24). The annual production of records, which in 1929 still amounted to around 10 million, had fallen below 1.4 million in 1934 (Fetthauer 2000: 57). In 1937, the economic possibilities of the Deutsche Grammophon were exhausted, and Telefunken, which profited from the booming radio industry, incorporated its toughest competitor into its corporate structure (Figure 14).¹⁰⁴

¹⁰⁴ On July 12, 1934, Telefunken and the Deutsche Bank and Diskontogesellschaft re-founded the Deutsche Grammophon as a private limited company with seat in Berlin. The capital stock of one million Reichsmark was divided into three parts, with the old Deutsche Grammophon owning 55%, Telefunken 35%, and the Deutsche Bank and Diskontogesellschaft 10%. The contribution of the “old” Deutsche Grammophon consisted of the record plant in Hanover, the company name, the trademarks “Grammophon,” “Die Stimme seines Herrn,” and “Polydor,” as well as the entire catalog and all artist contracts; all of this was collected in the “Grundstücksgesellschaft Markgrafenstrasse AG in Liquidation.” According to contractual agreements from 1937, Telefunken took over these company shares on February 4, 1938 and eventually acquired the remaining 10% from the Deutsche Bank and Diskontogesellschaft in 1940. Thus, Telefunken ended up owning 100% of the Deutsche Grammophon (Fetthauer 2000: 60-62).

The takeover of the Deutsche Grammophon was of great significance to Telefunken, since it now possessed its own record plant and thus did not have to lease the former Ultraphon factory in Lichtenberg to produce records. In 1937, production capacities of the factory in Hanover were equally shared between Telefunken and Deutsche Grammophon.

In the wake of this fusion, only Electrola and Lindström, which operated as subsidiaries of the British EMI, remained active in the German market. EMI tried to maintain its dominant position on the market through rationing and restructuring. Whereas in 1931, the year when Gramophone and Columbia Graphophone had merged, it still had access to 50 production sites in 19 countries, it reduced this number by half within two years. In 1935, it sold the Japanese subsidiary, Nipponophone, to a consortium of Japanese businessmen, though Columbia and Lindström records were licensed to be pressed and distributed in Japan until the country entered the war in 1942. Electrola and the German Lindström subsidiary continued their activities in the National-Socialist German Reich until the beginning of World War II. After that, EMI's business contacts with its German branch offices were terminated; the branch companies' German management, which acted in the name of the Nazi regime, now autonomously controlled the business activities of the latter.

In Great Britain, Decca Records emerged as a new competitor for EMI in 1929. Decca-U.K. was created by the British Brunswick, which itself had been founded by Brunswick-Balke-Collender and the German Polyphon.¹⁰⁵ The British Brunswick managed to maintain its independence, however, and added its shares to the newly founded Decca in 1929. In 1937, Decca-U.K. bought Crystalate Gramophone Record Manufacturing Co. Ltd. The latter's German subsidiary, the Deutsche Kristall Schallplatten GmbH (founded in 1928) was purchased by Lindström, Columbia's subsidiary, and thus became part of the EMI Corporation.

In 1938, a total of six companies controlled the worldwide phonographic market: from the U.S., CBS-Columbia, RCA-Victor, and Decca-U.S. and from Europe, EMI, Decca-U.K., and the German Telefunken GmbH. Four of them were not exclusively companies of the phonographic industry anymore; CBS and RCA operated both U.S. broadcasting networks, and EMI and Telefunken were electric companies. Only the American and British Decca exclusively focused on the production of records. We can thus not really speak of a continuous development of the phonographic industry. By 1938, all of the traditional companies (Victor, Columbia, HMV, Lindström, etc.) were merely subdivisions of larger corporations. The recession of the 1930s thereby marks a structural break within the industry, which resulted in a different kind of phonographic industry. The late 1930s thus represent the end of the second phase of the phonographic industry. After the pioneering phase until 1902, when the phonographic industry emerged from an industry focusing on the production of dictation machines, the second phase lasted until the late 1920s. The phonographic industry experienced the rise and fall of large corporations, which initially understood themselves as producers of phonographs but

¹⁰⁵ Decca-U.K. had already been founded in 1914 as a manufacturer of speech machines.

later were primarily perceived as producers of phonograms. With the onset of the industry recession and the success of broadcasting, a process of transformation became visible, which ended up generating an entirely restructured industry by the late 1930s. By no later than 1940, the phonographic industry had entered its third phase, which was characterized by a high degree of market concentration and homogenous music production.

3. THE DOMINANCE OF BROADCASTING AND SOUND FILMS IN THE U.S. MUSIC INDUSTRY

With the introduction of sound film in 1927, the broadcasting networks broadened their interests to include the medium of film.¹⁰⁶ The first sound film, “The Jazz Singer” (U.S.A. 1927), was produced by Warner Bros. and was essentially a silent movie with singing. Al Jolson plays the lead role of a Jewish singer who has been rejected by his father, subsequently works in minstrel shows, and eventually becomes a star. This sentimental movie became such a huge success with audiences that the songs were soon made available on record. The film industry had discovered a new genre, the film musical. All of the large studios—Warner Bros., United Artists, Fox, Paramount, Universal, and MGM—began film projects in which music would play the main part. The studios hired stars that were already known from radio and records. Of these stars, Bing Crosby probably enjoyed the most successful film career. After his apprenticeship years in minstrel shows, Paul Whiteman contracted Crosby as one of the Rhythm Boys. In 1931, Crosby started his solo career, had his own radio show on CBS,¹⁰⁷ and performed in three musicals. However, his big break as a singing actor did not occur until the following year when he played the lead role in “The Big Broadcast” (U.S.A. 1932).¹⁰⁸ From then on, Bing Crosby was a star who effortlessly crossed media boundaries, being present on records, in movies, and on the radio. Significantly, his records always released material that had already been successful on the radio or in a movie. The song “White Christmas,” for instance, originated in the musical “Holiday Inn” before it went on to sell more than 30 million copies and remained on the pop charts for 18 years (Clarke 1989: 301).

Bing Crosby’s case is an ideal example illustrating this integrated marketing strategy that reflects the altered production logic prevalent in the music industry. The large broadcasting networks were at the center and considered music publishers and record producers as mere suppliers. Hence, nothing appeared more obvious than to fully integrate all parts of the industry’s value-added chain with each other. First, they created ties with the publishing houses of Tin Pan Alley, since the

¹⁰⁶ In this context, recall the founding of RCA Photophone in 1928 and the creation of Radio-Keith-Orpheum (RKO), which belonged to RCA.

¹⁰⁷ In 1935, he moved over to NBC where he worked on the radio show “Kraft Musical Hall” until the mid-1940s.

¹⁰⁸ From then on, Crosby acted in more than 60 musicals, including such box office hits as “Going Hollywood” (U.S.A. 1933), “Pennies from Heaven” (U.S.A. 1936), “Waikiki Wedding” (U.S.A. 1937), or “Holiday Inn” (U.S.A. 1942).

exploitation of broadcasting rights was even more profitable than record sales. Since the 1930s, film studios were also active in the music industry. Fox was the first to enter the music publishing business with the purchase of the publishing house DeSylva, Brown & Henderson; others, such as Warner Bros., which acquired shares in a dozen New York publishing houses, followed suit. In 1937, the music publishers that collaborated with the Hollywood studios shared 65% of all ASCAP dividends (Ryan 1984: 77).

The phonogram companies, which had lost the music publishers who had been their partners throughout the 1920s, had to look for new markets. For a while, independent labels succeeded with “Race” music before its smoothed-out version was popularized by Swing. Soon, this part of the industry saw an increasing market concentration as well. Paramount Records bought Black Swan in 1924 only to be taken over, together with Gennett, by Decca-U.S. in 1934. OKeh became property of Columbia in 1926, and Brunswick bought Aeolian-Vocalion in 1931. This market concentration eliminated many of the smaller labels. It was, however, merely a harbinger of a much more widespread structural transformation of the music industry. Eventually, even the larger record corporations were subjected to the production logic of the broadcasting networks, which had swallowed up companies such as Victor, Columbia, and Brunswick.

Intensified by the beginning worldwide economic crisis in 1929, music-based oligopolistic media conglomerates emerged that forged complex relations among different technologies, cultural media, and commercial interests. Until the late 1940s, two corporations—RCA and CBS—controlled this web of interests in the U.S. in terms of both technology and creativity. They determined which kind of music could be heard on their radio stations, controlled the right to exploit their music through their publishing houses, and defined who was and was not allowed to have access to their distribution networks. As quasi-omnipotent gatekeepers of the music industry, their practices also affected the music style of the 1930s and 1940s, which exhausted itself in Big Band Jazz, dance music, musical hits, traditional Country & Western, and traditional pop à la Bing Crosby and Al Jolson.

4. MUSIC AS AN INSTRUMENT OF IDEOLOGY IN EUROPE

U.S. American music was almost completely unknown in Europe until the end of World War I. Of course, John Philipp Sousa already had Ragtime in his repertoire when he toured Europe in 1899, which caused some European brass orchestras to imitate the style; however, the lasting anchoring of syncopated music occurred only after the war. A big sensation was James Reese Europe and his military band, which in 1918, during the victory parades in Paris, primarily played Ragtime. From then on, orchestras from the U.S. that played Jazz—understood as American dance music—regularly performed in the dance halls of the European metropolises. One of the first was the “Will Marion Cooks Southern Syncopated Orchestra,” which featured the clarinet player Sidney Bechet from New Orleans and received hymn-

like critiques for their performances in London in 1919.¹⁰⁹ Between 1919 and 1921, the Original Dixieland Jass Band was in London as well to perform at the sophisticated Hammersmith Palais and make recordings for Gramophone. The European Jazz boom caused by the American orchestras resulted in the formation of a number of original European Jazz bands such as, for instance, “The Original Piccadilly Four Jazz Band,” which performed at concert cafés in Berlin and produced records there.

The musical innovation of Jazz disseminated throughout Europe first through records and then through the radio. Furthermore, the flourishing international exchange of matrices between companies connected to each other ensured the availability of records of U.S. bands, and thus of original “black” Jazz, in Europe. Soon, however, resistance against this music formed, coming particularly from the political right. The National-Socialists reacted especially aggressively against the “nigger squealing,” the “nigger-colored pseudo music,” “Jewish salon music,” or “creations of Jewish, intellectualized secret workings” (quoted in Pohle 1955: 324).

With Hitler’s seize of power in 1933 came the gradual, systematic deprivation of rights, expulsion, and elimination of Jewish citizens, among them a great number of prominent musicians who had become famous through their recordings. In March 1933, just shortly after the National-Socialists had taken over the German government, the case of Bruno Walter, a conductor and director of the Leipziger Gewandhaus,¹¹⁰ attracted international attention. Based on flimsy justification that he, being Jewish, would cause public unrest with his performances, governmental officials prevented Walter from conducting a concert first in Leipzig and a few days later also in Berlin; in response, Walter immediately fled Germany. Many stars of the music industry would follow the world famous conductor into exile, including star singers Fritz Massary, Hermann Jadlowker, or Joseph Schmidt, the pianist Artur Schnabel, the violin virtuoso and composer Fritz Kreisler, the composers Hanns Eisler, Kurt Weill, and his wife Lotte Lenya—a list that could be endlessly continued. Many of those who first had to flee Germany eventually also had to leave those countries in which the Nazis seized power. For instance, Richard Tauber had to leave Germany in 1933, but after Hitler Germany’s annexation of Austria in 1938, he had to immigrate to England. Likewise, Emmerich Kálmán, Oscar Straus, and Robert Stolz, composers of the “silver” Viennese operetta era who had been responsible for numerous record hits, had to leave what was now known as the “Ostmark”¹¹¹, just like the composer of the opera “Jonny spielt auf,” Ernst Křenek. An exodus of Jewish and politically “undesirable” musicians resulted wherever a fascist regime assumed power. For example, star conductor Arturo Toscanini had to leave Mussolini’s Italy, whereas star cello player Pablo Casals had to emigrate from Franco’s Spain. Those Jewish musicians who had remained in Germany were laid

¹⁰⁹ In the “Revue Romande,” for instance, composer and conductor Ernest Ansermet attested the “Southern Syncopated Orchestra” “remarkable completion” and “exquisite taste” (quoted in Kuhnke et al 1976: 249).

¹¹⁰ The Leipzig Gewandhaus is a famous concert hall located in Leipzig.

¹¹¹ “Ostmark” was the Nazi’s term for Austria.

off, prohibited from performing, and experienced all sorts of other mean-spirited sanctions. Their music was branded as “degenerate.”¹¹²

In general, the record industry was disproportionately affected by the National-Socialist smear campaign.¹¹³ On the one hand, this was because the music industry’s board of directors had many Jewish members such as Max Straus, the founder of Lindström, and Bruno Borchardt and Fritz Schönheimer, both on the board of directors of the Deutsche Grammophon. On the other hand, the recording medium was much more difficult for the Nazis to control than broadcasting. After 1933, a “cleansing wave” swept through the German record industry in which the board of directors of Lindström, Polyphon-Deutsche Grammophon, and Electrola were exchanged. In this manner, these corporations were not only “Aryanized” but also subordinated to the regime’s propaganda goals.

In order to get hold of the economic power of record producers, the Ministry of Propaganda ordered the now nationalized Reichsrundfunk to cease payments of royalties for the records it played on its programs. This directly violated the Rome agreements of 1928, which regulated the payments of record companies by broadcasting companies on an international level. Since radio stations in other countries such as Denmark and Switzerland refused to pay royalties to record companies as well, the International Federation of Phonographic Industries (IFPI) was founded in 1933. In its name, the German lawyer Alfred Baum, now working in Switzerland, initiated lawsuits against unruly broadcasting stations, all of which he won. Once the conflict between Reichsrundfunk and record companies also became virulent, Baum sued the Reichsrundfunk in the name of the seven largest record companies. On May 9, 1935, the twenty-first Civil Chamber of the District Court in Berlin turned down the lawsuit, and on February 10, 1936, the Supreme Court upheld the ruling in the second instance. News that the last court of appeal, the Federal Court in Leipzig, considered the complaint justified, and therefore granted the record companies compensation, came as a bombshell. The ruling said that the Reichsrundfunk must pay 300,000 RM annually for the use of 25,000 records and an additional 60,000 RM for each additional 5,000 records (Riess 1966: 277). The Reichsrundfunk also had to reveal the degree to which it had broadcast records since April 8, 1935, and was urged to replace the damage accrued from it. In exchange for the lump sum payment, it did not have to mention the record labels

¹¹² In May 1938, echoing the exhibition “Degenerate Art” that took place in Munich in 1937, an exhibition titled “Degenerate Music” was organized in Düsseldorf. Featured were mostly pictures and photographs of composers who had been deemed “degenerate,” such as the composers of the Second Viennese School, Igor Stravinsky and Paul Hindemith, but also operetta composers such as Leo Fall and Oscar Straus. The exhibition particularly defamed Jewish artists, who were held responsible for the alleged decline of German cultural values (Levi 1994: 96-97 and Kater 1998: 95-96).

¹¹³ Evoking the founding of the Deutsche Reichsfunk (the German National Radio) by Ernst Heilmann in 1923, the vice director of the Reichsrundfunk, Carl Heinz Boese, argues in his 1933 essay, “The Development of German Broadcasting”: “The further development since 1923 clearly reveals that broadcasting in the vein of Heilmann had to be a two-edged gift. Heilmann found in ‘Dr.h.c.’ Knöpfke and the former state secretary ‘Dr. h. c.’ Bredow, both working for the gramophone industry, willing tools for the goal of obtaining and stabilizing Jewish influence even in this most modern of all instruments for the formation of public opinion, which from now on was used in the most shameless and cunning way for the purposes of Jewish-Western democracy” (quoted in Pohle 1955: 183).

anymore. Goebbels ordered the responsible parties in the Ministry of Propaganda, which supervised the Reichsrundfunk, to do everything possible to annul this ruling. In response, the Ministry of Propaganda sent its thugs to polemicize against the ruling, the “record monopoly,” and, of course, the Jew Alfred Baum. The corporations were branded as puppets of foreign Jewish capital, and the highest court’s ruling was denounced as directed against the German people.¹¹⁴ The German record industry’s victory in court would prove to be a Pyrrhic victory.

By the end of 1937, Minister of Propaganda Goebbels readied to counter-attack the refractory record industry with an ordinance regarding Jewish music on record, which he had personally worked out (see Fetthauer 2000: 34-36). The ordinance prohibited the recording of music composed or performed by Jews (§ 1). Records already produced had to be weeded out by March 31, 1938 (§ 2). In the future, the record companies had to solicit the approval of the “Musikprüfstelle des Reichsministeriums für Volksaufklärung” (The Office for the Inspection of Music of the Reich-Ministry for the Education of the German People) for each newly recorded record before its release (§ 3). Thus, the record companies that were active in Germany had to produce lists enumerating these so-called “Jewish records.”¹¹⁵ They had to destroy not only records and matrices of recordings featuring pieces by Jewish composers such as Gustav Mahler, Arnold Schönberg, Erich Wolfgang Korngold, Felix Mendelssohn-Bartholdy, Giacomo Meyerbeer, Jacques Offenbach, Emmerich Kálmán, Oscar Straus, Heinrich Berté, Irving Berlin, Friedrich Holländer, and many others, but also those records on which Jewish musicians and conductors interpreted so-called “Aryan” works. The Deutsche Grammophon’s recordings of Beethoven’s “String Quartet op. 59 Nr. 2 e-minor” or Hayden’s “String Quartet op. 74 Nr. 3” also fell victim to this destruction because they were interpreted by the Guarnieri Quartet whose primarius, Daniel Karpilowski, was listed in the “Lexicon of Jews in Music” (Stengel and Gerigk 1940). Even more absurd was the obliteration of the Deutsche Grammophon’s so-called short opera recordings of, for example, “Carmen,” “The Begging Student,” “La Bohème,” The Barber of Seville,” “Die Fledermaus,” “Lohengrin,” or “Der Freischütz” only because they were adapted by the Jewish conductor Hermann Weigert.

Of course, the record companies tried to fight this annihilation of so many economically successful recordings and snuck many of them back into their catalogs under a different rubric, naming neither interpreting artists nor those responsible for the adaptations. Particularly painful was the requirement to destroy the mostly forbidden, yet popular and very successful, Jazz recordings that appeared on German labels through their exchange programs for matrices with U.S. labels. The recordings of German dance bands were no adequate substitute. Since Jazz was not a clearly defined term, the record companies attempted to subvert the Jazz prohibition and continued to offer Swing titles. The situation worsened when on

¹¹⁴ Compare the polemic “Please, Use New Needles,” which was published in the NS-broadsheet “Das Schwarzer Korps” (originally published on November 26, 1936, in Vol. 2, Nr. 48; completely quoted in Riess 1966: 277-280).

¹¹⁵ The German Grammophon produced a 22-page catalog, listing 750 titles that were affected by the “record prohibition” (Fetthauer 2000: 116).

February 4, 1942 the general prohibition of “recorded music from enemy countries” was announced. According to this decree, record companies were not allowed to sell any records in the German Reich or in occupied territories that

... were produced by companies of enemy countries, feature works by authors of enemy countries, or include recordings made by artists of enemy countries (quoted in Fetthauer 2000: 39).

Works by Russian, English, and U.S. composers and ensembles also had to be eliminated from the catalogs. Since the record companies heeded this prohibition only superficially, the Gestapo conducted house searches in 1942; in the process, the companies’ chairmen were interrogated and incriminating matrices were confiscated (Hein 1963: 221).¹¹⁶

The forcing into line of the German record industry did not just occur through interventions into the music repertoire but also through organizational measures. This included the organizational subordination of phonogram companies to the electric corporations, which constituted the broadcasting industry who were absolutely essential for the war effort. After the “old” Deutsche Grammophon was liquidated in 1937 and re-founded under the roof of the AEG and Siemens owned Telefunken GmbH, in 1941, separation ensued. The Deutsche Grammophon GmbH was severed from Telefunken and directly subordinated to the Siemens & Halske AG. The latter, in turn, relinquished its shares of Telefunken to AEG so that both large electric corporations controlled one record company each. Of course, this decision was based on economic reasons as well, since the repertoires of Telefunken and the Deutsche Grammophon overlapped; however, the main reason for this restructuring was the relative autonomy enjoyed by the Deutsche Grammophon within Telefunken’s maze-like corporate structure.

The severance of the Deutsche Grammophon from Telefunken was a partial step in the process of tying record producers even more strongly to the Reichsrundfunk. Since September 1942, the government agency “Broadcasting” tried to

... merge the record industry and to oversee it from a centralized office with an eye on cultural-political demands (quoted in Fetthauer 2000: 45).

To this end, the Uniphongesellschaft, a head organization for record companies, was founded in October 1942; its main function was supposed to be the unification of the industry based on NS-ideology. However, the Uniphongesellschaft never commenced its job. On one hand, this was due to a conflict between the Ministry of Propaganda, which was responsible for the Uniphongesellschaft, and the NSDAP party headquarters, which demanded more influence; on the other hand, it was also result of the general suspicion of NS-ideology regarding the usefulness of records as an instrument of propaganda.¹¹⁷

¹¹⁶ The chairmen of the Deutsche Grammophon, Hugo Wünsch and Robert Blanke, supposedly were threatened with arrest and deportation to a concentration camp (Fetthauer 2000: 136).

¹¹⁷ Elste (1984: 111 and 114) speculates that the interpreters’ anonymity, the lack of immediacy, and the record’s tendency to objectify did not fit the purposes of the Nazis.

The Ministry of Propaganda was thus satisfied to subject the record companies to the production logic of the Reichsrundfunk, which had been forced into line, and to control the recording prohibition of the repertoire. The Nazis viewed radio as a crucial element of their power.¹¹⁸ Already in April 1933, Goebbels had articulated the role of broadcasting:

To hammer and chisel the people until they have submitted their will to ours (quoted in Kuhnke et al. 1976: 371).

Prerequisite was, however, to ensure that the population was able to receive the Reichsrundfunk area-wide, for in 1933 only 8.6% of households owned a radio. In order to increase this percentage, a commission consisting of representatives of the Reichsrundfunk, the NSDAP, and technical experts of the electrical industry was founded; it was supposed to create the possibilities for the area-wide introduction of small radios that could receive German stations only. In time for the broadcasting exhibition in August 1933, the first 100,000 so-called "Volksempfänger" (people's radios) VE 301 appeared on the market for a relatively inexpensive 76 RM.¹¹⁹ The price was later reduced even more—in 1937 it costs 59 RM and in 1938 merely 35 RM¹²⁰—and it was possible to acquire the radio by paying for it in installments. Furthermore, in 1938 10% of listeners (approx. 800,000 people) were exempted from broadcasting fees (Schütte 1971: 161). With this political strategy, the Nazis were able to increase the number of radio listeners from 4.3 million (1933) to 10.8 million (1939) (Pohle 1955: 333).

However, the primary purpose of the Reichsrundfunk's programs was not political indoctrination but distraction and subtle manipulation. The theoretical NS-broadsheet "Broadcasting as Instrument for Governance" demands

... to make listeners receptive to specifically targeted words through their exposure to sufficient music programming. The more music radio broadcasts, the more open listeners will be with regards to words (Eckert 1941: 176).

Following direct orders from Goebbels, the head of the Reichsrundfunk had already directed individual radio stations along these lines:

Between 8:10 p.m. and 10:00 p.m., only variety shows, dance music, and pure entertainment concerts are allowed to be programmed... The period between 6 p.m. and 7 p.m. also should be allocated for the broadcasting of entertainment music. In this time period, stations will broadcast recorded music (quoted in Münkel 1998: 101-102).

The share of music grew accordingly, from 57.4% in 1933 to 69% in 1939 (Münkel 1998: 99). The total daily broadcasting hours simultaneously increased from 13.3 hours in 1932 to 19 hours in 1938 (Pohle 1955: 330). In 1938/39, the music repertoire consisted of 2.5% folk music, 7.0% brass music, 8.0% classical

¹¹⁸ "From the first minute on, the National-Socialist state considered broadcasting a means to govern that quite obviously had to serve the state and the National-Socialist worldview" (Eckert 1941: 243).

¹¹⁹ The product specification VE 301 alluded to Adolf Hitler's rise to power on January 30, 1933 (commonly written in German as 30.1.1933).

¹²⁰ In this case it was the price for the DKE or "Deutschen Kleinempfänger" (German Small Radio), which was introduced to the public on occasion of the radio exhibition in 1938. It cost so little because the German electric industry forfeited its customary licensing fees (Pohle 1955: 257).

music, and 50% entertainment music such as popular songs, dance music, and operettas. The remaining 32.5% were news, political speeches, lectures, radio plays, sports broadcasts, and other non-music programs (Pohle 1955: 327-329).

With the increase of entertainment music on the radio, the record companies, already under extreme financial pressure due to the worldwide economic crisis, experienced more financial setbacks; hence, they fell even more under the influence of the broadcasting monopoly controlled by the Ministry of Propaganda. Just before the beginning of World War II, only two record companies were left in the German Reich—Electrola/Lindström and Telefunken/Deutsche Grammophon—both of which were indirectly controlled by the Reichsrundfunk. The tendency to subordinate the record companies, which were closely knit across national borders and thus difficult to control, to nationally controlled broadcasting stations had become most prevalent in the NS-state; however, it also manifested itself in other authoritarian countries such as Italy (since 1922), Austria (since 1934), Spain (since 1936), as well as Eastern European countries and the fascist Japan. Outside of the U.S., the exertion of influence by state agencies over broadcasting companies was even easier, because, with few exceptions, the latter were nationally owned or at least controlled by national governments.¹²¹

To conclude, we can say that at the beginning of World War II, the record industry was worldwide completely dependent on broadcasting due to varying market conditions. This is reflected not only in the ownership structure but also in the record repertoire. Record companies had subordinated themselves in all aspects to the production logic of the closely connected radio and film industries. It is thus no exaggeration to claim that in the 1930s and 1940s the music industry was primarily a radio industry.

¹²¹ In Europe, the only two radio stations that maintained their independence from governmental influence were Radio Luxemburg and Swedish radio. The British BBC was a special case, which Turner (1943: 12) characterizes “as a Government-established, quasi-independent monopolistic body.” Privately owned broadcasting before World War II also existed in Tunisia, Costa Rica, Honduras, Puerto Rico, Santo Domingo, Argentina, Chile, and Paraguay (see Pohle 1955: 148-149).

CHAPTER 5

THE SWING MONOPOLY DURING THE YEARS OF WARTIME ECONOMY

1. THE MUSIC INDUSTRY DURING WORLD WAR II

From 1939 on, the European phonographic industry had to switch to a wartime economy. In Germany, the Ministry of Propaganda additionally made sure that the broadcasting and record repertoire would conform to the ideological desires of the regime. Telefunken and its subsidiaries nevertheless continued their recording activities despite being subjected to an exertion of political influence; yet, they had to reduce their production output, since most foreign markets were no longer available. In Great Britain, EMI-HMV cooperated with the British Council and produced new records despite the ongoing Nazi bomb attacks and the wartime economy. Decca-UK cooperated with the coastal guard of the Royal Air Force (RAF) in the recording of submarine noises to be able to identify allied and enemy submarines. In the process, they developed a recording technique (Full Frequency Range Production—ffrr) allowing for such excellent playback quality that it was used for commercial purposes after the end of the war; in fact, “ffrr” was eventually registered as a trademark. In France, Italy, and the Netherlands, too, the phonographic industry continued its activities.

In the U.S., which entered the war at the end of 1941, the phonographic industry had been experiencing a boom period since 1938. Between 1938 and 1939, record sales had increased by 69% (from \$26 million to \$44 million), in 1940 by another 9% (to \$48 million), and in 1941 by an additional 6% (to \$51 million). The country’s entry into war, however, resulted in the phonographic industry being cut off from crucial shellac imports from India due to war activities in the Pacific.¹²² Thus, people were allowed to buy new records only when exchanging them for old ones, which were then recycled (Gillett 1971: 8). As a consequence of the shellac shortage, the majors decided to limit their music production exclusively to mainstream music. Music produced for ethnic minorities (“Race,” Gospel, and Latin) and Country Music, which derogatorily was called “Hillbilly,” were hardly recorded at all (Chapple and Garofalo 1977: 8).

Another reason for the modification of the music repertoire can be attributed to the conflict between ASCAP, which was responsible for collecting and distributing

¹²² In April 1942, the U.S. War Production Board limited the non-military use of shellac by 70% (Kuhnke et al 1976: 392).

royalties, and the broadcasting companies.¹²³ Since 1930, an agreement existed that broadcasting networks had to pay ASCAP a lump sum of 5% of the networks' advertising income for the broadcasting of music, which financed not only music programs but also talk shows and sports broadcasts. In 1937, ASCAP cancelled existing contracts with the National Association of Broadcasters (NAB) in order to negotiate higher royalty payments.

In essence, however, this was a conflict between the film and broadcasting industries. Since Hollywood studios had discovered in the 1930s their interest in exploiting music due to the triumph of sound film and, especially, the musical, the studios bought a number of music publishers that were not yet controlled by the broadcasting industry. By the end of the 1930s, the film studios already owned more than 65% of all music publishers represented by ASCAP. Since film music had become an important programming aspect of radio shows, publishers closely related to Hollywood studios wanted a larger slice of the royalty pie. They used their dominance in ASCAP to terminate those contracts in 1937 that were supposed to be valid until 1940. During subsequent negotiations, however, NAB categorically refused ASCAP's demands and founded its own royalty collecting and distribution company, Broadcast Music Incorporated (BMI), on October 14, 1939. BMI differed from ASCAP in that it accepted only music publishers as members and royalty payments were paid in advance for titles that promised to be successful. Some important publishers such as Ralph Peer's Southern Music Publishing, Hill & Range, E. C. Schirmer, Ricordi and M. M. Cole, and Hinds, Hayden & Eldridge moved over to BMI. They tended to be publishers that offered popular music in their programs, especially "Race" titles that were not really welcomed by ASCAP, which projected an image of being an elite club for "white" composers and publishers.¹²⁴ It thus came that BMI was quickly accepted as the royalty collecting and distribution company for predominantly "white" and "black" popular music¹²⁵—something ASCAP tried to exploit in its attacks on "inferior" BMI music.¹²⁶

Of course, ASCAP attempted by all means to prevent the founding of a competitor, but all anti-trust lawsuits ASCAP initiated against NAB were defeated. Since negotiations between NAB and ASCAP did not generate results, radio stations were not allowed to play any ASCAP titles from 1941 on. Both opponents accepted the broadcasting boycott, since both believed to be in a stronger position. ASCAP thought that radio stations could not afford to forego audience favorites such as Irving Berlin, Cole Porter, or George Gershwin; in turn, the broadcasting networks believed that they would be able to get by on BMI licensed titles. After a few weeks, it became obvious that the boycott primarily hurt ASCAP's music publishers, which suffered sales losses of up to 60%. Instead of the expected dividend of \$1 million for 1941, ASCAP was able to pay out only \$350,000. Since ASCAP's

¹²³ Ryan (1985) provides a detailed account of the controversy involving ASCAP and the broadcasting companies.

¹²⁴ In 1940, ASCAP distributed royalties to only 1,100 lyricists and composers and 150 publishers.

¹²⁵ In October 1941, BMI owned the rights to 36,000 titles and 52 publishers (McCarthy 1971: 155).

¹²⁶ For ASCAP, BMI spelled "Bad Music Incorporated" (Sanjek 1972: 66).

expectations did not come to fruition, it re-entered negotiations with NAB, and by the end of 1941 they came to an agreement. The broadcasting networks committed themselves to pay ASCAP \$200 for each local station that was part of its network; in addition, the networks would pay a lump sum of 2.75% of all their net income, plus 2.25% of that of the local stations. In turn, for these guaranteed payments, the networks would receive blank licenses. However, local stations were granted the right to do without ASCAP licenses and instead broadcast BMI titles only. BMI received 2.25% of the radio stations' net income and provided them with blank licenses as well. These blank licenses allowed radio stations to broadcast as much ASCAP and BMI licensed music as they wanted to, without having to pay any additional fees.

By and large, the broadcasting industry emerged from the conflict with ASCAP in a strengthened position. It now had recourse to its own company for the exploitation of music rights, and ASCAP's monopoly position was busted. A further result was that the music repertoire shifted from Tin Pan Alley pop songs to alternative titles originating in American music traditions, especially that of "Hillbilly." Whereas in 1935 55% of the music titles played on the radio still came from Hollywood films and Broadway shows, this percentage decreased to 18.5% by 1941 (Braun 1969: 164-165). As a result of the ASCAP-BMI controversy, Tin Pan Alley's monopoly on entertainment music was broken up for the first time.¹²⁷

In 1942, the music industry in the U.S. was struck by a new disaster. In June of that year, at the annual meeting of the American Federation of Musicians (AFM) in Dallas, its president, Caesar Petrillo, asked all musicians to boycott all of the record labels' recording activities. He argued that both phonographs and records had made many dance and studio orchestras superfluous.¹²⁸ Petrillo thus demanded that the union be paid royalties for each recording. With the help of these payments, he intended to create a fund for unemployed musicians. With its 138,000 members, the AFM proved to be highly organized and was thus able to ensure an almost seamless enforcement of its boycott. CBS-Columbia, Decca-U.S., and RCA-Victor were initially convinced that this threat would be over within a few months and continued to stock their warehouses. Yet, hardly any new recordings were made. The first label to really feel the boycott's economic pressure was Decca-U.S., which had a repertoire that consisted exclusively of entertainment music. In the capricious entertainment area, customers demanded new recordings all the time; yet, at this moment, Decca could not provide them with any new songs. When a new musical played on Broadway, the label was unable to release it immediately on record. After thirteen months of boycott, Decca-U.S. had exhausted its financial breadth and accepted AFM's demands. The contract, signed in September 1943, stipulated that

¹²⁷ Another indirect result of the controversy was the emergence of a third U.S.-wide broadcasting network. In 1941, ASCAP accused RCA and CBS of abusing their dominant market positions, leading the FCC to initiate investigations of the two networks. The result was that in 1942 RCA had to sell its "blue" NBC network to Edward Nobel who renamed it "American Broadcasting Company" (ABC) (Sanjek and Sanjek 1991: 119).

¹²⁸ In 1942, 60% of AFM members were unemployed (Kuhnke et al 1976: 393).

Decca had to pay AFM between $\frac{1}{4}$ and 5 cents for each record sale. As soon as the deal was signed, musicians returned to Decca's studio and recorded the new Broadway musical "Oklahoma," which became a huge hit with 1.3 million copies sold. CBS-Columbia and RCA-Victor continued to resist the boycott until the summer of 1944. But when the U.S. War Production Board loosened its war economy stipulations for shellac, both labels had to be afraid of high opportunity costs. Two years after the boycott had begun, CBS-Columbia and RCA-Victor signed an agreement with AFM. They accepted royalty payments and soon found that musicians were once again at their disposal for studio recordings.

Newly created independent labels filled the supply gap resulting from the recording boycott. They had agreed to the royalty demands of the musicians' union and tried to use their productions to compete with the major's popular music repertoire. However, most of these small labels—in Los Angeles alone, more than 100 were thought to have existed (Kuhnke et al 1976: 395)—soon disappeared from the market, since they did not manage to keep their share of the fiercely contested pop market. The only companies that survived were those specializing in market segments that were of no commercial interest to the big labels. In the long term, there was only one label that managed to survive the majors' competition. This company was Capitol Records, which was founded in April 1942 with an initial investment of \$10,000 by Glenn Wallich, an owner of a radio shop in Hollywood, Johnny Mercer, a music producer, and Buddy DeSilva, a former member of Paramount Pictures' board of directors. Capitol's founders had seized the opportunity offered by the musicians' strike and recorded an entire year's worth of record titles before the closing of the recording studios. Whereas the majors were able to exploit only their back catalogs, Capitol was able to release new titles. By the end of 1943, Capitol signed the royalty contract with AFM and thus secured the continuing expansion of its catalog. The temporary weakness of the majors allowed Capitol to establish itself within a short time period as a market force and rise to the ranks of a major label. Whereas in its founding year, 1942, Capitol's sales were only \$200,000, it managed to increase this figure to \$2.5 million by 1944; with these profits, Capitol managed to acquire the largest record plant in the U.S. located in Scranton, Pennsylvania (Haas and Klever 1959: 175-176).

The war economy and union boycott did not, however, have a dramatic effect on industry sales. In fact, increased demand by jukebox operators more than compensated for the decrease in private household demand. Whereas in 1930, 12,000 jukeboxes were operated in the U.S. (Read and Welsh 1976: 308), by 1935 those numbers had increased to 150,000. In 1940, 350,000 jukeboxes were operated in the U.S., which comprised 44% of all records sold (Garofalo 1997: 59-60). The maelstrom of demand that was produced by the jukebox segment came in handy not only for the long established companies but also for the new market participants, such as Capitol Records. Consequently, between 1942 and 1943, industry sales increased by a solid 20% (from \$55 million to \$66 million). Only in 1944 did sales stagnate at \$66 million. But during the last war year even this temporary weakness was overcome, and sales jumped by more than 65% to \$109 million. With

this number, the phonographic industry in the U.S. had eliminated the losses of the last 24 years and for the first time managed to exceed the sales peak of 1921 (\$106 million).

2. THE SWING MONOPOLY

Swing was the style of music that had dominated the business activities of the U.S. music industry since the mid-1930s. On one hand, this amalgam of “white” and “black” Jazz allowed listeners to forget Jazz’s questionable origins in amusement quarters and red-light districts of New Orleans, Chicago, and Kansas City; on the other hand, this mix retained enough rough edges so that it could become the preferred entertainment for a rebellious youth culture. But now the large radio networks, NBC, CBS, and ABS, rather than the record companies, were the main force advancing the Swing era. Propelled forward by the broadcasting production logic, Swing was able to develop and maintain a dominant market position for roughly 20 years between 1935 and 1955.

The success story of Benny Goodman, the most important representative of Swing, shows how closely connected radio was with the emergence of this music style. Goodman, who had received an education in classical music playing the clarinet, had been working in New York since 1927 as a high-demand studio musician; yet, he also worked for Broadway shows and played as a guest musician in various bands; for instance, he played in Ben Pollack’s band together with Glenn Miller and the Dorsey Brothers. He also belonged to the circle of musicians who were able to maintain their livelihood solely on music even after Black Friday.¹²⁹ The main sources of income were, however, radio shows financed by advertising money.¹³⁰ Benny Goodman comments on this in his autobiography:

But radio was still going strong, with many of the big commercial hours using studio orchestras. ... Radio was just beginning to spread out and it seemed to me that a musician’s future was going to be tied up with it (Goodman and Kolodin 1961: 118).

In December 1934, NBC started a music program sponsored by the National Biscuit Company. Its title was “Let’s Dance,” and it was broadcast each Saturday between 11 p.m. and 2 a.m. on 53 radio stations all across the United States.¹³¹ Three bands played on the show, with one committed to playing rumba, one Sweet-Jazz à la Paul Whiteman, and the third Hot Jazz. Benny Goodman’s orchestra assumed the role of the Hot Band, which played the last hour on Saturday nights until 1935. In April 1935, Benny Goodman and his orchestra received a four-year contract from Victor (Connor 1958: 117), a record company that belonged to, just like NBC, RCA’s empire. That summer, the concert promoter MCA sent Goodman on a tour across the U.S. Before the Goodman orchestra played its final show in

¹²⁹ The great number of names mentioned on the individual productions is misleading, however. New York studio musicians who recorded with Goodman between 1930 and 1934 used 180 pseudonyms (Connor and Hicks 1973: Preface by Benny Goodman).

¹³⁰ The large networks recorded these shows as so-called “electrical transcriptions” and offered them as ready-made radio shows to local stations on a subscription basis (Kuhnke et al 1976: 347).

¹³¹ “Let’s Dance” was the signature melody of an advertising feature of the National Biscuit Company, which used it to promote its Ritz crackers (see Kuhnke et al 1976: 344).

August 1935 at the Palomar Ballroom in Los Angeles, the tour had been a huge flop. It was thus a real surprise for everyone involved that young people in Los Angeles gave Goodman and his band a triumphant reception. The reason for this enthusiastic response was the fact that the National Biscuit radio show was actually broadcast in radio primetime due to the three-hour time difference between East and West coast. The young, dance-crazy audience was thereby already familiar with the new sound and knew most songs. Hence, the final concert was an unexpected triumph, which, in hindsight, is considered the Swing era's hour of birth (see, for instance, Polillo 2000).¹³²

Ever since the success of the Goodman Orchestra, the broadcasting networks were fully aware of their market power. They recognized that with the help of an integrated promotional concept they would be able to use radio to make the dance-crazy youth aware of the music, lure them into dancehalls, and eventually get them to buy records. Thus, the radio networks possessed the power to establish musicians and orchestras on the market. Orchestras, however, had to carefully adapt themselves to radio stations' needs. It was no coincidence that the Benny Goodman Orchestra consisted of 13 musicians and thus exceeded the size of bands of the 1920s by a good number of members. The line-up of three trumpets, two trombones, four saxophones, and a four-piece rhythm group was the result of many experiments conducted by radio stations in order to guarantee a well-balanced body of sound during broadcasting (see Kuhnke et al 1976: 349). The larger orchestras also fit the demands of the dancehalls that continued to increase their size and thus became known as dance palaces. The best known, such as the Cotton Club and the Savoy Ballroom in New York and the Grand Terrace in Chicago, were directly related to radio stations. Local radio stations of the metropolises broadcasted live from the dance palaces, recorded the shows, and produced the most successful ones on record.¹³³

In addition to controlling the individual elements of the value-added chain, the broadcasting networks also controlled music content. The Radio Act of 1927 and the Federal Communication Act of 1934 had legitimated them to control music content,¹³⁴ although these acts outlawed any form of censorship, they barred the broadcasting of obscene, offensive, and profane language. Radio stations could point to this vaguely defined legal command as a means to ban anything that had the remote potential to offend someone in some form. Affected by this policy were not only political songs and agitation but also Blues songs with sexual innuendos and ambiguous folk songs (see Leonard 1962: 99-100).

¹³² Goodman provides anecdotes about this tour in his autobiography.

¹³³ One of the most popular radio shows was "Make Believe Ballroom," which KFWB in Los Angeles broadcast daily for five to six hours; due to the show's great success, the RCA-station WNEW in New York began to broadcast it as well (Kuhnke et al 1976: 350).

¹³⁴ The Radio Act (1927) calls for the founding of a radio commission that was put in charge of assigning frequencies to radio operators and controlling broadcasting in the U.S. Paragraph 26 of the Radio Act, which was incorporated verbatim into the Federal Communications Act in 1934, stipulated that the radio commission was not allowed to engage in censorship but added that "no person within the jurisdiction of the United States shall utter any obscene, indecency, or profane language by means of radio communication" (quoted in Leonard 1962: 99).

The basic legal and economic conditions enabled radio stations increasingly to homogenize their music programs. Of course, new titles were produced all the time, but Swing was a style of music that did not depend all that much on innovation. What counted was less *what* was played than *how* it was played. Although each Swing band had its signature melody, such as, for instance, Count Basie Orchestra's "One O'Clock Jump," the largest part of a program consisted of well-known Tin Pan Alley melodies and film music titles.¹³⁵ And though Swing continued to make use of improvisation, the first task was to arrange familiar titles in new ways.¹³⁶ Benny Goodman alone had 10 arrangers who worked for him between 1935 and 1939 (Connor 1958: 119), including Fletcher Henderson, who was an important Big Band leader in the 1920s. The arrangers' job was to find new instrumentations for popular Swing standards without ever giving the impression that anything was actually arranged, since everything had to sound spontaneous and improvised.

This total command of musical material was a prerequisite for the radio networks' ability to make Swing prevail as the dominant music style. The music was simple and transparent. It could be used equally well in films, on Broadway, on the radio, as well as in dancehalls. Royalties flew into the pockets of Tin Pan Alley publishing houses, most of which were largely controlled by radio networks and film companies. Furthermore, radio music programs guaranteed that songs would be recognized and thus provided a level of continuity for the companies' business activities. A successful title on the radio could be exploited again by recycling it on record. The result was a musical homogeneity that was summarized under the heading "Swing." Individual songs were exchangeable, and orchestras and interpreters could only be differentiated from each other because of their bandleaders and individual soloists.

Swing is thus the end product of a process that, since the 1920s, saw the gradual adaptation of "black" Jazz—a music style that was initially disparaged as despicable and seen as having a corrupting influence on youth—to the tastes of a "white" middle-class audience. We can read the big success the Benny Goodman Orchestra celebrated on January 16, 1938 in New York's sold-out Carnegie Hall, which up until then had been reserved only for classical concerts, as evidence of the total acceptance of Jazz by the "white" audience. The concert, later hyped as legendary, was initiated by the advertising agency Fizdale, which produced for CBS the "Camel Caravan Show" in the name of tobacco giant Reynolds. Between 1936 and 1939, Benny Goodman performed on a weekly basis on this show, and the concert at Carnegie Hall was planned as an artistic highpoint. However, organizers were surprised by the extraordinary success, and they only correctly assessed this concert's commercial potential later on.¹³⁷ Benny Goodman's success opened the

¹³⁵ In 1936, 23 of the 56 top hits named by the industry magazine "Variety" came from Hollywood films (Braun 1969: 43).

¹³⁶ In contrast to the "Head Arrangements" common in an earlier era, which merely dictated a rough order of individual solos, the written arrangements of the Swing era allowed for improvisation only within the solos.

¹³⁷ Thus, a CBS live recording of the concert remained unreleased until 1950; only then, upon the urging of Goodman, was it released on record as the "Carnegie Hall Jazz Concert, Vol. 1 & 2."

doors for other Jazz orchestras as well, which subsequently regularly played at Carnegie Hall and other “sacred” sites of European concert music.¹³⁸ With this, Jazz was perceived as “serious” art music that provided a listening experience in itself, in addition to being music to which one could dance.

During this period, however, two reception patterns began to form. One pointed in the direction of elitist art music, and the other in the direction of commercial entertainment music. Although in the 1940s most Swing orchestras remained committed to playing dance music, various bandleaders and arrangers began to experiment with the idiom of classical music. Artie Shaw had already attracted attention in 1936 when he performed “Interlude in b-flat” together with a string quartet and a rhythm group on the occasion of an all-star concert in New York’s Imperial Theatre. Although his success provided him with a record contract with RCA-Victor, the company demanded that he record a conventional Swing record. Consequently, Artie Shaw disbanded the string quartet; however, he integrated into his 23-man band a large string section with which he recorded the hit “Frenesi.” In 1941, Shaw wanted to enlarge his orchestra to 52 men. However, Bluebird, a sub-label of RCA, prevented him from doing so due to cost reasons; the label granted Shaw a 32-man band with which he recorded “Concerto for Clarinet” (Simon 1971: 421).¹³⁹

Orchestras that were patterned on Benny Goodman’s model and primarily played dance music constituted the mainstream of the Swing era.¹⁴⁰ They were completely subordinated to the production logic of the radio and record companies, which had developed a homogenized concept of line-ups and music repertoire. This recipe for success could be exported into other countries, thus making Swing the first international entertainment music style.

3. MUSIC AS PROPAGANDA

World War II also contributed to the internationalization of U.S. entertainment music. U.S. troops were provided with music from home no matter where in the world they were in combat. However, in the summer of 1942, the U.S. Army could not be provided with enough new commercial records due to the near watertight musicians’ recording boycott at home. In this context, Robert Vincent, a trained

¹³⁸ From 1940 on, the music impresario Norman Granz commercially exploited this concept in Los Angeles as “Jazz at the Philharmonic” (JATP). The idea was to have well known Jazz musicians perform in jam sessions and to capture these live events on record. For this purpose, Granz founded the record label Verve. The first concert took place in the Philharmonic Auditorium in Los Angeles in 1940. From 1947 until the late 1950s, JATP toured through the concert venues in the U.S. and Europe.

¹³⁹ Artie Shaw could never get used to the production conditions of the music industry during the Swing era. He repeatedly disappeared for weeks from the scene and did not honor recording appointments, which gave him the reputation of being eccentric. In 1946, he disbanded his orchestra, and from then on he performed in public infrequently (Simon 1971: 422-425).

¹⁴⁰ For instance: Louis Armstrong and His Big Band, Charlie Barnet and His Orchestra, the Count Basie Orchestra, Cab Calloway and His Orchestra, Benny Carter and His Orchestra, Jimmy Dorsey and His Orchestra, Tommy Dorsey and His Orchestra, the Duke Ellington Orchestra, Jimmie Lunceford and His Orchestra, Glenn Miller and His Orchestra, Jack Teagarden and His Orchestra, etc.

sound technician who worked as a Lieutenant for the radio sector of the “Army Special Services,” approached the U.S. Department of War with the suggestion to produce recordings without any commercial considerations exclusively for U.S. troops. In July 1943, the proposal was accepted and Vincent began to work on the so-called V-Disc program.¹⁴¹ The majors provided him with the rights to use their music only under the contractually agreed upon condition that the V-Discs would be distributed exclusively to military personnel and without any commercial intentions. The union was guaranteed that any remaining records and matrices would be destroyed after the war. Heeding these conditions, the military shipped the first records abroad, which were pressed at the Victor plant in Camden, New Jersey, at the beginning of October 1943. The repertoire available on V-Disc encompassed, in addition to the usual commercial recordings of entertainment music, “electrical transcriptions” of radio shows, film soundtracks, radio plays, and recordings of literature. The success of the V-Disc program was so overwhelming that it was continued after the recording boycott was over and even after the end of World War II, until May 1949. The troops occupying Europe and Asia continued to be supplied with V-Discs, which were also played on American radio stations in occupied countries. That way the local population became familiar with the latest U.S. music trends—if they had not already been listening to “Voice of America’s” propaganda programs during the war, which, of course, was highly illegal in the German Reich at the time.¹⁴² Thus, the V-Disc program’s influence on the internationalization of Swing should not be underestimated. Many musicians, such as Frank Sinatra, who were unknown outside the U.S., became stars in Europe only through the V-Discs. Established artists, in turn, used this medium to enhance their level of popularity outside the U.S., such as Glenn Miller who had served as a volunteer in the U.S. Air Force since September 1942. He conducted the U.S. Army Air Force Band and became, through the V-Disc’s multiplication effect, synonymous with swinging dance music in Europe. During the six years of the V-Disc program, 900 records with 3,000 individual recordings were produced, of which more than eight million were shipped overseas.

However, Swing served not merely as troop entertainment but also as an instrument of propaganda. With the help of “Voice of America,” which began broadcasting on February 24, 1942, the U.S. military attempted to introduce enemy populations to the American way of life. Since during the war “Voice of America” was never able to unfold its activities to the degree that the BBC was able to, its range of influence remained relatively limited. It reached its full potential only with the beginning of the Cold War, and its dissemination of anti-Soviet propaganda. However, not only the allies but also the German Ministry of Propaganda used Swing for propaganda purposes. Even though Jazz, judged as “degenerate music,”

¹⁴¹ See especially Sears (1980) for an account of the history of the V-Disc program. “V” either stands for “victory” or, according to a different interpretation, for “Vincent.”

¹⁴² In the German Reich, a law delineating extraordinary broadcasting measures took effect on September 1, 1939. In paragraph one, it prohibited the “listening to enemy stations”; violation of this command was punishable with prison. Those who were caught listening to the news on enemy stations could in extreme cases, according to paragraph two, be sentenced to death (see Schütte 1971: 178).

had been banned from radio programs since March 1933,¹⁴³ it was replaced by a similar sounding music played by German dance bands.¹⁴⁴ On the level of propaganda, these bands were supposed to prove to foreign countries that National Socialism was not opposed to “good” music but merely to compositions by

Negroes, Jews, Jewish-related, Bolshevik, or other foreign elements (Litterscheid 1936).

In this manner, music became personalized; under the mantle of “German dance music,” Swing could be consumed in National Socialist Germany and be broadcast on short wave radio even into enemy countries.¹⁴⁵

As German troops advanced, the short wave broadcasting net was expanded in order to provide the Wehrmacht with radio programming even at the front lines. From now on, music was put fully in the service of the war of conquest. Marching music assumed a key role in the music programs and was supposed to set the tone for the “special news” and “Wehrmacht reports” from the front. Due to the NS-war propaganda, the percentage of music on the radio decreased by 5.7% during the first war years, but the percentage increased as the situation at the front worsened. From then on, the goal was both to keep soldiers at the front in a good mood and to distract the population at home from increasingly miserable war developments. Entertainment programs were expanded, and programs such as the “Wunschkonzert” (a musical request program), which allowed relatives to send congratulatory messages to the front, were supposed to suggest a strong level of solidarity between front and homeland.¹⁴⁶ Looking after the troops occupied a large part of the radio’s capacities. In the first year of war alone, individual stations conducted 177 music events for the Wehrmacht, which were supplemented by 275 music events in barracks and 87 in sick bays and other locations where soldiers were stationed. They even put together broadcasting ensembles with prominent musicians and actors who went on tour to entertain the troops (Scheel 1970: 154).

In this context, record producers were denigrated to mere henchmen. Significant quantities of records were produced only for exports, which were highly desirable as

¹⁴³ This was reported by the magazine “Funk” in its March 17, 1933 issue (quoted in Pohle 1955: 321). However, the complete expulsion of Jazz from German broadcasting was announced only on October 12, 1935 by the director of Reich broadcasting, Hadamovsky (Pohle 1955: 321-322).

¹⁴⁴ For this purpose, German radio organized in February 1936 a dance band competition in which 500 bands participated in order to close the gap resulting from the prohibition of Jazz music.

¹⁴⁵ To this end, the Ministry for the Education of the People and Propaganda financed a studio orchestra. Between 1941 and 1943, it recorded under the name “Charlie and His Orchestra” Jazz music that had actually been prohibited but that was subsequently disseminated in Great Britain and the U.S. via short wave propaganda stations. Since the German Wehrmacht had called most German studio musicians in for duty, the Germans hired musicians from Italy, Belgium, and the Netherlands who worked under the supervision of Lutz Templin (Bergmeier and Lotz 1997: 158 and 165). Lange (1992: 201) estimates that about 300 Swing titles were recorded under the name “Charlie and His Orchestra.”

¹⁴⁶ Eckert (1941: 155), too, points out the crucial role of broadcasting for the war effort: “It was different in the case of programs that first and foremost were supposed to serve soldiers and indirectly tried to establish a connection between front and Heimat [home, or homeland]. The best known of them was the Wunschkonzert for the Wehrmacht... The program’s effect was particularly significant during the rough winter of 1939/40... It was the cumulative result of all these programs that their listeners were not merely or primarily soldiers but also people at home who desired to remain in contact with the front.”

a source of foreign currency. From the middle of 1943 on, the German Reich completely terminated the recording activities of the three remaining recording companies that had still been active in Germany (Telefunken, Deutsche Grammophon, and Electrola and Lindström). Deutsche Grammophon's so-called "war catalog" of 1943 only contained 800 titles, which included not a single new recording (Fethauer 2000: 161). The increasing lack of shellac and workers, as well as the allied Air Forces' intensifying bombardments from 1943 on, made it increasingly difficult to produce any records. Albert Speer, the Reich Minister of Arms and Ammunition, ordered the halting of record production, which was supposed to take effect on October 1, 1943, but the Ministry of Propaganda ignored this order.

So, even during the war years, records continued to be produced in Germany, but they merely served the propaganda efforts the regime pursued with the help of broadcasting. Due to the allied forces' ever-increasing bomb attacks, Telefunken's recording studios had to be repeatedly relocated and, eventually, housed in the bomb shelter of the Berlin Choral Society. In January 1944, bombs completely destroyed the administrative building of the Deutsche Grammophon in Berlin-Tempelhof, and at the end of 1944 Electrola ceased its activities after 80% of its factory had been destroyed (Riess 1966: 317). At the beginning of 1945, Germany, which once was one of the largest record production sites in the world next to Great Britain and the U.S., no longer produced records. Without exaggeration, we can thus claim that by the end of World War II, the German phonographic industry had hit rock bottom.

4. THE INTELLECTUALIZATION OF JAZZ: BEBOP

Swing was the last Jazz style that appealed to a mass audience in the U.S. and abroad, and the majors exploited it to the fullest degree. By the late 1940s, however, the vital Big Band Jazz of Benny Goodman and Duke Ellington had turned into a cliché to which all Swing arrangements were made to adhere. Swing was not merely popular but also random and thus interchangeable. The decline of Swing was accelerated by the long-lasting boycott of the musicians' union. Vocalists were organized in the American Federation of Television and Radio Artists (AFTRA) rather than in the AFM; therefore, they did not join the AFM's boycott and continued to record. Thus, instead of Big Band Jazz, record companies increasingly recorded vocal ensembles, and vocalists such as Frank Sinatra, who were able to make a name for themselves during that period, grew in stature. While in the 1930s vocalists had played a secondary role to Swing arrangements, by the end of the union boycott they had become the main attraction. No Swing band could afford to perform without a well-known singer.

However, it would be overly hasty to claim that the union boycott was the sole cause for Swing's disappearance at the beginning of the 1950s. The strike had merely accelerated a process that resulted in the decline of Swing. Only in Europe, where Swing had arrived after a delay of 10 years, Swing experienced a second blossoming in the 1950s.

In retrospect, the emergence of Rock ‘n’ Roll appears to be the logical consequence of a music style that had run its course, having petrified into routine expressions. This account of musical change, which exclusively relies on an explanation dealing with developments immanent to music aesthetics itself, neglects, however, structural changes that became visible in the late 1940s and eventually led to the Rock ‘n’ Roll revolution. These were changes that did not occur in the music industry as such; instead, they affected the music industry in such a manner that its market dominance, which was built up over the decades, vanished in hardly no time at all. For Rock ‘n’ Roll did not emerge in a vacuum but was announced by harbingers that the music industry failed to recognize, if it perceived them at all.

Already in the late 1930s, leaders of the well-known Big Bands resisted the increasing homogenization of Swing music by putting together so-called Combos, which were essentially bands within bands. These Combos represented a kind of chamber music line-up, which allowed musicians to break out of the straightjacket of the arranged Big Band sound in order to plug into the tradition of improvised Jazz of the 1920s. Since 1935, Benny Goodman operated such a Combo with his Goodman Trio, which he subsequently expanded to a quartet and then sextet. Other Big Bands created Combos as well, such as the Kansas City Six of the Count Basie Orchestra, the Duke Ellington Quartet, the Stompy Stevedoves of Cab Calloway, Artie Shaw’s Gramercy Five, or Woody Herman’s Woodchoppers. Some of these formations purposefully tried to rekindle traditional Jazz, which was mainly understood as “black” Jazz. This move towards tradition manifested itself in the middle of the 1940s in the New Orleans and Dixieland revival. As a result, musicians such as Kid Ory, Bunk Johnson, Oscar “Papa” Celestin, and George Lewis, who had long been forgotten but were still alive, were “rediscovered” and thus acquired a measure of fame late in life.

But the real impetus for renewal did not come from the Big Band Combos but arrived from outside the music mainstream and the institution that carried it. The new Jazz style originated far off the music industry in the experimental surroundings of small bars in Harlem frequented almost exclusively by African-Americans. The nexus of musical rejuvenation became the almost totally run-down Minton’s Playhouse, which in the fall of 1940 was taken over and renovated by Teddy Hill, a former orchestra director. Hill had the idea to form a small house band, consisting of a trumpeter and a three-piece rhythm group, and any audience member who was courageous enough could jam with them on stage.¹⁴⁷ Soon, Minton’s, whose reputation spread like wildfire in the Jazz community, saw well-known musicians jamming into the wee hours, such as Coleman Hawkins, Art Tatum, Benny Carter, Chu Berry, or Mary Lou Williams, but also lesser known musicians such as Charlie Christina, who later joined the Benny Goodman Sextet as their guitarist. Minton’s Playhouse thus became the retort of Bebop, which represented not merely a significant advance in terms of rhythm, harmony, and melody, but also

¹⁴⁷ The house band initially consisted of Joe Guy (trumpet), Thelonious Monk (piano), Nick Fenton (bass), and Kenny Clark (drums).

... a total break with the industrialized and stereotypical music that Swing had become as played by all of the popular American orchestras, especially if their musicians were white (Polillo 2000: 170).

Bebop, or Rebop, as it was initially called, was the result of a spontaneous developmental process grounded in the experiments of a few soloists of the Swing era; yet, this process was advanced by a new generation of musicians, including the likes of Charlie “Bird” Parker and Dizzy Gillespie, who pushed music into a new direction. In 1944, the first Bebop formation was created under the leadership of trumpeter Dizzy Gillespie. They performed at the Jazz bar “Onyx” on 52nd Street¹⁴⁸ and produced the first recordings for independent labels such as Guild, Savoy, and Comet. Primarily responsible for establishing an audience for Bebop, however, were the many independent labels, which were founded as one-man operations by Jazz insiders.¹⁴⁹ Yet, for years, Bebop could neither be heard on the stations of the large broadcasting networks nor listened to on records of the labels connected to them. Only in 1946 did RCA-Victor record with the Dizzy Gillespie Orchestra its first Bebop recordings, which were released on the album “New 52nd Street Jazz.”

However, Bebop was more than just a musical novelty; it was also a social movement in which young African-Americans purposefully attempted to turn their backs on the white majority who still harbored hostile feelings to them. The so-called “Boppers” or “Hipsters” differentiated themselves not only in the music they listened to but also in their clothes and appearance, which was characterized by a beret, dark sunglasses, and a goatee.¹⁵⁰ Because Bebop self-consciously understood itself as a black intellectual avant-garde movement, the new Jazz style did not spread into the larger population. Bebop was not entertainment music that obeyed the laws of mass consumption; it was intellectual, “pure” music that, instead of encouraging the listeners to dance, demanded that they *listen*. Thus, Bebop found its main proponents in intellectual circles and became the music of choice for the emerging existentialist movement in Europe once Bebop greats Charlie “Bird” Parker and Dizzy Gillespie toured the continent in the 1940s.

With the emergence of Bebop, Jazz had finally become “pure” art music, which did not try to reach the masses and instead became a crucial part of the self-image of avant-garde counter cultures. All subsequent Jazz styles such as Cool Jazz, Hard Bop or Free Jazz remained beholden to a subculture, without vying for the attention of the mass media. Hence, Bebop was a phenomenon limited to a specific era that found its premature death around 1950. Bebop managed to accomplish a great revolution only within Jazz and not in entertainment music as such. It is, however, a symptom for a structural break in the music industry that would manifest itself only later. The large music corporations did not recognize this break, because it originated far away from its control mechanisms.

¹⁴⁸ Bebop found its first home in the Jazz bars on 52nd Street, which thus became the epitome of the Bebop era.

¹⁴⁹ An important Jazz label was Blue Note, which was founded in New York in 1939 by the German-Jewish immigrants Francis Wolff and Alfred Lion. During the war, the label was inactive, and it resumed its activities only in 1945 with recordings of Bebop. We also have to mention Bob Weinstock’s Prestige label (founded in 1949), Norman Granz’s Verve Records (founded in 1951), and Bill Gauer and Orrin Keepnews’ Riverside label (founded in 1953), which dedicated itself to the recovery of forgotten “race” recordings by Paramount and Gennett.

¹⁵⁰ For an analysis of the socio-cultural aspects of the Bebop movement, see Leroi Jones (1963).

CHAPTER 6

ROCK ‘N’ ROLL REVOLUTION

1. ECONOMIC RECOVERY AND TECHNOLOGICAL INNOVATION

A full-fledged music industry boom characterized the immediate post-war years in the United States. From 1945 to 1946, record sales doubled from \$109 million to \$218 million. In 1947, sales reached a new record high at \$224 million. In 1948, however, sales declined by 15% to \$189 million, and in 1949 by an additional 8% to \$173 million.

After the sales decline of the late 1940s, the U.S. record market stagnated, experiencing only small gains in sales until the mid-1950s. From 1955 on, however, the industry entered a new period of expansion, which reached its momentary peak in 1959 when it counted \$603 million in sales. Thus, during this decade the market had grown by a factor of 3.5. This development was caused not merely by the post-war economic miracle and the birth of the Baby Boom generation but also by a structural break within the music industry, which had already begun to manifest itself right after the end of World War II.

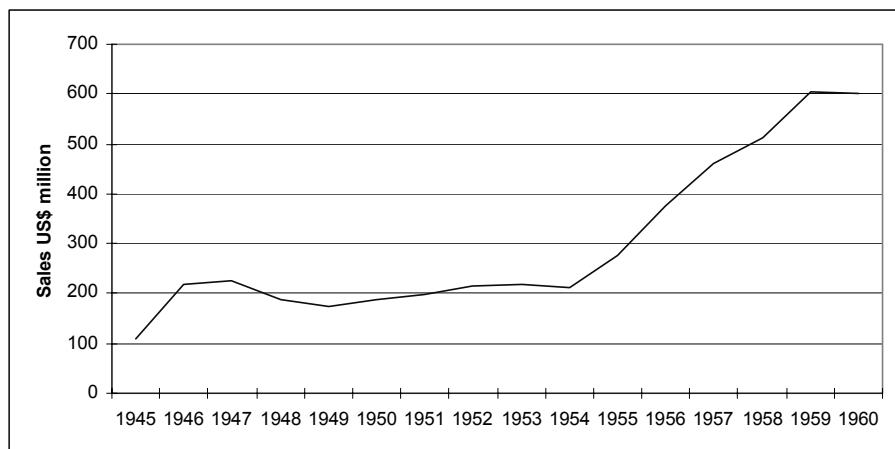


Figure 15. U.S. record sales (US\$ million) between 1945-1960.

The basic technology of the record industry had essentially not changed since the inception of electrical recording. They still produced shellac records at 78 rotations per minute (rpm), which could hold no more than four minutes of music.¹⁵¹ Furthermore, shellac records were very fragile, and their transportation and distribution required a great deal of care. The high costs ensuing from such complicated logistics prevented smaller companies from distributing their own products. Hence, they had to depend on the distribution infrastructure of the majors, who used their market power to keep unwanted market competition at bay.

In response to the quickly accelerating demand for records after the war, record companies tested new technological possibilities to extend the playing length of records. After two years of research, CBS-Columbia's engineers, led by Peter Goldmark, found a solution to the problem.¹⁵² The decisive factor was finding a new material—vinyl—that was more malleable but less fragile. They expanded the long player's (LP) diameter while reducing the rpm's to $33\frac{1}{3}$. The LP's sound was as good as that of shellac. Most importantly, however, an LP could store up to 20 minutes of music per side.

CBS-Columbia sought to establish the new record format on the market as quickly as possible; to this end, they offered their main competitor, RCA-Victor, to take over the patent for the LP. However, RCA-Victor had already begun to develop a new record system on its own. They announced the result soon after the introduction of the LP—the 45-rpm record, or single. Although the single was not able to store considerably more music than a shellac record, its sound quality was far superior to that of the latter. It nevertheless appeared as if RCA-Victor conceded victory to Columbia. All of the important labels in Europe and the U.S. (except for EMI) accepted the LP-standard. Yet, in this seemingly hopeless situation, RCA-Victor scored a crucial marketing coup. Spending \$5 million on an advertising campaign, they persuaded consumers to believe that the 45-rpm standard was better suited for entertainment music. Even though no rational reasons existed for such a claim, it was accepted as correct and thus helped the single to its belated success. Thus, the single was able to establish itself as a market standard alongside the LP, whereby the LP conquered the classic and jazz repertoire and the single that of the pop market.

However, the technological innovation of the LP is not single-handedly responsible for the eventual growth of the market. The second important technology responsible for the post-war boom—the magnetic tape—was not developed by the phonographic industry; in fact, the latter initially rejected and then simply ignored this innovation. Valdemar Poulsen had already developed the basic technology for the magnetic tape back in 1899. Originally, electromagnetic recording was intended

¹⁵¹ Edison Co. had already tried in 1925 to develop a long-playing record, but the phonographs used at the time were not made for playing such recordings. In 1931, RCA-Victor, too, produced such an LP, but it failed to prevail as a new recording format during the recession years.

¹⁵² Peter Goldmark was a Hungarian-born Jewish emigrant who studied physics at the University of Vienna until 1938. In 1946, he was transferred from CBS's department for TV development to that of Columbia's.

for the purposes of telegraphy. The recording apparatus was thus appropriately called “Telegraphon”. Despite the immense advantages that electromagnetic recording enjoyed over mechanical acoustic recording—a recording time of many hours and a barely noticeable decline in quality after repeated replaying—it was not used to record music. The reason for this was the fact that music could only be replayed in very poor quality; also, the tape players were technically complicated and used up lots of space. Thus, the Telegraphon was used as a Dictaphone until 1910 and then disappeared from the market.

In the early 1930s, Fritz Pfleumer, a German scientist, picked up the electromagnetic recording technology but used acetyl-celluloid tape layered with iron oxide instead of steel tape. To replay the tape he developed the “Magnetophon,” which from 1935 on he exploited commercially together with a German conglomerate consisting of AEG-Telefunken and IG Farben (BASF).¹⁵³ Yet, the Magnetophons were unwieldy and extremely expensive and were exclusively used as dictation machines (Sieben 1991: 69).

During the war, the allied secret services became suspicious after Germany began to broadcast its propaganda programs at an above-average sound quality and 24 hours a day without interruptions. These programs could have been broadcast neither live from the studio nor with the help of records. In September 1944, the Allies were able to solve the riddle when allied troops occupied Radio Luxembourg, which up until then had been used by the German Wehrmacht. Among the technical equipment were Magnetophons, which were capable of reproducing programs around the clock that had been recorded in advance.

Patents for the Magnetophon and related recording media, originally held by AEG-Telefunken, fell into the hands of the U.S. occupying forces. In the U.S., the “Minnesota Mining and Manufacturing Company” (3M) was ordered to turn the German innovation into a commercial product. 3M’s engineers developed a high quality magnetic tape, which they sold under the brand name “Scotch”. Radio stations especially bought this tape, which allowed them to pre-record their programs. Bing Crosby was actually the first musician to use the new medium. Dissatisfied with shellac’s poor replay quality, he arranged to have his popular radio shows produced on magnetic tape for the first time in 1946 (Sanjek and Sanjek 1991: 84).

However, the phonographic industry’s majors rejected the use of magnetic tape, since they feared promotion of a potential substitute for the record. They were mainly concerned that consumers would switch to the much cheaper magnetic tapes and record music directly off of radio broadcasts. In order to prevent the dissemination of the new technology, the majors’ own recording studios refused to use the magnetic tape for recording purposes.

In contrast, smaller record companies seized the opportunity provided by the new medium. They started to record their repertoire on magnetic tape and offered it in this form to radio stations. The new technology had the additional advantage of

¹⁵³ AEG presented the Magnetophon in public for the first time in 1935 at a large broadcasting exposition in Berlin.

reducing the up-front cost needed to build a recording studio. From this point on, it was possible to install a recording studio literally in a garage.

2. THE END OF THE U.S. MUSIC OLIGOPOLY

The music industry's structure drastically changed with the introduction of new technologies. Whereas in 1948, the top four companies (CBS-Columbia, RCA-Victor, Capitol, and Decca) released 81% of all titles that reached the weekly top 10, by 1958 this share had decreased to 36% (Peterson and Berger 1975: 160). Instead of the six large record companies (CBS-Columbia, RCA-Victor, Capitol, Decca, MGM, and Mercury) controlling the production, distribution, and marketing of records in an oligopolistic way, by 1958 hundreds of small, independent companies had successfully taken away market shares from the majors.¹⁵⁴

One reason for this dramatic loss of the majors' market control was the emergence of Rock 'n' Roll.

In the early 1950s, the music industry was blind to the large and increasingly insatiable demand for greater variety in music and deaf to the efforts of musicians that might have satisfied that demand (Peterson 1990: 113).

Chapple and Garofalo (1977: 34-36) correlate the industry's blindness to "new" pop music to its wholesale rejection, indeed their A&R managers' total hatred, of Rock 'n' Roll—a music form that began to emerge at the beginning of the 1950s. Rock 'n' Roll continued the tradition of "black" music that was practiced in the American south. This music, which in the 1920s and 1930s was derogatorily called "Race music," mutated in the 1940s into Rhythm & Blues, as white musicians adapted "Race music" so that it became more palatable to the tastes of "white" teenagers (see Gillett 1971). The majors did not want to be associated with a form of music that they considered common and obscene. Thus, together with self-appointed moral guardians and right-wing politicians, they began to run anti-trash campaigns that warned of the noxious influence Rock 'n' Roll would allegedly exert upon young people (Chapple and Garofalo 1977: 45-46). The majors continued to bet on the tried-and-tested Tin Pan Alley sound. This music appealed to an adult, middle-class audience that lived in the large U.S. cities, who were characterized by considerable buying power.

In contrast, small labels, which sprouted all across the U.S. throughout the 1950s, produced Rock 'n' Roll. Most of these companies consisted of only one person who took care of everything from A&R to record promotion. What was interesting about these new companies, which later on would have a significant impact on the Rock 'n' Roll business, was that the top executives did not, for the most part, come from inside of the music industry. Such newcomers to the business included the brothers Ahmet and Nesuhi Ertegun, who in 1947 founded Atlantic Records in New York.¹⁵⁵ Sons of a Turkish diplomat and enthusiastic Jazz and

¹⁵⁴ In 1949, only 11 companies participated in the U.S. phonographic industry, whereas in 1954, the number had increased to almost 200 (Peterson 1990).

¹⁵⁵ For more on the history of Atlantic, see Gillett (1988) and Wade (1990).

Blues fans, the Erteguns regularly arranged Jazz concerts at the Turkish embassy. In 1947, they turned their hobby into a job, founding Atlantic Records together with Herb Abramson, who used to be A&R manager for National Records. Atlantic became the most important label for Rhythm & Blues (R&B) and its offspring, Rock ‘n’ Roll. In 1950 Atlantic managed to get three titles into the R&B top 10, and by 1956 it had already 17 hits, giving the label a 20% share of the R&B charts (Gillett 1971).

Another important label was Chess, founded in 1947 by the Polish immigrants Leonard and Phil Chess.¹⁵⁶ The Chess brothers owned a number of nightclubs in Chicago that featured Jazz and Blues performers. Leonard Chess had the idea to record and to release some of these performances on record. Success was so overwhelming that in 1947 they took over the financially weak Aristocrat label, which they renamed Chess in 1949. With the help of Chess, Blues legends such as Muddy Waters and Howlin’ Wolf, as well as Rock ‘n’ Roll stars such as Chuck Berry and Bo Diddley, were introduced to the public (Ruppli 1983).

A special role in the history of Rock ‘n’ Roll was assumed by the Memphis, Tennessee label Sun Records.¹⁵⁷ In 1950, Sam Phillips had built a small recording studio where he recorded with musicians from Memphis and the South, in general. Phillips initially produced masters of Blues music that he sold to Modern Records in Los Angeles and later to Chess in Chicago. After a dispute with Modern Records, however, Phillips founded his own label, Sun Records, and began looking for “white” musicians who were capable of interpreting “black” music. In the process, he discovered Elvis Presley, in addition to Carl Perkins, Jerry Lee Lewis, Roy Orbison, and Johnny Cash, who later became an interpreter of Country songs.

However, the emergence of Rock ‘n’ Roll cannot be reduced to a few individuals such as Sam Phillips; instead, it was the result of many experiments that took place in the recording studios of small R&B labels. In addition to Chess in Chicago, Atlantic in New York, and Sun in Memphis, other labels in other American cities were involved in the creation of Rock ‘n’ Roll (Table 2).

The majors hesitated for a long time before entering the profitable Rock ‘n’ Roll business. The first major label that dared to deal with Rock ‘n’ Roll was Decca-U.S., who had specialized in popular music from early on. In 1953, they signed Bill Haley and His Comets, who had their roots in Country & Western music, which they combined with R&B elements. Haley recorded a number of hits for Decca, such as “Shake, Rattle and Roll” and “Rock Around the Clock,” which in 1955 became popular through the Hollywood film “Blackboard Jungle” (U.S.A. 1955). Despite these successes, Decca remained wary of recording Rock ‘n’ Roll musicians. Only the two autonomous sub-labels, Brunswick and Coral, had the occasional Rock ‘n’ Roller under contract, including Buddy Holly. In 1955, RCA signed Elvis Presley after heated disputes among the company’s leaders. Despite his obvious commercial success, Elvis remained for a long time the sole Rock ‘n’ Roller on the label’s star roster.

¹⁵⁶ For more on the history of Chess, see Collis (1998) and Cohodas (2000).

¹⁵⁷ For more on the history of Sun Records, see Escott (1991).

Table 2. R & B and Rock 'n' Roll indies (1942-1949).

Label	Established	Place of business	Founder	Star-roster
Excelior (since 1944 Exclusive)	1942	Los Angeles	Leon and Otis Rene	
Savoy	1942	Newark (New Jersey)	Herman Lubinsky	Big Maybelle, Little Ester, Johnny Otis
Apollo	1943	New York	Ike and Bess Berman	Wynonie Harris, The Larks, Mahalia Jackson
Golf-Gold Star	1944	Houston (Texas)	Bill Quinn	
National	1944	New York	Al Greene	
Aladdin/Philco	1945	Los Angeles	Eddie and Leo Mesner	Charles Brown, Big Jay McNeely, Amos Milburn
Bronze	1945	Los Angeles	Leroy Hurte	
Four Star	1945	Los Angeles	Richard Nelson	
King Records	1945	Cincinnati (Ohio)	Sydney Nathan	Earl Bostic, Roy Brown, The Dominoes, The Five Royals, Wynonie Harris, The Platters, Eddie 'Cleanhead' Vinson
Modern Records Sublabels: RPM (1950), Flair (1953)	1945	Los Angeles	Jules and Saul Bihari	Pee Wee Crayton, John Lee Hooker, Lightnin' Hopkins
Speciality	1945	Hollywood	Art Rupe	Little Richard, Roy Milton, Percy Mayfield, Lloyd Price
Super Disc	1945	Los Angeles	Irving Feld and Viola Marsham	
Bulleit	1946	Nashville (Tennessee)	Jim Bulleit	
Aristocrat/Chess Sublabels: Checker (1953), Argo (1956)	1947	Chicago	Leonard and Phil Chess	Chuck Berry, Bo Diddley, Lowell Fulson, Moonglows, Muddy Waters, Howlin' Wolf
Imperial	1947	Los Angeles	Lew Chudd	Fats Domino, Smiley Lewis, Ricky Nelson, T-Bone Walker
Atlantic Records Sublabels: Atco, Cat	1947	New York	Herb Abramson, Ahmet and Nesuhi Ertegun	LaVern Baker, Ruth Brown, Ray Charles, Coasters, The Drifters, Clyde McPhatter, Joe Turner
Jubilee Sublabels: Josie	1948	New York	Jerry Blaine	The Cadillacs, The Orioles
Freedom	1949	Houston (Texas)	Saul Kaul	
Macey's	1949	Houston (Texas)	Macy Lela Wood	
Peacock Sublabels: Duke (1953), Back Beat (1956)	1949	Houston (Texas)	Don Robey	Clarence Brown, Willie Mae Thornton

Source: Gillett (1971: 79-131) and George (1988: 40-42).

Table 3. *R & B and Rock 'n' Roll indies (1950-1955).*

Label	Established	Place of business	Founder	Star-roster
Trumpet	1950	Jackson (Mississippi)	Willard and Lillian McMurray	
Dot	1951	Gallatin (Tennessee)	Randy Wood and Gene Nobles	Pat Boone
Nashboro	1951	Nashville (Tennessee)	Ernie Young	
Red Robin	1951	New York	Bobby Robinson	The Kodaks, The Scarlets
Duke¹⁾	1952	Memphis (Tennessee)	James Mattias	Bobby Bland, Junior Parker
Herald/Ember	1952	New York	Al Silver	Faye Adams, The Mello Kings
Meteor	1952	Memphis (Tennessee)	Lester Bihari	Charlie Feathers, Elmore James
Cadence	1953	New York	Archie Bleyer	Everly Brothers
Excello <i>Sublabels: Nasco</i>	1953	Nashville (Kentucky)	Ernie Young	Al Ferrier, Lightnin' Slim
Rama <i>Sublabels: Gee (1956), Roulette²⁾ (1956), Gone/End (1957)</i>	1953	New York	George Goldner	Ronnie Hawkins, Rock-A-Teens
Sun Records <i>Sublabels: Phillips International (1957)</i>	1953	Memphis (Tennessee)	Sam Phillips	Johnny Cash, Jerry Lee Lewis, Carl Mann, Roy Orbison, Carl Perkins, Elvis Presley
Vee Jay	1953	Chicago	Vivian Carter and James Bracken	The Dells, John Lee Hooker, Jimmy Reed, The Spaniels
Ace	1955	Jackson (Mississippi)	Johnny Vincent	Huey Smith and the Clowns
Baton	1955	New York	Sol Rabinowitz	The Revileers, The Hearts
Liberty	1955	Hollywood	Al Bennett	Eddie Cochran, The Ventures
Melba	1955	New York	Morty Craft	The Willows
Old Town	1955	New York	Hy Weiss	Arthur Prysock, Ruth McFadden
Winley/Whirlin' Disc	1955	New York	Paul Winley	The Paragons, The Channels

Source: Gillett (1971: 79-131) and George (1988: 40-42).

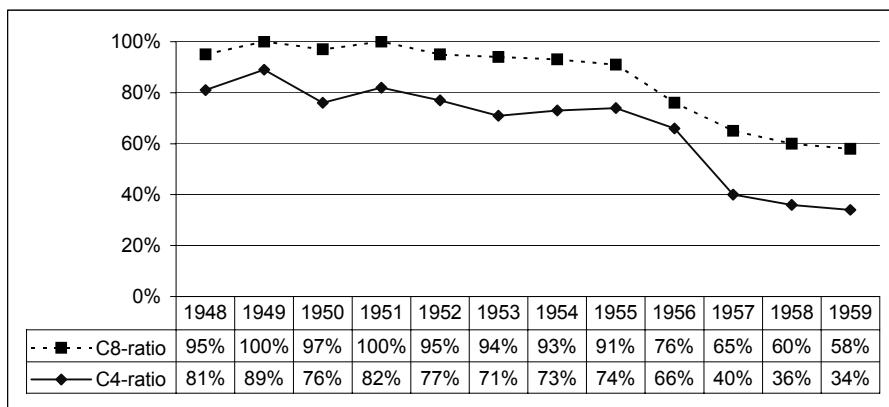
1) Duke was bought by Peacock as a sublabel in 1953.

2) Roulette was founded in 1956 but sold to Hugo Peretti and Luigi Creatori in 1957.

Notwithstanding the obvious success of Rock ‘n’ Roll, the majors were not willing or capable of investing too much energy in Rock ‘n’ Roll musicians.

Commercially, the majors were also committed to mainstream pop music. Dozens of artists were under five year contracts, producers and A&R men were trained in middle-of-the-road music (MOR). It would have seemed risky to switch to a type of music that had only recently “surfaced” and might well prove to be a fad (Chapple and Garofalo 1977: 46).

Further, Rock ‘n’ Roll did not agree with the ideology of many leaders of the music industry, and consequently, due to their ignorance, they continued to lose market shares, as can be seen by looking at the weekly top 10 lists of the time.



Source: After Peterson and Berger (1975: 160).

Figure 16. Concentration of the four and eight largest record companies in the weekly top 10 U.S. charts (1948-1959).

The C4 number indicates the four largest companies’ share of the weekly top 10 Billboard charts in the U.S., and the C8 number reflects the share of the eight largest companies. Figure 19 shows that market concentration was very high between 1949 and 1951. In 1949 and 1951, the eight largest companies boasted a 100% share of the hits listed in the Billboard charts. Yet, during the early 1950s, they gradually began to lose market share, a process that accelerated from 1955 on. In 1956, the four largest companies had a market share of only 66% and the eight largest of 76%. By the end of the decade, those figures had decreased to 34% and 58%, respectively. The industry magazine *Variety* reported in its January 1955 issue that the majors had released 42 of the 50 best selling records of the previous year and the independents only eight.¹⁵⁸ Only one year later, though, the independents had 18 records in the top 50, and in 1956 the number increased again to 33. That year, no fewer than 25 record companies were able to establish themselves in the top 50 (Hamm 1983:

¹⁵⁸ RCA-Victor: 11, CBS-Columbia: 8, Decca: 8, Mercury: 7 (Hamm 1983: 393).

402). These numbers reflect a structural break in the music industry that manifested itself in the destruction of the decades old oligopoly of four to six record companies and marked the beginning of a new phase of increased diversification in terms of music industry participants and music repertoire.

Rock ‘n’ Roll and the technological change occurring at the end of the 1940s constituted the prerequisites for this structural break, which became visible around 1955. Before the mid-1950s, four majors—RCA-Victor, CBS-Columbia, Decca, and Capitol—dominated the phonographic industry. According to Peterson (1975: 161-163), their market power was based on two factors: the record companies’ vertical integration, which allowed them to control the entire value-added chain from procuring raw materials to distribution, and the control of creative factors. Composers, lyricists, and interpreters were tied to the companies through their own music publishing houses and A&R divisions. Since a title could be successful only when it received airplay on the radio (and, later, TV shows) and was distributed to retail stores, the majors attempted to gain influence over radio programming. For RCA-Victor and CBS-Columbia, this was no problem at all, since they were part of media conglomerates (NBC and CBS); Decca cooperated with Music Corporation of America (MCA), which originally had been founded as a music and film agency, and Capitol Records joined forces with Paramount Pictures in 1950.

To control radio programs, the majors used rather questionable methods at times. The power of radio consisted of its ability to make a song famous through repetitious playing. If the record companies had the ability to exert direct influence on radio programming, they did so without calling much attention to their practice. The situation was more difficult with popular Disc Jockeys, whom the record companies now tried to bribe to play their songs. This type of trade restriction eventually became known as “Payola”.¹⁵⁹

The majors distributed records with the help of their wholesale organizations. These provided retailers with the latest repertoire and merchandising materials. Independent labels were by and large unable to distribute their products directly to retailers and thus had to use the majors’ distribution networks. The majors were thus able to control the product that was distributed.

In the mid 1950s, the U.S. majors lost their control of the value-added chain in the music industry. The causes for this were both the development of the essentially unbreakable vinyl record, which made the majors’ complicated distribution network superfluous (Peterson 1990: 101), and the use of the Magnetophon for the production of music. The Magnetophon allowed music to be produced in garages and thus contributed to the change of the radio market. Until the end of the war, the U.S. Federal Communications Commission (FCC) had enacted licensing regulations that worked in favor of the large networks. Until 1947, the FCC rejected many requests for broadcasting licenses on behalf of “public interest”. This protected the

¹⁵⁹ As long as only the majors exerted influence on the Disc Jockeys, “Payola” remained unsanctioned. However, once the independents also used this method, the United States House of Representatives initiated an investigating committee that proved in its 1960 report (“Payola and Other Deceptive Practices in the Broadcasting Field”) that between 1950 and 1954 bribes were systematically paid to at least 255 DJs in 56 cities and 26 states (Gronow and Saunio 1998: 105-106).

large networks (NBC, CBS, ABC) from annoying competitors. In 1947, however, the FCC gave up its protectionist politics and from then on granted numerous requests for broadcasting licenses. As a result, urban metropolises saw the founding of several undercapitalized radio stations that broadcasted programs with minimal production due to lacking funds. Their inexpensive programs mostly consisted of music; however, unlike the larger networks that broadcasted their programs live from music halls ("Ballroom music"), these small stations simply played records. Since the large broadcasting corporations and their record labels considered independent local radio stations dangerous competition, they refused to cooperate with them. Hence, small radio stations depended on a repertoire consisting of Folk, R&B, "Hillbilly," and, of course, Rock 'n' Roll provided by independent record labels that had emerged at the same time. These radio stations entered a symbiotic relation with the independent labels. In return for their ability to put together programs around the clock at little cost, they provided the necessary PR for the new music.

This symbiosis between independent radio stations and record companies enabled the dissemination of Rock 'n' Roll to the Baby Boom generation of the post-war period. It was a happy coincidence that during this time the transistor radio was invented, which appealed to the young generation craving an independent lifestyle. In a complex process of mutually reinforcing factors, the market share of the new "rebellious" music increased so quickly that the majors fell behind. Local radio stations offered record labels a venue through which they could introduce their records to a youthful public, which resulted in both increased record sales and increased advertising profits for radio stations. This increased advertising income represented a loss for the radio networks, which were already suffering from the emerging competition of TV stations. Between 1948 and 1952, U.S. radio networks registered a 38% decline in sales (Peterson and Berger 1975: 165). The only way for them to compensate for such losses in the radio business was to become active in television.

The 1950s saw a revolution in the music industry, as Peterson and Berger (1975: 165) explain:

This turn-around was based on a profound transformation in radio programming. Although the new idea was simple, it took a decade to perfect it. Instead of defining the audience as a unitary conglomeration, it was redefined as a number of discrete taste groups.

Instead of offering a homogenous product for the entire market, as was practiced by the large networks, small independent stations specialized in catering towards a particular audience, providing them with the music they desired. Local stations in urban areas developed specialized broadcasting formats that they maintained essentially without change throughout the day (Denisoff 1973).

The change of broadcasting in the 1950s resulted in the break-up of the majors' oligopolistic control of music marketing. They also lost control of distribution channels. Independent labels began to create their own distribution networks so that they would not have to depend on the majors. Due to their ignorance of Rock 'n' Roll, the majors had already lost their control over creative input (artists and their

music). They were thus reduced to their main business competence—the production of records—since they still owned most record plants.

3. FROM RHYTHM & BLUES TO ROCK ‘N’ ROLL

When Jazz in the form of Bebop began to move away from dance and entertainment music, it also left behind the majority of music consumers. Particularly, the African-American population was insufficiently supplied with entertainment music after the war. The war had also caused an enormous population migration. Between 1940 and 1950, a total of 1.6 million African-Americans left the rural South for the industrial metropolises of the North in order to compensate for the lack of workers in the weapon industry (Haralambos 1974: 29). Whereas between the wars the African-American population still constituted a rural peasant proletariat, they now had become part of the industrial working class. Consequently, their cultural and social position changed, which eventually had an effect on the reception of music as well.

Due to the war, the majors had suspended their repertoires of “Race music” and “Hillbilly”. After the war, however, they revived “Hillbilly,” now in the form of Country & Western music. “Race music,” though, continued to be ignored. Independent labels recognized the opportunity and entered this particular market segment; specifically, they returned to the pre-war era and revived the Blues. Once predominantly shaped by its rural origins, the Blues had adapted to a more urban context and morphed into new forms such as the Dancehall Blues, Club Blues, Bar Blues, Gospel Blues, and Group Singing (see Gillett 1971: 138).¹⁶⁰ Initially, “black” Big Bands especially incorporated the Blues into their arrangements. This Big Band Blues, as played by orchestras led by Illinois Jacquet, Erskine Hawkins, Jay MacShann, and Cootie Williams, was still strongly related to the Big Band Jazz tradition and adhered to the majors’ demands. Also, the “Jump-Blues” of combos such as Louis Jordan’s Tympany Five, who were under contract with Decca, remained within the aesthetic parameters of mainstream music.

A number of Blues interpreters, however, were not associated with an orchestra or combo. Instead, they accompanied themselves (or were accompanied) on piano or electric guitar; they presented a rougher sound and were called “Blues Shouters”. Musicians, such as Joe Turner, Jimmy Witherspoon, Roy Brown, B.B. King, and Professor Longhair, depended on independent labels to make records. By 1950, about 100 labels existed in the larger cities that specialized in “black” music recorded for an African-American audience. The catalogues began to list this music as “Rhythm & Blues” (R&B) instead of “Race music.” Beginning June 1949, Billboard Magazine maintained a separate chart for this genre (Gillett 1971: 135-136).

Although Rhythm & Blues was Rock ‘n’ Roll’s most important precursor, it was still geared exclusively towards the tastes of an African-American audience. The majors essentially avoided producing R&B records altogether:

¹⁶⁰ Garofalo (1997: 121-131) calls them “Doo Wop Groups”.

Since R&B did not really lend itself to the bland pop or ersatz Country & Western production styles of the major labels, company executives decided to ignore the burgeoning African-American market. This made it possible for a larger number of independent labels to enter the business (Garofalo 1997: 78).

In almost every respect, the sounds of R&B contradicted those of popular music. The vocal styles were harsh, the songs explicit, the dominant instruments—saxophone, piano, guitar, drums—were played loudly and with emphatic dance rhythm, the productions of the records were crude (Gillett 1971: 12).

To ensure that R&B would not be just a momentary fad and instead become a major influence on Rock ‘n’ Roll, independent labels had to exploit the new music commercially. They found allies in local FM radio stations that rapidly spread in the second half of the 1940s. Even though in 1945 the FCC made available FM frequencies for commercial television, which was built up by the large networks CBS and NBC, they were used locally to improve the broadcasting quality of radio as well. However, the large broadcasting networks were preoccupied with the cost-intensive development of TV stations, and their radio stations used the more powerful AM frequencies; as a result, they largely ignored FM broadcasting. Once the FCC altered its policy on allocating broadcasting licenses in 1946, the number of independent local radio stations rapidly increased. In 1946, 1,000 radio stations existed; within one year, this number doubled (Garofalo: 1997: 86). Due to their closeness to local companies and their better broadcasting quality, independent radio stations managed to sieve advertising income off of the large networks. Since the majors also redirected national advertisers to their TV stations, their radio stations began to experience financial troubles. In order to save on operational expenses, they terminated the broadcasting of expensive live shows and disbanded their studio orchestras. The reasons for the disappearance of Swing bands can thus also be attributed to the economic and technological changes the music industry had experienced since the mid-1940s.

Although the independent radio stations were short on capital, they did not have to worry about any overhead costs incurred from technological changes. For little cost, they could broadcast programs with independent label records. The independents, for the most part, provided their records for free, since they quite reasonably expected a positive promotional effect from radio exposure. Thus, R&B titles, which initially were exclusively produced for the African-American market, began to become known by a “white” audience. DJs who appealed specifically to a teenage audience significantly contributed to the popularizing of the R&B repertoire. The use of DJs goes back to the inter-war period,¹⁶¹ but during that era, they merely functioned as a means to fill intermissions and as announcers of upcoming music titles. In contrast, post-war DJs were entertainers whose shows were the reason for choosing a specific radio station. In the broadcasting areas of

¹⁶¹ Al Jarvis was one of the first radio DJs. In 1932, he moderated the “World’s Largest Make-Believe Ballroom” for KFWB in Los Angeles. His program consisted exclusively of playing records, yet Jarvis attempted to maintain the illusion of a live dance program. Martin Block was the first DJ who went on the air as animator and entertainer. From 1935 on, he moderated “Make-Believe Ballroom” for WNEW in New York (Wicke 1998: 191-192).

individual FM stations, DJs were celebrated as stars, and the music they played became big sales hits.¹⁶² This symbiosis of independent, small radio stations and independent record labels created the preconditions for the Rock ‘n’ Roll revolution, which beginning in the mid-1950s caused the U.S. music industry to tremble.

In 1956, Rock ‘n’ Roll conquered the U.S. pop charts. At that time, it appeared as a phenomenon that had seemingly come from nowhere and called into question all laws and structures that had governed the music industry up until that point in time. Closer inspection, however, suggests that

Rock ‘n’ Roll evolved over time; it was not a one-time event (Garofalo 1997: 93).

Rock ‘n’ Roll appeared as revolutionary because it did not fit into the rigid market segments that the majors had established over time as a means to maximize profits. Rock ‘n’ Roll, with its “black” stylistic elements, fit neither into the Country & Western genre nor into that of R&B, if only because many important Rock ‘n’ Roll performers were “white.” But, precisely because Rock ‘n’ Roll did not fit into the majors’ production logic it could only emerge outside of their sphere of influence. However, by the end of the 1940s, the majors’ influence did not reach as far as during their peak years, the Swing era. The fact that the 45-rpm vinyl record was successfully established further eased the diffusion of Rock ‘n’ Roll, since the records’ distribution could be managed via mail. The Magnetophon also played a significant role for the success of Rock ‘n’ Roll, since it enabled the production of music to take place in garages.

By the end of the 1940s, the give-and-take between independent radio stations and record companies had allowed the record to reassume its status as the central medium of music consumption. The large radio networks with their elaborate live shows had become a thing of the past. Now DJs and top 40 charts dominated the airwaves, with the latter being really nothing more than the record labels’ sales chart made available for public consumption.¹⁶³ The new chart format ensured that sales hits could be listened to over and over again, which increased the sales numbers of these records even more.

¹⁶² *Variety* speculated that 85% of record sales could be traced back to the free promotion provided by DJs (Sanjek and Sanjek 1991: 106). Alan Freed was a DJ who also became known outside of his local region. He first worked for an independent radio station in Akron, Ohio in 1946 but was later hired by WINS in New York. Freed claimed to have been the first to have used the term “Rock ‘n’ Roll.” Indeed, the radio show he started in 1952 was called “Moondog’s Rock ‘n’ Roll Party.” Garofalo (1997: 90) points out, however, that the black community had been using the term much earlier. Freed’s contribution, however, ensured the nationwide dissemination of the term.

¹⁶³ Legend has it that during a bar visit Todd Storz, owner of KOWH in Omaha, Nebraska, and Bill Stewart, his program director, observed how regulars kept selecting the same song from the jukebox and how the waitress also selected this same song while cleaning up after closing, even though she had already listened to it all day long. Storz and Stewart subsequently decided to program their radio shows like a jukebox; they began to play all day long only those forty songs that were most popular with their audience (Garofalo 1997: 100). Less prosaic an explanation of the emergence of the top 40 format is the argument that in 1953 Storz had another of his stations, WTIX in New Orleans, play only the 40 most popular songs day in and day out to lower costs. In addition, this format allowed him to eliminate the DJ (Shaw 1974: 66).

The majors were not able to control the new conditions of production, as they had been accustomed to. Not only did they lose their leadership position in distribution and music marketing, but they also fell behind in music production due to their resistance to magnetic tape recording technology. The majors saw more risks than opportunities in these new technologies. It is indeed telling that they initially prohibited their recording studios from using magnetic tapes for music production. It thus was Cosimo Matassa's independent J&M studio in New Orleans that was the first to use magnetic tape technology for the production of music (Garofalo 1997: 102).

It was no accident that J&M Studio became the most important producer of R&B records and also recorded the first Rock 'n' Roll record. Customers of J&M in New Orleans included the independent labels Aladdin, Imperial, and Specialty in Los Angeles, Chess in Chicago, Savoy in Newark, New Jersey, as well as Atlantic in New York. J&M Studio's first production for another label was the recording of Roy Brown's "Good Rockin' Tonight" in 1947, which was recorded for the independent label De Luxe. In 1949, Fats Domino celebrated his chart debut with "The Fat Man," which he recorded for Imperial at Cosimo Matassa's J&M in New Orleans. Fats Domino, whose number of top 40 hits was surpassed only by Elvis Presley, produced all of his titles except for "I'm Walkin'" at J&M. Another important representative of early Rock 'n' Roll, Little Richard, was closely aligned with J&M. In 1951, Little Richard had won a talent show on the radio and was rewarded with a recording contract with RCA-Victor; however, once this contract was not extended, he sent his demos to the independent label Specialty in Los Angeles. Its owner, Art Rupe, did not touch the tape for a whole year but did eventually record Little Richard. Rupe bought out Richard's contract with Peacock for \$600 and in 1956 produced at J&M "Wop Bop Aloo Bop" and shortly thereafter "Tutti Frutti," which both became tremendous chart successes (Garofalo 1997: 106-107).

In the same year, Elvis Presley recorded his first hit, "That's All Right," for Sun Records in Memphis, Tennessee. Sam Phillips had founded this label in 1953 after he had successfully produced master tapes of R&B interpreters such as Howlin' Wolf and B.B. King for the independent labels Modern and Chess. Everybody could get into business with Sam Phillips and record a song for \$2. Phillips invited the most promising acts to return for professional recording sessions. He thus produced the first R&B hit, Rufus Thomas' "Bear Cat," for his new label in 1953. That same year a young truck driver named Elvis Presley appeared for the first time at Phillips' studio to record two songs for \$4 for his mother's birthday; Phillips immediately took note of these recordings.¹⁶⁴ After a few months of intense training and experimentation at the studio, Phillips had his pupil record his first single with "That's All Right" and "Blue Moon of Kentucky". Though the record was not a hit, it sold well enough to make Elvis Presley known in the South. Between 1954 and 1955, Phillips had produced five records with Elvis; they were all commercially

¹⁶⁴ Gronow and Saunio (1998: 103) consider this story a PR gag that was later invented, since at this time the Presleys did not even own a record player.

successful without having reached a mass audience. What was remarkable about these recordings was that a “white” musician played R&B in the style of Country & Western music. But it was just this merging of “white” and “black” music that resulted in the musical innovation now known as “Rock ‘n’ Roll.

Neither Sam Phillips nor Elvis Presley had consciously intended to create a new musical style. Instead, they merely put together existing elements in new ways. On one hand, there existed the modernized Blues, which had its roots in African-American music traditions, and, on the other hand, there was the R&B-based Country style as performed by Bill Haley who was already playing Rock ‘n’ Roll in 1953. In contrast to the Northern band oriented Rock ‘n’ Roll, however, Elvis’ Rockabilly was characterized by

... much looser rhythms, no saxophones, nor any chorus singing (Gillett 1971: 38).

Ultimately, though, it was not so much Rock ‘n’ Roll’s stylistic characteristics that were perceived to be revolutionary but the way it was performed, with Elvis’ wild body movements and gestures that were considered obscene. In addition, the lyrics were ambiguous, filled with sexual allusions. Though such music was not entirely unusual for the R&B segment, it was incredible for “white” U.S. pop charts.

It would be a mistake to reduce the emergence of Rock ‘n’ Roll to the phenomenon of Elvis Presley, yet his sensational success constitutes its most immediate expression. Elvis’ recordings for Sun were so revolutionary because they destroyed the long established dogma of the necessary separation of “white” and “black” music. From the point of view of the established record companies, Elvis presented a marketing dilemma.

No one knew exactly what to make of this “hillbilly cat” who had such a “black” voice that radio listeners initially believed he was African-American (Garofalo 1997: 135).

A larger audience got to know Elvis only once Colonel Tom Parker became his manager in 1955. Parker organized radio performances and arranged Elvis’ recording contract with RCA-Victor. To buy Elvis out of his contract with Sun, RCA-Victor paid \$25,000, which was an unusually high sum for a young musician; in addition, the major label paid another \$15,000 for the rights of the 10 titles Elvis had already recorded for Sun (Sanjek and Sanjek 1991: 131). RCA’s marketing machine ultimately made Elvis into the first and certainly most important Rock ‘n’ Roll star. With “Heartbreak Hotel” in 1956, Elvis recorded his first number one hit for RCA, which was only the first of many more to follow. From this moment on, Elvis was omnipresent. He appeared on popular TV shows, made many movies, and was a famous public personality. Yet, Elvis’ case also illustrates how a Rock ‘n’ Roll rebel was turned into a tame pop icon. Even the very first recordings for RCA lacked the wildness and rough edges of the Sun recordings. Indeed, “Love Me Tender,” released in 1956, positioned Elvis as an interpreter of sentimental ballads.

It would thus be too simplistic to reduce the phenomenon of Rock ‘n’ Roll to Elvis Presley. Since the mid-1950s, musicians, such as Fats Domino, Little Richard, Chuck Berry, Buddy Holly, Jerry Lee Lewis, Carl Perkins, and Bo Diddley, ensured

that Rock ‘n’ Roll would be more than merely a passing fashion trend and laid the foundation for the later Rock music era.

Initially ignored by the majors,¹⁶⁵ all of them entered the music business on independent labels.¹⁶⁶ The majors’ attitude towards Rock ‘n’ Roll was ambivalent. On one hand, they rejected it for its vulgarity and negative attitude towards authority, as well as for racial reasons because the songs sounded too “black” (Gillett 1971: 21); on the other hand, they could not ignore the music’s commercial success. The boards of directors, however, were also convinced that Rock ‘n’ Roll was just a temporary fad and that they could thus continue to operate as usual. This meant that they would continue to record primarily singers with large orchestras, such as Frank Sinatra, Dean Martin, Doris Day, Perry Como, and Frankie Lane. These names ruled the pop charts into the 1950s. In case an independently produced R&B song was successful, the majors immediately had a “white” singer record a cover version and positioned it in the pop segment.¹⁶⁷ That way, the production risk involved in producing new titles remained with the independent labels, yet the majors would make profits in case a new title succeeded. This strategy worked well until the mid-1950s, but with the emergence of Rock ‘n’ Roll, which did not adhere to simplistic marketing patterns, it lost its effectiveness. Music consumers preferred the original to the copy, and thus all attempts to commercially exploit Rock ‘n’ Roll through covering the original titles failed.

Begrudgingly, the majors had to sign contracts with Rock ‘n’ Roll interpreters, which, however, happened slowly. Though Decca had already signed Bill Haley and His Comets in 1953, their commercial success did not lead to more signings of Rock ‘n’ Roll artists. Only the autonomously operating sub-labels Brunswick¹⁶⁸ and Coral¹⁶⁹ had two important Rock ‘n’ Roll representatives on their roster with Buddy

¹⁶⁵ In 1951, Little Richard received a record contract with RCA-Victor after he had won a talent competition; however, after he had recorded one single, his contract was not extended. Although Buddy Holly began his recording career at Decca, he was treated so poorly that he moved to the independent label Clovis and, once he had some success, to Decca’s autonomous sub-labels Brunswick and Coral. Chuck Berry recorded a demo entitled “Ida Red” and offered it to the majors Capitol and Mercury who, however, rejected the song as being too country-like for a “black” audience. Chess, however, produced the song as “Maybellene” in 1955, which led to Berry’s breakthrough.

¹⁶⁶ Since 1949, Fats Domino recorded for Imperial, Little Richard for Specialty, Chuck Berry and Bo Diddley for Chess, and Buddy Holly for Clovis. In addition to Elvis, Sam Phillips also discovered Jerry Lee Lewis and Carl Perkins for Sun Records.

¹⁶⁷ In 1947, Decca applied the principle of conversion for the first time. They had Gladys Knight cover Paula Watson’s “Little Bird Told Me,” which she had recorded for Supreme Records; in response, Supreme filed a lawsuit against Decca, charging copyright violation. In 1951, though, the court decided that Supreme Records was not guilty of any copyright violation, arguing that a cover version represents an arrangement in its own right and thus must be considered a new work (Sanjek and Sanjek 1991: 125). This legal decision triggered a wave of cover versions, such as June Vallis’ cover of the Orioles’ “Crying in the Chapel” (originally released by Jubilee and re-released by RCA); Perry Como’s cover of Gene & Eunice’s “Ko, Ko, Ko” (originally released by Aladdin and re-released by RCA); Theresa Brewer and the McGuire Sisters’ cover (released by Decca’s sub-label Coral) of the Moonglows’ “Sincerely”; or Brewer’s cover of Fat Domino’s “Bo Weevil.”

¹⁶⁸ Brunswick was founded in 1957 only in order to record covers of successful R&B titles.

¹⁶⁹ Coral was founded in 1949 as Decca’s R&B label and until 1956 had success with the McGuire Sisters and Theresa Brewer.

Holly and Ricky Nelson. Elvis remained the only Rock ‘n’ Roller on RCA, and the other majors, too, had only one or two Rock ‘n’ Roll artists under contract—even as the new music’s success became impossible to ignore.¹⁷⁰ The majors simply did not want to engage this music to any greater extent. For the longest time, CBS-Columbia did not have a single Rock ‘n’ Roll artist under contract, because its CEO, Mitch Miller, detested Rock ‘n’ Roll to such a degree that he did not tolerate any involvement with Rock ‘n’ Rollers (Gillett 1971: 64).¹⁷¹ To boot, the majors felt the need to censor the lyrics of the few Rock ‘n’ Roll artists on their rosters. A prime example is Bill Haley and His Comets’ 1954 cover version (released by Decca) of Joe Turner’s “Shake, Rattle, and Roll,” which had topped the R&B charts. Bill Haley turned this song, with its explicitly sexual allusions, into a harmless song about preparing breakfast, as is evidenced by the following excerpts from the lyrics (quoted in Gillett 1971: 26-27):

“Shake, Rattle, and Roll”

by Joe Turner

Get out of that bed
And wash your face and hands (2x)

Get into the kitchen
Make some noise with pots and pans

Well you wear low dresses,
The sun comes shinin’ through (2x)

I can’t believe my eyes
That all of this belongs to you.

“Shake, Rattle, and Roll”

by Bill Haley and His Comets

Get out of that kitchen
And rattle those pots and pans (2x)

Roll my breakfast
‘Cause I’m a hungry man

You wear those dresses,
You hair done up so nice (2x)

You look so warm
But your heart is cold as ice.

Making R&B lyrics adhere to perceived moral standards was not unusual at the time; rather, it was symptomatic of a business model that desired to produce morally “clean” music for a “white” audience. DJs working for the large networks’ radio stations were ordered to play “clean” music only, with the result that many successful R&B records were never played on popular radio shows. But the heads of the majors were not moralists; instead, they were acting on economic considerations. They tried to prevent the overly radical novelties affecting the commercially insignificant R&B segment from also affecting the pop segment,

¹⁷⁰ Since 1956, Mercury had a second-rate and unimportant Rock ‘n’ Roll band under contract with Freddie Bell and the Bell Boys. The Platters, in contrast, had a few hits, but they were only loosely connected to Rock ‘n’ Roll. In 1956, Capitol signed Gene Vincent who had won the “Another Presley” competition that the label had organized. MGM entered the Rock ‘n’ Roll business only in 1958 when they signed Conway Twitty.

¹⁷¹ Only the Columbia sub-label OKeh Records had a moderately successful Rock ‘n’ Roller under contract with Screamin’ Jay Hawkins.

which would make pop less predictable.¹⁷² The majors banked on continuity. In a well-regulated system of five-year contracts, they committed musicians to a particular style of music that was responsible for their initial success. If this success continued, the majors offered these artists a new contract with improved conditions. If success did not occur, the contract was not extended.

This procedure of long-term contracts both relied on and tended to produce a system of gentle change in musical styles, as the majors recorded any new kind of song with the singers they already had, thus minimizing its new characteristics (Gillett 1971: 59).

Such a system was unable to produce a revolution such as Rock ‘n’ Roll; on the contrary, it had to fight against such a development.

The majors attacked Rock ‘n’ Roll on various fronts. On the level of music and content, they countered Rock ‘n’ Roll with Calypso. This music emerged out of the African-American music tradition and used rhythms known from Jazz and Blues music, but it combined them with a Latin beat. Furthermore, the majors dropped the socially critical and sexually ambiguous lyrics of the Caribbean originals and replaced them with harmless stories about Jamaica and its subtropical life style.

Calypso was a black people’s music, as Jazz and Blues before it had been. Further, it had a Latin beat, which had always seemed to fit nicely into North American popular music... Best of all, there were enough novelty songs in Calypso with no sensual implications for the companies to escape having to deal with the disturbing content of Rhythm and Blues (Gillett 1971: 76).

Interestingly, the most important and successful interpreter of Calypso, Harry Belafonte, did not come from the Caribbean; instead, he was born in New York and had begun his singing career as a folk singer. In 1956, RCA remade him into an artist interpreting Caribbean music with the release of the LP “Calypso,” which topped the charts for 31 weeks. Despite the initially remarkable success of U.S. Calypso, this fad did not survive 1957. The majors had failed with their counter-strategy to Rock ‘n’ Roll and now attempted to domesticate the latter. To this end, they cast “white” teenagers who were barely able to sing but with whom the “white” middle class youth could identify. In an interview with Billboard Magazine, label manager Bob Marcucci¹⁷³ described the new business model:

We now run a school where we indoctrinate artists into show business. We may sign them and spend three months schooling them before they cut their first record. We teach them how to walk, how to talk, and how to act onstage when they’re performing (quoted in Gillett 1971: 161).

The record labels artificially created new teen idols such as Paul Anka, Frankie Avalon, Bobby Rydell, Connie Francis, Neil Sedaka, and Pat Boone. Professional lyricists and composers wrote their hits, and their looks and performances were calculated and practiced from the moment they signed with the labels. Although they were marketed as “Rock ‘n’ Roll,” content-wise they had very little to do with this music.

¹⁷² In 1953, R&B records amounted to a mere 5.7 % of sales on the US-market (Gillett 1971: 17).

¹⁷³ Having founded the Chancellor-label, however, Bob Marcucci did not represent a major label.

However, we should not immediately interpret the success of this anemic form of Rock ‘n’ Roll, which Gillett (1971: 74) labelled “Schlock-Rock,” as proof of the majors’ consolidation of their power in the phonographic industry. For one, not all successful “Schlock-Rockers” were under contract with major labels,¹⁷⁴ and secondly, Rock ‘n’ Roll developed such a destructive force that by the early 1960s it was impossible to distinguish between majors and independents due to the latter’s sheer market power. Rock ‘n’ Roll, whose musical force had already exhausted itself by the late 1950s, had shifted the center of music dissemination from broadcasting to the record. The phonographic industry once again assumed center stage in the music industry. All production, distribution, and marketing functions had to be adjusted. The majors, who had been omni-potent even until the late 1940s, had great difficulties adjusting to the new status quo, since their production logic still depended on broadcasting. Due to their initial ignorance of Rock ‘n’ Roll, they quickly lost market shares and thus lost their pre-eminent position in the music industry. The Rock ‘n’ Roll revolution lastingly weakened the majors’ economic position, and they recovered from this blow only slowly.

4. MUSIC PRODUCTION IN POST-WAR EUROPE

While in the U.S. Bebop revolutionized Jazz and Rock ‘n’ Roll pop music, the European phonographic industry struggled with the aftermath of World War II. Bombs had destroyed the production sites of EMI and the German phonographic companies, and due to restrictions imposed by the war economy, they could reconvene their business activities only after 1945. The quickest to recover was the British phonographic industry. EMI used its long-standing business relations with RCA-Victor and CBS-Columbia to become their sales representative in Europe, and Decca-U.K. had maintained close contact with its American sister company throughout the war. But even the German record companies, severely damaged by the war and the allied occupation, attempted to jumpstart their dormant record production as quickly as possible. The Deutsche Grammophon plant in Hanover resumed its record production on June 1, 1945, after the company had acquired approval from the British military government and fixed the most severe damages the factory had suffered from the bomb attacks. For the time being, however, the company was allowed to produce records only for the British occupation agencies, since the sale of records to the civilian population was still prohibited.¹⁷⁵ At the headquarters of the Deutsche Grammophon, the company managed to make a deal with the military government that allowed it to offer records at special sales locations to which only British military personnel had access. This brought important cash resources into company coffers that were imperative for the maintenance of their ability to produce. Thus, from August 1945 on, Deutsche

¹⁷⁴ Among the commercially successful acts, only Connie Francis (first MGM, then Polydor), Neil Sedaka, and Paul Anka (both RCA) were under contract with major labels. Frankie Avalon (Chancellor), Pat Boone (Dot), Chubby Checker (Cameo), and Bobby Rydell (Cameo) had their hits on indie labels.

¹⁷⁵ Production for the civilian market could recommence only in 1946.

Grammophon was able to produce 40,000 to 50,000 records per month. During the winter of 1945/1946, however, they had to cut back their production to 15,000 to 20,000 records due to energy shortages. They nevertheless managed step by step to rebuild their destroyed warehouses. However, they could release their records only under the Polydor label, since EMI claimed rights over the brands "Grammophon" and "Die Stimme seines Herrn" (Fetthauer 2000: 181-183).

Since Siemens & Halske, of which Deutsche Grammophon was technically still a subsidiary, was located in Thüringen and thus in the Soviet-controlled Eastern zone, a new ownership structure had to be worked out. In August 1945, all Siemens companies located in the Anglo-American zones were subordinated to the "Ernst von Siemens Corporation" in Munich. Since Deutsche Grammophon in Hanover was no longer dependent on Siemens & Halske's company headquarters, their cooperation with Telefunken was also terminated.

Telefunken, which did not own any record plants, managed to survive with the production of cased record players, which they sold in the Soviet zone. Over the long run, however, Telefunken needed new allies. After a long period of negotiation, Telefunken signed a contract of cooperation with the U.S. Capitol in October 1948. This allowed Telefunken to distribute Capitol's U.S. repertoire in the Western zones, while Capitol could commercially exploit Telefunken's classic repertoire in the U.S. (Sieben 1991: 75-80).

Electrola and Lindström, which belonged to EMI, were unable to reconvene their business activities right after the end of the war. For one, the legal ownership of the companies first had to be clarified; secondly, the new, but essentially old, owners did not want to invest in the companies that had been destroyed by the war. Only by the end of 1946 did production recommence, at first in Nuremberg and later in Cologne. Lindström released recordings of Louis Armstrong, Bessie Smith, and Duke Ellington and thus joined a trend that all European record companies followed during the first post-war years: namely, to import a repertoire from the U.S. that had already found success across the pond. U.S. pop music dominated especially in the era of entertainment music. In Germany and Austria, this was mostly due to the military radio stations of the Western Allies, which popularized Swing and the sound of Tin Pan Alley. Record companies agreed to cooperate with radio stations. Thus, together with broadcasting stations operating in the Western zone, Deutsche Grammophon founded Radiophon GmbH, whose recordings were used for propaganda purposes in the Soviet-controlled territory and could be incorporated by Deutsche Grammophon into its own repertoire for a licensing fee (Fetthauer 2000: 201).

A similar construction already existed between the Italian record label Cetra and the Italian broadcasting company RAI. For a licensing fee, Cetra was allowed to release everything on record that RAI recorded. Of commercial interest were especially opera recordings that RAI made at La Scala and other Italian opera houses. However, these recordings were not made for the domestic market but for export to the U.S. This was largely the doing of Dario Soria who had already returned to his home country in 1945 as a member of an American-Italian trade organization in order to find new music material for CBS-Columbia. His research led him to Cetra's opera records, which he exported with great success to the U.S.

In turn, he founded Cetra-Soria, which released Italian recordings in the U.S. that were pressed at record plants specifically built for this purpose.

Having become an importer of records after the war, Europe managed to re-establish itself as a market force due to its opera and classical repertoire. In addition, the invention of the LP provided the ideal excuse to re-record many classical works. In 1950 alone, Cetra-Soria released 46 opera recordings on LP, which they sold primarily in the U.S. market. Among these recordings was the first one by a young Maria Callas, who could be heard in Ponchielli’s “*La Gioconda*.” However, the first European company producing LPs was Decca-U.K. Due to the war, Decca-U.K. had been forced to give up its shares to Decca-U.S., but in 1949 it established “London” as its own “classic label” on the U.S. market. British Decca, which before the war had specialized in entertainment music, now focused on a “classic” repertoire. They signed exclusive contracts with the Vienna Philharmonic, the Amsterdam Concertgebouw Orchestra, the London Symphony Orchestra, the London Philharmonic Orchestra, the Orchestre Du Conservatoire de Paris, the Orchestra Academia Nationale di Santa Cecilia, the Tonhalle-Orchester Zurich, and the Orchestre de la Suisse Romande in Geneva. They also signed contracts with conductors such as Ernest Ansermet, Karl Böhm, Hermann Scherchen, Georg Solti, George Szell, Hans Knappertsbusch, Clemens Krauss, Leo Blech, as well as opera stars including Kirsten Flagstad, Wolfgang Windgassen, Hans Hotter, Joan Sutherland, Renata Tebaldi, Hilde Gülden, and Mario del Monaco.

In the classical segment, the signing of exclusive contracts with well-known stars of the opera and concert venues meant a continuation of business practices during the inter-war years. Deutsche Grammophon, too, had already positioned its yellow label “Deutsche-Grammophon Gesellschaft” in 1949 as exclusively catering towards the classical segment; on the occasion of the Berliner broadcasting expo in 1951, it presented its first LP featuring the complete version of Felix Mendelssohn’s “Midsummer Night’s Dream,” which was recorded by the Berlin Philharmonic led by Eugen Jochum. In contrast, they released entertainment music on the red Polydor label and foreign dance music on the Brunswick label. For the purposes of so-called “ancient music,” they founded “Archiv Produktion,” which featured a silver label. Deutsche Grammophon used its advantageous location in middle Europe to secure exclusive contracts with the stars of famous local opera and concert venues. In the early 1950s, especially after Elsa Schiller had taken over as the program director for the classical segment, the company signed Dietrich Fischer-Dieskau, Josef Greindl, Christel Goltz, Enrico Mainardi, Wolfgang Schneiderhahn, and Ferenc Fricsay. With Lortzing’s opera “*Tsar and Carpenter*,” Deutsche Grammophon recorded its first opera on LP in 1952; in the following year Mozart’s “The Abduction from the Seraglio,” “The Magic Flute,” “Don Giovanni,” and “The Marriage of Figaro” were recorded, all conducted by Ferenc Fricsay. Eugen Jochum recorded Wagner’s “Lohengrin” and Weber’s “Freischütz,” and Karl Böhm recorded Richard Strauss’ “Der Rosenkavalier” and “Elektra.”

With the help of its “classic” program, Deutsche Grammophon was able quickly to re-establish itself as an internationally active record company despite the war related damages it had suffered. This was possible not the least of which because EMI, the leader in the “classic” market segment, failed to make use of LP

technology. EMI's aging directors did not regard the LP as a technology with a future and continued to hold on to the 78-rpm shellac even after the company's U.S. and European competition had already succeeded at commercially exploiting the LP on the market. EMI's board of director's self-confidence bordered on arrogance¹⁷⁶ and led to CBS-Columbia's termination of its distribution contract with EMI. CBS-Columbia found a new European ally in Philips. A year later, RCA-Victor, too, quit its cooperation with EMI and transferred its European sales agendas to Decca-U.K. At once, EMI lost access to the booming U.S. music repertoire; furthermore, it no longer had any partner for its business with "classical" music in the U.S. Since in the summer of 1949 a number of smaller record companies had acquired licenses for LP technology from Columbia, European competition intensified especially in the "classical" segment.¹⁷⁷ In 1950, the Dutch company Philips, which initially roasted coffee and produced light bulbs, entered the market by taking over the Dutch and French subsidiaries of Decca. In the same year, Decca-U.K. and the German Telefunken founded Zurich Teldec, a new label whose name was based on the initial letters of the parent companies. Teldec was intentionally positioned as a classical label and took over a large part of Decca-U.K.'s repertoire, including the exclusive contract with the Vienna Philharmonic, which had switched from EMI to Decca in 1949. The new label's second leg was the pop music market, commanding a 10% market share in the Federal Republic of Germany.

After 1945, the fight for the "classical market" shifted its focus from the repertoire to the star. Names such as Toscanini, Furtwängler, Stokowski, and Walter connoted a certain star-cult even before the war; however, this phenomenon was derived from activities in concert venues. In contrast, with the breakthrough of the LP, the record was able to promote, if not actually make, "classical" stars. Herbert von Karajan's ascent is largely due to the record. He was probably the first star conductor in the popular music sense. Like a pop star, he lived his private life in public, and the press repeatedly covered him and the various scandals surrounding him. Labels fought each other to sign a contract with him. He changed from EMI to Deutsche Grammophon and arranged to lead the Berlin Philharmonic, who under his direction became the company's house and "court" orchestra. Just like Deutsche Grammophon, other labels tried to tie star conductors, star interpreters, and star orchestras exclusively to them.

EMI, which gradually managed to gain territory because of Walter Legge's re-entry into the company, followed a different route. With the Philharmonia Orchestra, Legge called into being a sound entity that was primarily used for record productions; for this purpose, it also performed in concerts. Its first conductor was Herbert von Karajan; after he left EMI, the up until then unknown Otto Klemperer took over his function. The success of Klemperer and the Philharmonia Orchestra was mainly due to Walter Legge, who was one of the first producers active in the classical segment. He saw himself as the "owner" of an orchestra that he could use

¹⁷⁶ Alfred Clark, who died in 1950, had been the leader of Gramophone since 1905, and Louis Sterling had become the CEO of British Columbia in 1909.

¹⁷⁷ New labels that had entered the market included Vox, Concert-Hall, Mercury, and Westminster.

according to his every whim; indeed, after he left EMI in 1964, he dissolved it without any discussion with his musicians.¹⁷⁸

As with orchestras and conductors, the “classical” labels attempted to turn interpreters into stars. Since the inter-war years, labels had some experience in doing so, with Caruso & Co. first acquiring their names in opera and concert venues. That is, they were already stars when record labels signed them. This was no longer the rule for “classical” stars that emerged after World War II. Of course, successful interpreters continued to be used for recording purposes, but more often than not they were turned into stars through the record companies’ activities. A particularly good example illustrating this change is Maria Callas. Although she was known from her performances in second-rate opera houses, her breakthrough in 1951 resulted from her engagement with EMI and Walter Legge.¹⁷⁹ The broader public got to know Callas better only after Legge began his large opera project, recording her at Milan’s La Scala.¹⁸⁰ Her recording activities were so intense that in 1958 the magazine *Gramophone* made fun of EMI’s “assembly line production” with Callas (quoted in Gronow and Saunio 1998: 125).

The business with “classical” music continued to be operated in Europe. Maintaining practices established during the inter-war years and thus ensuring some continuity, the majors secured their dominance in this market segment, even though independent labels managed to take advantage of the new technological framework governing the business. Yet, new music styles did not revolutionize the European phonographic industry to the same extent as they did the U.S. industry. This was partially because broadcasting was strictly regulated in Europe, where the large broadcasting companies were publicly owned. The large, established record companies therefore did not have to deal with small, independent, unpredictable, and innovative radio stations; instead, they were able to cooperate with relatively conservative national radios, which took special care in the dissemination of the majors’ “classical” repertoire and joined forces with them in a number of co-productions. Whoever was interested in following current trends of American pop music outside of the “white” mainstream had to listen late at night to the private station Radio Luxembourg, which played up-to-date R&B hits along with Rock ‘n’ Roll. Since small, independent private radio stations were lacking, only a few independent record labels managed to survive next to the majors. In Great Britain, there existed only four additional labels of national importance next to the market leaders EMI and Decca, who controlled almost 100% of the market: Pye, Oriole,

¹⁷⁸ The fired members of the Philharmonia Orchestra founded its successor, the New Philharmonia Orchestra.

¹⁷⁹ Callas biographies such as Ardoine’s (1982) or Lowe’s (1987) report with many anecdotal details how Walter Legge had attended in the summer of 1951 at the Roman Opera a performance of Bellini’s “Norma” with Callas in the lead; apparently, he was so overwhelmed by her performance that afterwards he hurried backstage to offer her a lucrative recording contract.

¹⁸⁰ Together with conductors Victor de Sabata, Herbert von Karajan, and Tullio Serafin, he recorded at the Scala performances of “I Puritani,” “Cavalleria Rusticana,” “Tosca,” “Norma,” “La Forza del Destino,” “Il Turco in Italia,” “Madame Butterfly,” “Rigoletto,” “Il Trovatore,” “La Bohème,” “Un Ballo di Maschera,” “La Somnabula,” and “Manon Lescaut,” with Callas singing all female lead roles.

Ember, and Top Rank. Two additional labels, Melodisc and Starlite, focused exclusively on the market of the West Indies (see Gillett 1971: 295-296).

Thus, the “classical” segment remained the most important commercial leg for European record companies until the early 1960s. Although this segment grew in terms of absolute numbers, it continually lost market share relative to the pop music segment. Hence, the European majors sooner or later had to react to the music trends coming from the U.S. This response occurred mostly in the form of distribution agreements with U.S. labels. From 1957 on, EMI’s many sub-labels¹⁸¹ distributed U.S. imports by ABC-Paramount (on HMV), Atlantic and Chess (on Columbia), as well as King, Roulette, and Gee (on Parlophone). Decca-U.K. and its sub-labels¹⁸² distributed U.S. imports of Decca-U.S. and its sub-labels Brunswick and Coral but also productions of the U.S. independent labels Specialty, Sun, Imperial, Atlantic, Modern, Keen, Dot, Liberty, Cadence, Chess, Aladdin, King, and Duke/Peacock. Finally, Philips distributed all of CBS-Columbia’s recordings in Europe (Gillett 1971: 296). These distribution agreements with U.S. labels resulted in the fact that between 1952 and 1962 charts in the U.K. closely mirrored the Billboard charts in the U.S.

The European development of popular music markets tending to the indigenous specificities of individual countries did not begin until the late 1950s. To counter the American Rock ‘n’ Roll invasion of Europe, Europeans began to bank on homemade popular songs, which managed to produce remarkable successes. For instance, Freddy Quinn, Caterina Valente, and Vico Torriani sold millions in Germany, just as Edith Piaf and Jacques Brél did with their chansons in France.¹⁸³ But in order to be internationally competitive, a European answer to American Rock ‘n’ Roll had to be found—which EMI eventually managed to do with the discovery of The Beatles.

¹⁸¹ Part of EMI were the HMV, Parlophone, and Columbia labels, and, since 1955, also Capitol Records.

¹⁸² Decca-U.K., just like its sister Decca-U.S., operated Brunswick and Coral but also the export label “London” and Vogue, which focused on the market of the West Indies and later merged with Coral.

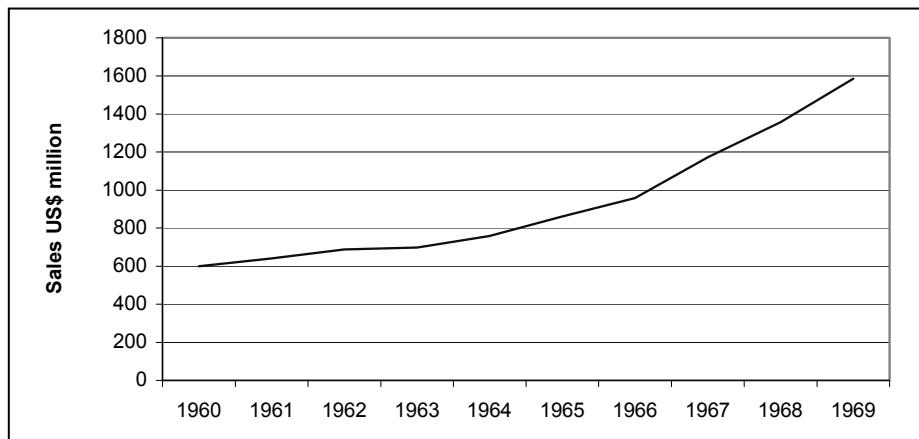
¹⁸³ Freddy Quinn and Caterina Valente began their careers with Deutsche Grammophon and Vico Torriani with Telefunken. Edith Piaf and Jacques Brél were temporarily under contract with Polydor, the export label of Deutsche Grammophon.

CHAPTER 7

THE RECOVERY OF THE PHONOGRAPHIC INDUSTRY AND NEW GLOBAL PLAYERS

1. A DECADE OF MARKET GROWTH (1960-1969)

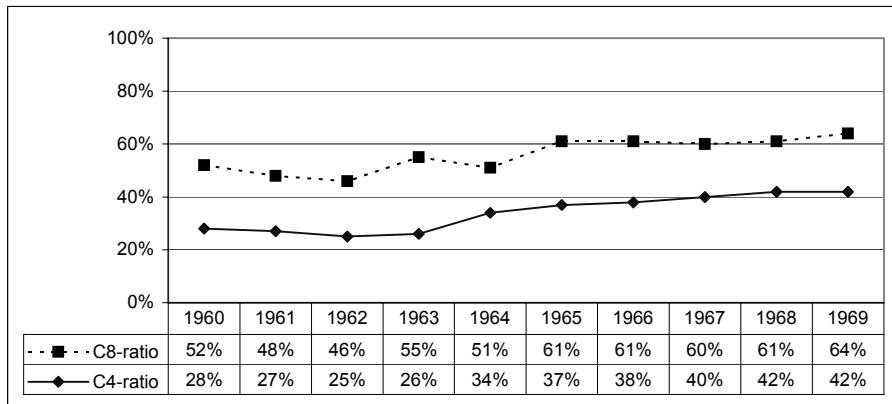
In the early 1960s, the majors' market losses manifested themselves in lower market shares. However, this does not necessarily mean that the majors' sales stagnated; the market volume nearly doubled between 1960 and 1969 (Figure 17). It simply indicates that the majors' growth rate was surpassed by that of the independent labels. In 1962, the U.S. music industry reached its lowest level of market concentration. The top four companies' share of hits amounted to only 25%. The largest eight companies controlled 46% of the market (Figure 18).



Source: After Gronow and Saunio (1998: 137).

Figure 17. U.S. record sales (US\$ million) between 1960 and 1969.

The majors were initially put on the defensive due to the increased volatility of the market as a result of the symbiotic relationship between independent radio stations and record labels and their mutual efforts to promote Rock 'n' Roll. But once the economic potential of the new music was impossible to ignore and their market shares plummeted at a dangerous rate, the majors gradually, and often reluctantly, began to sign Rock musicians.



Source: After Peterson and Berger (1975: 160).

Figure 18. Concentration ratio of the four and eight largest record companies in the weekly top 10 U.S. charts (1960-1969).

A pivotal moment for the entire industry was the sensational success of The Beatles, who signed with EMI's sub-label Parlophone after having been rejected by Decca-U.K. The band's breakthrough happened in 1963, after their debut single "Love Me Do" had reached a respectable number 17 in the British charts in 1962. "Please, Please Me," however, immediately took the British Charts' top spot. In 1963, "From Me To You" became their second chart topper in Great Britain, and when "She Loves You" became the best selling single of all time in the U.K., the United States took note as well. In 1964, the band's manager, Brian Epstein, organized a two-week promotional tour through the U.S. Beginning with a performance on the Ed Sullivan show, the tour triggered a chain of number one hits in the U.S. that would last for the next six months. The Beatles became an unprecedented phenomenon. "Please, Please Me" topped the U.K. charts for 30 (!) weeks. During the first week in April 1964, the band occupied the top five spots of the U.S. singles charts, and an additional seven songs were among the top 100.¹⁸⁴ During the same year, the band's debut LPs, "Introducing ... The Beatles" and "Meet the Beatles," were number one and two, respectively, in the U.S. LP charts. During a 60-week period, from February 1, 1964, to March 20, 1965, Beatles singles led the U.S. pop charts for 23 weeks. Even more impressive, during the 91 weeks between February 15, 1964, and November 6, 1965, Beatles LPs were the top sellers for 54 weeks. No one had ever dominated the pop music market like the Beatles. In hindsight it appears simply grotesque that Capitol Records, a U.S. subsidiary of EMI since 1955, refused as late as 1963 to launch the band on the U.S. market, consequently leading to the band's first U.S. hits appearing on six different

¹⁸⁴ From April 4 to April 11, "Can't Buy Me Love," "Twist and Shout," "She Loves You," "I Want to Hold Your Hand," and "Please, Please Me" occupied the top five spots of the U.S. charts.

independent labels. Only once Capitol Records secured the rights for "I Want to Hold Your Hand," which soon after its original release on December 26, 1963 stormed the U.S. charts, did Capitol become *the* quintessential Beatles label.

With the emergence of the Beatles, the European music industry reintroduced itself on the world stage. In the footsteps of the band's success, a great number of British Rock acts conquered the U.S. market. In addition to a series of Beatles clones, a number of different kinds of British Rock bands pushed onto the U.S. market such as the Hollies, the Animals, the Kinks, and, of course, the Rolling Stones, ultimately leading to talk of a "British Invasion." Since during the post-war years, European record labels primarily catered towards their national markets and, otherwise, were dominated by U.S. companies; hence, the success of the Beatles and other British acts amounted to a spring awakening. The large European labels, which up until then had left their mark only through "classical" productions, now began to promote Rock music full force. The big U.S. labels essentially had no choice but to follow this trend. After the first Rock festival at Monterey (1967), the majors signed just about all of the bands that appeared at the event. Janis Joplin contracted with Columbia, Jefferson Airplane with RCA, and the Grateful Dead with Warner Bros.

2. EUROPEAN MAJORS ON THE ADVANCE

In Europe, it was EMI and PolyGram that entered the Rock music business with the most fervor. PolyGram had emerged from a 50/50 joint venture between the Dutch electric company Philips and the German Siemens AG. Part of Siemens' larger corporate structure was the Deutsche Grammophon that bundled its foreign market activities in Polydor International, which had been founded in Hamburg in 1946. In 1966, the phonographic activities of both Siemens (Deutsche Grammophon and Polydor) and Philips (N.V. Philips Phonographic Industry with Philips Classics and Mercury) were integrated into a mutual company, which in 1967 was established as "Phonogram." In 1972, the phonographic activities of both electronic companies were comprehensively reorganized, with the result that both companies' labels were integrated into the newly founded "PolyGram Holding." As one of its first steps, PolyGram bought MGM/Verve Records in order to strengthen its activities on the U.S. market. Prior to this purchase, Philips had already bought the former U.S. major label Mercury.

MGM had been founded in 1946 as a branch of the movie company Metro-Goldwyn-Mayer to distribute film music. In the 1950s, the label's success was primarily based on the marketing of County & Western music. The board of directors initially refused to deal with Rock 'n' Roll, but once the success of Rock bands could no longer be ignored, MGM tried to compensate for its shortcomings by contracting particularly progressive groups. However, they censored disagreeable song lyrics, released records without the musicians' prior approval, engaged in tasteless promotion practices, and essentially continued to detest Rock musicians. All of this, combined with high turnover among their leaders (Chapple and Garofalo 1977: 77), prevented the company from successfully exploiting Rock music. In 1968

and 1969, MGM lost almost \$18 million. In 1972, PolyGram purchased the financially weak MGM and made it focus on mainstream Rock music of the 1970s (Chapple and Garofalo 1977: 194-195).

In 1947, Berle Adams, music agent, and Al Green, son of a plastic tycoon, founded the Mercury Recording Corporation in Chicago. Mercury was successful with Rhythm & Blues and initially worked like an independent label. Thanks to some early financial successes, Mercury was able to build up its own distribution network and became a U.S. major label in the 1950s. Despite its engagement with the R&B segment, the company leadership remained skeptical about Rock 'n' Roll. Like many other majors, Mercury entered this market segment only very late and thus was never entirely able to catch up. By the beginning of the 1960s, Mercury was no longer among the industry's top 10, and American Consolidated Electronics Industries sold the label to Philips in 1961.

In the early 1970s, PolyGram was by far the largest European music company, becoming a global player due to its expansion into the U.S. By taking over the largest U.S. music publishing house, Chappell Music Publishing, PolyGram established its influence over U.S. artists who were under contract with its labels.

Next to PolyGram, EMI was the other European company that tried to operate on a worldwide basis in order to recapture its early successes. Since the most important musical innovations of the 1950s occurred in the U.S., whose population had the most purchasing power, EMI attempted to gain a foothold in the U.S. by purchasing Capitol Records in 1955. Singer and lyricist Johnny Mercer, record dealer Glenn Wallach, and former member of Paramount Pictures' board of directors, Buddy DeSilva, had founded Capitol in 1942. Capitol succeeded because its repertoire focused exclusively on ethnic minorities—African-Americans and Mexicans—in Los Angeles, long before the majors took note of this particular market segment. They eventually expanded the range of their productions; at different times, Capitol had under contract stars such as Frank Sinatra, Dean Martin, Nat King Cole, and Stan Kenton. When EMI took over Capitol in 1955, the latter was the third largest label in the U.S. EMI hoped that owning Capitol would allow it to have access to American musicians and the U.S. market. They remodeled the label so it would become a marketing vehicle for EMI titles in the U.S. With the success of the Beatles, Capitol's role was reduced almost exclusively to the release of Beatles hits.

The Beatles carried Capitol for five years, and masked the basic problems at the company: outdated financial organization, little understanding of rock music (Chapple and Garofalo 1977: 194).

When the Beatles disbanded, Capitol's losses became significant. In 1971, they registered a loss of £6.2 million, which caused EMI to revamp the entire management (Martland 1997: 254).

Once the Rock 'n' Roll euphoria began to decline by the end of the 1960s, EMI tried to establish additional pillars outside of the music industry. In 1969, EMI took over the Associated British Picture Corporation, which operated the country's largest movie theater chain. By taking over Thames Television Co., they moved into the TV market, and at the beginning of the 1970s the company started to create a trade organization for music instruments and supplies. Nevertheless, EMI's heart

was still the music business, which it controlled with its music publishing companies. During the 1970s, EMI's publishers commanded 80% of the worldwide market. With the help of copyright protected music, EMI, like PolyGram, managed to regain control of the music industry. In addition, EMI commanded a growing retail network with its HMV shops. In order to get a better handle on distribution, EMI founded a record club in 1965 that functioned on a worldwide basis; this club was supposed to distribute records directly, bypassing retail stores. Such clubs, however, were not a complete commercial success and were partially sold later on. That these clubs were established, however, shows how important control of distribution is for the music industry's market leaders.¹⁸⁵

In Europe, only two companies besides EMI and PolyGram managed to establish themselves internationally: the German Telefunken and the British Decca. After having been severed from the Deutsche Grammophon, Telefunken Corporation, which was incorporated as a subsidiary into the electronics company AEG, retained the Telefunken Record GmbH as a subsidiary. After the war, Telefunken Record GmbH merged with the German branch of Decca-U.K., to Teldec, which had acquired a strong market position in Germany as a result of its pop music productions. In the 1970s, its market share in the Federal Republic of Germany was about 15%. Its worldwide activities remained unremarkable, however. In most cases, Teldec was internationally represented only through cooperation agreements with other majors. Decca-U.K. was able to prevail primarily on its home market, but it lost its distribution partner in the U.S. market once its American sister company was taken over by MCA in 1962. Due to the successful marketing of the Rolling Stones, however, Decca-U.K. managed to recover in the late 1960s. Still, the long-term success could not hide the company's weakness on the international market, and it is thus no surprise that together with Teldec it was one of the industry's prime candidates for takeover in the late 1970s.

In Great Britain, another lastingly successful record label was founded at the beginning of the 1970s that for a time operated like a major. In 1970, Richard Branson opened a small, specialized record distribution company, which was so successful that the company expanded rapidly and founded its own record label, Virgin Records, in 1973. The growth rate of this label, which specialized in pop music, was so breathtaking that Virgin soon invested in areas outside of the music industry. The company entered the publishing and movie business, founded a chain of travel agencies, and eventually established Virgin Atlantic Airlines, whose transatlantic low-fare flights stirred up the air travel market. Yet, the company's main focus remained on the music business, especially on the sales of records, which it further strengthened through establishing Virgin Megastores.

¹⁸⁵ The Book-of-the-Month club in the U.S. created the first record club in 1955. Additional record clubs such as "Music Treasures of the World" and "Concert Hall Records' Musical Masterpiece Society" started their businesses. Before long, these clubs had more than one million members, which inspired RCA-Victor and CBS-Columbia to imitate this business strategy. In 1956, RCA founded the "RCA-Victor Society of Great Music" and CBS "Columbia House." In 1959, RCA and Columbia operated 90% of the record club business (Sanjek and Sanjek 1991: 129-130).

3. THE RECOVERY OF THE U.S. MAJORS UNDER NEW LEADERSHIP

In the U.S., Decca suffered much earlier a fate similar to that of its British sister company. Even though Decca was the first major to enter the Rock ‘n’ Roll business when it signed Bill Haley and His Comets, it was unable to exploit the new business’s potential. Its top managers were so prejudiced against this music that they were unwilling to sign additional Rock ‘n’ Rollers. Yet, in the late 1950s, it was impossible to earn money with the kind of entertainment music that had originally propelled Decca to its major status. Its shift to Country music did not come in time to prevent a takeover. In 1962, the Music Corporation of America (MCA) bought what used to be the most powerful U.S. entertainment music label, which in 1948 was still one of the top four U.S. music companies.

MCA was originally founded in Chicago in 1924 as a concert and musician agency and had signed stars such as Frank Sinatra, Judy Garland, and Marlene Dietrich. In 1961, MCA purchased Universal film studios and thus transformed itself from a concert agency into an entertainment corporation; with its acquisition of Decca-U.S. in 1962, it entered the record business as well. In the late 1960s, MCA also purchased Kapp Records and founded Uni Records. Initially, all three labels remained relatively autonomous members of the same holding company. But once profits and sales began to stagnate towards the end of the 1960s, MCA initiated a period of reorganization and consolidation. It reduced its numerous distribution centers to seven, merged its record plants, and centralized Decca’s many offices in New York. In addition, MCA landed a big commercial success in the early 1970s when it signed the British rock group The Who. Likewise, “Jesus Christ Superstar,” which MCA initially did not want to produce, became a surprise success, and the company exploited it in the form of a musical and film. By 1972, the corporation’s consolidation was finished, and it started the newly founded MCA label with recordings of Elton John, who at the time was still completely unknown. MCA Records’ parent company, MCA Inc., was a corporation that had its foundations in the entertainment industry (Universal Films and Universal TV), but it also owned the third largest U.S. music publishing house, a gift chain store, and the Bank of Colorado; oddly enough, it also maintained the cemeteries in Arlington and Mt. Vernon.

Of all the majors that controlled the market before the Rock ‘n’ Roll revolution, only CBS and RCA survived. At the beginning of the 1970s, CBS was the world’s most important music company. In addition to operating radio and television networks, the company also owned a record store chain, manufactured music instruments (Fender guitars, Steinway keyboards, electric pianos, and drums), and produced HiFi equipment. In the early 1970s, CBS was so omnipresent in the music business that it was nearly impossible to spend a dollar on music without increasing CBS’s profits. According to Chapple and Garofalo (1977: 193), the company’s success resulted from its top management’s insight that rock music was no temporary fad but rather a long lasting cultural phenomenon. Sales numbers provide further evidence for this corporate change of mind. Whereas rock music had a mere 15% market share at the beginning of the 1960s, its share had increased to 50% by

1972. Musicians that were under contract with CBS-Columbia in the early 1970s included Bob Dylan, Neil Diamond, the Byrds, and Simon & Garfunkel.

In contrast to CBS, RCA's management was never capable of embracing rock music, even though it had achieved remarkable commercial success with the signing of Elvis Presley. Rumor had it that Elvis was responsible for a quarter of RCA's total sales.¹⁸⁶ Still, RCA did not aggressively pursue the Rock 'n' Roll segment. Instead, it continued to push middle-of-the-road music (MOR) but survived on Elvis's sales. Only when it signed Jefferson Airplane in 1965 did RCA successfully enter the rock business for a second time. Additional projects, however, came to naught or ended in financial disaster (Chapple and Garofalo 1977: 210). The reasons for what in light of Elvis's success appears to be a paradoxical business strategy are rooted in the corporation's bureaucratic organization. At the beginning of the 1970s, RCA Inc. was one of the largest companies in the world. Its main sources of income were derived from the weapons industry, which had flourished with the Vietnam War. The company's production of electronics, speculation with real estate, and manufacturing of weapons had marginalized its original core business consisting of the broadcasting chain NBC and the record label RCA-Victor. Additionally, the rental car company Hertz and the book publishers Random House and Alfred A. Knopf existed under RCA's roof. The director responsible for the record company was also in charge of the publishing houses and global communications, and he had no insight into the developments of the music market. A&R managers were regularly fired, and the company's producers, who were all past their 50th birthday, could not identify with rock musicians or their audiences. RCA Records' top managers retained decision-making powers over day-to-day operations only. Strategic decisions were made elsewhere. The company's hierarchic structures and bureaucratically organized decision-making processes nipped any progressive forces in the bud.

The weakness of the company has been its inability to react to changes in mainstream rock music. Where the company has seen something brewing, it has moved to catch part of a commercial fad. It has never been able to regard significant new music as music. The rapid turnover of top executives, the underuse of outside producers, and the old-fashioned approach to advertising have reinforced the company's distance from music. RCA represents the way old-line bureaucratic corporations deal with creativity (Chapple and Garofalo 1977: 215).

ABC Records was the third large record company that was closely related to a broadcasting network. ABC Records was founded in 1955 as a branch of the American Broadcasting Company. Initially, the label was used to exploit the film music of Paramount, which belonged to ABC as well. Since ABC-Paramount had initially ignored Rock 'n' Roll just like the other majors, it attempted to catch up by buying a number of smaller labels. In 1957, it purchased Dot, which had Pat Boone under contract. Founded in 1951 by Randy Wood, it held a market share of 12% in 1956, which made it one of the more successful pop music labels at the time (Sanjek

¹⁸⁶ In 1956 alone, Elvis was responsible for two-thirds of RCA's total output of singles (Sanjek and Sanjek 1991: 132).

and Sanjek 1991: 133).¹⁸⁷ In the 1960s, ABC-Paramount had become a music major. In 1966, the oil company Gulf & Western assumed majority ownership and eventually purchased 100% of the company's shares (Sanjek and Sanjek 1991: 156). With the infusion of fresh capital, the company continued its expansion and acquired Dunhill, a label that Lasker and Lou Adler had founded in 1966 as a completely undercapitalized company. After the fusion with ABC Records, which now operated as ABC Dunhill, the company signed the Folk-Rock band The Mamas and the Papas, who were responsible for a quick sales increase. The company managed to prolong its success into the 1970s. In 1974, it bought back the shares it had sold to Gulf & Western and thus acquired the latter's record labels as well as Paramount Pictures. Yet, soon thereafter, ABC Records lost steam and disappeared into insignificance.

In the early 1970s, a new major established itself in the U.S., Warner-Reprise. It managed to exceed RCA's sales and thus conquered second place right behind CBS. The history of the music company's emergence is odd, although not entirely atypical for the industry.¹⁸⁸ In 1958, Warner Bros. film studios founded its own record company as "Warner Brothers Records" label.¹⁸⁹ The company accumulated high losses during its first four years, when it was led by the former president of Capitol and Columbia, Jim Conklin. In 1961, Conklin was replaced with Mike Maitland, who placed all his bets on MOR music. The company had its first success with the folk band Peter, Paul & Mary, and in 1963, it used its profits to take over two-thirds of Frank Sinatra's Reprise label.¹⁹⁰ They expanded their repertoire with additional MOR acts, and with the signing of the Grateful Dead in 1967, Warner also entered the rock business. But in order to not burn its fingers in the music business any further, Warner Bros. sold its shares to a small, New York-based film production and distribution company, Seven Arts. For Seven Arts, the deal was of a purely speculative nature. It bought Warner-Reprise entirely with borrowed money in order to inflate its share values and then sell it off at a profit. To increase the company's value, Seven Arts bought, in the same year, the independent label

¹⁸⁷ Other film studios operated record labels for the same purposes. In 1957, United Artists founded United Artists Records Corporation and the music publishing company, United Artists Music Corporation. In the early 1960s, United Artists also acquired Imperial, which Lou Chudd had founded in 1947 and enjoyed its greatest successes with Fats Domino and Ricky Nelson. In 1967, the insurance company Transamerica bought United Artists Pictures and, in 1968, Liberty Records as well as its sub-label, Blue Note, incorporating all of them into Transamerica Music Corp. In 1958, 20th Century Fox founded a record label of the same name. In the same year, Columbia Pictures and Warner Bros. followed suit, founding Colpix and Warner Brothers Music, respectively (Sanjek and Sanjek 1991: 133-134).

¹⁸⁸ For more on the history of Warner-Reprise, see Chapple and Garofalo (1977: 201-209) as well as Cornyn and Scanlon (2002).

¹⁸⁹ Warner Bros. participated in the music industry even before the war. Until 1946, it owned a quarter of US-Decca, when the latter returned it in its entirety to Jack Kapp who bought back Decca's shares.

¹⁹⁰ Frank Sinatra was paid \$22 million and had the option to acquire one-third of the shares of all labels the company would buy in the future. In addition, he had to make four more films for Warner Bros. Although the film plans were never realized, the purchase was advantageous for Warner, since Reprise's artist roster, which included Nancy Sinatra, Dean Martin, Sammy Davis Jr., and Trini Lopez, would prove to be very successful.

Atlantic Records from the founders Ahmet and Nesuhi Ertegun and Jerry Wexler, who remained employed as CEOs. Two years later, Seven Arts' plan to increase the company's value had succeeded, and it sold Warner-Reprise-Atlantic to the Kinney Corporation. Kinney was a company that was originally founded as a funeral company. Throughout the 1960s, it gradually expanded its business activities to include rental car agencies, parking lots, waste management, and cleaning companies. In 1967, Kinney became part owner of the Ashley Famous Agency, one of the largest artist agencies in the U.S. The agency's numerous connections to the music and film scene encouraged Kinney to expand into these areas as well. In 1969, Kinney bought Warner-Reprise-Atlantic, which it turned into Warner Communications. Afterwards, it acquired the entire Warner Bros. Corporation, which at the time faced bankruptcy, and merged it with Warner Communications. In 1970, it also acquired the independent label Elektra, which music enthusiast Jac Holzman had founded in the 1950s as a folk label that in 1967 had its greatest commercial success with the Doors. In 1973, they also took over Asylum Records, founded by David Geffen, and merged it with Elektra. Three relatively autonomous labels—Elektra-Asylum, Warner-Reprise, and Atlantic Records—thus operated underneath the roof of Warner Communications. To take care of these labels' distribution in the U.S., Warner Communications founded WEA. The founding of WEA (W for Warner, E for Elektra, and A for Atlantic) was the first step to centralize the company's remaining activities as well, which eventually happened over the course of the 1970s. In the beginning, the three labels operated autonomously and had many stars of the early 1970s under contract, including Frank Sinatra, Dean Martin, Jimi Hendrix, the Grateful Dead, Deep Purple, Frank Zappa and the Mothers of Invention, the Doors and Jim Morrison, Van Morrison, and James Taylor.

With 40% of all Warner Communications' sales, the record business assumed the most significant role in the company's overall business activities. Even though Kinney's old organizations (such as the cemetery and funeral businesses as well as the cleaning and parking lot companies) were maintained, they gradually lost their significance. By the mid 1970s, Warner Communications was mainly a media and entertainment corporation, which in addition to its record labels also owned film and television studios, radio stations, as well as book and newspaper publishers.

Warner Communications has learned how to commoditize pop culture more successfully than any other U.S. corporation in the last decade (Chapple and Garofalo 1977: 209).

4. THE PRODUCED SOUND

The Rock 'n' Roll revolution, however, did more than just overhaul the ownership structures of the music industry and its production system. It was also part of a social revolution, which in the U.S. in the 1960s was driven by the civil rights movement and the counter culture of the hippies; eventually, this social revolution manifested itself even in Europe when the events of 1968 took place. Thus, it was not merely due to commercial interests that the music industry's leaders first ignored and then explicitly fought against Rock 'n' Roll; instead, it was probably also due to

a generational conflict between the majors' aging CEOs and the independent labels founders, most of whom were not much older than 30 at the beginning of the 1960s. That the conflict was fought with such vehemence on the level of economics occurred precisely because two fundamentally different ways of thinking clashed with each other.

The fight of the established music companies against the Rock 'n' Roll producing independents can be best illustrated by examining the Payola Hearings conducted by the "Legislative Oversight Subcommittee of the House Committee on Interstate and Foreign Commerce," which took place between 1959 and 1960 (for more details, see also Sanjek and Sanjek 1991: 155-195). On the surface, these hearings were about the fact that radio DJs accepted bribes from record companies for pushing particular songs in order to create hits for them. However, for the music industry this practice was not unusual. Even during the age of Vaudeville theatre, music publishers tried to ensure that their own compositions were given preference to those of the competition; to this end, they used so-called "song-pluggers" and bribed singers and theatre impresarios. Furthermore, when the music majors were still in control of the value-added chain of the music industry, they did not hesitate to engage in Payola practices. Once the symbiosis between independent radio stations and record labels began to change the market structure, however, Payola accusations were used as a way of attacking the very DJs who had made Rock 'n' Roll popular in the first place. In the line of fire especially was Alan Freed, who was the first one to make R&B titles available on the radio to a white audience and who helped the term Rock 'n' Roll assume meaningful content. At the hearings, he admitted that he had accepted \$30,000 worth of bribes, which led to a prison sentence for him. In 1964, he was sentenced again, this time for tax evasion. Impoverished and broken down, Alan Freed died in 1965 of uremia. The investigating committee had found in Freed a scapegoat and terminated its investigations, even though it had "uncovered" additional Payola bribes worth \$263,245—a relatively insignificant sum. The music majors were ultimately less interested in uncovering criminal activities in the music industry than in regaining control of the industry (see also Hill 1991, as quoted in Garofalo 1997: 171).

The majors had lost control of the industry because of a change in the popular music repertoire that its management rejected. Only after the rejection of Rock 'n' Roll led to a level of sales declines that endangered the majors' existence did the former oligopolists, now on the defensive, begin to adjust to the new trend. As we already discussed in detail, however, the majors signed only a few "real" Rock 'n' Rollers. Under the guise of the etiquette Rock 'n' Roll, they instead tried to develop acts that were less raw and less wild than the originals. In such a way they repositioned Elvis Presley as a mainstream pop musicians and established a number of teen acts such as Paul Anka, Connie Francis, and Neil Sedaka as market forces.

These acts were intentionally styled with a teenage audience in mind, and most of their songs originated at the Brill Building in New York. The Brill was a complex of buildings that housed a number of music publishers, including the influential Aldon Music Publishing house. Aldon employed a great number of young songwriters who worked for the company as freelancers or as regular employees. Since they were still near-teenagers themselves, they managed with great success to

write compositions and lyrics that directly appealed to the tastes of youthful music consumers. In most cases, they worked as songwriting teams, such as Mike Stoller & Jerry Leiber, Burt Bacharach & David Hal, Doc Pomus & Mort Shuman, and even married songwriting couples such as Gerry Goffin & Carole King, Barry Mann & Cynthia Weil, and Jeff Barry & Ellie Greenwich. Their songs were based on a simple success formula, which we might call “Brill Building Pop”; it was this formula that domesticated the rebellious Rock ‘n’ Roll for the pop charts.

Many of the Brill Building songwriters were also producers. Especially noteworthy are Leiber & Stoller, who as teenagers in the 1950s had written R&B titles for Jimmy Witherspoon, Charles Brown, Floyd Dixon (“Too Much Jelly Roll,” 1951), and Big Mama Thornton (“Hound Dog,” 1953). In 1953, Leiber & Stoller, who had founded the small label Spark, took charge of the songwriting and production for the Doo Wop group “The Robins.” When they landed a hit in 1955 with the Leiber & Stoller composition “Smokey Joe’s Café,” the success exceeded the financial possibilities of the small label. Leiber & Stoller used their success to obtain a songwriting and producing contract from Atlantic Records, which also signed The Robins. Some of the group’s members, however, felt disadvantaged by the contract with Atlantic and left the band, who then performed as “The Coasters.” Leiber & Stoller positioned the Coasters as music comedians, who had a series of chart successes with nonsense titles such as “Yakety Yak,” “Charlie Brown,” and “Little Egypt.” Leiber & Stoller were so successful at positioning the Coasters on the music market that in 1956 Atlantic put them in charge of producing music for another Doo Wop group, the Drifters. Leiber & Stoller created a signature sound for this group as well, which manifested itself in hits such as “There Goes My Baby” and “Hey Señorita.” Remarkably, during Leiber & Stoller’s time working with the Coasters and Drifters, the sound of the groups remained consistent despite numerous changes in these bands’ line-ups. Commercial and artistic success no longer depended on the musicians but on the producers.

In no time at all, Leiber & Stoller became the dominant producers of the music industry and produced a number of songs for the Elvis Presley films “Jailhouse Rock” (U.S.A. 1957) and “King Creole” (U.S.A. 1958). Though Leiber & Stoller were not the first music producers, they represented a new type of producer, which can be conceptualized only in the context of the new production conditions emerging as a result of the Rock ‘n’ Roll revolution. As long as radio networks controlled the production of music, anonymous radio and recording technicians were responsible for a specific sound. They thought of themselves as technicians rather than creative innovators. However, once the task became to make a record, actual producers assumed center stage. One of the first producers who exemplified this new producer type was Sam Phillips. By establishing specific production conditions and engaging in technical experiments, he created the stereotypical Sun sound. As Smudits (2002a: 232-233) correctly points out, it was Sam Phillips rather than Elvis Presley who was the musical innovator, since the latter’s uniqueness was limited to his looks and on-stage performances. However, Phillips and producers of an older generation such as Leonard Chess, Herb Abramson, Jerry Wexler, and the Bihari Brothers differed from Leiber & Stoller in that they produced their musicians as unique acts rather than as substitutable performers. Thus, Jerry Lee Lewis cannot

replace Elvis Presley, just as B.B. King cannot substitute for John Lee Hooker. All of them have artistic personalities for which producers designed a specific sound. Not so with Leiber & Stoller. Their sound is unique and instantly recognizable, but the singers and musicians are substitutable.

We can study the phenomenon of the “produced sound” by looking at the example of the Girl Groups that dominated the U.S. charts between 1960 and 1964. This “fad” originated with the Shirelles, whom Florence Greenberg had signed for her Scepter label in New Jersey. Beginning with “Will You Love Me Tomorrow” (1960), the Shirelles had a series of hits. Produced by Luther Dixon, all of these hits were written by Brill Building songwriters such as Goffin & King, Bacharach & David, and Van McCoy. In the wake of the Shirelles’ success, other labels launched Girl acts, such as the Shangri-Las (produced by Shadow Morton), the Angels (produced by Feldman-Goldstein-Gotteher), the Jaynettes (produced by Abner Spector), or the Cookies (produced by Jesse Stone), whose sound the producers had determined in advance. The most important producer of these Girl Groups was probably Phil Spector, who had learned his trade with Leiber & Stoller. Spector used Brill Building songs to produce what is now known as “Wall of Sound” music, which was characterized by the inability to differentiate between individual instruments, an effect he achieved by using multiple overdubs and hall effects. In this manner, Phil Spector landed a number of R&B and pop hits with the Crystals and the Ronettes, which all exemplified a sonic concept that he later transferred to the Righteous Brothers. Spector no longer had anything in common with the previous generation of producers; whereas the latter saw themselves as impresarios and businessmen, he considered himself an artist in his own right and made aesthetic demands on his productions. He thus became a role model for subsequent generations of musicians, including the Beatles, George Michael, Madonna, and Prince, who were not merely artists but also their own producers.

Yet, in the early 1960s, musicians who produced themselves were the exception. In most cases, such musicians were employees of either music publishing houses (e.g., Burt Bacharach, Carole King, and Neil Sedaka) or record labels (Smokey Robinson and Marvin Gaye, both with Motown). Berry Gordy, an African-American, founded Motown in 1959. Located in Detroit, this label assumes a special importance in the creation of the typical “produced sound.”¹⁹¹ In his youth, Gordy was a professional boxer and then worked for Ford at the assembly line. In the late 1950s, he worked as a songwriter and had his first hit in 1957 with Jackie Wilson’s “Reet Petite.” Encouraged by this success, Gordy borrowed \$700 from his family and began to book studio time to produce his first records, which he sold to larger labels.¹⁹² When he saw that the labels were less interested in his music productions than in stealing his successful artists, he decided in 1959 to found his own record label. Together with his sister Gwen Gordy and his songwriting partner Billy Davis Jr. (alias Tyran Carlo), he established Anna Records, which was named

¹⁹¹ For more on the origins of the Motown empire and sound, see George (1985).

¹⁹² His first production was “Come to Me” for Marv Johnson, which reached number six in the R&B charts.

after another sister who participated as a financial partner. They struck a deal with Chess Records, which became their distribution partner, and created exclusive contracts with Smokey Robinson and The Miracles, whom Gordy had previously recorded for other labels. Anna Records, which was renamed Motown after the departure of Billy Davis, was literally a family company. Berry Gordy was in charge of business operations; his sisters Anna, Esther, Loucy, and Gwen acted as vice presidents; his brothers Robert, George, and Fuller were given various technical and business tasks; and Gwen and Anna's husbands, Harvey Fuqua and Marvin Gaye, respectively, worked as producers, songwriters, and, in Gaye's case, even as a successful performer. Another of Berry Gordy's brother-in-laws, George Edwards, took care of legal representation and accounting. Only family members assumed decision-making positions in the rapidly growing empire, which in the early 1960s consisted of the Motown Record Corporation,¹⁹³ Berry Gordy Jr., Enterprises, International Talent Management, Inc., and the music publisher Jobete. Outsiders had no insight into the business operations, which followed strict rules and norms. For instance, the "creative" personnel—songwriters and producers—were hired as employees who drew weekly salaries, which were deducted from the royalties of successful productions. The contracted musicians were allowed to take a look at the books only twice a year to check their royalties. Since all of them were signed with the in-house label Jobete, their royalties were used to offset production costs; that is, the musicians were only paid the remaining difference. These business practices strongly recall those of the majors.

This business discipline also affected music production. A whole array of songwriters and producers worked according to strict guidelines. The result was the now famous Motown sound, which was lastingly formed by Smokey Robinson, who produced himself and the Miracles; the songwriter and producer team Holland-Dozier-Holland, which since 1962 was responsible for numerous hits by the Supremes, the Four Tops, the Isley Brothers, and Martha and the Vandellas; Norman Whitfield, who was especially successful as a producer for the Temptations; Harvey Fuqua, who had already worked for Anna Records and produced Junior Walker & the All Stars; and Marvin Gaye, who produced his own compositions as well as titles for Tammi Terrell and Mary Wells. However, in the end, the Motown sound was the result of Berry Gordy's strict management style, which left nothing up to chance; indeed, if he had to, he did not hesitate to assert his authority in the music production process. The music productions were so standardized that critics characterized them as hit productions produced on an assembly line. Motown's recipe for success was a mixture of Brill Building compositions and simple, instantly recognizable gospel-like melodies, which were enriched with strong, rhythmic bass lines and additional handclapping and tambourine sounds. The unique Motown sound was produced with the help of then advanced recording technologies such as overdubbing, multiple-track recordings, hall effects, etc.; this sound ensured a high degree of recognition but left enough room to allow for new acts to emerge. At the height of Motown's success in the middle of the 1960s, its

¹⁹³ In addition to Motown, they also distributed the sub-labels Gordy, Tamla, Soul, and V.I.P.

rate of success was a stunning 75%. During this time, Motown sold more records than any other label. After 1965, music critics diagnosed an ever-increasing sameness of Motown's productions, which might have resulted from its standardized production methods. Some artists such as Mary Wells felt disadvantaged and left the label, but even the successful songwriting team Holland-Dozier-Holland perceived Gordy's authoritarian leadership style as constraining. They also demanded a larger share of the royalties, and when they did not get them, they left the label and sued their former employer for \$20 million in outstanding royalties. In the mid-1970s, important artists such as Marvin Gaye, Stevie Wonder, and Michael Jackson also left the label. Motown was never able to repeat its early successes. In the late 1970s and 1980s, it had become a replaceable pop label that suffered from increasing debts. Eventually, Berry Gordy had to sell his label in 1988 for \$61 million to MCA (Music Corporation of America).

Motown's example illustrates how specific economic circumstances and artistic production conditions made it possible for an independent record label temporarily to surpass its major competition. Motown's example also illustrates how such a position could be lost again, and how the potential for innovation disappeared once the majors regained control of the industry. Only a few label succeeded like Motown in creating an unmistakable sound profile that allowed them to secure their independence as oligopolization increased. Examples include the FAME Studios located in Muscle Shoals, Alabama and Stax in Memphis, Tennessee.

In addition to the Motown sound, the Stax sound also became synonymous with the soul sound of the 1960s and 1970s.¹⁹⁴ In 1960, Jim Stewart, his sister Estelle Axton, and the sound technician Chips Morgan founded Stax in a theatre in Memphis. Its initial name was "Satellite." After two hit productions with Rufus and Carla Thomas ("'Cause I Love You" and "Gee Whiz"), Atlantic Records inquired in 1961 to see whether what was now Stax (Stewart and Axton) was interested in recording sessions with some of their acts. Subsequently, a busy collaboration ensued, with Atlantic sending its artists to Memphis to record with the Stax studio band, the Mar-Keys and, from 1962 on, Booker T and the MGs. Like Motown, Stax, and since 1962 its newly formed sub-label Volt, employed a range of songwriters and producers such as Hayes & Porter, Steve Cropper, and Al Bell, who also acted as chief of sales and drew half his salary from Atlantic. They were largely responsible for the typically raw and earthy sound of Otis Redding, Wilson Pickett, Sam & Dave, Rufus and Carla Thomas, William Bell, Albert King, and many others. In this manner, Stax became synonymous with early Soul music that is produced for both musicians it had signed and those under contract with other labels. In 1968, its cooperation with Atlantic broke down, and Jim Stewart sold his shares of Stax to chief of sales Al Bell. Bell transformed the Soul label into an outpost of the black civil rights movement surrounding Jesse Jackson and invested great sums of money in charity activities. In order to ensure economic security, the label began to cooperate with Gulf & Western, which two years earlier had already bought ABC-Paramount, in order to infuse new capital into the company. After

¹⁹⁴ Bowman (1977) discusses the company's history.

disagreements with Gulf & Western, however, Stax bought back the shares with the help of money borrowed from the Deutsche Grammophon. To do so, Stax had to get credit from a local bank so that it would be able to pay the German company \$1 million in interest in order to avoid that the latter would acquire 45% of the company's shares. At this moment of financial uncertainty, CBS-Columbia helped Stax by providing an exclusive distribution deal. Although the terms of the distribution contract were favorable for Stax and allowed the label to escape its most pressing financial calamities, the U.S. government initiated anti-trust investigations against Stax. The Soul label's fate turned for the worse when CBS-Columbia's CEO, Clive Davis, was replaced due to irregularities in the contract he drew up between his company and Stax. The contractual agreements were revised in favor of CBS, and a lawsuit was filed against Al Bell. Even though Stax and Bell were acquitted of all charges, the company's image was ruined. In 1976, Stax ceased its business activities, and only its brand was taken over by CBS-Columbia.

In contrast to Motown and Stax, the record label FAME, which is primarily a recording studio, has been able to maintain its independence to this day. FAME stands for "Florence Alabama Music Enterprise" and was established in the 1950s by Tom Stafford as a small recording studio in the backroom of his parents' convenience store. In 1960, Billy Sherrill and Rich Hall, two freelance musicians, joined Stafford and began to record with local musicians. After an argument, Rick Hall left the mutually owned company. He retained the rights to the company name and in 1961 founded FAME Studios in Muscle Shoals. Hall had the fortune of producing a few smaller R&B hits that brought him further offers from R&B labels such as Vee Jay, Chess, Dot, and Dial. FAME Studios were known for their special acoustics, excellent studio musicians, and producers such as Dan Penn and Lindon "Spooner" Oldham. Though musicians and producers frequently quit their jobs after arguments with the choleric Rick Hall, the latter always managed to find adequate replacements. In 1962, Atlantic Records producer Jerry Wexler took notice of FAME Studios and had them produce two recordings with Wilson Pickett ("Land of 1000 Dances" and "Mustang Sally") that became big hits. As a result, Atlantic Records bombarded FAME with its artists, which led to the emergence of the so-called "Muscle Shoals" sound, which can be heard in the recordings of Aretha Franklin, Wilson Pickett, and Clarence Carter. Even though Rick Hall had a falling out with Atlantic in 1967, he successfully managed in 1970s to enter the pop music business with acts such as Paul Anka, Tom Jones, and Liza Minnelli. In the 1980s, he once again produced R&B acts, thus returning the unmistakable FAME sound to its roots.

Motown, Stax, and FAME are three examples standing in for a number of record labels that were able to seize the day after the structural break brought about by the Rock 'n' Roll revolution.¹⁹⁵ They were responsible for a new trend in the music industry focusing exclusively on the production of records. Production, here, does

¹⁹⁵ Other labels such as Minit, Goldwax, AGP-American, South Camp Studios, Papa Don, Dial, Tou Sea/Sansu, Monument Records, and Music Enterprises were never able to achieve the level of significance of Motown, Stax, and FAME, even when they had their own specific sound such as the one created by Allen Toussaint for Minit or the Cajun sound Huey Meaux produced for Music Enterprises.

not refer so much to the material process of producing a record as it does to the musical content, which placed music producers at the heart of the music industry. Music producers became the link between record labels and musicians and managers. Due to multi-track recording technologies, which allowed one person to overdub, mix the sound, and add special effects, recording sessions no longer required all musicians to be present at the same time. From the point of view of music production, musicians simply represented variable input options over which producers had the final say:

Now the producers were the people who had all the necessary ideas, and the singers were supposed to put those ideas into effect (Gillett 1971: 256).

The prime example of such a music producer is George Martin. Since 1955, Martin was CEO of EMI's sub-label Parlophone. In 1962, he met Brian Epstein, the manager of the rock quartet The Beatles, whom he subsequently signed to his label. In contrast to other producers that worked for EMI, Martin cultivated close relations with his musicians and exerted a major influence over all phases of the music production. It is no exaggeration to claim that the Beatles' success would not have been possible without George Martin. Before signing with Parlophone, the Beatles were one among many English rock bands whose live performances of R&B and Rock 'n' Roll titles popularized U.S. charts successes in Great Britain. At the beginning of the 1960s, more than 400 groups were supposed to have existed in Liverpool alone, most of which played Skiffle and Merseybeat just like the Beatles did.¹⁹⁶ Like so many other bands, the Beatles already had a number of inconsequential auditions with other record labels such as Decca-U.K. when their coup with Parlophone occurred. Their record contract alone, however, does not explain the immense success the Beatles would enjoy. At the same time, another Merseybeat band from Liverpool, Gerry & the Pacemakers, was also signed with Parlophone. Like the Beatles, they were managed by Brian Epstein and produced by George Martin. Although Gerry & the Pacemakers had three number one hits in the U.K. charts ("How Do You Do It," "I Like It," and "You'll Never Walk Alone"), their success did not last. After a few smaller successes in the U.S., the group disbanded in 1966. We can only speculate why Gerry & the Pacemakers could not match the success of the Beatles. One reason for this might be that George Martin devoted all of his energies to the Beatles when they began to conquer the U.K. charts in 1962/1963. Martin arranged a sound well suited to the band's image, which the label managed to establish on the market with relentless promotion.

With the Beatles, a business model came into being that characterizes the music industry to this day. First, the label creates an image for its act—in the case of the Beatles, that of the cheeky, independent, nice guys with mop-tops who do not take life all that seriously; then, with the help of a specifically designed sound, the label disseminates the image by making the act appear on radio and TV shows, star in movies, and play live concerts. Yet, the performances themselves are not what

¹⁹⁶ The river Mersey flows into the Atlantic Ocean in Liverpool; hence, bands from Liverpool that sounded similar to the early Beatles were collectively labeled "Merseybeat."

count; they merely serve to promote record sales. Successful singles are put together as albums and thus exploited for a second time. The Beatles were introduced to the U.S. market in just this manner. Capitol invested \$50,000 to promote the single “I Want to Hold Your Hand” in the U.S. This included an appearance on the Ed Sullivan show, a concert tour, the movie “A Hard Day’s Night” (U.S.A. 1964), and two albums specifically compiled for the U.S. market, “Introducing . . . The Beatles” and “Meet the Beatles!” (Hamm 1983: 422).

Still, the Beatles phenomenon is so complex that an explanation cannot be reduced to a mere marketing concept. The latter explains the initial success but not the band’s unique cult status that lives to this day. George Martin is certainly partly responsible for this singular phenomenon, since he developed the band’s musical style beyond that of the Merseybeat. On “Misery,” for instance, he added a classically inspired piano solo; he used a string quartet on “Yesterday” and “Eleanor Rigby”; on “Norwegian Wood,” he used an Indian sitar; on “In My Life,” he used a harpsichord to incorporate a paraphrase of a Bach piece; and on “For No One,” he added a brass passage. George Martin, who had received his training in classical music from the Guildhall School of Music, was thus responsible for aiding Paul McCartney, John Lennon & Co. to maximize their artistic potential. With their 1966 record “Revolver,” the Beatles changed from being a live band to becoming a studio band, whose musical output was so closely related to George Martin that it is not incorrect to view him as the fifth Beatle (see Smudits 2002a).

George Martin did not simply turn the Beatles into the most successful band of all time; he transformed Parlophone into EMI’s largest and most economically successful sub-label. However, since EMI refused to raise his salary despite his enormous success, he left his job in 1965 and became an independent record producer who founded his own production company, Associated Independent Recording, together with John Burges and Peter Sullivan. This newfound independence was perhaps another reason for Martin’s willingness to engage in musical experiments, which would have been very difficult to pursue in the context of a hierarchical corporate structure. At EMI, it would have been impossible to produce the first concept album ever, “Sgt. Pepper’s Lonely Hearts Club Band.” George Martin invested 900 production hours and \$100,000 to produce a record that could not be performed live. But with the Beatles brand covering his back, he could risk such experiments.

George Martin, however, is only the best known of those producers who were able to end the U.S. dominance of rock music with the help of British Beat music. The British Invasion would not have happened without experienced producers and managers. Frequently, producers and managers were one and the same person such as Andrew Loog Oldham, who in 1964 positioned the Rolling Stones as a rebellious counterpart to the friendly Beatles; he completely subordinated their first album, “The Rolling Stones (England’s Newest Hitmakers),” to this image. Or consider the case of Shel Talmy. Between 1964 and 1967, he created the Kinks and produced The Who’s first three singles as well as their first album, “The Who Sings My Generation.” Each and every well-known British act of the 1960s was closely connected to a producer who had a significant influence on the musicians’ success. Giorgio Gomelsky produced the Yardbirds and the Animals, Don Arden the Small

Faces, and Kenneth Pitt, David Bowie and Manfred Mann. Even though the management methods of some of the producers/managers were highly questionable,¹⁹⁷ the music business had become unthinkable without them from the 1960s on. The most successful producers were independents that dealt with the majors but also operated their own record labels.¹⁹⁸

After the dissolution of the oligopoly, the majors benefited from these independent producers. The resulting increase in competition boosted both the quantity of record companies and the diversity of music. Hamm (1983: 417) says that the industry witnessed an unprecedented level of fragmentation of popular music styles, with the consequence that schmaltzy pop and hard rock existed next to each other on the charts. The spectrum of record labels, therefore, encompassed conservative majors such as RCA, majors that opened themselves up to new trends such as CBS-Columbia, and majors that operated like independents such as Mercury. In turn, some independents functioned like majors, such as Motown and Atlantic Records. The crucial question is, therefore, less whether majors or independents are responsible for innovation than whether there exists a diversity of possibilities. The real issue is whether there is room for experimentation and whether alternatives are given a chance to exploit new market segments such as Folk-Rock and, indeed, the counter culture as such. In this context, music producers function as agents that enable the commercial exploitation of diversity without forcing record companies to carry any production risks. Once something succeeds, the task becomes to sustain it as long as possible by maintaining the basic recipe responsible for the initial success. Thus, new conventions emerge, which, pigeonholed into marketing categories, temporarily enable the relentless commercial exploitation of them. These conventions frequently manifested themselves in a typical sound (see Motown and Stax). Artists and producers could escape these conventions only when, as was the case with the Beatles, their market power was so strong that they no longer had to heed the industry's aesthetic recipes for success.

¹⁹⁷ The Small Faces accused their manager Don Arden of shortchanging them on royalties and fobbing them off with a weekly allowance of a mere £20. Supposedly, Arden did not shy away from intimidating and violently threatening his clients in order to push through his business interests. The Kinks and The Who accused Shel Talmy of cheating them out of their royalties.

¹⁹⁸ Andrew Loog Oldham founded the Immediate label in 1965. Shel Talmy created the Planet label after he quit his job as a producer at Decca. Giorgio Gomelsky founded Marmalade towards the end of the 1960s, and in 1967 Don Arden created the label Jet that he used to promote Electric Light Orchestra.

CHAPTER 8

THE ERA OF MUSIC CONGLOMERATES

1. THE FIRST MERGER MANIA IN THE RECORDING INDUSTRY (1965-1975)

The development of the music industry from the mid 1960s to the early 1970s was characterized by a growing market and a simultaneous market concentration. This concentration had the effect that the majors of the early 1970s differed fundamentally from those of the early 1950s, even though some company names of that earlier era continued to exist. Chapple and Garofalo (1977: 82-87) distinguish three types of mergers that could be observed in the music industry beginning in the mid 1960s. First, there were the horizontal mergers where record companies joined to increase their market share and thus market power. EMI and Capitol's merger is an example of this, even though EMI was the driving force of the fusion. In other examples, one company acquired another: for example, PolyGram bought MGM, and Mercury and MCA bought Decca-U.S. Another form of record company mergers was characterized by vertical integration. CBS-Columbia and ABC particularly, along with others, attempted to control the music industry's value-added chain, over which they had lost control by the end of the 1940s; to this end, they acquired distribution intermediaries such as Rack Jobbers, discount stores, and wholesale companies.¹⁹⁹ The vertical integration of the industry continued like an avalanche, because competitors tried to insure themselves against other companies' aspirations to create monopolies. However, the most frequent type of merger was characterized by the entry of large corporations into the music industry. Many conglomerates noticed the continually growing music market and had hopes of partaking in the record labels' significant profits, which still amounted to 10-15% after taxes.²⁰⁰ The real extent of the conglomerates' acquisition activities becomes evident when we take into consideration the number of planned mergers that were ultimately prevented by antitrust legislation, such as ITT's attempt to buy ABC or the failed acquisition of MCA by Westinghouse.

In addition to well-known acquisitions such as Kinney's purchase of Warner Bros., which eventually led to the creation of the Warner empire, the conglomerates primarily bought successful yet economically weak independent labels:

¹⁹⁹ Rack Jobbers are companies that rent or set up shelf space in retail stores, warehouses, super or hypermarkets and supply them with strictly limited inventory (i.e., magazines, novels, toys, or records). Rack Jobbers take care of pricing, packaging, and the quick restocking of goods; they also monitor sales and profits and assume the inventory risk.

²⁰⁰ For more on this, see the various reports of the entertainment corporations during that time.

Gulf & Western bought Stax and Paramount,²⁰¹ General Recording Tape (GRT) purchased Chess,²⁰² Omega Equities acquired Roulette Records, and ABC Records took over Duke/Peacock. Other independent labels went bankrupt, as was the case in 1965 with Vee Jay, which was run by African-Americans; still others were dissolved by the majors, as happened in 1966 with Okeh, which had been operating under CBS-Columbia's corporate roof.

Outside the pop segment, formerly successful independents disappeared from the market as well. In 1960, company founder Norman Granz sold his Jazz label Verve to MGM, which eventually became part of PolyGram. In 1964, the Riverside Jazz label filed for bankruptcy after its founder Bill Gauer died in 1963. In 1971, Liberty bought the legendary Jazz label Blue Note after the death of Francis Wolff. Wolff had founded the label together with Alfred Lion, who retired in 1967. United Artist Records took over Liberty and Blue Note before EMI acquired the companies in 1979.

At the beginning of the 1970s, only a few independent labels of national significance were able to survive. Motown was one of them; with \$40 million in sales in 1972, it commanded the eighth largest market share in the U.S. (George 1985). Another survivor was A&M, which had been founded in 1962 by musician Herp Alpert (A) and PR man Jerry Moss (M). A&M's success came from easy listening music as played by Tijuana Brass or Burt Bacharach. After the Monterey rock festival in 1967, A&M entered the rock business and had great success with Joe Cocker who, next to Cat Stevens, probably was the label's best-known musician.

At the end of the 1960s, a record label's success depended on whether or not it managed to sign rock musicians and bands that appealed to a wide audience. The majors that failed to sign such acts suffered financial turmoil and, at best, ended up as sub-labels of more successful competitors. The majors tried to compensate for their insufficient knowledge of rock music by buying up smaller, yet more successful, independents.

Thus, at the beginning of the 1970s, the majors were conglomerates that, like RCA, were active in both the weapons and music industry, or, like CBS, sold not just records but also home electronics, music instruments, and books. In this context, new conglomerates emerged such as MCA and Warner Communications for whom records constituted merely one source of income among many others. The two European-based global players, EMI and PolyGram, most resembled the image of the traditional music major, even though EMI did not limit its activities to the music industry and operated a film theater chain and television production companies. We should also recall that PolyGram was the mutual subsidiary of the electronic companies Siemens and Philips; in this case, too, music was merely one of many different areas that were commercially exploited.

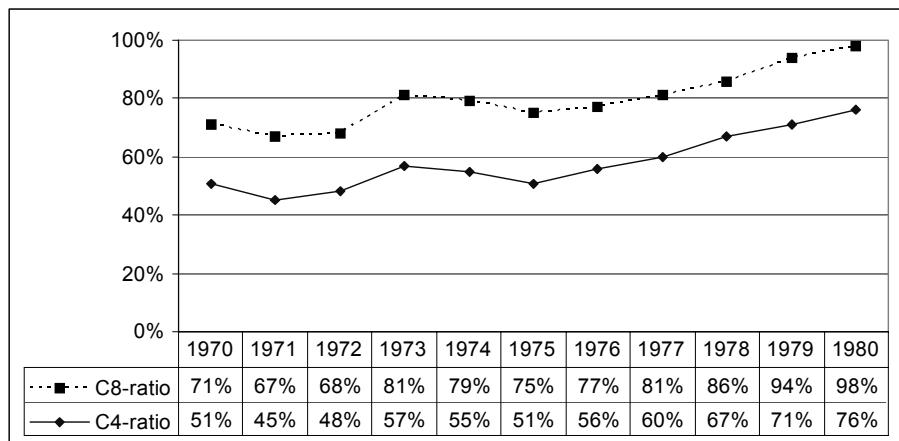
²⁰¹ Following the complicated and financially difficult process of buying back company shares, CBS-Columbia went into business with Stax, which, however, was able to continue its business only until 1976. After 1976, Columbia merely kept the label name.

²⁰² MCA purchased Chess in 1985.

Between 1965 and 1970, many of the independents that had driven the Rock 'n' Roll revolution in the 1940s and 1950s disappeared from the market. At the beginning of the 1970s, the majors once again dominated the music market, albeit in different configurations. CBS led the industry, followed by Warner, RCA, and EMI-Capitol and ABC. Their power over the market resulted from their ability to control the music industry's value-added chain, ultimately enabling them to erect a new oligopoly, which achieved ever-higher degrees of concentration throughout the 1970s.

2. OLIGOPOLIZATION IN THE RECORDING INDUSTRY

Proof that the recording industry was once again in the hands of the majors is by the fact that in 1970 the four largest corporations owned a market share of more than 50% (based on the Billboard charts). Moreover, their market share continued to increase throughout the 1970s, as can be seen from considering the Billboard charts' top four and top eight measures of corporate concentration (Figure 19).



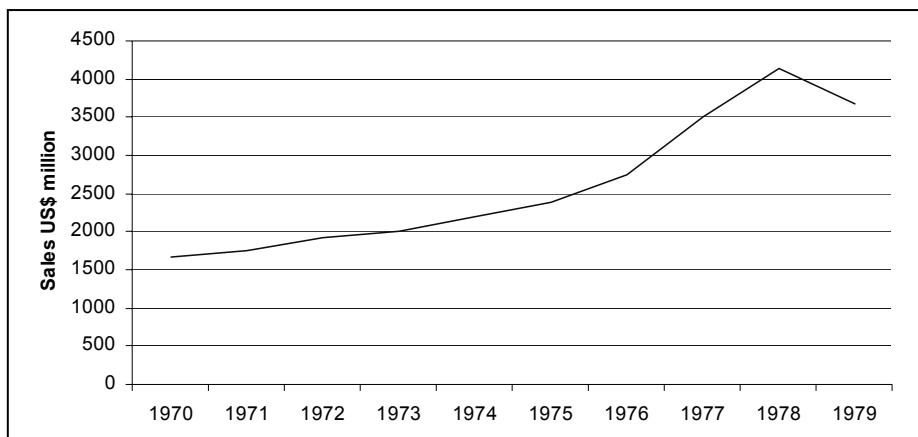
Source: After Peterson and Berger (1975: 160), Rothenbuhler and Dimmick (1982: 145).

Figure 19. Concentration ratio of the four and eight largest record companies in the weekly top 10 U.S. charts (1970-1979).

In the 1970s, growth of the recording market continued to increase worldwide. In the U.S., growth even accelerated between 1973 and 1977. In 1977, sales increased by 28% compared to the previous year. In 1978, the market achieved its highest level at \$4.1 billion sales, which represented an increase of 18% compared to 1977. The next year, however, sales declined by a significant 11%, foreshadowing the period of stagnating sales of the 1980s.

The sales trends of the other important record markets (Great Britain, Japan, Federal Republic of Germany, and France) resembled that of the U.S. In Great Britain, the sales decline already occurred in 1978 with a 15% decrease; in the same

year, the Japanese market suffered a significant sales decline of 7%. In France, the sales decline happened, like in the U.S., in 1979 when the market suffered a loss of 8%. The West German market witnessed the smallest rate of decline, losing only 2% after having been able to raise sales by 28% in the preceding year. In all of these countries, growth rates of 10%, and in some years of even 20%, were not unusual throughout the 1970s (see Gronow and Saunio 1998: 137). As the 1970s went on, the process of market concentration continued, while no new innovative market participants appeared from outside the industry. By 1979, the same six majors controlled the World music market, just as they did 10 years earlier: PolyGram, CBS, RCA, EMI, Warner, and MCA. Each of these companies was a conglomerate whose record business was merely one pillar among many others.



Source: After Gronow and Saunio (1998: 137).

Figure 20. U.S. record sales (US\$ million) between 1970 and 1979.

3. MARKET DOMINATION BY MARKET SEGMENTATION

The majors' consolidation of their market power is an effect of market segmentation. As Garofalo (1997: 240) concludes,

... the art of marketing became more and more tied to the science of demographics.

The large record labels started to outsource all activities that were not directly related to the marketing of music productions. For instance, they left the search and development of new talent to independent producers and smaller record labels, which were more closely tuned into their target audience's culture. Also, the majors operated record plants based on a strict cost-benefit principle and built them wherever they could find the best basic infrastructure and most cost-effective conditions. Nevertheless, all of these outsourced activities remained under the majors' command, since they controlled the distribution channels and music publishing. In this manner, they were able to infuse music production with the

necessary flexibility while simultaneously being able to control emerging competitors in music marketing. When successful bands such as Jefferson Airplane tried to leave RCA by founding their own label, Grunt, they still remained tied to RCA through an exclusive distribution deal. Based on the same principle, Capitol and Warner managed to ensure their close ties with the Beach Boys' "Brother Records" and Frank Zappa's "Bizarre" label, respectively.

The majors partially paid independent producers up front, which made the latter dependent on the former; likewise, small independent labels that located talent were not really independent, since they were tied up with the majors through distribution arrangements. This outsourcing of music production and talent search to independent producers and labels allowed the majors to minimize the financial risk involved in trying to exploit new music styles. They simply shifted the initial risk to the independents and producers. Step by step, the "new" majors assumed market power over the music industry. Yet, far from occurring overnight, this accomplishment was the result of a long process. This process was less the outcome of the majors' leadership gradually learning how to deal with this new music than an effect of structural changes within the music industry. For the agents of the music industry to succeed, they had to adapt to these structural alterations. Production and especially marketing and distribution of records, which once again had assumed center stage of the music industry's value-added chain, required significant capital investments. Music productions had to be financed in advance, and large sums of money had to be invested in complex marketing operations. In order to cover the market effectively, the majors also had to establish a cost-intensive distribution network as well as a system of representation that involved high personnel costs. All of this was possible to finance only with the help of capital coming from investors outside the music industry or by shifting significant cost factors to other elements of the value-added chain (e.g., music production, talent acquisition).

It is important to keep in mind that the new majors differed from those that had lost market power in the 1950s. New players (i.e., Warner, MCA, PolyGram) were able to establish themselves as major companies, and the boards of directors of the long-established companies (RCA, CBS, and EMI) were filled with a new generation of managers who no longer harbored any prejudices against rock music. The key to the majors' success was, however, the creation of flexible corporate structures, enabling them to implement a business model that allowed them to exploit even those rebellious music styles that were anti-establishment.

At first sight, it might come as a surprise to learn that many music icons of the so-called counter culture of the late 1960s, such as Bob Dylan, Janis Joplin, The Grateful Dead, Jefferson Airplane, The Who, the Rolling Stones, and Jimi Hendrix, had signed contracts with major labels. For example, Hamm (1983: 456) seems surprised that companies

... that a decade earlier had taken a stand against the "immorality" of early Rock 'n' Roll were now releasing and promoting music that spoke openly of illegal drug usage and sex, that opposed the foreign and domestic policies of the American government, that even opposed the philosophies and practices of capitalism—the system at the very heart of the recording industry itself.

Yet, when we consider the fundamental changes the structures of the music industry had undergone it becomes clear that there is no contradiction at all. A good example illustrating how the new structures enabled the commercialization of sub- and counter cultures is the Folk revival of the early 1960s. The Folk music tradition considered itself an alternative model to the homely Country & Western genre, which successfully celebrated an ideal America and thus formed the third pillar of the music industry alongside R&B and pop. The folkies, in contrast, saw themselves as critics of the system and primarily belonged to the left-liberal political segment of the U.S. Musicians such as Woody Guthrie, Pete Seeger, and Lee Hays used their songs to denounce social ills and encouraged social protest. For the longest time, only insiders who attended Folk festivals knew these artists. Their recordings were available only on independent labels such as Folkways, and they entered the charts only at the end of the 1940s when the music oligopoly in the U.S. had begun to dissolve. However, the success of the Almanac Singers and their successors, The Weavers, was short lived. During the so-called Red Scare years of the Cold War period, such artists found themselves persecuted as communist spies and placed on black lists, which prevented them from working in their chosen profession.

When a new generation of Folk musician emerged in the late 1950s, the political and music industrial context had completely changed. Now, the Folk scene based in New York's Greenwich Village did not only include Folk revivalists but also music enthusiasts who worked as managers and producers, such as Albert Grossman, who participated in the founding of the Folk trio Peter, Paul & Mary and later became Bob Dylan's manager in 1963. John Hammond, CBS-Columbia's A&R man, had noticed Bob Dylan due to a euphoric concert review in the *New York Times*. He signed Dylan in 1961 and produced his first record, "Bob Dylan," which was still thoroughly indebted to the Folk tradition, primarily featuring Dylan's interpretations of Folk classics such as "House of the Rising Sun" and传统als such as "Pretty Peggy-O" and "Freight Train Blues." Hammond and Grossberg's goal was to position Dylan as a Folk singer playing acoustic guitar and harmonica. This became especially obvious with the second record, "Freewheelin' Bob Dylan," which exclusively featured Dylan's original Folk compositions. In order to maintain Dylan's Folk-image, they destroyed the 1962 Rock 'n' Roll single "Mixed Up Confusion" and tracks that featured Dylan with electric guitar and a studio band. The release of "Freewheelin' Bob Dylan" created a stir in the Folk scene and encouraged musicians to write their own lyrics. Still, only insiders knew Dylan. This changed only after Grossman encouraged Peter, Paul & Mary, who were signed by Warner, to cover Dylan's "Blowin' in the Wind."²⁰³ The single reached number two in the pop charts and had sold more than 300,000 copies by June 1963. During

²⁰³ In contrast to the majors' practice of covering successful R&B independent productions in the 1950s, cover songs of the 1960s were meant to express reverence for musical idols. The Beatles, for instance, expressed their admiration for Chuck Berry with covers of his "Rock 'n' Roll Music" and "Roll Over Beethoven," and with "Please Mr. Postman" (Marvelettes) and "Kansas City" (Leiber & Stoller) they alluded to the exemplary function of Brill-Building pop. The Rolling Stones self-consciously expressed their R&B roots by covering, for example, Howlin' Wolf's "Little Red Rooster" and Irma Thomas' "Time Is on My Side."

the same time period, Dylan's original sold only 30,000 copies. As a result of this chart success, it was not just Peter, Paul & Mary who managed to establish themselves on the market but also Bob Dylan, who released two more Folk records for Columbia, "The Times They Are A-Changin'" and "Another Side of Bob Dylan." But he became the founder of a new music style, Folk-Rock, only when he allowed his label-mates, the Byrds, to record his song "Mr. Tambourine Man" as an electric version played by the whole band. The cover became a number one hit and advanced Dylan's image as an innovator. In the same year, he recorded "Bringing It All Back Home," playing electric guitar and using a supporting band to play his rock songs. Even though he lost part of the purist Folk audience, this album gained him a much greater number of rock music fans. Record labels used the success of the Byrds and Dylan to establish Folk-Rock as a marketing category that could be used to serve a very specific consumer segment. In addition to Dylan and the Byrds, Columbia was able to establish Simon & Garfunkel as a Folk-Rock act with their single "Sounds of Silence." In response to Columbia's success with this style of music, other labels released Folk-Rock bands as well: Atco-Atlantic promoted Sonny & Cher with their single "I Got You Babe" and Lovin' Spoonful with "Do You Believe in Magic"; MCA pushed the Mamas & the Papas with "California Dreamin'" ; and Epic promoted Folk-Rocker Donovan with "Sunshine Superman."

These examples show that the majors no longer shied away from signing critical and difficult artists; instead, they actively supported the creation of non-conformist images and indeed allowed innovation to occur as long as it furthered company profits. In a similar way, record companies (especially the majors) managed to exploit the U.S. protest movement and counter culture for commercial purposes. They carefully developed images and corresponding sounds in close cooperation with the musicians' managers; when a concept proved to be successful they prolonged it as long as possible. These observations are not meant to diminish the musicians' own accomplishments. They frequently added independent-minded and unique contributions; yet, the record companies knew how to channel their artists' rebelliousness. It is thus no surprise that the majority of the Psychedelic Rock bands were under contract with the record majors. Counter cultural music festivals, such as the first Human Be-In festival, which took place in 1967 in San Francisco's Golden Gate Park, the first Monterey pop festival of the same year, and Woodstock, served as perfect marketplaces for the music industry who wanted to sign new talent. In addition to fans, many music agents, A&R managers, and producers attended these events, hoping to make profitable deals. Clearly, then, it was not only the artificial creations of so-called "Bubblegum acts," such as the Monkees, who interestingly enough were produced by the independent label Dimension, that received major label contracts;²⁰⁴ all of the counter culture's music idols, who were

²⁰⁴ The Monkees, like the Archies, were invented by Don Kirshner, who used to be Connie Francis' manager and later contributed in crucial ways to Brill-Building pop with Aldon Music Publishing. After the sale of Aldon to Columbia, Kirshner became director of Columbia's publishing house, Screen Gems, and founded with Dimension his own record label. For an NBC television show, he invented the concept of a TV-band that was tested in advance. The result was the Monkees, who first and foremost were television actors and only secondarily musicians.

far from oozing “political correctness,” received lucrative recording contracts from the majors as well.

The so-called counter culture was not a socially and politically homogenous movement but a mixture of heterogeneous groups. Clecak (1983: 18) enumerates the following groups:

- (1) The civil rights movement, beginning with blacks but quickly encompassing such other racial minorities as American Indians, Hispanic Americans, and Asian-Americans;
- (2) the young, especially college students and disaffected intellectuals; (3) the peace and anti-war movements; (4) the poor; (5) women; (6) the human-potential movement; (7) prisoners and other “outcasts”; (8) gays and lesbians; (9) consumers; (10) environmentalists; (11) the old; (12) the physically different (the disabled, the very fat, the very tall, the very short).

Of course, we can argue about whether this or that group can really be considered counter-cultural, but the list shows that the counter culture’s motivations and interests were divergent and that their access to music differed from group to group. From the point of view of the music industry, these were different consumer groups that had to be approached with individualized marketing concepts. By the end of the 1960s, the development of such concepts was still in its infancy, but they formed the foundation for the professional concepts of marketing, which were advanced and increasingly perfected throughout the 1970s.

The division of the U.S. popular music market into Rhythm & Blues, Pop, and Country that had existed since the end of World War II became obsolete by the end of the 1960s. The results were clearly delineated market segments that corresponded to the fragmentation of the rock music of the 1970s.

In the fragmentation of popular music that ensued, audiences that might have overlapped in an earlier time were treated as discrete entities (Garofalo 1997: 297).

This served the interests of the large record labels. They were now able both to order these distinct market segments according to their profitability and to target them individually. Less profitable segments were left to the independent labels that were nevertheless closely tied to the majors through distribution deals. In case such a market segment suddenly proved to be profitable, the majors were able to appropriate it themselves by signing successful acts away from the independents or by simply buying the usually financially weak companies. This strategy of skimming the cream off the top was used every time new music trends such as, for example, Art or Progressive Rock, Jazz Rock, Country Rock, Glam Rock, Disco, and Reggae emerged. Warner, for example, offered the record label Chrysalis an exclusive distribution deal once the latter’s Art Rock bands Jethro Tull and Procul Harum became successful. CBS-Columbia did the same with Stax in order to become active in the Soul market.

4. THE COMMERCIALIZATION OF SUB-CULTURES: HEAVY METAL, PUNK ROCK, AND DISCO

The majors of the music industry had discovered a business model that allowed them to integrate new musical developments into their business activities. This could even include music that had upsetting effects and was rejected by “good” citizens. In this manner, both Heavy Metal and Punk Rock were integrated into the majors’ corporate portfolios without many difficulties.

Heavy Metal’s emergence is the result of a number of influences that range from the raw Blues of Muddy Waters, Howlin’ Wolf, and B.B. King, to Hard Rock, to classical music, all of which merged in the sub-cultural environment of underground clubs in Great Britain and the U.S.²⁰⁵ Although the Rock and Pop press harshly criticized and indeed rejected Heavy Metal due to its explicitly sexist, racist, and even fascist contents, the music industry had less scruples dealing with this music. When the pioneers of Hard Rock and Heavy Metal—Led Zeppelin, Black Sabbath, and Deep Purple—became known outside of the club scene in the early 1970s, the majors offered them record contracts.²⁰⁶ Signing these acts paid off for the majors with a number of gold and platinum records. The managers of the bands, such as Led Zeppelin’s Peter Grant, engineered a carefully cultivated anti-establishment image, with which they were able to maintain the loyalty of mostly “white” male teenagers. Live concerts that featured extremely loud music and a specifically choreographed stage essentially functioned as promotions for the records. This concept was expanded once FM radio stations in the U.S. began to change their format to playing LPs, especially those of Heavy Metal bands. This further increased the sales of Heavy Metal albums, and record companies competed with each other to sign the most successful acts. It is thus not surprising that commercially successful Heavy Metal bands were signed with major labels. Only a few Heavy Metal bands such as Motörhead (Chiswick, Bronze Records) and Kiss (Casablanca) released their million sellers on independent labels.²⁰⁷ Most Heavy Metal acts had their record debuts with major labels (i.e., Led Zeppelin, Black Sabbath, Aerosmith, Van Halen, Iron Maiden, Metallica) or began on an independent label only to become commercially successful and change over to a major (i.e., Deep Purple, Alice Cooper, AC/DC, Judas Priest, Def Leppard, Guns N’ Roses).

²⁰⁵ For more on the history of Heavy Metal, see Walser (1993) and Weinstein (1994). The term “Heavy Metal” is derived from the heavy elements of the chemical periodic table and was first used in William Burroughs’ novel “Nova Express.”

²⁰⁶ Led Zeppelin was under contract with Atlantic Records since 1969 and released with them their debut album, “Led Zeppelin I.” Black Sabbath was under contract with Philips since 1969. Their debut single “Evil Woman (Don’t Play Your Games With Me)” was released on Philips’ sub-label Fontana, and Philips’ label Vertigo released the bands debut album, “Black Sabbath.” In the U.S., Warner Music owned the license to distribute Black Sabbath. The first three pop-rock oriented Deep Purple records appeared on the independent label Spitfire (UK) and Tetragrammaton (U.S.). However, when the band started their Heavy Metal experiments (“Deep Purple in Rock,” “Fireball,” and especially “Machine Head”) at the beginning of the 1970s, EMI signed them in the U.K. and Warner in the U.S.

²⁰⁷ It should be pointed out, though, that Casablanca was closely tied to PolyGram.

Table 4. Economically successful Hard Rock and Heavy Metal acts.

Hard Rock and Heavy Metal Act	Founded in	Label
Led Zeppelin	1968	Atlantic Records-Warner (since 1969)
Deep Purple	1968	Spitfire (UK) and Tetragrammaton(U.S.) (1968-1969) EMI and Warner (since 1969)
Alice Cooper	1968	Bizarre (1968-1970) Warner (since 1970)
Black Sabbath	1969	Philips and Warner (since 1970)
Scorpions	1969	RCA (1974-1977) Mercury (since 1978)
Aerosmith	1970	Columbia (since 1972)
Judas Priest	1970	Gull (1974-1977) Columbia (since 1977)
Uriah Heep	1970	Mercury (since 1970)
AC/DC	1973	Albert Records (1975) Atco-Warner (since 1976)
Kiss	1973	Casablanca (1973-1984) Mercury (since 1985)
Van Halen	1974	Warner (since 1977)
Motörhead	1975	Chiswick Records (1977) Bronze Records (since 1978)
Quiet Riot	1975	Columbia (since 1977)
Iron Maiden	1976	Capitol-EMI (since 1980)
Def Leppard	1977	Bludgeon Riffola (1977-1979) Mercury-PolyGram (since 1979)
Metallica	1981	Vertigo-PolyGram (UK), Elektra-Warner (U.S.) (since 1983)
Mötley Crüe	1981	Leathür Records (1981-1983) Elektra-Warner (since 1983)
Slayer	1982	American Recordings (since 1986)
Bon Jovi	1983	Mercury-Polygram (since 1983)
Poison	1983	Enigma Records (1983-1986) Capitol-EMI (since 1986)
Ratt	1983	Atlantic-Warner (since 1984)
Guns N' Roses	1985	Uzi Suicide (1985-1987) Geffen-Warner (since 1987)
Alice in Chains	1987	Columbia (since 1989)

After Heavy Metal's sales declined towards the end of the 1970s, the industry managed to appeal to a larger consumer segment, particularly female fans, by promoting less aggressive bands such as Bon Jovi, Def Leppard, Mötley Crüe, Ratt,

and Poison that played a watered down version of Heavy Metal known as “Lite Metal.” With the emergence of music television (MTV), the opportunities to promote Heavy Metal expanded, and its commercialization intensified even further.

After just one year of intensive airplay on MTV, the market share of Heavy Metal increased from 8% in 1983 to 20% in 1984 (Ptacek, qt. in Garofalo 1997: 401). By the end of the 1980s, Heavy Metal had become a generally accepted music style in the music industry, which is also evidenced by the decision of the national Academy of Recording Artists and Sciences (NARAS) to include the category Best Hard Rock/Metal Performance at the Grammy Awards in 1988. From 1989 on, separate Grammies were awarded for Hard Rock and Heavy Metal. The Speed Metal band Metallica won the latter award. Another indication for Heavy Metal’s marketability was that roughly 40% of all albums sold in 1989 were Heavy Metal records (Walser 1993: 3).

As they did with Heavy Metal, so the majors successfully exploited Punk Rock, despite its nihilistic, all values-opposing rhetoric.²⁰⁸ Punk Rock’s roots go back to the late 1960s, when rock bands formed in New York whose music and appearance was directed against the flower-power aesthetic of Psychedelic Rock and the staged, minutely planned mega-concerts of Progressive Rock acts. Playing improvised, loud music with provocative song titles, the Velvet Underground (“Heroin,” “Venus in Furs,” “Black Angel’s Death Song”) and The Stooges (“Asthma Attack,” “Goodbye Bozos”) called attention to themselves within the New York avant-garde scene (Cagle 1995). However disturbing and anarchic their music might have appeared, the Warner labels Atlantic and Elektra signed both groups. Velvet Underground, who became known for their collaborations with Andy Warhol,²⁰⁹ and Iggy Pop’s The Stooges became the most important role models for those Punk Rock groups that formed out of the underground scene of the New York Country Blue Grass and Blues Club (CBGB). Television, Patti Smith, Blondie, The Ramones, and the Talking Heads demarcated the beginning of the Punk movement with their torn outfits, aggressive no-future rhetoric, and noise-approaching music. This movement had all the features of a subculture fighting against established social values, yet its musical mouthpieces became, paradoxically, part of the already established commercial exploitation of music.²¹⁰ Their strategy consisted of attracting the majors’ attention by recording daring independent productions. The first who succeeded was the Patti Smith Group whose 1974 single “Piss Factory” led to her first record contract with Arista. Blondie pursued a similar strategy. The band released its first record in 1976 on the small Private Stock label only to be bought out of their contract by Chrysalis for \$500,000. Subsequently, in 1978 they had their third album, “Parallel Lines,” produced by the songwriting duet of Chinn and Chapman, who until then had worked for Bubblegum acts. From 1978 on, the Talking Heads, who like the Ramones were under contract with the small label Sire

²⁰⁸ Recall that punk means “good for nothing,” “arrogant,” and “antisocial.”

²⁰⁹ Andy Warhol produced their debut LP “The Velvet Underground” in 1966.

²¹⁰ The founder of the Talking Heads, David Byrne, talks in a BBC-Interview of Punk Rock as do-it-yourself music for which it sufficed to consecutively play two different notes (qt. in Bennett 2001: 60).

Records, were produced by Brian Eno, who also produced Devo's debut album for Virgin Records in the same year.

The commercial breakthrough of Punk Rock, however, has to be attributed to the very band that subscribed in the most explicit way to provocations, anarchy, and nihilism: the Sex Pistols. As the prime example for the British Punk Rock movement,²¹¹ the Sex Pistols are the result of a marketing concept of their manager Malcolm MacLaren, rather than just being an atypical underground band. At the beginning of the 1970s, MacLaren had encountered the Punk Rock scene in New York.²¹² Together with Vivienne Westwood, he owned "Sex," an alternative boutique located in London's Kings Road that inspired the Sex Pistols' name. In 1975, guitarist Steve Jones and Paul Cook, drummer of the group The Strand, approached him with the request to manage them. The first idea was to use the Sex Pistols as a promotional gag for the boutique, but soon thereafter MacLaren must have hedged the plan to develop a scandal-prone rock band whose constant provocations were supposed to attract the majors' attention.²¹³ MacLaren added Glen Matlock, who worked at his boutique, as bassist and hired Johnny Lydon, alias Johnny Rotten, as a lead singer (even though he actually could not sing) and then proceeded to realize his marketing concept. In 1976, the Sex Pistols achieved the desired media attention with a scandalous performance in Manchester where they appeared with "Anarchy in the U.K." on national television. MacLaren, however, refused to sign with the independent Punk label Stiff, which had already signed The Clash and The Vibrators, since he wanted to sign with a major label. To this end, he organized a Punk festival at London's 100 Club in September 1976. This event ended in virtual chaos, but it resulted in a record contract for the Sex Pistols with EMI, which released "Anarchy in the U.K." in November 1976. The single, however, was not recorded in the same chaotic manner that characterized the band's live performances; instead, Chris Thomas, a professional producer who had already worked with the Beatles, Procul Harum, Pink Floyd, and Roxy Music, produced the song.

The Sex Pistols' debut single was thus a carefully planned music production aimed at chart success. The reason that the Sex Pistols were fired by EMI only one month later had nothing to do with their music but, instead, was due to their appearance on the Thames television show "Today." On the primetime show, guitarist Steve Jones called talk show host Bill Grundy a "dirty fucker" and "fucking rotter."²¹⁴ The resulting public outcry led to EMI's dismissal of the band, which, however, had already received an advance payment of £50,000. In March 1977, the

²¹¹ The most important chronicler of British Punk Rock is Jon Savage (1992). See also Greil Marcus (1993).

²¹² In 1974, during a convention appearance for his boutique, he met the proto-Punk group, The New York Dolls. He took over the band's management and put them in red leather costumes decorated with Soviet hammer-and-sickle symbols.

²¹³ At least this is the version MacLaren put forth in his semi-documentary film "The Great Rock 'n' Roll Swindle" (GB 1979).

²¹⁴ For the full transcript of the interview, see Savage (1991: 258-259). Laing (1985: 36) points out that during the 100-second long interview Grundy was intent on reproducing the stereotype of Punks as lazy and work-shy scum.

Sex Pistols signed with A&M and received another advance of £75,000 but was fired just a week later after an éclat at a press conference and a bar fight in London. Yet, A&M was contractually forced to pay £25,000. A total advance of £125,000 is not too bad for a band that had released only one single and became infamous as a result of rather ridiculous publicity scandals. Virgin Records produced their second single and paid them another advance of £75,000 to make a professionally produced recording. The lyrics for “God Save the Queen,” which alluded to Queen Elizabeth’s twenty-fifth jubilee, ended with “. . . the fascist regime” and thus triggered another scandal even before the single was pressed. Workers at the CBS record plant refused to manufacture the record, radio and television stations boycotted any attempt to advertise the single, and retail and department store chains announced that they would not include the record in their inventory. All of this resulted in the single selling 250,000 copies after its release in May 1977, making it the leader of the U.K. charts for a number of consecutive weeks (Laing 1985: 38). Malcolm MacLaren had reached his goal to become rich and famous, because he understood the workings of the music business and exploited it with the help of a clever marketing scheme. The Sex Pistols’ anarchism was, to a large degree, predetermined and planned, and the record companies had no problems with this as long as the band had commercial success.

The media craze around the Sex Pistols benefited the entire Punk Rock scene. The Punk Rock label Stiff²¹⁵ received a distribution contract with Island Records, United Artists signed The Stranglers, Polydor acquired The Jam, and CBS signed The Clash, who received a generous advance of £100,000. By 1977, Punk Rock had become a business and marketing category, which catered towards a clearly delineated target audience. Under the music corporations’ leadership, Punk Rock lost most of its anarchic elements during the 1980s and eventually segued into the New Wave movement, which included Elvis Costello, the Police, the Pretenders, as well as Punk acts of the first hour such as Blondie²¹⁶ and the Talking Heads.

The examples of Heavy Metal and Punk Rock illustrate how the music business functioned after the 1970s. The industry had developed strategies, routine practices, and market structures that allowed the companies to exploit even rebellious sub-cultural musical innovations.

Initially, it is surprising that Disco music, which continued to dominate the music business in the late 1970s, emerged from a sub-cultural environment rather than being the result of innovative processes of the established music industry. Even more remarkable is the fact that the majors did not appropriate Disco as quickly as they did Heavy Metal and Punk Rock. The reason for this is that Disco music developed as dance music primarily in “black” clubs that remained outside the purview of the “white” label bosses. Disco music, initially, was not available on record or on the radio. Only the New York radio station WBLS, which targeted an African-American audience, and its DJ Frankie Crocker regularly broadcasted Disco

²¹⁵ The Punk Rock entrepreneurs Dave Robinson and Andrew Jakeman (alias Jake Riviera) founded Stiff in 1976. It was the first British record label to sign a Punk Rock group, namely the Damned whose debut record “Damned, Damned, Damned” Stiff released in 1976.

²¹⁶ Interestingly, in 1979 Blondie produced the first Disco-oriented single with “Heart of Glass.”

music from the clubs. Following his example, other African-American DJs in urban areas began to play Disco music on the radio. Since no adequate records existed, these DJs organized record pools from which individual DJs could choose their records. Garofalo (1997: 340) estimates that in 1979 about 50 clubs of this kind existed in 1979. These pools represented an alternative distribution channel to those of the majors. Due to these record pools it became possible to sell more than 100,000 records in New York alone even though no area-wide radio play was available.

From 1976 on, the first Disco songs entered the Billboard Pop charts, which led the majors to sign individual Disco acts, though they did not support them any further. The majors directed these acts to independent producers and outsourced distribution to independent labels.

By and large, then, disco's creative energy came from independent producers and upstart independent labels (Garofalo 1997: 341).

What looked like an overt rejection of Disco was actually part of the majors' business model. As long as Disco music did not prove to be more than a mere "fad," the majors preferred to shift the risk to independent producers and labels. However, since the musicians were under contract with the majors and the independent labels were tied to the majors through distribution agreements, the big labels were always able to enter the business whenever economic considerations favored such a move. Initially, though, they left the field to their "independent" outlets. Hence, it was not any of the major labels that produced The Village People or Donna Summer, who was discovered by Giorgio Moroder and, later on, became the ultimate Disco Queen; rather the independent label Casablanca, founded by Neil Bogart, produced these acts.

The real Disco boom was triggered by the release of the soundtrack for "Saturday Night Fever" (U.S.A. 1977), starring John Travolta in the leading role. The record was produced by the independent label RSO Records. Robert Stigwood was the label's director and had already signed the Bee Gees in 1967. In addition to a few other songwriters, the Bee Gees received the task to work out the soundtrack for "Saturday Night Fever." In the process, a new business model was used for the first time, one that thrived on synergy between individual media by using one medium as a marketing instrument for another (crossover marketing). "Stayin' Alive" was released as a single months before the film had its theatrical release, and the soundtrack became available. "Stayin' Alive" was also used for a 30-second movie trailer that ran simultaneously with the release of the single "How Deep Is Your Love." After Thanksgiving, a three-minute trailer was shown in the film theatres, and two additional single releases followed. Before the soundtrack and film were simultaneously released Christmas 1977, four singles had already reached the top 10 of the U.S. charts. The commercial success was without compare: the film earned \$130 million, the soundtrack album sold 15 million copies in the U.S. and 30 million worldwide, and the Bee Gees, as well as three additional acts that were on the record, recorded a total of six number one hits (Sanjek and Sanjek 1991: 235).

The film and soundtrack did more than achieve a level of success unheard of up until then; they also opened the floodgates for the Disco wave of the early 1980s. However, the independents that had created the Disco sound were not the ones that primarily benefited from this wave; rather the music corporation PolyGram, which had signed exclusive distribution contracts with both RSO Records and Casablanca, was the main beneficiary. The success of “Saturday Night Fever” finally inspired the majors to seriously enter the Disco business.

The entire disco apparatus was harnessed in the service of industry profits. Record pools, first organized as a collective response to industry indifference, now served as indispensable marketing tools, supplying the record companies with crucial demographic data (Garofalo 1997: 346).

But even in other areas of the music industry, the companies successfully used the concept of market segmentation and the reallocation of risk onto outsourced production levels. Since the early 1970s, Jazz was simply a marketing umbrella term that encompassed Dixieland, Swing and Big Band Jazz, Bebop, Hard Bop, and Free Jazz. All larger record stores arranged classical music according to categories such as old music, classic/romantic, 20th Century or Contemporary Music, and Opera/Operetta. The last marketing segment that joined this increasing differentiation of the music industry was World Music. World Music became a marketing category once the record labels recognized the commercial potential of regionally and locally successful music styles such as the Portuguese Fado, Salsa, the folklore of South and Latin American, and Irish folk music. These groupings simply expanded upon those categories that were already in use since the early 1970 as a means to distinguish between the German Schlager, the French Chanson, the Italian Cantatori, and, especially in Austria, Austro-Pop and folkloristic music.

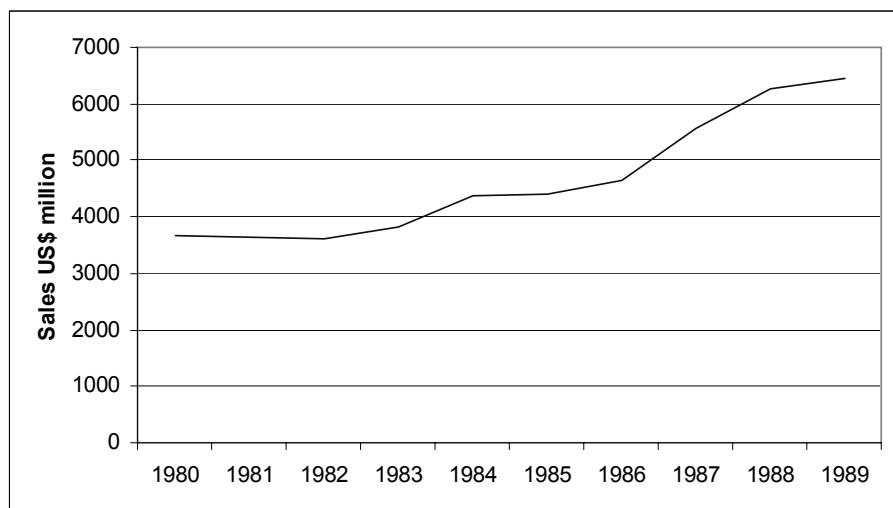
This market segmentation did not merely manifest itself in terms of record repertoire but also on the level of price formation, since record stores began to distinguish between Budget Price, Mid Price, and Full Price segments. These pricing categories existed worldwide with such regularity that in 2001 the European antitrust commission initiated preliminary investigations based on the suspicion that the majors engaged in the illegal practice of price-fixing. However, these investigations remained inconclusive and did not lead to a trial. Whether or not a price cartel exists, we can easily recognize the market segments on the level of both price formation and record repertoire; they reflect the music corporations control over the market, which they continued to expand throughout the 1970s.

CHAPTER 9

THE DIGITAL REVOLUTION AND THE INTERNET

1. FROM MUSIC CASSETTE TO COMPACT DISC

At the beginning of the 1980s, a period of stagnation set in. In 1980, 1981, and 1982, the U.S. record companies had no sales growth.²¹⁷ 1983 saw a small increase of 6%, which was followed by a more significant increase of 15% in the following year. Sales remained more or less constant at this level for the next two years. In 1987, however, another jump in sales occurred (+20%). Subsequent years witnessed additional increases of 12% (1988), 3% (1989), and 17% (1990).



Source: After Burnett (1993: 107).

Figure 21. U.S. record sales (US\$ million) between 1980 and 1989.

The declining record sales of the late 1970s and the stagnation during the first half of the 1980s is often explained by the worldwide recession after the second oil crisis, as well as the emergence of music cassettes that enabled private copying of

²¹⁷ In Europe, the most important national markets diminished between 1979 and 1980: Italy -11.8%, Great Britain -8.9%, Federal Republic of Germany -1.6%, and France -0.3% (see Gronow and Saunio 1998: 137).

music. While it is true that the worldwide recession and the emergence of a new phonographic technology had an impact on the music industry, the influence of these phenomena should not be overstated. We can demonstrate this by examining the market introduction of recordable music cassettes. In theory, the music cassette (MC) could have been a spin-off of the music industry. Recordings on magnetic tapes had been made since the late 1940s, and they were the basic technology responsible for the drastic growth of small radio stations in the U.S. throughout the 1950s. The majors, however, hesitated to adapt this new technology, fearing that they would inadvertently promote a serious competitor for the vinyl record.

From the early 1960s on, the research and development department of the electronic company Philips began to work on improving magnetic tape technology. The goal was to develop a phonogram that could be easily handled and that could be used for both the reproduction and recording of music. In 1963, Philips introduced the first cassette recorder to the market. This was four years prior to Philips joining its phonographic activities with those of Siemens in order to enter the music market on a large scale. Hence, the innovation of the music cassette did not occur due to a music major's activities; rather, it was the innovation of an electronic corporation, which later began to conquer the music market.

In the western industrial nations, however, the MC was not able to prevail as a substitute for the record, even though the quality of reproduction drastically improved with the introduction of Dolby's noise suppression system in 1966. The reason for this was that Philips, which was on the verge of becoming a music-major, was capable of controlling the technology by strictly enforcing its copyright.²¹⁸ In other parts of the world, where the populations' purchasing power was considerably lower than in Europe, Japan, and the U.S., the MC assumed a life of its own that its inventors had not anticipated. Since this new technology made it very easy to reproduce music, it became possible to produce copyright-protected music en masse out of sight of copyright enforcing agents. The majors thus quickly lost influence in many African, Asian, and Latin American countries. For instance, when cassette technology spread across the Indian subcontinent in the early 1980s as a result of returning Indian guest workers, who brought the new technology with them, the vinyl record quickly disappeared from the Indian market. After 1982, India produced hardly any records, and the former monopoly holder, the Gramophone Company, found itself competing against 200 other companies (Manuel 1993). In 1991, India was the world's second largest producer of blank tapes, with the annual production of tapes reaching 217 million. In some countries such as Tunisia, the so-called piracy share in form of recordable MCs increased to more than 90% (Wallis and Malm 1984: 184).

However, even before the triumph of the MC, third-world countries had little significance for the world market; hence, the music industry's stagnation in the early 1980s did not occur because of the introduction of cassette technology. The reason

²¹⁸ I am thinking here especially of the World Intellectual Property Organization's (WIPO) "Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms," which passed on October 29, 1971, and the "U.S.-Copyright Act" of 1976.

for the stagnation was primarily due to the industry's lack of innovative forces. Gronow and Saunio (1998: 187) describe the industry's dilemma by referring to the 100th anniversary of the invention of the phonograph:

In fact, the record player of 1977 was based on exactly the same technology as the phonograph of 1877. The quality had improved, but the basic principle of mechanical recording was the same.

But the economic decline of the music industry at the end of the 1970s was due not only to the lack of technological innovations but also to the lack of courage to embrace artistic innovations. EMI was hit the worst. Despite sales of £870 million, the company only made £28.5 million in after-tax profits in 1979. That year, EMI's worldwide record sales fell by 22%, resulting in a semi-annual loss of £14 million that plunged the company into an existence-threatening cash-flow crisis. The only way for EMI to avoid bankruptcy was to merge with the British electronic company Thorn, which bought EMI for £165 million. The failed market introduction of the Computer-Axial-Tomograph (CAT) by EMI's medical technology subsidiary is often cited as one of the reasons for this economic disaster. Martland, however, points out that CAT was responsible for only half of the losses. The other half was caused by the record industry, which had been unable to develop new artists of wide appeal since the 1970s (see Martland 1997: 254-260).²¹⁹

Paradoxically, another reason for the music majors' crisis was that they had succeeded at controlling the market through segmentation. Throughout the 1970s, increasingly smaller market segments were created that produced less and less profits. Although sales increased, marketing costs rose more quickly than sales. Fearing that new musical developments might produce even more uncertainty, the majors felt the need to become active in all promising market segments in order to control all creative output. The consequence for controlling creativity to such an extent, however, was lower total profits across all market segments.

The other majors, too, suffered from a stagnating market and declining profits as a result of market segmentation. PolyGram, which had attempted to improve its standing in the U.S. market through acquisitions (i.e., Casablanca Record), accrued losses and began to cooperate with Warner Communications in 1983.²²⁰ Warner was able to make up for its losses with the help of its computer subsidiary Atari. Between 1980 and 1986, CBS had to close nine distribution companies outside of the U.S. and reduced its personnel level abroad from 17,610 to 10,110 (Garofalo 1997: 354). RCA also faced a financial crisis; in response, it merged its music publishing interests as well as its record and video productions with those of Ariola-Eurodisc. In 1985, only one of the six majors, MCA, recorded significant profits,

²¹⁹ "These problems arose as a result of the company's failure to invest in the development of new artists, and its ability to cope with changing patterns of competition" (Martland 1997: 254).

²²⁰ The goal was to extend the cooperation into merging the phonographic activities of both companies. However, in 1985 German and U.S. antitrust commissions did not allow the merger in order to avoid the creation of a monopoly in the music industry (Sanjek and Sanjek 1991: 253-255).

which, however, were purchased with the termination of a number of artist contracts.²²¹

The music industry majors found themselves in an economically weakened position when, in 1983, a new phonographic technology appeared on the market. In 1979, a joint venture between Philips and the Japanese electronic corporation Sony developed the prototype of the Compact Disc (CD). The CD was a child of the digital revolution, which began in the early 1980s. The ability to store information digitally made it possible to put music in compressed form on a storage medium. In many ways, the CD, which is read by a laser, was superior to analog phonographs (vinyl record and MC). Annoying noises in the background disappeared. The CD could not be scratched either and was simply easier to manage than the vinyl LP. The innovation of CD players developed by Sony constituted a significant technological progress over that of the record player.

Despite the many advantages, the CD's success was not a given. Four years passed between the public presentation of the prototype (1979) and the CD's market introduction in Europe and the U.S. (1983), during which Philips and Sony pushed their innovation with enormous marketing activities. With the help of its subsidiary PolyGram, Philips had the advantage of being able to provide a repertoire on CDs, which initially were manufactured at their only plant in Hanover. In the same year, Sony and CBS opened a plant in Terre Haute, Indiana with an annual capacity of 10.5 million. Three years after the market introduction it was still impossible to predict whether or not the CD would replace the vinyl record. In 1986, 130 million CDs were produced worldwide, which amounted to only 5% of the 2.5 billion phonographs produced that year. The U.S. market was key for the CD's breakthrough. In the same year, more than 53 million CDs were sold there, which amounted to 10% of all record sales. In 1988, the sales of CDs surpassed those of records for the first time, a development that continued in Europe in 1989 (Sanjek and Sanjek 256-258).

The success story of the CD, which led the market to increasing growth rates in the first half of the 1990s, is often attributed to the innovative potential of the music industry. A closer look, however, reveals that this success occurred due to only one company, Sony, which entered the music industry late (1988). The sole fact that Philips, an agent of the music industry, partook in the development of the CD does not say much about the innovative potential of the entire industry. After all, it took seven years for the CD to finally experience a breakthrough.

External innovators also pushed other innovations that would later on define the music industry. For instance, Sony developed the Walkman in 1979, at a time when it did not yet participate in the record business. And MTV was not brought to life in 1981 by record labels but by WACC (Warner Amex Cable Company) and WASEC (Warner Amex Satellite Entertainment) (for more details, see Denisoff 1987 and

²²¹ In 1979, MCA had taken over ABC-Dunhill, thus further contributing to the market concentration.

Schmidt 1999).²²² On August 1, 1981, both subsidiaries of Warner Communications, in cooperation with RCA's Communications Satellite Corporation and IT & T, added a music video channel, which they called Music Television (MTV), to the already existing news and children's channels. Initially, the U.S. music industry was skeptical of the 24-hour music video channel. They hesitated because the cost of investing in video productions was comparatively high, and they were not sure that there was even a market for music videos.²²³ It became obvious that such a market existed in the U.S. as the initial audience of 2.5 million skyrocketed to 17 million within two years. This success attracted more and more advertising clients, which allowed MTV both to recuperate its initial investment earlier than expected and to expand its operations (Goodwin 1992). In 1983, MTV managed to sign an exclusive broadcasting contract with the record majors. This contract stipulated that MTV was allowed to broadcast a specific number of music videos in exchange for a monthly fee for the music to which the majors owned the copyrights. Initially, the broadcasting format consisted of an endless loop of music videos and advertising breaks; before long, however, the format was modified to include "Veejays" (Video-Disc Jockeys) and background information, and soon they began to place extra emphasis on certain types of music such as Heavy Metal, Soul music, and Disco. By the end of 1983, MTV already reached a quarter of all U.S. households, and in 1984 it reported a profit for the first time. This profit was used to finance the MTV subsidiary channel, VH-1, which was geared towards adult music consumers.²²⁴ Nevertheless, in 1985, Warner Communications sold MTV to Viacom International. In 1990, MTV and its regional subsidiaries reached a worldwide audience of roughly 100 million households (Wicke 1992: 465).

MTV and all subsequent music video channels (such as the German VIVA) lastingly changed music companies' marketing strategy. In the age of music television, it is now almost impossible to market a record production without a video clip. Many musicians such as the Eurhythmics, Culture Club, and Duran Duran enjoyed a high degree of recognition as well as their introduction into the U.S. market due to MTV. Michael Jackson became a superstar through the video clip for "Thriller." In fact, the video for "Thriller" represented a new dimension in video production. Whereas music videos used to cost between \$35,000 and \$45,000, the budget for the 15-minute video for "Thriller" cost \$300,000. This film was made by the experienced Hollywood director John Landis (Garofalo 1997: 363). From this point on, music videos have been produced based on large capital investments and display an aesthetic derived from advertising; today, the music business seems unthinkable without them.

²²² The credit card company American Express also participated in the founding of WASEC.

²²³ Before MTV, music videos were used solely as promotional instruments. The Beatles' "Penny Lane" and "Strawberry Fields" were the first film clips produced for BBC. The first music video was made by Queen in order to promote their single "Bohemian Rhapsody."

²²⁴ Initially, CNN founder Ted Turner operated VH-1 as a competitor channel to MTV. When the losses did not decrease, however, VH-1 was sold to MTV.

2. SUPERSTAR BUSINESS VERSUS HIP-HOP CULTURE?

The increased promotional effect through the music video had to be bought by drastically increasing the cost of music production. This, in turn, required higher income to be derived from both record sales and copyright usage fees. Since the former cannot be raised arbitrarily without alienating consumers, the exploitation of copyrights became the most important pillar for the music industry's business activities in the late 1980s. The exploitation of copyrights is especially lucrative when it is possible to market an act across all media, including, but not limited to, records and music videos; ideally, this act can also be promoted through merchandise. To use film business terminology, we can call such an act a "blockbuster"; such acts demand high initial investments but are capable of generating a manifold of the up-front cost in sales. The result is a superstar who dominates the music business not just because of his income but also because of his media presence. Michael Jackson became the first true superstar of the music business as a result of the success of "Thriller," which does not mean that superstar-like acts did not already exist earlier. There is no doubt that Frank Sinatra, Elvis Presley, and the Beatles were stars during their heydays and generated unusually high incomes; however, they did not yet have access to the entire media apparatus and integrated copyright exploitation system of the late 20th century. All of these earlier stars became superstars only through the secondary and tertiary, essentially posthumous, exploitation of their works, as is evidenced by the chart success of Beatles and Elvis albums after the end of their careers.

The superstar phenomenon can be observed especially well in the mid 1980s. After Michael Jackson, who dominated 1983, artists such as Prince (1984), Bruce Springsteen and Whitney Houston (1985), and U2 (1986) dominated the worldwide popular music market. Only a handful of additional artists were able to climb the Olympus to superstar status, such as Madonna, Phil Collins, The Pointers' Sisters, Janet Jackson, Lionel Richie, Tina Turner, Elton John, Eric Clapton, and David Bowie. The majors' response to this phenomenon was to drastically limit their star rosters and to focus their energy on a select few successful acts. Thus, in 1984, Warner Music terminated more than thirty contracts with artists such as Arlo Guthrie and Van Morrison; the other majors responded similarly and allowed many contracts to expire and simply terminated contracts with less promising acts.

The music industry created a small but internationally popular roster of superstars who were capable of generating unheard-of profits... In other words, the U.S. music business was making more money selling fewer sound recordings overall (Garofalo 1997: 372-373).

The Hip-Hop movement crashed this "industry idyll" from the mid 1980s on. Around 1975, Hip-Hop began to develop in the Bronx as a subculture based on an

experimental DJ scene.²²⁵ The musical innovation consisted in the application of so-called “breaks.” Unlike in Disco music, the DJs did not attempt to create fluid transitions from song to song; rather, they inserted “breaks” between completely different music pieces and used the record player and mixing board as quasi-instruments by developing new playback techniques such as cutting, scratching, back-spinning, phasing, and beat juggling.²²⁶ In this manner, DJs reconfigured records and record players into rhythm instruments and created a new music style.²²⁷ As its popularity increased, House parties and club sessions turned into larger outdoor parties, “Block Parties,” that featured DJ performances as well as spoken-word and singing performances of so-called MCs.²²⁸ The solo performance of a sort of speech-song was soon enriched by additional voices, which gradually created Rap groups such as Funky Four Plus One (1979), Newcleus (1979), The Sugarhill Gang (1979), Beastie Boys (1979), Run-D.M.C. (1982), and Public Enemy (1982).

With the emergence of Rap groups, the MC assumed center stage in Hip-Hop. In 1979, the music producer Sylvia Robinson released the first Rap act on her Sugar Hill label with the Sugar Hill Gang’s “Rapper’s Delight”.²²⁹ “Rapper’s Delight,” which was produced over a “break” taken from the number one hit “Good Times” by the Funk group Chic, became the U.S. hit of the year with 2 million copies sold. Worldwide, the song sold 8 million copies, thus attracting the attention of the music industry to Rap for the first time. Initially, however, independent labels were the ones to produce Rap acts.

In the process of commercializing Rap, a special role was played by the Def Jam label, which two college students, Rick Rubin and Russell Simmons, founded in 1984. In Rick Rubin’s bedroom, they produced T La Rock and Jazzy Jay’s single “It’s Yours,” which they released in cooperation with the independent label Partytime/Streetwise. In 1985, they signed an exclusive distribution contract with CBS-Columbia and released one of the first Hip-Hop films, “Krush Groove.” Def Jam had its breakthrough in 1986 with the albums “Licensed to Ill” by the Beastie Boys and “Raising Hell” by Run-D.M.C. Both albums were sales hits. “Licensed to Ill” was the first Hip-Hop record that led the LP charts in 1987 with 4 million copies

²²⁵ Hip-Hop denotes a socio-cultural movement that includes graffiti art, break-dance, as well as DJ music, in addition to a music style that combines DJ improvisations with Rap.

²²⁶ Early pioneers of Hip-Hop, the so-called “old school,” include DJs such as Grandmaster Flash, Kool DJ Herc, Afrika Bambaataa, and Grand Wizard Theodore. Sampling would later replace this turntable technique.

²²⁷ Initially, they especially used rare Jazz, Soul, and Funk records, but later they also used well-known records from all genres.

²²⁸ MC is the acronym for “Masters of Ceremonies.”

²²⁹ The first Rap recording is usually considered to be “King Tim III” by the Fatback Band, which had already enjoyed success on the R&B market with Funk titles.

sold, and “Raising Hell” earned triple-platinum status in the U.S.²³⁰ In 1987, Def Jam signed Public Enemy and released their debut album “Yo! Bum Rush the Show”; however, radio stations and mainstream music critics ignored the record. This changed in 1988 with the release of their second album, “It Takes a Nation of Millions to Hold Us Back.” With provocative, socially critical lyrics, and accompanied by an avant-garde-like wall of noise, the record overcame the “old school” style that was primarily oriented towards dance music and instead paved the way for a new style of aggressive and provocative Rap music. The LP became an enormous sales hit despite, or perhaps because of, its provocative rhetoric, providing Public Enemy with multi-platinum sales and elevating the band to cult status. In addition to Public Enemy, Def Jam soon owned the best roster of Rap acts, including E.P.M.D., Slick Rick, and LL Cool J, whose sales successes attracted the music majors’ attention. In 1994, PolyGram acquired 50% of Def Jam, and they added another 10% two years later. After the Seagram Group purchased PolyGram in 1998 to incorporate it into the Universal Music Group, they bought the remaining 40% of Def Jam in 1999.

Tommy Boy, another important Rap label of the early years, which was founded in 1981 by Tom Silverman, suffered a similar fate. Afrika Bambaataa and the Soulsonic Force released the ground-breaking single “Planet Rock” on Tommy Boy, which served as a springboard for many later Hip-Hop stars such as Queen Latifah, De La Soul, House of Pain, Digital Underground, and Coolio. Their successes manifested themselves in a series of platinum and multi-platinum records, which was what moved the Warner Music Group to acquire 50% of the label’s shares in 1986. In 1989, Warner Music acquired the remaining 50% and subsequently financed the label’s expansion to Europe. In 1994, they founded Tommy Boy Music Ltd. in London in anticipation of the boom that had just gotten underway there. In contrast to Def Jam, however, the integration of Tommy Boy into the structures of a music corporation did not go as smoothly. Permanent conflicts between label founder Tom Silverman and Warner Music’s board of directors led to a final break between the parties in January 2002. In a management buyout, Silverman bought back all label shares and founded Tommy Boy Entertainment. Tommy Boy’s homepage explains the premature “divorce” from Warner Music by pointing to the structural incompatibility between an independent and major company:²³¹

However, the more complex any organization becomes, the more levels of control there are, and thus, more levels of bureaucracy. An absolutely revolutionary idea can suddenly become diluted and prosaic after running through the hoops of a large chain of command to get final approval. The suits upstairs did their job well: keeping shareholders happy with rising stock prices, but ultimately there were conflicting visions of the “bottom line” vs. art. Tommy Boy chose art.

²³⁰ However, “Raising Hell” was released on Profile, not on Def Jam.

²³¹ See http://tommyboy.materialinmotion.com/customer/home.php?mode=the_story (Accessed 11/7/2002.)

This explanation gets to the heart of the problem of mergers between independent and major companies. Even when the parent corporation ensures its subsidiary label general artistic autonomy, a bureaucratic apparatus exists that has to be dealt with for each budget plan and allocation. After the merger, innovative label owners, who previously maintained close contact to the “scene,” spend a lot of time in coordination and board of directors meetings. Each financially important decision they make must be approved by the board of directors of the parent corporation, which prolongs the decision-making process in an already short-lived business. Tommy Boy founder Silverman saw the consequences and bought back his company’s shares in order to reassume control over his own decisions.

Many other label founders are either unwilling or incapable of doing the same, since the parent corporations forced structures upon the former independent labels and subordinated them to their corporate business logic. Many Hip-Hop labels lost their independence in this manner. Most of the time, this process started with an exclusive distribution contract with one of the five majors. With their help, the independents obtained access to international distribution channels and the worldwide phonographic market. The majors consider distribution contracts as tools to control the market. As with Heavy Metal and Punk before, they viewed the independent Hip-Hop labels, which they bound through distribution deals, as merely part of their overall market portfolios. If a label is particularly profitable, the major acquires a significant part of its shares, which at times may expand to 100%.

It should therefore not surprise us that we can hardly find any major who signed Rap acts during the pioneering phase.²³² They use their distribution contracts to ensure that they can join a new boom just in time without having to assume the risk involved in building up a new market. We can find this strategy of outsourcing risk without relinquishing market control already in the early period of Hip-Hop. Sony’s subsidiary, Columbia Records, distributed Def Jam’s Rap productions already in 1985—before this music style achieved real commercial success. In 1986, Jive Records agreed to a distribution deal for the U.S. market with the Bertelsmann subsidiaries Arista and RCA. The Warner Music Group has taken care of Cold Chillin’ Records’ distribution since 1987 and bought, as mentioned above, 50% of Tommy Boy. Likewise, Island/PolyGram took over the distribution for Delicious Vinyl in 1989.

From the majors’ point of view, these exclusive distribution contracts also had the distinct advantage of not being directly connected with the various scandals of Gangsta and Dirty Rappers, while simultaneously being able to profit from the sales-increasing publicity. For instance, when in 1989 the release of 2 Live Crew’s “As Nasty As They Wanna Be” unleashed public outcry in response to the songs’ obscene lyrics, the label owner, Luther Campbell, had to defend himself in the court of law. Nevertheless, Atlantic/Warner offered the Luke label an exclusive

²³² The exception is PolyGram’s sub-label Mercury, which had already signed Kurtis Blow in 1979.

distribution contract. This deal paid off, since the album sold more than 1.5 million copies largely due to the media publicity about the incriminated album.²³³

During the 1990s, when Rap entered the music mainstream, the majors bought up the commercially successful Hip-Hop labels. By then, the controversies surrounding aggressive Gangsta rappers such as N.W.A., who in 1988 demanded to “Fuck Tha Police” on their album “Straight Outta Compton,” had already passed. This record was produced by Ruthless Records, which had been founded by long-time producer Jerry Heller and former drug dealer Eazy-E (alias Eric Wright). Together with Dr. Dre (alias Andre Young) and Ice Cube (alias O’Shea Jackson), Eazy-E founded the Rap group N.W.A.²³⁴ The scandalous album was distributed by the independent label Priority Records, which Ruthless Records subsequently purchased. Priority became one of the most important Hip-Hop labels in the mid 1990s, commanding what for an independent label is an impressive 1% of the U.S. market share. Just at this moment, in 1996, EMI acquired 50% of the label for \$70 million. In the same year, MCA bought another important Hip-Hop label, Interscope, which also included Dr. Dre’s label, Aftermath.²³⁵ Following the merger wave of PolyGram and MCA, Interscope/Aftermath ended up in Universal Music’s empire.

In all of this, Rap was only one market segment among many others in which the majors invested only after it became obvious that Rap would not remain a mere “fad” but proved to have commercial staying power.²³⁶

Instead of competing with smaller, more street-savvy labels for new rap acts, the major labels developed a new strategy: buy the independent labels, allow them to function relatively autonomously, and provide them with production resources and access to major retail distribution (Rose 1994: 7).

Other than the fact that this strategy is not really new, the initially granted autonomy is intended to be a finite one.²³⁷ As soon as they could integrate Rap into the music mainstream, the majors subordinated the successful acts to their strict marketing strategies.

²³³ See also Dufresne (1992: 179-185).

²³⁴ N.W.A. stands for “Niggers With Attitude.”

²³⁵ After Dr. Dre left Ruthless Records in 1992 due to disagreements about the label’s business practices, he founded Death Row Records together with Marion “Suge” Knight. Disagreements with Knight and the imprisonment of Gangsta Rapper Snoop Dog, whom Dr. Dre had discovered, led him to sell his shares once again. With the help of Interscope, he founded Aftermath, which MCA eventually took over together with Interscope.

²³⁶ We can prove this with the example of Jive, which is fully owned by Zomba Music Group, of which Bertelsmann owns a 20% share. After Jive had grown big with Hip-Hop acts such as Kool Moe Dee, Boogie Down Production, KRS-One, DJ Jazzy Jeff & the Fresh Prince, in later years, it enjoyed significant commercial successes with teenage Pop acts such as Britney Spears and the Backstreet Boys. During the summer of 2002, rumors had it that Hip-Hop and Rap acts were supposed to be let go for the new Pop acts.

²³⁷ Weinstein (1991: 186-187) already concluded in the context of Heavy Metal’s commercialization: “The major record companies shifted the risk of funding and developing new metal artists to the indies. When that talent proved itself, the majors moved in, ready to skim off the cream with fat contracts.”

Table 5. Business Connections between Hip-Hop and major labels.

Hip-Hop Label	Star-Roster	Connection to Major Label
Aftermath	Dr. Dre	Sublabel of the Universal subsidiary, Interscope-Geffen-A & M Group
Bad Boy	Notorious B.I.G., Craig Mack, Faith Evans, 112, Puff Daddy, Total	50%-subsidiary of Bertelsmann Music Group
Def Jam	E.P.M.D., Foxy Brown, LL Cool J, Method Man, Public Enemy, Redman, Slick Rick	Sublabel of the Universal subsidiary, Island-Def Jam Music Group
Delicious Vinyl	Masta Ace, Tone-Loc, Def Jef, Young M.C., The Pharcyde, Brand New Heavies	Exklusive distribution by Island-PolyGram; later by Capitol/EMI
Grand Royal	Beastie Boys	Sublabel of EMI
Jive	Boogie Down Productions, KRS-One, DJ Jazzy Jeff & the Fresh Prince, Kool Moe Dee, Whodini	Sublabel of Zomba Music Group, a 20% subsidiary of BMG
London-Sire	Ice T, Donald D	Sublabel of Warner Music Group
Luke Records	2-Live-Crew, Rhythm Radicals, Afro Rican, Tony Roc, MC Twist	Exklusive distribution by WEA
Priority/Ruthless	Ice Cube, Ice T, N.W.A., Eazy E, Above the Law, Snoop Dogg	Sublabel of Capitol/EMI
Profile	Run-D.M.C., Twin Hype, King Sun, Poor Righteous Teachers, Chubb Rock & Howie Tee	Exklusive distribution by the BMG subsidiary, Arista
Rap-A-Lot Records	Geto Boys, Scarface, Do Or Die, Synpaz	Sublabel of the EMI subsidiary, Virgin Records
Rhyme Syndicate	Ice T, Divine Styler, Donald D	Exklusive distribution by WEA
Select	Kid & Play, Positively Black, U.T.F.O.	Exklusive distribution by Warner-Alternative Distribution Alliance
Stray Records	Slumlordz, DMT, The Coup	Exklusive distribution by Warner-Alternative Distribution Alliance
Sugarhill	Sugarhill Gang, Grandmaster Flash & the Furious Five, Melle Mel, The Sequence	Purchase of the back-catalogue to the Warner subsidiary, Rhino Records
Tommy Boy	Afrika Bambaataa, De La Soul, Digital Underground, Queen Latifah, Stetsasonic	Exklusive distribution by Warner-Alternative Distribution Alliance
Warlock Records/ Sleeping Bag	Jungle Brothers, Mantronix, MC Serch, DJ Magic Mike, C-Bo	Exklusive distribution by WEA

In the following examples, the majors also built up acts that were targeted towards mass taste rather than to sub-cultural scenes. Capitol-EMI, for instance, positioned MC Hammer as one of the first Pop Rappers on the market. Likewise, Eminem obtains musical supervision at the Universal subsidiary Interscope/Aftermath from the experienced producer Jimmy Iovine, who has worked with Bruce Springsteen, Dire Straits, Tom Petty, Patti Smith, and U2.²³⁸ By now, Rap has become a key part in the music programs of mainstream rock stations and music video channels. Since 1988, Rap is acknowledged by NARAS and has its own categories at the annual Grammy Awards.

3. THE SECOND MERGER MANIA IN THE RECORDING INDUSTRY (1985-2003)

The absorption of the Hip-Hop movement by the larger music corporations towards the end of the 1980s coincides with a wave of acquisitions that since 1985 has resulted in the music industry's highest market concentration since the 1940s. The rapid market growth beginning in the early 1990s appears to have accelerated the process of acquisitions and mergers. According to IFPI (1999: 5), the phonographic market grew worldwide (real, based on US\$) in the first half of the decade by an average of 5.25% (1992: +3%, 1993: +6%, 1994: +10%, 1995: +2%), whereas the decade's second half witnessed stagnation in retail.²³⁹ This development of the phonographic market is, of course, a result of the introduction of the CD, which almost completely pushed the vinyl record off the market in the 1990s. In 1995, however, the process of substitution was nearly finished, and it was no longer possible to achieve additional sales through secondary and tertiary exploitation of recordings. By mid-decade, the entire repertoire originally recorded on record was available on CD.

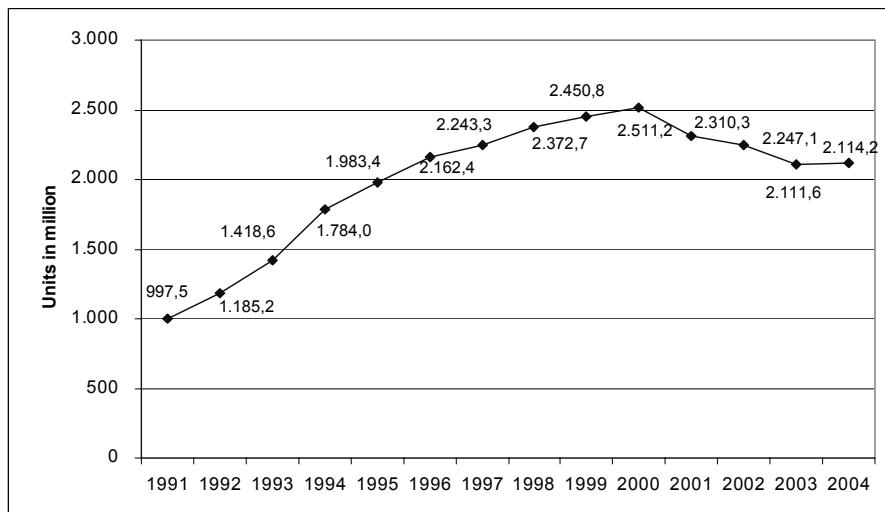
Especially in the mid 1990s, the real value of the CD segment's growth rate was significant (see Figure 23). Until 1994, quantitative growth even accelerated (1992: +18.8%, 1993: +19.7%, 1994: +25.8%). Only after 1994 did this growth begin to decrease once again, but it nevertheless remained strong (1995: +11.2%, 1996: +9.0%, 1997: +3.7%, 1998: +5.8%, 1999: +3.3%, and 2000: +2.5%). From 2001 on, however, the quantities of CDs sold have declined (2001: -8%, 2002: -2.7%, and 2003: -6.0%) (see Figure 22). After the boom that was triggered by the introduction of the CD had ended, stagnation set in, which resembled that of the 1980s and hit the main markets in the U.S., Europe, and Japan the hardest.

Before this, the economic recovery of the phonographic industry and the exorbitantly high rates of growth in the second half of the 1980s had attracted

²³⁸ We should also mention Will Smith, who has been under contract with Columbia/Sony since his success as an actor as well as the Pop Rappers Salt 'N' Pepa, who are supervised by Universal's subsidiary, London.

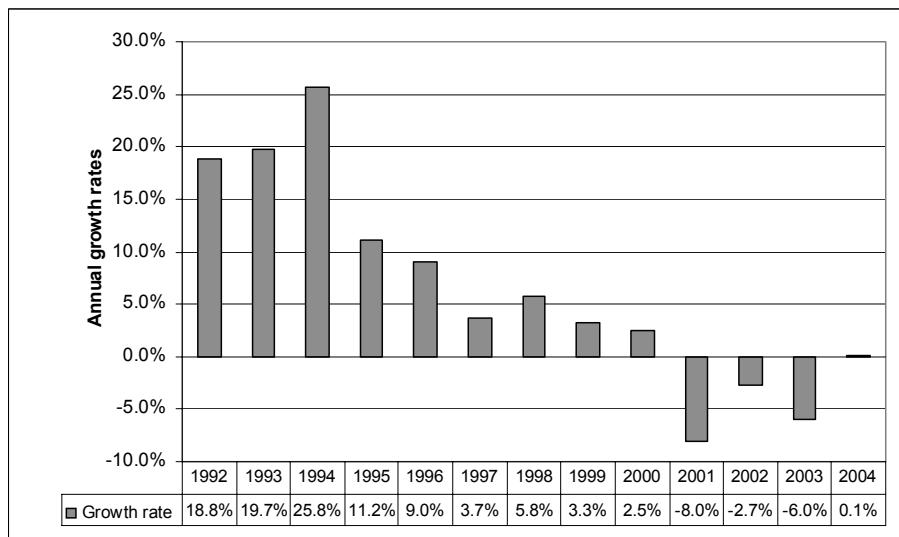
²³⁹ The real growth worldwide (based on US\$) was 2% in 1996, 0% in 1997, 2% in 1998, and 0% in 1999. Record sales even declined by 1% in 1998.

investors from outside the industry, which completely altered the ownership structures of the music industry in a second wave of acquisitions and mergers.



Source: After IFPI (2001: 17, 2004: 7-10 und 2005: 7-8).

Figure 22. The world sales of compact discs (1991-2004).



Source: After IFPI (2001: 17, 2004: 7-10 und 2005: 7-8).

Figure 23. The growth rate of the world sales of compact discs (1991-2004).

In 1986, the German publishing house Bertelsmann became the new owner of the traditional American label RCA.²⁴⁰ Bertelsmann had already been active in the music industry with its own label Ariola (since 1958) and Arista, which it had bought in 1979. But the purchase of Arista transformed the book and magazine publisher into a music industry major. In 1987, it coordinated its phonographic activities by founding the Bertelsmann Music Group (BMG), which continued to expand through subsequent acquisitions.²⁴¹

Two years after the takeover of the traditional U.S. label RCA-Victor, the other time-honored American label, CBS-Columbia, ended up in foreign hands as well. In 1988, the Japanese electronics corporation Sony, whose development of the Walkman and CD player had provided the music industry with important impulses, bought CBS-Columbia, with which it had already had a joint venture since 1968. This purchase instantaneously turned Sony into a music industry major. All at once, Sony assumed control over both a number of sub-labels (including Columbia Records, Epic, Stax, and Monument) and profitable artist contracts (such as Michael Jackson's), as well as extensive back catalogs covering just about all music genres, which could be exploited for a second and third time. For the purposes of the Japanese market, they founded Sony Music Entertainment (Japan) Inc., and for the international market they founded Sony Music Entertainment Inc., which served as a holding for all of Columbia's sub-labels. CBS-Columbia's extensive "classic" catalog was incorporated into the newly founded Sony Classic Label. In addition to the music business, Sony also acquired the Columbia film studios, which turned the Japanese electronic corporation into a big-time Hollywood player.

Another Japanese conglomerate attempted to match Sony. In 1990, the electronics giant Matsushita bought MCA for around \$6 billion, thus submitting another U.S. major to foreign ownership. Since the 1960s, MCA had grown to become a music-major through continual expansion. In 1962, it purchased Decca-U.S., which had been the parent corporation of the film company Universal since 1951. In 1973, Decca was transformed into the MCA label in order to increase the visibility of MCA as a music corporation, since it thus far had been mostly positioned as a TV and film corporation. In 1979, it bought ABC-Dunhill Records, in 1985 the traditional Blues label Chess Records, and in 1988 the Soul label Motown. Just before its merger with Matsushita in 1990, they also purchased Geffen and GRP Records and incorporated them into the MCA Music Entertainment Group. With MCA and Universal film studios, the Japanese conglomerate acquired two important pieces of America's cultural identity, which at the time provoked commentators to bemoan the cultural sell-out of U.S. goods. Indeed, at the beginning of the 1990s, three of the four U.S. majors had fallen into the hands of

²⁴⁰ In 1977, RCA began a joint venture with the Japanese Victor. In 1983, it bought 50% of the Bertelsmann subsidiary Arista.

²⁴¹ In 1989, BMG bought Miller International, which it then affiliated with Ariola. It also acquired Conifer Records, BNA Records, Logic Records, and the Zomba Record Group (with Jive, Verita, Reunion, Silverstone, Brentwood). In 2000, it entered a joint venture with the former CEO of CBS-Columbia and founder of J Records, Clive Davis.

foreign corporations. However, the ownership structure had no influence on product and geographical politics. The U.S. remained the largest retail market in the world, and U.S. repertoire continued to dominate the charts. Furthermore, Bertelsmann and Sony moved their conglomerates' headquarters to New York. The only remaining U.S. major was Warner Communications, which, however, merged with the media corporation Time-Life in 1989 in response to the "merger competition."²⁴² In this manner, Warner combined its music and film activities (WEA and Warner Bros.) with its partner's magazine, broadcasting, and television activities to position itself on the world market as a multimedia corporation.

Table 6. Ownership in the music industry in 1990.

Major Label	Ownership
PolyGram	Philips: Electronic conglomerate
EMI	Thorn: Electronic conglomerate
RCA	Bertelsmann: Publishing and media house
CBS-Columbia	Matsushita: Electronic conglomerate
WEA	Time-Warner: Publishing and media house

This merger mania did not initially affect the European music companies EMI and PolyGram. But all other music majors, which throughout the decades had shaped the face of the music industry (RCA, CBS, WEA, MCA), had completely new ownership structures by the late 1980s or early 1990s.

During the period of growth of the early 1990s, the merry-go-round of mergers and acquisitions continued. In 1979, with its purchase of United Artists Record Co., including the traditional labels Liberty and Blue Note, EMI had attempted to strengthen its position on the U.S. market. After merging with Thorn, it continued to expand in 1989 by acquiring the traditional British label Chrysalis. In 1992, EMI bought Richard Branson's Virgin Music Group and in 1994 the German Intercord. After EMI signed a cooperation contract with the electronic corporation Toshiba in 1994, Thorn retreated in 1996 from its connection with EMI, which once again began to focus on its core business in the music industry. In order to strengthen its music business, EMI acquired 50% of the Hip-Hop label Priority in 1996, which in 1998 became the complete property of EMI. One of the EMI Group's essential pillars is EMI Music Publishing, which is the world's largest music publishing house (in terms of value) and generates massive profits from commercially exploiting the artists it has under contract; the other is the production of records and their distribution through the retail chain HMV. The record industry's stagnation, however, had negative effects on the corporation's sales. In 1998/1999, they reported a sales decline from £2.42 billion to £2.37 billion. This period of weakness

²⁴² Until then, Warner Communications had merely acquired the relatively unimportant 20th Century Fox label in 1982.

and the departure of its strategic partner Thorn forced EMI to look for new partners in 1999. In 2000, they found what they had been looking for. After long negotiations, Warner Music Group (WMG) announced its takeover of EMI. The merger of these two music giants failed, however, due to the objections of the European antitrust commission, which judged this merger to constitute an illegal concentration of market forces, including those of the music market. The U.S. antitrust commission (FCC) agreed, resulting in the termination of the fusion between WMG and EMI. Consequently, the separation between EMI Music Group and HMV Group, which had been initiated in 1998, was accelerated with the HMV Group going public in 2002. In 2003, Time Warner once again tried to merge its record business with EMI's. This attempt was believed to be unrealistic due to the previously announced deal between Sony and BMG. The antitrust commissions in the U.S. and Europe would have been likely to prevent any further oligopolizing of the record industry. Consequently, Warner Music Group was sold to a group of investors led by Edgar Bronfman Jr. As the inheritor of Seagram, Bronfman had already acquired MCA and established Universal Music; however, after the merger with Vivendi, he once again retreated into the background. Next to EMI, the Warner Music Group thus mutated into a pure music corporation.

A few years earlier, everything looked different. In the midst of the New Economy boom, a new owner took over the Warner Music Group as a subsidiary of the Time Warner media corporation. In January 2000, America Online (AOL), the largest Internet provider in the U.S., purchased Time Warner's shares in what until now has been the largest corporate takeover in history, as measured by share value. After the dot.com bubble burst, however, the relationship changed once again: AOL did not just disappear from the company name but now plays a subordinate role in the larger corporation.

The Bertelsmann Corporation suffered a similar fate when it attempted to enter the online business at the beginning of 2000 with the creation of the Bertelsmann e-Commerce Group (BeCG). BeCG was created in order to add new business areas to BMG. Specifically, its own online distribution companies bought the Internet retailer CDNow, the music "locker" system myplay.com, as well as the Internet file-sharing site Napster, which was founded in 1998 by the 19-year old college student Shawn Fanning. However, none of these purchases generated profits, and Napster turned out to be a bottomless keg, leading BMG to sell it to Roxio, which reconfigured Napster II as a pay-per-download service. The decline of its record business further accelerated the search for new partners. In 2003, the merger between BMG and Sony Music Entertainment was announced. After the European and U.S. antitrust commissions approved the merger, Sony-BMG became a new phonographic corporation with its headquarters located in New York in 2004. Only the Japanese branch of Sony Music Entertainment remained as a subsidiary company of the parent corporation in Tokyo.

But in 2004, the number one corporation on the music market was not Sony-BMG, Warner, or EMI, but Universal Music, which belonged to the Canadian Seagram Group. Seagram is most commonly known for producing and distributing alcohol. In June 2000, it had merged with the French conglomerate Vivendi and

thus became the world's largest media corporation.²⁴³ In 1995, Seagram entered the entertainment industry after buying 80% of MCA from Matsushita. Matsushita was secretly happy about this sale, for it had never managed to match Sony's success in the music and film market. The Universal film studios produced losses, and the MCA Music Entertainment Group did not develop as the Japanese owners had hoped. After Seagram had bought the majority of MCA's shares, the MCA Music Entertainment Group merged with Universal Studios Inc. to form the Universal Music Group. In 1998, it became the largest entertainment and music corporation in the world when the Dutch electronics giant Philips acquired PolyGram.

Since its emergence in 1972, PolyGram continually expanded. After it bought Verve Records in 1980, it also acquired Decca-U.K. in the same year. After PolyGram became the sole property of the Philips Corporation in 1987, it continued its acquisition activities with the purchase of Island Records in 1989. In 1990, it took over A&M Records, and in 1994, it acquired 50% of the shares of the successful, label Def Jam. When Seagram took over PolyGram in 1998, the latter was already the largest music corporation in the world. What followed was an internal restructuring of the corporation's music business out of which the Universal Music Group (UMG) was born, which now encompasses the former MCA Music Entertainment Group and PolyGram. In 1999, UMG purchased the remaining shares of Def Jam and fused Decca and Philips into the Decca Music Group. The catalog of all of UMG's labels was incorporated into the Universal Music Enterprises, which thus commands the largest back catalog of the worldwide music industry. Finally, in the same year they renamed MCA Music Publishing into Universal Music Publishing, which acquired Rondor Music International Publishing Co. in 2000. Of late, UMG has been strengthening its music online activities by buying the Internet music portal Listen.com and two forerunners of Internet music services, EMusic and MP3.com. This is how the ownership structures of the music industry once again changed between 1990 and 2000 (see Table 7).

In the case of the Warner Music Group and MCA/PolyGram, larger corporations (AOL and Vivendi) bought their parent corporations, Time Warner and Seagram, respectively. EMI, too, would have become part of AOL Time Warner had it not been for the objections of the antitrust commissions. Although Bertelsmann did not change its ownership structure, its focus shifted away from its traditional book and magazine business to become a multimedia corporation as a result of having founded an e-commerce subsidiary by acquiring Napster and taking over the majority of the German television company RTL. Sony was the only major that did not engage in speculative acquisitions during the 1990s. This changed, however, in 2003/2004 when Sony Music Entertainment merged with the Bertelsmann Music Group to become Sony-BMG. Thus, a few years after the complete overhaul of the music industry, a new structural break occurred. The Warner Music Group was severed from Time Warner and once again became an independent phonographic corporation; after the public offering of its HMV retail chain, EMI recommitted to

²⁴³ At the end of 2001, Vivendi sold Seagram's distillation segment to Diageo and Pernod for \$8.1 billion.

its core competencies in music production; and with Sony-BMG, we now have another global player whose power is similar to that of the Universal Music Group.

Table 7. Ownership in the music industry in 2000.

Major Label	Ownership
Universal Music Group	Vivendi: Media and telecommunication, water supply and waste utilization company
Warner Music Group	Time-Warner: Publishing and media house AOL: Internet provider
Bertelsmann Music Group (BMG)	Bertelsmann: Publishing and media house
Sony Music Entertainment	Sony: Electronic conglomerate
EMI	EMI Group: Entertainment conglomerate

At the beginning of the 21st century, the four majors' market share totalled in excess of 80%. We cannot enumerate reliable numbers due to the secrecy of the companies' information. Based on the MBI World Report of 1999, which neither accounts for the globally active independents nor those companies that successfully exploit regional markets, we can derive the following numbers: What in 1997 still used to be five majors commanded a total of 83.6% of the market. The world leader was PolyGram with 17.3%, which grew to 23.2% after its merger with Universal (5.9%). In second place was Sony Music with 16.9%, closely followed by EMI (14.9%) and the Warner Music Group (14.7%).²⁴⁴ The Bertelsmann Music Group was then in fifth place with 13.9%.²⁴⁵

Table 8. The world sales market share of the music majors in 1997.

Record Major	World-wide Market Share
Universal/PolyGram	5,9 % + 17,3 % = 23,2 %
Sony Music Entertainment	16,9 %
EMI	14,9 %
Warner Music Group (WMG)	14,7 %
Bertelsmann Music Group (BMG)	13,9 %

Source: MBI World Report 1999 (after Gebesmair 2000: 69-70).

Based on the world's 10 largest markets, the music industry is characterized by a very high degree of market concentration.

²⁴⁴ If EMI and WMG had been allowed to merge, they would have become the world's largest music corporation with nearly 30% of the total market share.

²⁴⁵ For 2003, IFPI lists the following market shares: Universal Music Group: 23.5%, Sony-BMG: 22.2%, EMI: 13.4 %, and Warner Music Group: 12.7 %.

Table 9. Concentration Ratio in the 10 Largest Record Markets (1997).

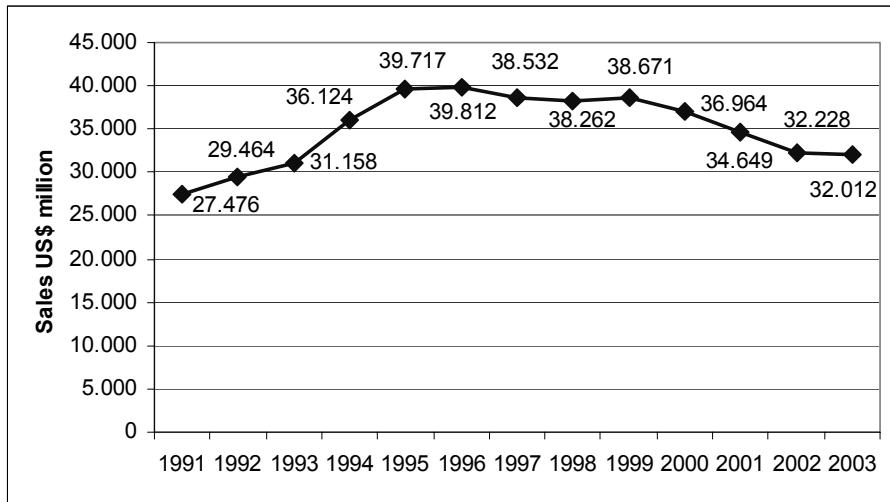
	PolyGram	Sony	EMI	Warner	BMG	Universal	C4	C6
U.S.A.	14,0	16,6	12,9	18,2	12,2	10,4	61,7	84,3
Japan	12,6	17,0	10,7	5,6	5,1	0,0	47,9	60,7
Germany	23,5	15,3	19,1	12,6	19,3	2,3	77,2	92,1
Great Britain	22,4	15,4	12,3	12,0	7,7	4,7	62,1	79,0
France	35,5	23,1	22,0	7,5	6,7	1,9	88,1	96,7
Brasil	20,5	17,7	13,0	16,4	17,3	3,5	71,9	88,4
Canada	15,9	16,7	14,7	18,3	9,4	15,2	66,1	90,7
Spain	14,5	14,4	23,4	20,0	12,6	4,2	72,3	89,1
Australia	16,0	24,1	18,0	16,6	8,9	6,2	74,7	89,8
Italy	22,0	18,8	16,1	17,7	16,2	7,0	74,7	97,8

Source: MBI World Report 1999 (after Gebesmair 2000: 69-70).

According to these numbers, only the Japanese market is not exclusively dominated by the majors, since it has at least four additional phonographic corporations that own significant market shares (Avex: 7.6%, Victor: 7.2%, Nippon Columbia: 4.9%, and King: 4.4%). The C4 concentration thus lies below 50% in Japan, and the C6 ratio is barely above 60%. In all other markets, the C4 ratio is in excess of 60%. In Brazil, Spain, Australia, Italy, and Germany, it is above 70%, and in France it is at a staggering 88%. The C6 ratios almost everywhere (except for Great Britain with 79%) exceed 80%. In some countries (Canada, Germany, France, and Italy), this ratio even lies above 90%. Italy is the leader with 97.8%, a ratio that approaches total market domination by the majors. The majors' accumulation of market shares is due to the wave of mergers of the 1980s and 1990s, which drastically reduced the number of active music corporations all over the world. This process of concentration takes place in the context of a shrinking phonographic market, which came under additional pressure due to the new possibilities of Internet music.

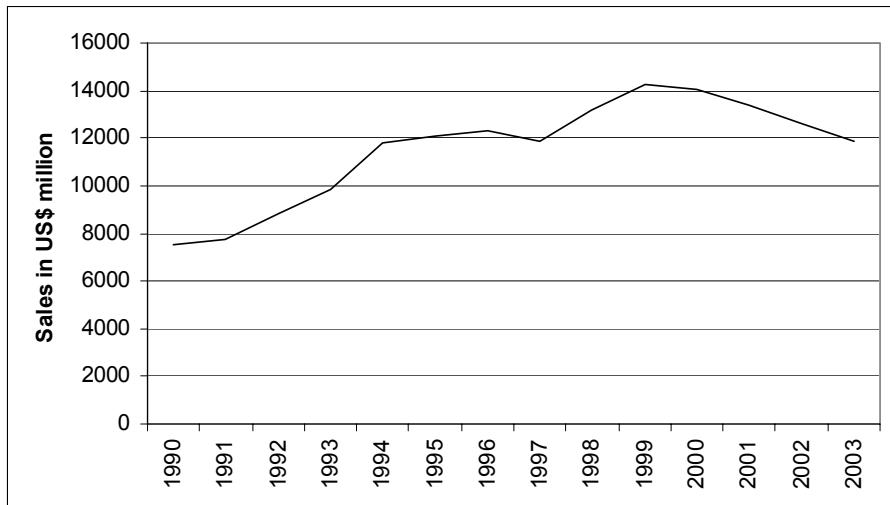
In 1997, worldwide record sales (based on US\$) declined slightly for the first time after the sales increase caused by CD sales; between 1999 and 2003, sales declined by 17.2%. Compared to the sales peak of 1996, this amounts to a nearly 20% decline. A similar picture emerges for the world's largest market, that of the U.S. After years of growth at the beginning of the 1990s, the market began to stagnate, beginning in 1994. Only in 1998 did it witness a sales increase of 9%. Between 1999 and 2003, sales decreased by an additional 16.9%.²⁴⁶

²⁴⁶ The other large phonographic markets witnessed the following sales developments (based on US\$): Japan (-24.9%), Canada (-17.5%), Germany (-16.5%), Italy (+9.1%), Great Britain (+13.7%), Australia (+20.1%), and France (+23.3%).



Source: After IFPI (2001: 17, 2004: 7-10).

Figure 24. World retail record sales (in US\$ million) between 1991 and 2003.



Source: After IFPI (2001: 17, 2004: 7-10).

Figure 25. U.S. record sales (US\$ million) between 1990 and 2003.

The worldwide shrinking of phonographic markets seems to indicate that the music industry is in the middle of a new structural break at the turn of the 21st century. After the music industry changed a number of times due to external

influences throughout the 20th century, it appears this time that new media and the Internet are the driving forces behind this latest structural break.

4. MUSIC PROVIDERS ON THE INTERNET

The Internet constitutes a new distribution channel for music and other types of content available in the form of electronic data. The roots of the Internet go all the way back to the 1960s, when the American Rand Corporation began to work on a decentralized and indestructible military communications network. In 1969, ARPANET began running, connecting powerful computers used in the sciences. The network initially consisted of four university computers but soon grew and established itself as a communications network for U.S. universities. In 1981, 213 computers were integrated in the ARPANET. One year later, the term "Internet" was used for the first time for this communications network, and in the same year the Transmission Control Protocol/Internet Protocol (TCP/IP) was developed as a universal language for the Internet. In 1987, the Internet encompassed more than 10,000 computers, with the growth rate increasing exponentially. In 1996, 10 million computers were connected to the Internet.

The introduction of the M-Bone-Systems in 1992 was crucial for the transmission of audio and video signals. From that point on, it was possible to send music data easily over the Internet. At the beginning of the 1990s, a method for compressing digital audio signals appeared on the Internet under the name MP3 (Motion Picture Expert Group-1/Layer 3). Only then did it become possible to send music through the Internet in a quality that approximated that of CDs and store it on a computer hard drive.²⁴⁷ Music data spread in this format across the worldwide web, but the rights to this data were partly owned by the majors' music publishers. Consequently, the alarm bells began to ring in the music corporations' boards of directors. MP3 made it possible to consume free of charge music that did not depend on a phonogram. The established companies of the music industry had to acknowledge that phonograms had become superfluous, and that their copyrights could be undermined, which appears to doubly endanger the recording industry's business foundation. In addition, the Internet functions as a distribution channel that, at least initially, cannot be controlled by the majors and that allows superstars to market themselves directly to their audience without having to deal with the record companies.

The revolution currently occurring in the music industry leads to the reality that the music business is no longer tied to the phonogram; instead, it represents a service that one can access through the Internet.

²⁴⁷ At the end of the 1980s, a research team from the Institut für Integrierte Schaltungen (IIS) of the Fraunhofer-Institut in Erlangen, Germany, developed MP3 as a method for compressing digital audio signals for movies. Since the results were unsatisfying, the scientists from Erlangen made MP3 publicly available on the Internet. In a very short time period, MP3 spread as the dominant format for compressing music and by now has become the standard technology on the Internet.

Before MP3 technology provided consumers with a format for compressing data to send music without significant loss of quality, the Internet functioned simply as an additional outlet for the sales of phonograms. Internet companies such as Amazon.com, which initially distributed books over the Internet, expanded its product pallet by including CDs and other carriers of sound and image. What online retailers offer is essentially not all that different from what traditional retailers offer, with the main difference being the ability to check the quality of the goods ordered in advance.

However, the Internet offers many more far-reaching possibilities than merely a means to further the distribution of phonograms. Because music can be stored digitally, it is possible to offer music as a service to the consumer independent of any phonograms. In this context, we need to distinguish between two methods: streaming and downloading. The streaming procedure allows one to listen to music but not store it on a computer. Downloading, in contrast, stores music files on a computer, which then enables one to make an infinite number of copies. From the music industry's vantage point, the greatest dangers to its interests are posed by downloading. On one hand, there is the danger that copyright protected music files will be circulated; on the other, downloading undermines the phonographic business by making it superfluous.

In order to use the basic strengths of the Internet as a distribution channel for information that can be accessed online, most business models are based on the principle of downloading music data onto computer hard drives. Many Business-to-Consumer (B2C) and Peer-to-Peer Services (P2P) are based on this idea. The basic difference between these models is that B2C Services store music data on a central company server from which consumers download desired files, whereas P2P Services function as trading sites. P2P Services allow users to download desired music files directly from the hard drive of a trading partner, rather than from a company server. This is also known as file sharing. In both cases, we can differentiate between business models that charge for downloads versus those that offer them for free. As a result, we can distinguish between four basic business types (Figure 26).

4.1. Free of Charge B2C Services (Quadrant I)

At the beginning of the music download boom, these business models represented the most widespread music services. This was the case because the Internet community still searched for free offers, and it was possible to find such companies with little personal capital. Models for financing such businesses were designed accordingly. One or more venture capitalists usually provided the start-up capital, and business activities were mostly financed through advertising revenue. But many of these services soon disappeared from the market when the New Economy boom ended, and the music industry began to sue those companies that provided music data on the Internet without owning the licenses to them.

The pioneer of free download services was the Internet-company MP3, which Michael Robertson founded in November 1997 in San Diego, California. In March

1998, it commenced its business activities as the world's first music service provider. Its core business, the so-called digital automatic music service, allowed customers to put together their own CDs based on free downloads, which MP3.com would then burn and send to the consumer. Musicians were able to determine themselves what the price of a CD ought to be. Choosing from a price range between \$6.99 and \$30.00, they received 50% of the sales. The service was free of charge for the musicians. Another advantage for the musicians was that they did not have to sign any exclusive contracts with anyone and were able to control their own copyrights. In order to bind artists more closely to the company, however, MP3 installed a payback-for-playback service for those who wanted to participate in a Premium Artist program. The charge for the ability to participate was \$19.99 per month. In addition to the preferred promotion of songs through MP3's homepage and Internet radios, Premium Artists received a share of the advertising revenues depending on the number of downloads (at the best of times, they amounted to \$1,000,000 per month). The most successful band in March 2001—The Cynic Project from Minnesota—received a share of the profits in the amount of \$8,700.

Music download						
		free of charge	fee			
Business Model	B2C					
	P2P	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 5px; text-align: center;">I</td><td style="padding: 5px; text-align: center;">II</td></tr> <tr> <td style="padding: 5px; text-align: center;">Napster (old) Gnutella Freenet Soulseek Audiogalaxy KaZaA etc.</td><td style="padding: 5px; text-align: center;">III IV Mojo Nation</td></tr> </table>	I	II	Napster (old) Gnutella Freenet Soulseek Audiogalaxy KaZaA etc.	III IV Mojo Nation
I	II					
Napster (old) Gnutella Freenet Soulseek Audiogalaxy KaZaA etc.	III IV Mojo Nation					

Source: Tschmuck (2001b: 731).

Figure 26. Business models of music providers on the Internet.

The music majors rejected MP3.com mostly because of its MyMp3 Services. MyMp3 Service allowed customers to upload privately owned CDs onto the web through an MP3.com databank that, in turn, made such CDs locally available. To this end, MP3.com created a comprehensive music data bank for which no licensing fees were paid. After a long legal fight, MP3.com agreed in an out-of-court settlement to pay four of the five music majors \$80 million (\$20 million per major) in compensation. MP3.com could not come to a settlement with the Universal Music Group, however. In November 2000, MP3.com was sentenced to pay \$53.4 million in compensation and had to agree to give Universal the option to take over up to 20% of the company. The result was that MP3's most important advertising customers retreated; in the end, only the takeover by Universal in 2001 saved the Internet music provider from bankruptcy.

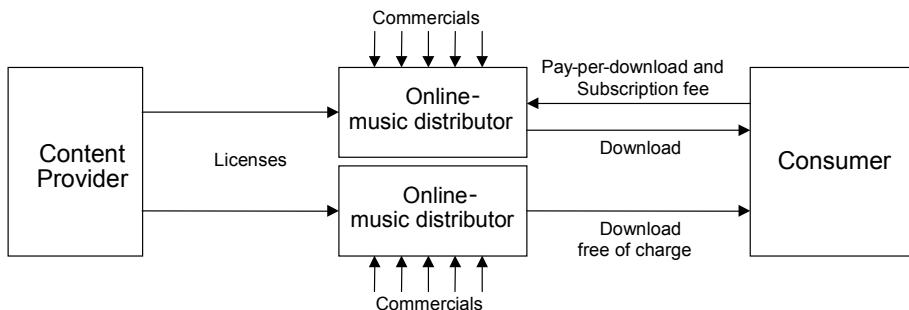
4.2. Chargeable B2C Services (Quadrant II)

Two kinds of companies were active in the arena of chargeable B2C Services. On one hand, there were companies that operated in the vicinity of the music majors and thus had a decent company-owned capital basis; on the other hand, there were those companies that used music as an incentive for customers to purchase other products (i.e., Apple's iTunes, which served to get listeners to buy the company's iPod). Realnetworks, which started its music subscription service MusicNet at the beginning of April 2001, belonged to the former. Together with Warner Music and EMI, the Bertelsmann Music Group had licensed its catalogs for this new service. The advantage was that the cooperation with the majors vastly increased the available music selection. A subscription service is capable of realizing its full potential especially when its selections are of a wide range and its program includes many of the titles that are well known from mass media exposure. MusicNet could not afford to forgo Universal and Sony's participation for primarily this reason. However, at the end of 2001, these companies started their own subscription service, Pressplay. In the meantime, all majors had begun to make their back catalogs available on both subscription services. But due to a restrictive download policy—instead of using the widespread MP3 format, the majors attempted to establish their own compression formats or to protect their data with the help of Digital Rights Management—these services, as well as Sony's Connect, did not achieve commercial success.

For a while, EMusic.com, in existence since May 1998, had success with its chargeable download service. EMusic was a publicly traded stock company that operated not just a music platform of the same name but also other websites such as RollingStone.com, DownBeat.com, and the underground site IUMA. Due to licensing agreements with 600 independent labels, EMusic was able to offer more than 150,000 downloadable songs in MP3 format for a charge in 2001. Consumers could access downloads either by paying for them individually or by subscribing on a monthly basis. Despite the income from the music business, more than 80% of the company's revenue came from advertising. In the end, EMusic.com was not able to generate profits, and they eventually were glad that the French media conglomerate

Vivendi, which also belonged to the Universal Music Group, bought EMusic's shares for \$23 million in April 2001 and assumed the company's debts.

A current survey of free of charge and chargeable B2C music services reveals a number of competing concepts. Nevertheless, some initial tendencies for the development of a viable business model become apparent. One example of a business model that might become commercially successful is Apple's iTunes. It offers the possibility of purchasing licensed music data in an AAC format either as individual downloads or as a whole album. The purchased data becomes the restrictions-free property of the consumer. However, iTunes' business model is not really based on music downloads or additional advertising revenues; rather, the music functions mostly as an incentive to get the consumer to buy Apple's music player, the iPod. This example, too, shows that the most important role in financing business activity is not the payment of licensing fees, since in most cases they merely subsidize the revenue generation; in and of themselves, fees are vastly insufficient as a means to maintain the continuity of the companies' business activities.



Source: Tschmuck (2001b: 734).

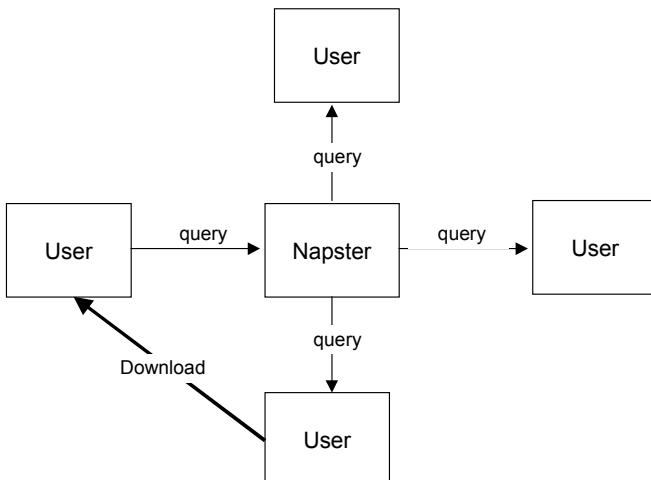
Figure 27. Business models of chargeable and free of charge B2C music services.

4.3. Free of charge P2P Services (Quadrant III)

P2P Services merely provide the software for the exchange of music data; they are only indirectly part of the actual trade of music files. Before Bertelsmann took it over, the music exchange site Napster worked based on this principle. A central server provides a search engine, but after files have been located, Napster does not interfere in the process of exchange between trading partners. At its peak, Napster was by far the most successful music exchange site on the Internet. In January 2001 alone, it had 1.2 million visitors in Germany, which amounted to 10.2% of all Internet users in Germany. In the U.S., Napster's range even reached 14.1%. In February 2001, about 44.6 million Internet surfers worldwide used Napster (Jupiter MMXI Europe 2001).

Napster had a number of imitators that pursued a similar business model. Platforms such as Audiogalaxy, Aimster, or Scour Exchange provided the software

for users who then exchanged their files directly with each other. The main source of income for these Internet exchange sites is advertising. These file sharing systems used the advantage they had to provide neither an extensive database nor the technological infrastructure for the exchange of data. However, the decentralized file sharing suffered from the disadvantage that such an Internet company did not own any copyrights for the traded data material; as a result, it could indirectly become part of illegal activities. This was the reason that Napster and its successors had to cave in once the majors sued for copyright violation based on the fact that any user's search queries had to be routed through the company's central server.



Source: Tschmuck (2001b: 735).

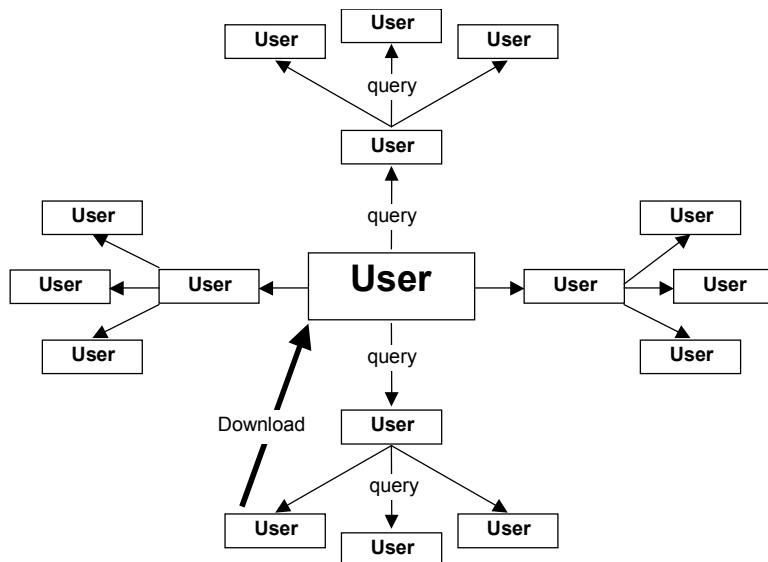
Figure 28. The concept of P2P Services (i.e., Napster old).

However, there are also file sharing platforms that do not have a centralized server, such as FreeNet, Gnutella, and Morpheus/KaZaA. Their sole job is to make file exchange software available as a free download. The advantage of these networks is that they work in a totally decentralized fashion. Also, because they have no business address and cannot be identified as a registered company, they are largely protected from legal attacks. Consequently, though, these networks do not serve any commercial purposes, especially if we ignore the sale of addresses that are gained with the help of spy software. How a decentralized file sharing network operates can be shown with the example of Gnutella.

At first, an Internet user sends a query to all neighboring users in the network. These neighbors pass on the query to their neighbors and those neighbors to theirs, etc., until the desired content is eventually located. The located material is then exchanged directly between provider and searcher.

This kind of exchange process cannot really be used for commercial purposes, however. Furthermore, Gnutella and similar servers require many users that volunteer to make their music databases available for free on the Internet. This,

however, is the Achilles heel of this exchange system, as is evidenced by a study conducted by Adar and Huberman (2000). In a user study, they examine Gnutella in terms of the relationship between users that offer databases and those that merely search for songs. The researchers noticed that 70% of all Gnutella users do not offer any data for file sharing and that 50% of the selections are provided by 1% of the server's users. Evoking Hardin (1968), Adar and Huberman (2000: 3) speak of the "tragedy of the digital commons," by which they mean that the majority of users of a freely accessible network are parasites searching for free offers but not reciprocating. As a result, networks with too many free riders can become dysfunctional and subsequently collapse. So, despite Gnutella network's decentralized operational logic, it is easily vulnerable because its music databases are concentrated in the hands of merely a few providers. All it takes is to identify those few users that make copyright protected materials available on the Internet and then shut down their computers, which de facto operate as servers.



Source: Tschmuck (2001b: 736).

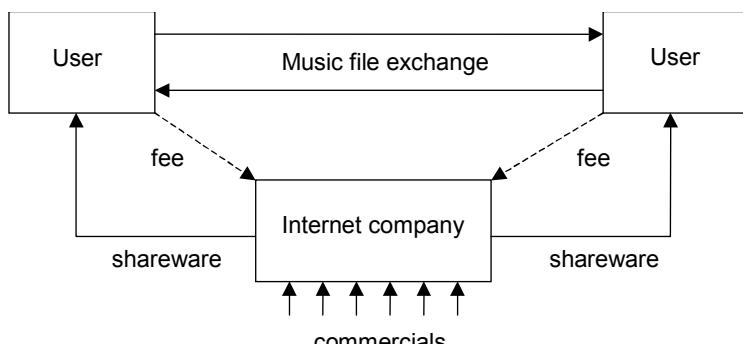
Figure 29. The concept of P2P Services (i.e., Gnutella).

4.4. Chargeable P2P Services (Quadrant IV)

The free rider problem of decentralized networks such as Gnutella requires new ideas for solutions. An Internet company that called itself Autonomous Zone Industries (AIZ) and was founded in July 2000 by seven hackers took the disadvantages of decentralized networks in order to develop a business model that was supposed to combat parasitical behavior. The solution was called Mojo Nation

and resembles the Gnutella network. The difference is, however, that the exchange of files was not free in the Mojo Nation network. The programmers introduced an exchange currency, Mojos, which had to be paid in order to download of data. Users could earn Mojos by providing data of their own. With the help of earned Mojos, users were able to purchase downloadable music databases and other digital content. In essence, the introduction of Mojos represents the privatization of a public exchange network. The Mojos provided an incentive for users to offer data, since only such an action allowed users to download data from the net. The concept of a virtual currency was primarily supposed to stabilize the exchange system and to use computer capacities more efficiently, but it was not supposed to solicit fees for the use of copyrighted materials. In order to safeguard the network against lawsuits, they stored the tradable content only in a decentralized manner and in coded form. In order to evade the U.S. courts, AIZ established its official company headquarters on the Cayman Islands. However, the data exchange with the help of the Mojo currency never gathered momentum, and soon after completing the Beta Test, the server terminated its operation.

Whatever shape and form solutions end up taking for the commercial exploitation of P2P Services, operators need to consider that they merely function as providers of the exchange software. Their services can ask for money only if they are able to provide an additional use of their services that exceeds that of the free of charge exchange software. However, the generation of income with the help of advertising is bound to play an important role for commercial P2P Services.



Source: Tschmuck (2001b: 738).

Figure 30. Business models of chargeable and free of charge P2P music services.

The business models that fight for the goodwill of music consumers on the Internet are quite different, and range from record distribution to the chargeable P2P Service, as the survey in Figure 31 illustrates. Combinations of different business types, such as the link between free music downloads and record distribution, add to the represented typology.

Many of these Internet services are based on the MP3 standard. The majors especially, however, consider MP3 a technology enabling the illegal dissemination

of copyright protected music through the Internet. The representatives of the industry therefore suspect enormous losses caused by music piracy on the Internet. The first response to the success of some Internet music companies was to sue them for their violation of legal copyrights. At first, they attacked music companies such as Napster and MP3.com as the main culprits. Once the music majors managed to shut down these companies through successful lawsuits and acquisitions, they swamped Napster imitators Morpheus/KaZaA, Aimster, and Audiogalaxy with lawsuits. But even if these lawsuits should succeed, new providers will step in that are either impossible to combat with legal means due to the location of their company headquarters or to shut down due to their decentralized mode of operation. Hence, the recording industry currently expends much energy and resources to combat small, undercapitalized Internet providers that offer music not in the form of phonograms but as services. But this is precisely the great difference that resembles a paradigm shift that has already twice before completely changed the structures of the music industry.

Business models with phonograms		Business models without phonograms			
Phonogram mail order	“Locker”-services ¹⁾	Business-to-consumer- services		Peer-to-peer-services	
		free download	with a fee	free download	with a fee

Source: Tschmuck (2001b: 738).

1) “Locker”-services provide software for the transfer of the content of private compact discs to a company’s server for world-wide availability.

Figure 31. Typology of business models of music providers on the Internet.

The majors display a reflex-like reaction to competitors that have appeared unexpectedly, since they operated from outside the music industry’s purview. As such, this response is similar to those reactions it had throughout the history of the music industry whenever it encountered unwelcome competitors that seemingly emerged from out of nowhere. Even before the music industry developed out of the phonographic industry, patent lawsuits were the first option they pursued in order to nip competitors in the bud. Likewise, when broadcasting began its triumphal march around the world, the music corporations sued for copyright violations in order to force the new medium to abide by its rules; and yet, this did not prevent the broadcasting stations from buying up the former music majors (Victor and Columbia) years later. Similar behavior patterns can also be observed in the cases of the introduction of electric recording technology, the development of the magnetic tape, and the market introduction of the music cassette.

In all these cases, the established phonographic corporations reacted defensively to the emergence of technological or aesthetic (such as Rock ‘n’ Roll) changes. Once they could no longer ignore the forces of change, they attacked them and tried to shut them down with the help of legal procedures. Today, the same kind of behavior

pattern is displayed by other protagonists of the music industry in their fight against “illegal” Internet music. Instead of proactively participating in the change towards new distribution possibilities for music, the majors choose the defensive strategy of using legal means under the pretext of protecting the copyrights of those artists that have contracts with them. In reality, however, the conglomerates are less concerned about the artists than their commercial interests. They are currently running the danger that the technology they have thus far been able to control will soon belong to the dustbin of history. The latest sales and profit reports of the big four’s music branches seem to confirm this speculation. The Warner Music Group, for instance, ended its last year before its sale to an investor group led by Edgar Bronfman Jr. with a loss of \$1.3 billion.²⁴⁸ Universal’s profit declined between 2002 and 2003 by 87.4%, and its sales decreased by 20.4%.²⁴⁹ Sony Music Entertainment recorded a sales decline of 11.6%,²⁵⁰ and BMG and EMI’s sales stagnated after significant declines in previous years.²⁵¹

²⁴⁸ Annual report 2003 of Time Warner.

²⁴⁹ Annual report 2003 of Vivendi Universal.

²⁵⁰ Annual report 2004 of Sony.

²⁵¹ Annual report 2003 of Bertelsmann AG and annual report 2004 of EMI.

CHAPTER 10

THEORETICAL CONCEPTS OF INNOVATION AND CREATIVITY

In Chapters 1 through 9, I delineated the development of the music industry in the 20th century in order to reveal the complex relationships between music aesthetic, technological, legal, economic, and social processes of change. Up to this point, this book could also be read as presenting a history of the music industry in the 20th century, even though I do not claim that my account has exhausted the topic. Table 10 provides an overview of the music industry's most important novelties in summary form. This comparison shows that the occurrence of novelty in the music industry is not limited to the level of technology; instead, novelty manifested itself also in terms of music aesthetics, legal conditions, labor relations, organization and industry structures, job roles, etc. It would thus be insufficient to reduce the changes the music industry has undergone exclusively to technological transformations. Nevertheless, technological change has played an important role in the development of the music industry; therefore, we have to analyze its effects more specifically. To do this, we can turn to a number of concepts of innovation, most of which are derived from the field of economics.

1. TYPOLOGIES OF INNOVATIONS

According to the language of economic theories of innovation, an invention is a novelty that has never existed in this particular form. However, an invention is not automatically an innovation. An innovation has occurred only after the invention is successfully put on the market. Consequently, we must not equate the inventor with the innovator. The first to make this distinction was Schumpeter (1911/1934), who strictly differentiated between an innovative entrepreneur and an inventor:

Economic leadership in particular must hence be distinguished from "invention." As long as they are not carried into practice, inventions are economically irrelevant. And to carry any improvement into effect is a task entirely different from the inventing of it, and a task, moreover, requiring entirely different kinds of aptitudes. Although entrepreneurs of course may be inventors just as they may be capitalists, they are inventors not by nature of their function but by coincidence and vice versa. Besides, the innovations which it is the function of the entrepreneurs to carry out need not necessarily be any inventions at all (Schumpeter 1911/1934: 88-89).

Table 10. The development of the music industry in the 20th century.

	1900-1910	1911-1920	1921-1930	1931-1940	1941-1950	1951-1960	1961-1970	1971-1980	1981-1990	1991-2000
Technology	The disc becomes the generally accepted standard for recording 1904: First double-sided record	1920: First commercial broadcast in the U.S.	1925: Introduction of electrical recording 1927: First sound film and introduction of jukeboxes	1934: High fidelity 1935: Introduction of magnetophones in Germany	1948: Vinyl disc and introduction of magnetophones in the U.S. 1949: Top-40 charts in the U.S.	1954: Transistor radio 1958: Introduction of stereo recording	1963: Compact-audio-cassette 1966: Car radio 1966: Dolby-A noise reduction	1975: First music-video 1978: Laser disc 1979: Walkman	1981: Start of MTV 1982: Compact Disc (CD) 1985: CD-ROM 1987: Digital Audio Tape (DAT)	1992: MP3 1995: DVD
Legal Framework	1909: US-Copyright Act	1914: Foundation of ASCAP	1927: U.S. Radio Act	1934: U.S. Federal Communications Act 1939: Foundation of BMI	1947: U.S. Federal Communications Commission deregulates the market of broadcasters	1959: U.S. Congress Payola-hearings	1961: Rome-Convention 1967: Foundation of the World Intellectual Property Rights Organization (WIPO)	1971: Agreement against unauthorized reproduction of records 1976: U.S. Copyright Act		1996: WIPO Copyright agreement 1998: U.S. Digital Millennium Copyright Act
Music genres and music styles	1901: First recording of an opera-star (Chaljapin)	1917: First Jazz recording by the Original Dixieland Jass Band 1920: First Blues recording by Mamie Smith	1922: First original Jazz recording in New Orleans style 1923: First "Hillbilly" recording by John Carson	1934: Begin of Swing-era	1944: First Bebop recording 1945: Rhythm & Blues	1954: Rock 'n' Roll conquers U.S.-charts 1955: Hard Bop 1958: Folk music boom and Free-Jazz movement 1960: Soul music	1962: Breakthrough of the Beatles 1963: Breakthrough of the Rolling Stones and Reggae-boom 1965: Folk-Rock 1966: Psychedelic 1968: Classical-Rock 1969: Hard-Rock and Heavy Metal 1970: Jazz-Rock	1971: Funk 1973: Art Rock 1976: Punk Rock 1978: Breakthrough of Disco music 1979: First House party in Chicago and first Rap recording	1982: Emergence of World music movement 1986: Acid House 1988: Techno	

In his early work “The Theory of Economic Development” (1911/1934), Schumpeter describes the entrepreneur in terms of a small minority of dynamic agents. In contrast to the vast majority of the population, entrepreneurs actively adapt to altered circumstances, overcoming all internal and external resistance in order to create something new. The Schumpeterian entrepreneur might be described as a Nietzschean Overman who recognizes new combinations, is capable of establishing them on the market, and thus advances the development of capitalist economies.²⁵²

In a later work, Schumpeter (1976) calls this type of entrepreneur a “creative destroyer.” The “creative destroyer” is capable of gaining market acceptance with new combinations of already existing economic possibilities. These new combinations manifest and materialize themselves in new products and production qualities, as well as in novel ways of exploiting existing products. Furthermore, Schumpeter also accepts new production methods, the cultivation of new markets, and the alteration of economic organizations as examples of combining existing economic possibilities.

Brooks (1982) concretized this rather broad concept of innovation. He distinguishes between technological innovation and social innovation, with the latter being subdivided into (1) market innovations, (2) management innovations, (3) political innovations, and (4) institutional innovations. By market innovations he means novel marketing capabilities that help make it possible to introduce either already existing technologies in new markets or new technologies in already existing markets. Brooks describes management innovation as new work organizations leading to an increase in productivity. Political innovations are characterized by political and legal actions that aim at new goals. Finally, Brooks calls institutional innovations those novel institutions providing new services or fulfilling social functions. As can be seen in Table 10, given our task of investigating the music industry, it makes some sense to expand the concept of innovation. Throughout the music industry’s development in the 20th century, we can find all of these types of innovation (see Table 11).

No clear-cut borders exist between individual types of innovation, since the transitions between them are flowing, and many individual types overlap in practice. Nevertheless, such a typology is useful, for it allows us to overcome an overly one-sided examination of technological innovations.

We need to keep in mind, however, that the intensity of the innovations’ effects might vary. It makes sense, therefore, to distinguish between incremental and radical innovations. According to Mansfield (1968), incremental innovations are characterized by altering a limited number of parts of existing technologies, causing the entire technological system to improve; in contrast, radical innovations bring

²⁵² “Therefore, too, the carrying out of new combinations is a special function, and the privilege of a type of people who are much less numerous than all those who have the ‘objective’ possibility of doing it. Therefore, finally, entrepreneurs are a special type, and their behavior a special problem, the motive power of a great number of significant phenomena” (Schumpeter 1911 [1934: 81-82]).

about a totally new product design. On the level of technological product and process innovation, we can thus discern four types of innovations (see Table 12).

Table 11. Types of innovation in the music industry.

Type of Innovation	Examples
Market innovation	Music promotion by radio disc-jockeys
Management innovation	Music production by independent music producers
political innovation	Introduction of copyright laws
institutional innovation	Foundation of collecting societies (e.g., ASCAP)

Table 12. Typology for technological innovations in the music industry.

	Product innovation	process innovation
incremental innovation	Double-sided discs Portable gramophones Dolby noise reduction	Full Frequency Range Production (ffrr recordings) Stereo recordings 24-bit CD-technology
radical innovation	Vinyl-disc Compact disc and CD player MP3	Electrical recording Multi-track recording Exchange of music on the Internet

However, as I have already shown (Table 10), technological innovations are not the only ones of importance for the music industry; hence, we have to expand the typology of incremental versus radical to incorporate social innovations.

The overview provided in Table 11 shows, however, that the types of innovation we have thus far specified are insufficient to fully understand the music industry's development. The music industry is also affected by aesthetic innovations, which manifest themselves in new music genres and styles.²⁵³ Hence, the developments of Jazz in the early 1900s and Rock 'n' Roll in the 1950s represent significant aesthetic innovations that went hand in hand with technological and social innovations. In addition, we can also regard Bebop, Heavy Metal, Punk Rock, Disco music, and,

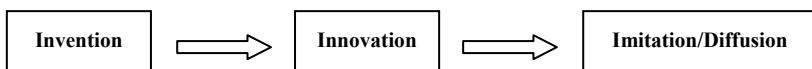
²⁵³ This does not mean that aesthetic innovations do not play a role in technological industries, such as the car industry. On the contrary, a new car design assumes the same importance as the construction of a new engine. However, we can understand production design as part of an expanded concept of technology.

more recently, Hip-Hop as musical innovations. Yet, all of these represent only incremental innovations, since they had no influence on the conditions of production in the music industry beyond their effects on aesthetic codes. In contrast, Jazz in the 1920s and Rock 'n' Roll in the 1950s seemed revolutionary in the sense that they were part of a larger structural break in the development of the music industry and required completely new conditions of production. Chapter 11 will discuss the reasons for this.

To summarize, we can differentiate between technological, social, and aesthetic types of innovation, and the degree of their effectiveness can be either incremental or radical. This typology is now going to serve as the starting point for further analyses of the transformations of the music industry in the 20th century.

2. INNOVATION AS A COLLECTIVE ACTION PROCESS

What are the processes responsible for the emergence of novelty in the forms of inventions and innovations? Traditional neoclassical innovation theory posits a sequential process of invention, innovation, and imitation or diffusion (see Figure 32).



Source: Pyka (1999: 27); see also Grupp (1997: 16-17).

Figure 32. Phases in a linear innovation process.

In this context, invention denotes the production of new ideas that can be collected in a pool of knowledge that is external to the company. Insights of the natural and social sciences as well as engineers and independent inventors feed this pool of knowledge. This pool of knowledge does not know scarcity, since the environment produces it in an endlessly ongoing stream. Hence, it is meaningless for economic analysis. Economic analysis begins only once new ideas can be transformed into exploitable forms of innovation. If the innovation succeeds on the market—that is, if it produces extraordinary profits for the innovator—other companies will imitate this innovation, thus contributing to the quick dissemination of novelty.

2.1. The Incentive-Based and Knowledge-Based Models of Innovation

The neoclassical model of innovation reduces innovation to technical know-how (see Arrow 1962a) that assumes the character of a public good. Once in existence, this technical knowledge is publicly available and thus characterized by a lack of exclusiveness and rivalry. As a result, the process of innovation is in danger of stalling due to lacking incentives for the innovator. The process of innovation, therefore, needs instruments that internalize effects that manifest themselves externally (technological spillover effects). To this end, the protection of patents and

copyrights was invented with the purpose of enabling the appropriation of profits gained from innovations. With the opportunity to profit from a temporarily existing monopoly, the potential innovator is encouraged to innovate. We can summarize the traditional neoclassical model of innovation in the following manner: with the protection of intellectual property and patents providing incentives, the innovating company is a “black-box” (see Rosenberg 1982) that makes use of an externally existing pool of knowledge in order to develop new technologies.

The new economics of innovation and its knowledge-based approach challenged the neoclassical, incentive-based model.²⁵⁴ It views a company’s innovative activities not as a result of external incentives but as an effect of collective experiences, knowledge, and competencies acquired by its employees from working in the company (see Penrose 1959). Instead of calculating an innovation budget that maximizes profits, the knowledge-based model aims its analysis at the process of acquiring knowledge, interpreting the process of innovation as

... a creative process of discovery that treats innovation as a process of experimentation and problem-solving (Pyka 1999: 48).²⁵⁵

Neoclassical economics asserts that economic agents have all the necessary information available and thus only need to select a profit-maximizing option from among many alternatives. In contrast, the knowledge-based model of the new economics of innovation argues that it is problematic to assume the availability of genuine novelty in advance. Further, it does not equate technological knowledge with information, and it considers this knowledge as partially privatized rather than as a public good available to everybody. This is the case because the process of innovation is exposed to uncertainty, specifically to what Knight (1921) calls in his discussion “real uncertainty.” In the case of real uncertainty, it is no longer possible to specify the probability that a particular event will occur, thus not allowing the application of problem-solving algorithms. Instead, in order to assess a new situation, agents have to rely on the abilities and knowledge they have already acquired in earlier situations. Carlsson and Eliasson (1994) name the following abilities as a basis for innovative behavior:

- (1) Innovative or selective abilities – the ability to acquire the potentials offered by the agent’s surroundings.
- (2) Learning abilities – the ability to expand the basis of knowledge of a company.
- (3) Organizational and functional abilities – the ability to design internal company structures and processes in such a way that new knowledge can be usefully applied and diffused in the company.

²⁵⁴ See Carlsson and Eliasson (1994) for more on the development of this knowledge-based approach.

²⁵⁵ See also Dosi (1988a: 1125-1126).

Due to the agents' varying abilities, technological know-how can assume a local character, which produces either no spillover effects at all or those that affect only neighboring technologies.²⁵⁶ But it is also possible that knowledge develops out of a company's specific context and exists only in processes of action that cannot be articulated. Such implicit knowledge is also known as "Tacit-Know-How" (Polanyi 1964), which can be passed on only through learning-by-doing activities.²⁵⁷

If we reject the image of human beings as omnipotent innovators, we have to consider instead the innovation process in terms of the division of labor, that is, as a collective procedure that unfolds in a network of agents. In this context, technological spillover effects no longer hamper incentives but, rather, function as influencing factors that facilitate technological complementarities and synergies.

Instead of considering innovators who act in isolation, now the collective process of collective innovation involving all agents comes to the fore (Pyka 1999: 73).

From this, an integrated process of innovation emerges in which feedback between individual phases plays an important role (see Figure 33).



Source: Pyka (1999: 61).

Figure 33. Phases in a multidimensional innovation process.

In this model, the boundaries between the individual phases are flowing, especially between the phases of innovation and diffusion, since in the case of the latter, a number of smaller, incremental innovations cause the dissemination of new technologies. In this integrated model of innovation, a variety of agents collaborate, contributing to the emergence and establishment of novelty. This process, however, does not operate at random or in leaps and bounds; rather, it is a steady and structured process. As an explanatory framework, we look towards the evolutionary approach of the new economics of innovation, which the next section is going to discuss in greater detail.

2.2. Innovation as Generation of New Action Routines

The evolutionary approach of innovation economics considers the driving forces for technological change to be the processes of mutation, variation, and selection of elements of action. Variation occurs in the form of action alternatives; whichever is most advantageous, under given circumstances, will be selected. This chosen option

²⁵⁶ Verspagen (1990: 196) talks of "strong localized technical change" and "weak localized technical change," respectively.

²⁵⁷ Arrow (1926b) already points out the importance of "learning-by-doing."

does not necessarily have to be an optimal solution in the sense of the “survival of the fittest”; a sub-optimal solution akin to a “struggle for survival” is also acceptable. That is, the kinds of action alternatives selected are those that fulfill a specific level of expectations. The concept of “level of expectations” is part of Simon’s theory of decision making, which assumes that individual agents act in a “limited rational” way. However, actions are not simply limited by those budget restrictions that the neoclassical model theorizes; instead, they are limited by individuals’ abilities to act and arrive at the “right” decision. Simon (1976: 4) speaks of “limits to rationality,” which delimit agents’ capacity to make decisions. These “limits” are immanent to those abilities, habits, reflexes, values, and mental concepts that influence the decision making process, as well as to the amount of knowledge that persons require to deal with their tasks. In later works, Simon describes this triangle of limitations through the concept of “bounded rationality” (1955, 1956).

The concept of “bounded rationality” assumes a human being whose capacity to process information is limited. That is, this human being is not able to recognize all action alternatives relevant to a decision-making situation and evaluate their consequences. The decision-makers are thus forced to build a simplified model of reality based on a situational definition resulting from cognitive and affective processes. Since human beings are exposed to complex environmental situations that are impossible for them to fully understand, they will try to define a situation that allows them to orient themselves along the lines of familiar behavior patterns.

Familiar behavior patterns are based on action routines that have proven themselves in the selection process. Nelson and Winter (1982) applied the concept of routines, which was originally developed by the Carnegie Mellon School in the context of organizational behavior theory (see March and Simon 1958, Cyert and March 1963), to innovation research. According to them, the routinization of actions in a company is akin to the storing of these processes of action in organizational memory. Organizations “remember” actions by realizing them.

Basically, we claim that organizations remember by doing (Nelson and Winter 1982: 99).

The prerequisite for the ability to activate this memory is that the organization’s members know what they have to do. If this is the case, a continually repeating situation will occur where prior situations are replicated.

However, since organizations are systems that are open to outside influence, they must be able to react to different environmental circumstances. This is ensured by the members of the organization having access to more than just one action routine but to an entire repertoire of action routines that can be applied according to a situation’s specific requirements. An entire stream of environmental messages flows into the organization, which are then interpreted by the organization’s members based on their experiential background. Subsequently, they activate specific routines from the action repertoire that appear to be adequate in relation to the perceived situation. These routines trigger further routines elsewhere in the organization, which in turn trigger additional routines, etc. In this manner, the organization is capable of reproducing itself without consciously having to plan this.

A formally and informally organized system of incentives and controls ensures that the organization's members apply the "correct" routines to each situation. Rewards stabilize routinized actions, whereas punishment is applied to deviations from action routines. In this context, routines serve as conflict regulators and, in this sense, represent norms of actions that control the behavior of the organization's members.

Another instrument for the stabilization of routinized behavior in an organization is the replication of routines. Based on existing routines that serve as models, new input combinations are created.

In replicating an existing routine, the firm seeks to impose that routine's order on an entirely new set of specific inputs (Nelson and Winter 1982: 119).

However, only in rare cases is it possible to replicate new input combinations in a completely identical manner, since the basic conditions are usually not the same. In this manner, replication becomes a source for evolutionary change in an organization.

When a routine produces successful results, this routine is replicated in order to replicate its success. However, should an action routine produce failure, it will no longer be replicated; instead, a search process for a new, more promising routine will be initiated. Once such a routine is discovered, it becomes the new norm for actions. Sometimes, however, the occurrence of failure is judged as merely temporary, and the "old" routine is thereby maintained. Resources are then still invested in the "old" action routine. If failure continues and resources to search for new action routines are not available, resources have to be diverted from somewhere else. In this manner, a shrinking process is initiated, which might lead to the organization's decline if the routine is not altered.

According to this theory, innovation consists of the alteration of routines. For instance, innovation may be triggered by the appearance of anomalies in existing routines. The ensuing search process might lead to a total change of the action routine. Moreover, with Schumpeter, we can consider the successful implementation of new combinations of existing elements as innovation as well; that is, in order to create novelty, it suffices to use existing routines and combine them in new ways. Finally, the process of innovation itself can be routinized, as is the case with the activities of research and development departments. With the help of heuristics, they try to produce novelties. In this context, we can speak of "routinized innovation" (Nelson and Winter 1982: 133).

To sum up, we can say that companies' future actions will correspond to the routines they applied in the past. Even under different circumstances, companies adapt their future behavior as if it would develop according to old routines. That is, their behavior will not leave behind certain routine paths.

For this and other reasons, even the sophisticated problem-solving efforts of an organization fall into quasi-routine patterns, the general outlines of which can be anticipated on the basis of experience with previous problem-solving efforts of that organization (Nelson and Winter 1982: 136).

2.3. Technological Paradigms and Technological Trajectories

As Nelson and Winter (1982) have shown, when companies follow specific routines and protagonists are unable to act freely, the technological progress of an industry will not occur in the form of eruptive events and without qualifications but as part of an evolutionary process. Evolution proceeds by larger variations or significant innovations causing a chain of incremental innovations. In this context, Nelson and Winter talk about “natural trajectories” that determine the evolutionary process.

Natural trajectories are specific to a particular technology or broadly defined “technological regime” (Nelson and Winter 1982: 258).

The technological regime determines the event horizon for innovations:

... a frontier of achievable capabilities, defined in the relevant economic dimensions, limited by physical, biological, and other constraints, given a broadly defined way of doing things (Hayami and Ruttan 1971; quoted in Nelson and Winter 1982: 258).

Each technological regime features several “natural paths of development,” which may partially complement or exclude each other.

Other authors have subsequently developed Nelson and Winter’s concept of the evolution of technological change. Dosi (1982, 1984, 1988a, 1988b) argues that technological progress does not occur in a random and disorderly fashion but in the context of a technological paradigm.²⁵⁸

A technological paradigm can be defined as a “pattern” of solution of selected techno-economic problems based on highly selected principles derived from natural sciences, jointly with specific rules aimed to acquire new knowledge and safeguard it, whenever possible, against rapid diffusion to the competitors (Dosi 1988: 1127).

When a technological paradigm changes, the entire industry is reoriented. Freeman and Perez (1988) talk about the change of techno-economic systems in which more than process and production technologies are being altered. This change has drastic consequences.

We are referring to a combination of interrelated product and process, technical, organizational, and managerial innovations, embodying a quantum jump in potential productivity for all or most of the economy and opening up an unusually wide range of investment and profit opportunities (Freeman and Perez 1988: 48).

This concept is based on the assumption of a historical evolutionary process of change occurring in waves.²⁵⁹ Each wave can be characterized by a whole bundle of technological accomplishments and a generally available new key factor in production.²⁶⁰ These key factors affect the relative costs of all input factors, since they are themselves relatively cheap and are associated with the falling cost of

²⁵⁸ Dosi develops the concept of the “technological paradigm” following Kuhn’s (1962) concept of paradigmatic changes of scientific inquiry.

²⁵⁹ Freeman and Soete (1997) work here with Kondratieff’s (1925) concept of economic cycles and Schumpeter’s work (1939) that built upon it.

²⁶⁰ Freeman and Perez (1988) consider steel, plastic, and microelectronics as such key factors; each of them triggered a new wave of technological progress and revolutionized the techno-economic system.

production; furthermore, they are almost always available, can be applied to many products, and form the basis of a number of services. Although these key factors already exist before a new paradigm unfolds, their potential remains undiscovered as long as the paradigm change has not yet occurred. The new key factor does not appear as an isolated input factor either, but as the core of a rapidly growing system of technological, social, and organizational innovations. As a first step, the key factor serves to overcome the bottleneck of the old technology in order to release, in a second step, a range of innovations and to open up new growth potentials.

However, a new paradigm does not establish itself overnight; rather, once its superiority becomes more and more apparent, it gradually replaces the old one. In the transition from old to new paradigms, crisis-like situations occur since technological changes happen in a context that was appropriate to the old paradigm. That is, individual behavior and institutional structures are not yet appropriate to the new paradigm. The ensuing adaptive process gradually takes place against various resistances and in the context of recession-like conditions. In the long run, though, we can recognize the “long waves” of the economic cycle, since each paradigmatic rupture corresponds to an economic period of decline, which mutates into a period of growth after the total breakthrough of the new paradigm. The cycle of economic growth corresponds to the sequence of techno-economic paradigms. In this manner, we can identify techno-economic epochs that are the result of techno-economic paradigm changes.²⁶¹

Nevertheless, in the context of a cultural paradigm, innovations do not randomly transpire but follow a specific logic. This logic is related to problem-solving heuristics that determine which actions are supposed to take place (positive heuristics) and which ones are supposed to be avoided (negative heuristics) in case a problem occurs.

Thus, the positive heuristics establish the ways in which paradigms unfold, while negative heuristics set the boundaries to the paradigms by defining areas that remain undeveloped, at least for the time being (Tunzelman 1995: 15).

Heuristics essentially are rules of thumb. With their help, one can search for solutions to technological problems in case such a search has yet to yield any success.

In this sense, the trajectories are a specific subset of the technological fields defined by the paradigm and its heuristics (Tunzelman 1995: 15).²⁶²

Thus, on the one hand, an evolutionary process within an industry-specific paradigm selects a dominant design from all possible technological developments

²⁶¹ 1780s to 1840s: Epoch of the first industrial revolution as a result of the invention of the mechanical loom; 1840s to 1890s: Epoch of the steam engine and railroad; 1890s to 1940s: Epoch of electricity and steel processing; 1940s to 1990s: Epoch of mass production and production of synthetic materials; 1990s to present: Epoch of microelectronics and computer networks.

²⁶² For more on the concept of technological paths, see also Dosi (1982) and Sahal (1985). Dosi (1982) speaks of “technological trajectories” and Sahal (1985) of “technological avenues.”

(see Abernathy and Utterback 1978),²⁶³ and, on the other, it selects search heuristics that will be applied. Within the industry, technological progress is bound to develop along technological trajectories (paths), the direction of which is predetermined by the basic design and search heuristics. Technological progress should thus be interpreted as a process of exploiting dynamic advantages of scale along the lines of developmental trajectories (see Nelson and Winter 1982: 259-260, Sahal 1985: 64). However, with increasing exhaustion of developmental potentials, bottlenecks will appear that limit further development. The concept of “technological possibilities” describes the developmental potential of a trajectory. Technological possibilities decrease over the course of technological progress. However, we must not consider the individual developmental potential of such trajectories. It is entirely possible that intra- and inter-industrial interdependencies exist that serve as external sources of knowledge; these sources of knowledge might increase the technological possibilities within a given trajectory, or they might even create new technological possibilities. With the help of these spillover effects, technologies might impregnate each other, with the result that completely new technological possibilities emerge.

2.4. Absorptive Capacity and Conservative Organizational Behavior

The extent to which new technological possibilities emerge depends on the companies and their actors’ ability to absorb (see Cohen and Levinthal 1989). That is, it depends on those abilities allowing a company to exhaust external sources of knowledge. Eliasson (1990) has expanded this concept so that the abilities to absorb also encompass the recognition and development of technological and economic opportunities.²⁶⁴ The ability to absorb is developed in the form of “learning-by-doing” during the production process (see Arrow 1962b). Cohen and Levinthal (1989: 150) point out that “learning-by-doing” is a necessary, however insufficient, condition for the utilization of external sources of knowledge. In order to generate new activities within a company, the abilities to absorb refer to a broad spectrum of knowledge and corresponding competencies to act.

However, if we follow the insights of the innovation theory based on the behavioral sciences, it is rather questionable whether organizations (social systems in the broadest sense) are actually capable of building up comprehensive abilities to absorb. A company’s agents have to make decisions in the context of real uncertainty with limited rationality. Consequently, they are likely to have recourse to standardized processes (that is, decision routines) in order to avoid uncertainties as best they can; that is, they try to minimize the need to predict uncertain future events. To this end, agents hold on to successfully applied heuristics and use relatively simple rules (see Cyert and March 1963: 88-90).

²⁶³ The dominant design of the phonographic industry consisted of the mass-producible record and the phonograph. In the broadcasting industry, the radio and the appropriate broadcasting devices embodied the dominant design.

²⁶⁴ Eliasson (1990) coined the phrase “receiver competence” to describe this ability.

All of these specifically standardized processes serve to reduce the complexity of situations requiring a decision. All of them affect the goals pursued by individual members of the organization, as well as how they perceive the surrounding circumstances, which alternatives they will consider in the process of decision-making, and which heuristics management will apply.

This complexity enforces an extremely conservative behavior of organizations. They would rather maintain existing behavior patterns than innovative new ones. The reason for this is not, however, that they weigh two alternative costs, as the theory of "rational choice" would lead us to believe; rather, organizations do not even look for alternative actions as long as they view the existing ones as satisfying.

The amount of search decreases as satisfaction increases (March and Simon 1958: 174).

Upholding existing patterns of action should not be regarded as resistance to change; the search for new alternatives simply does not take place. Maintaining existing actions and developing new ones are two equally valid alternatives. Agents will choose to develop new programs of action if they perceive the existing ones as unsatisfactory; or, they will alter their behavior if new programs of action promise either to provide a solution to unresolved problems or to improve existing programs, even if they are already satisfactory.

According to March and Simon (1958: 180), a number of causes may trigger new programs of action (innovations):

- (1) The search for new programs of action will occur if the predetermined level of expectation can no longer be achieved with traditional programs, and dissatisfaction ensues.
- (2) Innovations can result from chance-like possibilities.
- (3) Innovations will be developed when the discrepancy between the level of expectation and earlier events is neither too large nor too small. If the gap is too small, expectations can be fulfilled without great effort. If, in contrast, the gap is so large that the level of expectations cannot be reached even with the greatest efforts, disappointment and frustration will set in. In the former case, a motivational impetus for innovation is lacking, whereas in the latter case neurotic reactions handicap innovative behavior.

Cyert and March's concept of "organizational slack" (1963) provides an additional explanation for why innovations are disadvantaged in relation to existing action routines. Members of organizations are interested in their organization's continued existence only as long as their demands are met. However, demands and the meeting thereof never quite match each other due to a dynamic process of negotiations and goals; as a result, a positive disparity might occur between the available resources and the necessary ones. This difference is called "organizational slack."

Slack consists in payments to members of the coalition in excess of what is required to maintain the organization (Cyert and March 1963: 36).

Slack is essentially a variable that indicates the inefficiency of the organization's ability to allocate resources.²⁶⁵ This inefficiency is of great importance for the organization's existence. In one form or another, practically every member of the organization will benefit from "organizational slack," but its distribution can differ greatly.

However, slack is primarily a tool for adapting to altered contextual conditions. When the resources that result from altered environments exceed the level of expectations, the organization is capable of storing them. In the case of a negative change in the environment, new processes of negotiation set in, which lead to the decrease of "organizational slack"; that is, bonuses are cancelled, dividends and salaries are lowered, etc., until the level of expectations is met once more.

Organizational slack absorbs a substantial share of the potential variability in the firm's environment (Cyert and March 1963: 38).

Only once the ability to absorb is exhausted will the level of expectations be lowered.

Hence, before new programs of action can be initiated, that is, before innovation takes place, the organization first has to reduce organizational slack and, if this does not produce the desired effects, lower the level of expectations. Solutions to problems will result in new programs of action only if lowering the level of expectations is going to be perceived as unsatisfying. According to the theory of organizational behavior, innovation is a very improbable result of internal decision-making processes. Altered environmental conditions, thus, do not automatically lead to innovative activities in an organization. Each organization is essentially affected by this aversion to innovation. Of course, it is understandable that the larger the organization, the more complex the decision-making processes and the more closely attached the organization is to routinized actions. On one hand, this is because a larger organization has a larger repertoire of models for action available; on the other hand, a larger, bureaucratized organization also has more "organizational slack," the elimination of which postpones the moment of innovation.

If this behavioral pattern is displayed by not just one but all companies of an industry, the entire industry's ability to absorb will be small. Although companies will develop along the lines of technological trajectories and be capable of accomplishing incremental innovations, they will not be able to accomplish radical innovations.

To summarize, we can understand innovation as a social process of action, which unfolds in an evolutionary manner within technological paradigms along the lines of technological trajectories. In its nature, innovation will be merely incremental,

²⁶⁵ It occurs in the form of excessive (sub-optimal) payments of dividends to shareholders, unnecessary lower prices to increase consumer loyalty, salaries exceeding the necessary level, or privileges and gratifications for management.

which raises the question of what are the causes for the various radical innovations that have frequently taken place in the history of the music industry?

3. TYPOLOGIES OF CREATIVITY

The various approaches of (economic) innovation theory begin their explanations of the process of innovation at the phase of invention without, however, accounting for the causes of invention. At least for the innovation impulse, Schumpeter (1911/1934) names two causes: (1) the extrinsic motive of “impressing the social group” (Schumpeter 1911/1934: 88) and (2) the intrinsic motive of “the joy of creating” and “getting things done” (Schumpeter 1911/1934: 93). However, Schumpeter does not elaborate on this socio-psychological explanation for the impulse to innovate, and later works of neo-Schumpeterians (see Kamien and Schwartz 1982, Baldwin and Scott 1987, Cohen and Levin 1989, Cohen 1995) did not pick up on it.²⁶⁶ Since I want to model the process of innovation as a process of social action in which routines are also broken up in the sense of Schumpeter’s “creative destroyer,” we must still take a closer look at the causes responsible for this breakup.

Research on creativity provides us with useful tools for accomplishing this task. Economic literature, however, has dealt with the phenomenon of creativity only superficially. This is particularly remarkable for the research area of innovation theory, since one intuitively would assume that creativity might be viewed as a prerequisite for innovative actions. And yet, in the broader field of innovation theory, we can only find rudimentary approaches towards formulating such a theory of creativity.²⁶⁷ There are, however, a number of psychological and sociological attempts to explain creativity that make it difficult to believe in a definitive definition of creativity and a unified concept of creativity.²⁶⁸

Torrence (1988) argues that novelty or originality is a criterion that is part of all definitions of creativity.²⁶⁹ Another sign of creative thinking and acting that is frequently identified is the willingness to break established norms (non-conformity).

²⁶⁶ Freeman (1994: 464) calls the neo-Schumpeterians of innovation theory “a broad church ... which could in many ways be described as neoclassical as well as much could not be so described.”

²⁶⁷ See, for example, Usher’s (1962) concept of cumulative-synthetic creativity, McCain’s (1992) cognitive model, Frey’s (1997) motivational model, and Throsby’s (2001) thoughts on artistic creativity.

²⁶⁸ Williams (1988) differentiates basically between two concepts of creativity. The “academic” concept regards creativity as a process of creating something original or new, whereas the “everyday definition” of creativity includes conventional and routinized activities such as making advertising spots or programming a homepage. “Academic” approaches view creativity as belonging to a sphere of selected individuals and define creativity in exclusive terms, whereas the “everyday definition” basically ascribes creative potential to each human being. Between these two poles we can identify a great number of additional definitions of creativity.

²⁶⁹ An exception is Weisberg (1993) for whom novelty is an insufficient characteristic of creativity. On one hand, it is possible to work out results on the highest creative level without being new, whereas, on the other hand, it is also possible that results occur by chance that possess a high degree of novelty without having been caused by creative acts. “I would therefore propose that we change the conventional definition of creativity in the sense that it requires the production of goal-directed novelty” (Weisberg 1993: 244).

A number of definitions also include the criterion of usefulness as an element of creativity. Lumsden (1999: 153) summarizes a variety of definitions of creativity²⁷⁰ and describes it

... as a kind of capacity to think up something new that people find significant.

Amabile (1983), too, calls those actions creative to the extent that they contribute something “new” and “appropriate” to the solution of a problem. She especially emphasizes the heuristic character of creativity that consists in searching for new possibilities. Hence, Amabile does not consider logical deduction and deductive conclusions to be creative. The view that creativity occurs in relation to solving a problem is another frequent topic discussed in creativity research. Lumsden (1999: 9), for example, defines the creative process

... either as the formulation of a specific problem in an ill-defined problem domain, or as advancing a novel and appropriate solution to extant problems, or both.

Torrence (1988: 47) describes creative thinking as a process of

... perceiving difficulties, problems, gaps of information, lacking elements, or something that is distorted.

Creative thinking is able to locate these insufficiencies and to formulate hypotheses for how they can be ameliorated.

The idea that creativity is first and foremost about problem solving originally derives from Guilford (1956), who believes that a person’s most important creative quality is the ability to be sensitive to problems, in addition to having the mental capacity to produce alternatives. In his view, creative people are characterized by intellectual abilities that distinguish them from other non-creative people. According to Guilford and many other researchers of creativity that consider divergent or lateral thinking as essential for creativity,²⁷¹ only a few people stand out who have the abilities to achieve extraordinary things.²⁷¹

Weisberg opposes this view, instead ascribing creativity to each individual being. In his opinion, creativity is a developmental process that is based on prior knowledge and past experiences. In this sense, thought processes involved in creative thinking are no different from those involved in everyday activities. Creative problem solving thus has to fulfill two criteria: (1) it must be new, and (2) it must be capable of solving the problem at hand (Weisberg 1986: 182). Hence, Weisberg defines the creative process as a problem solving process during which a complex

... intertwining of perceptive- and knowledge-based processes occurs, in terms of both the ability to recall information from memory and the ability to alter previous solutions based on imagination and verbal inference (Weisberg 1986: 185).

²⁷⁰ Amabile (1983), Sternberg (1988), Boden (1991, 1994), Hofstadter (1995), Sternberg and Davidson (1995).

²⁷¹ Guilford is regarded as the founder of the so-called psychometric research of creativity, which uses quantitative methods to establish those features that distinguish creative from non-creative persons.

Whether creativity is viewed as the property of a few “chosen ones” or as belonging to everyone, in both cases it is understood as a cognitive process that brings about novel and useful products and services, with the socio-cultural environment functioning either as promoting or hampering creativity. To this day, this view dominates in traditional (cognitive-theoretical and psychometric) research on creativity. This type of research exhausts itself in examining how environmental factors affect a creative person. Creativity is exclusively considered a mental process that occurs in a creative person and then manifests itself as a creative product.

However, the view that creativity is exclusively an individual’s mental process does not hold up under closer examination. Imagine, for instance, that you have a new idea. How do you know that this idea is new? In other words, how do you recognize that the idea is different from what is already known? In order to establish such a difference, it is necessary to conduct comparisons, which you can only do in a social context. Only once you have determined that you have done something unique is it possible to recognize novelty. Therefore, the social context assumes a constitutive function even on the level of individual recognition. So that the novelty does not immediately become forgotten, it is also necessary that the social environment recognize it as new. It is irrelevant in this context whether the environment welcomes or rejects the new idea. What matters is only that the new idea will be recognized as such. Hence, creativity is not merely a mental but also a social process.

4. CREATIVITY AS A COLLECTIVE ACTION PROCESS

4.1. Systemic and Evolutionary Approaches to Creativity

This insight leads us to considering “systemic” approaches to creativity that explicitly recognize the environment as a constitutive factor of the creative process. Csikszentmihalyi (1988: 325) demanded that the social aspect be considered in studying the constitution of novelty:

We cannot study creativity by isolating individuals and their works from the social and historical milieu in which their actions carried out.

In a later work, he draws the conclusion that

... creativity does not take place in an individual’s head but in the interaction between individual thinking and a socio-cultural context (Csikszentmihalyi 1997: 41).

Before a person is able to develop a creative idea, information that might lead to new ideas must be stored in specific symbolic cultural subsystems, which Csikszentmihalyi calls domains. Music, art, architecture, language, mathematics, technology, religion, etc. are to be understood as cultural domains. With a domain, novelty can be recognized as such only in comparison to what is already known. Those who do not have access to a domain and its symbolic system are not able to contribute creatively to this domain.

One needs to know music to write a creative symphony (Csikszentmihalyi 1988: 330).

A person familiar with cultural symbols is now able to create new variations of information with the help of his or her own mental flexibility. However, this does not yet ensure that these variations will be considered creative. To accomplish this, the person needs the social field, which selects variations and transforms them into the domain. According to Csikszentmihalyi, the social field encompasses all persons that are able to alter the structure of a domain. The field is the social organization of cultural domains. The persons within this field function as gatekeepers of the domain and filter everything that is not seen as adequate to the domain.²⁷²

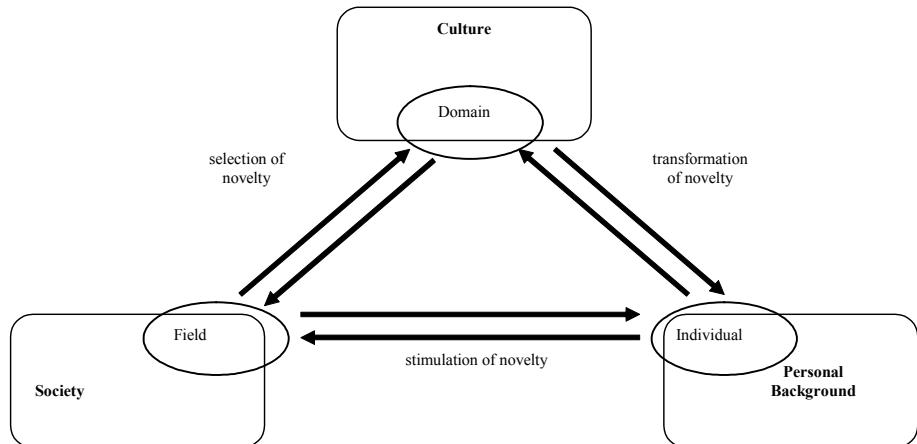
The social field is integrated into a specific social system that forms the basic conditions for the support or rejection of new ideas. For instance, Florentine society of the 14th and 15th centuries constituted a social system that was permeated by such outstanding basic conditions for art production that the cultural epoch now known as the Italian Renaissance was able to emerge. In these conditions, the artistic field could develop in a way that made it possible for artists such as Donatello, Brunelleschi, Masaccio, Ghiberti, etc. to create novelty. Without the recognition they received from their surroundings, however, these early Renaissance artists would not have been considered creative, and their actions would have remained hidden.

In terms of our model, an unusually large proportion of the social system became part of the “art” field, ready to recognize, and indeed to stimulate, new ideas (Csikszentmihalyi 1988: 336).

In this triangle of forces of cultural domain, social field, and individual predisposition, creativity unfolds as a social process, according to Csikszentmihalyi. Amabile (1983) developed these insights into a comprehensive psychosocial theory of motivation. According to her theory, the production of creativity depends on (1) intrinsic motivation for engaging certain tasks, (2) abilities relevant to a field of activity, including knowledge of the field as well as the necessary technical processes and abilities to accomplish these tasks, and (3) creativity-enhancing abilities that support creativity (styles of problem solving and designing, explicit and implicit knowledge of how to apply heuristic problem solving strategies, enthusiasm, stamina, persistence, attitude, etc.). Intrinsic motivation assumes the key role in the development of creativity:

²⁷² This individualized view of the gatekeeper, as embraced by Csikszentmihalyi, is not entirely without problems. It allocates too much significance to individuals who are considered gatekeepers. This would mean that personal features would be crucial for fulfilling the gatekeeper function. Such a person would thus be a sort of doorman who is predestined for this job because of his height and physical appearance. But it is much more the case that persons are representatives of a social field. The social field is constituted by, among other features, institutions that fulfill the filter or gatekeeper function. Hence, we should understand gatekeeping as an extra-individual process. Even the doorman does not assume his position exclusively due to personal predispositions; rather, he does so due to an order of a Disco owner who desires to create a certain flair for his dance club by limiting access. Even if it appears to the social field as if individual persons regulate access, this nevertheless takes place based on rules, norms, and values that emerge out of the field itself and results from collective processes.

The intrinsically motivated state is conducive to creativity, whereas the extrinsically motivated state is detrimental (Amabile 1983: 91).



Source: Csikszentmihalyi (1999: 315).

Figure 34. Csikszentmihalyi's model of creativity.

By considering extrinsic factors, creativity research also integrates the motivating environment as a factor into its theory. However, initially, Amabile did not consider extrinsic motivations as playing a positive role in the process of creativity; since then, she has revised this view due to empirical tests (Amabile 1993, 1996) in her later work (Amabile and Collins 1999). Extrinsic motivations hamper creativity only when those affected feel controlled by these motivations. But they can indeed support creativity if such motivations are perceived as information that enhances persons' ability to finish a given task. Amabile (1993, 1996) calls such extrinsic motivations synergistic and distinguishes between two subtypes: synergistic factors that increase the intrinsic involvement in a task and factors that create a match between the motivational and labor cycles. There are phases in the creative process, especially in the incubation phases, when extrinsic factors negatively affect intrinsic motivations, whereas in other phases (i.e., the communication and realization phases), intrinsic motivation merely plays a small role in the creative process, one that is mostly carried by extrinsic factors.

All in all, Csikszentmihalyi and Amabile's explanations show that creativity does not emerge simply from individual acts of thinking but requires a social system for its occurrence.

In any case, the point is that how much creativity there is at any given time is not determined just by how many original individuals are trying to change domains, but also by how receptive the fields are to innovations (Csikszentmihalyi 1999: 327).

However, the individual does require access to the domain, must be able to understand and apply symbolic codes, and needs to enjoy a certain level of social acceptance.

Whoever wants to contribute creatively needs to be active in a creative system and reproduce this system within herself (Csikszentmihalyi 1997: 75).

Gardner (1988, 1993) picks up Csikszentmihalyi's systemic approach in his analysis of biographies of creative people, following Gruber and Davis (1988) in considering the domain, the social field, and the individual as equally evolving systems. Like Csikszentmihalyi, Garner assumes that creativity is not a personal characteristic but emerges only in a socio-cultural context.

As long as a competent field has not passed its judgment, it remains impossible to decide whether a person deserves the label "creative" (Gardner 1993: 61).

So that creativity can be researched, Gardner proposes four levels of analysis: (1) the sub-personal level, which provides insight into the genetic and neurobiological make-up of creative people; (2) the personal level, which is determined by the creative person's cognitive process as well as by personal, motivational, social, and emotional aspects; (3) the extra-personal level, which roughly corresponds to the cultural domain as defined by Csikszentmihalyi; and (4) the multi-personal level, which can be equated with the social field.

Interpreting the process of creativity in evolutionary terms advances the "systemic" explanatory approaches. Perkins (1988), for instance, regards creativity as a Darwinist process of generating ideas, during the course of which ideas emerge through variation, are then selected, and, finally, concretized through stabilization. In contrast to the biological determinism of Darwin, Perkins insists that the process of selection must not be understood as mechanistic-automated but as directed and pre-constructed. According to this theory, ideas develop relatively freely and independently. What ideas will be selected depends, however, on that which has been created thus far. Hence, there is a history (a path) of creativity and creative actions.²⁷³

Simonton (1984, 1988) developed a comprehensive concept of the evolutionary process of creativity, which encompasses these three levels. In doing so, he orients himself on Donald Campbell's (1960) evolutionary-epistemological approach, which claims that the development of ideas proceeds according to three steps:

Step 1: Random permutation of mental elements

Step 2: Forming of configurations (patterns, schemata, orders, etc.)

Step 3: Communication, social acceptance, and socio-cultural stabilizing of configurations

²⁷³ It is notable how similar this argument is to that of evolutionary theories of innovation.

Since the central elements of Simonton's theory of creativity include the permutation of mental elements and their stabilization in the form of configurations, Lenk (2000: 128) calls it permutations and configurations theory. Simonton (1990: 3-21) himself speaks of "change-configuration theory."

The basic units of the change-configuration theory are mental elements (cognitive schemata as well as mental representations and ideas) that are consciously or unconsciously interwoven due to environmental influences. A prerequisite for this is that mental elements appear in several variations without limitations. Under these circumstances, mental elements can be connected through random combinations. These permutations may be rather unstable and immediately dissolve, but they can also be very stable. Simonton (1990: 8) calls the former kind of permutations aggregates, the latter configurations. However, aggregates and configurations merely form endpoints on a continuum of more or less stable permutation possibilities.

The ability to distinguish between stable and unstable permutations is crucial, since only the stable ones (that is, configurations) have the potential to become mental elements. Initially, configurations are more or less well-developed ideas, but their usability value still remains in question. Whether or not a configuration is being selected as useful depends on whether it is able to increase the brain's efficiency of processing information. In a self-organizing process, memory privileges those configurations that make thoughts and feelings more coherent (organization). They serve to reduce complexity and thus bring order to the chaos of thoughts by reducing entropy. We should, therefore, imagine the human intellect as a system that programs itself through selective processes and efficiently organizes its cognitions and emotions in hierarchical structures.

The storing or stabilization of configurations does not merely happen on the individual-psychological level but also occurs as a result of environmental influences. Memory stores configurations in the form of symbols to make them available, repeatable, and communicable. Psychic configurations are lastingly stabilized only after the social field has accepted the symbol as a result of successful communication.

In this sense, social acceptance plays an important part in the successful implementation of creative products, services, suggestions, plans, new developments, etc. According to Simonton, this requires that specific preconditions exist in a given community, be it a science or art community or a larger community. In any case, there must be a common "culture" of accepted facts, experiences, methods, interests, values, emotions, as well as unsolved problems so that novelty falls on fertile ground, resonates, and is welcomed (Lenk 2000: 134).

So that the radically new can be accepted at all, the community must distinguish itself by possessing a common culture, tradition, and mutually used symbols of creativity. Still, this does not suffice for novelty to be accepted. The community also has to display the willingness and sensibility to recognize, reconstruct, and accept expanded configurations and symbols. The creative agent, in turn, must be willing and able to shape his or her visionary ideas in such a form that recipients can understand the novelty and are willing to incorporate the new into their personal lives.

The evolutionary approach to creativity reveals that it is not enough to merely talk about creative persons and products. In addition, the task is to identify creative processes that can be understood as heuristic search processes that develop in an extra-individual fashion, as well as creative locations, social environments, and creative potentials that exert a positive influence on creative thinking and acting. Lenk (2000: 90-94) also mentions specific challenges and incentives (creative provocations) and unusual positions (creative perspectives) as factors that ought to be taken into consideration. Also, value preferences and priorities, which exist in particular areas and cultures or which are set by specific people, might serve as motivating factors for creativity. Finally, we have to mention creative communities in which creative processes unfold as a result of mutual inspiration and impregnation.

4.2. Creativity as a Phenomenon of Social Action

Research of creativity based on psychology always ends up viewing creativity as a mental process. Likewise, systemic and evolutionary approaches, such as Csikszentmihalyi and Simonton's, reduce creativity to a mental process and neglect the actions forming the basis for the creative process. Joas (1996) pointed this out in a different context and emphasized the role played by the body in the creative process. Accordingly, creative actions must not be thought of as intentionally and rationally governed end-means relations, nor do they presuppose an autonomous individual; instead, they depend on situations and are historically situated.

Joas believes that the determination of ends does not occur in a mental act before the real action occurs, but is the result

... of reflecting upon those pre-reflexive desires and directionalities that were always already part of our actions (Joas 1996: 232).

Each activity takes place in a specific context. Moreover, the situation is constitutive of human actions rather than simply being contingent. Yet, we should not think that situations exhaust the constitution of actions, since this would amount to a purely behaviorist stimulus-response schema; rather, a situation is always crossed with an action's target.

Situations do not trigger our actions, nor do they merely provide the territory for the execution of intentions. Our perception of the situation is preformed in our abilities to act and in our current dispositions to act; which action will be realized depends on a reflexive relation to the challenge provided by the situation (Joas 1996: 236).

The determination of ends is the

... result of a situation in which the agent feels hampered in his ability to simply continue pre-reflexively driven modes of action (Joas 1996: 238).

When determining ends, pre-reflexive desires are thematized in front of the background of personally held values and ideals. The setting of goals assumes the independence of reality from one's own desires. The act of determining goals can thus be considered creative.

In order to understand creativity, we must conceptualize it in the context of collective actions. Collective action cannot be derived solely from psychic dispositions or social problems; it has to be understood as a movement during the course of which actions must be initially formed to aim at particular motives and identities. They

... form new social relations and communities, provide reasons for fundamental changes of identities (conversion and regeneration), produce affectively charged symbols, and leave behind symbolic ties invested with biographical and structuring power (Joas 1996: 304).

Creative acting thus meets a pre-structured social and cultural reality. Accordingly, novelty can only be recognized in front of a social and cultural background. This background, however, can only be experienced through actions and not simply through mental processes. Consequently, collective actions become constitutive of creativity.

Howard S. Becker (1982) also chose this point of departure for his sociological examination of art worlds. He understands art as resulting from collective actions in a network of cooperation.

The forms of cooperation may be ephemeral, but often become more or less routine, producing patterns of collective activity we can call an art world (Becker 1982: 1).

These art worlds, or, better put, art fields, encompass not only artists but also all producers and suppliers of raw materials and organizational preconditions, supporting (technical) aids and services, retail and marketing measures, the production and maintenance of aesthetic judgments and production logics, the governmental allocation of resources, and, essentially, all agents that form the basic conditions for artistic production. The production of art can thus be understood as a process of labor-division that coordinates and fine-tunes actions.

In contrast to transcendental models of creativity, art should, according to Wolff (1993), not be viewed as a product created by an individual; rather, art is a collectively produced product that cannot be understood independent of its conditions of emergence and its institutional context.

The cultural product (“work of art”) loses its character as transcendent, universal fact, whose “greatness” is unanalyzable but somehow mysteriously and inherently present. It is seen instead as the complex product of economic, social and ideological factors, mediated through the formal structures of the text, and owing its existence to the particular practice of the located individual (Wolff 1993: 139).

But frictionless cultural production is possible only when the coordination of the process of action operates smoothly. In order to ensure that this is the case, it must be based on very specific conventions. These conventions determine, for instance, which materials an artist will use for the production of art, how these materials will be combined and processed, which dimension the work can and is allowed to assume, how the relation between audience and artist will be arranged, and which rights and obligations are in store for individual agents. Art historians, music scientists, or critics refer to these conventions in their activities and thus reproduce them. Indeed, conventions provide the basis from which art can emerge. They guarantee the simplification of collective actions and help save costs. Nevertheless,

conventions limit artists' freedom to act, since the tendency is to produce that which is already known. Action routines take shape that produce the conventional. Breaking existing conventions is risky, since one runs the danger of being misunderstood and thus failing; but breaking conventions increases the freedom for action and offers the chance to create a new trend for which one may be celebrated later on as a revolutionary creator of novelty.

If that is true, we can understand any work as the product of a choice between conventional ease and success and unconventional trouble and lack of recognition (Becker 1982: 34).

According to DiMaggio and Hirsch (1976), therefore, organizations of cultural production always exist in a field of tension between innovation and control. On one hand, novelty (the creative, the innovative) is permanently demanded; on the other hand, one has to protect oneself against the endless stream of new concepts. Hence, filters are erected for the constantly flowing creative impetuses, which are supposed to help select the best talents, the most profitable works, and the highest quality works. In this context, Crane (1992) talks about institutional "gate keeping," which exists on various levels in a corporation. This gatekeeper has to overcome the new in order to reach a public to begin with. As a rule of thumb, it is the case that

... the more expensive the product or the more revenue a relatively inexpensive product can generate, the more control will be exercised by organizational gatekeepers (Crane 1992: 69).

Gatekeepers will strive to offer products that are as standardized and homogenized as possible. They succeed at this task especially when they manage to expand their control over the entire value-added chain. Once they have become capable of controlling the process of cultural production from the production of a creative impulse to its distribution, they can also control consumer demand. Crane (1976) speaks of hetero-cultural systems of incentives that operate in cultural industries such as the music industry. Since mass-market audiences are no longer homogenous, companies must succeed at setting norms for innovation. They function as "institutional regulators of innovation" (Hirsch 1972: 649). The consumer is then faced with a range of cultural offerings that have been pre-selected by the companies of the culture industry and the media. Consumers' purchasing behavior, in turn, functions as feedback for the selection process in a culture industry system. The purchasing behavior of consumers rewards the creators of novelty in a quasi-symbolic way. For the artists, the rewards manifest themselves in contractually guaranteed royalties and improved contractual conditions.

According to this interpretation, oligopolies are detrimental to creativity and innovation in the culture industry. Multiplicity is accepted only up to a certain point and usually manifests itself only as a quasi-multiplicity that pretends to offer novelty when it is merely conventional. How, then, does the supply of cultural offerings change, given that oligopolistic structures are hostile towards innovations? Crane (1992) explains this by pointing out that culture industries sometimes face culturally turbulent periods that are triggered by demographic, social, and technological changes; in such situations, the companies are no longer able to maintain control

over the markets. In an unstable environment, markets become unpredictable, and survival is possible only by fundamentally altering the nature of the products the industry offers. Even when the chaos lasts only for a short while, the public's criteria for assessing cultural products will have permanently changed. Thus, as if out of nowhere, new organizations appear that are capable of offering this new type of cultural product. Heinrich (1976) speaks in this context of cultural revolutions. He explains their occurrence in a way that is analogous to the paradigm changes that Kuhn uses to describe the sciences.²⁷⁴ He differentiates between short-lived "fads," which are not able to alter cultural foundations, and cultural revolutions, which lastingly alter what is understood to be "normal culture" and establish new possibilities for the perception of reality.

However, this change does not necessarily have to occur in a revolutionary manner. According to Becker (1982), art fields constantly change, since everyday practices bring about variations in action that lead to small deviations, which are initially not recognized as such. This change is incremental, and Becker describes it as a field of art's "drift" in a new direction. This drift is not yet perceived as change, however.

Art worlds do not define drift as change because it does not require any troublesome reorganization of their cooperative activities (Becker 1982: 304).

This is the key difference from revolutionary change. The latter disturbs and even destroys, up to a certain degree, the routinized interactions of actors. Revolutionary change attacks and challenges the organization of the art world. Existing conventions are critically questioned and discarded.

Artistic revolutions make major changes in the character of the worlds produced and in the conventions used to produce them (Becker 1982: 305).²⁷⁵

In fact, we cannot distinguish incremental and revolutionary change on the basis of the phenomenon of change alone. A change is revolutionary only when the existing art world is unable to absorb novelties without its key actors simultaneously losing their social and economic positions. Furthermore, some actors of the art field may perceive the change as revolutionary, while others may not. What matters, then, is not change in and of itself but the process of change.

What is important to understand is the process by which participants ignore, absorb, or fight change, for those responses define the seriousness and extent of the change, which make it a revolution or something less dramatic (Becker 1982: 308).

Based on the theories of creativity discussed in this section, we can see that, with few exceptions, creativity is related to the emergence of novelty. In this context, creativity is understood as both a mental and social process. As sociological

²⁷⁴ Zolberg (1990) rejects the application of the concept of paradigm changes to the context of the culture industry, since (1) Kuhn's concept primarily refers to the natural sciences, especially physics, and (2) the natural sciences equate change with growth and progress. This is not the case for art, where revolutions bring forth new paradigms to exist alongside the old ones. In art, new paradigms do not immediately push aside old ones for a long time and sometimes even merge with them.

²⁷⁵ Becker's concept of revolution refers to Kuhn (1962).

approaches (see Joas, Becker, Crane, Wolff, Hirsch, DiMaggio, etc.) have shown, the social is not merely contingent but also constitutive of the emergence of the new. Hence, in addition to the mental, we must also consider the component of action in the process of creativity. In this sense, creativity is a collective process of action and closely resembles concepts of evolutionary processes of innovation. Both processes can be described as evolutionary processes that select and bring variation to concepts of action. If we follow the knowledge of behavioral science, we can understand these processes of action as attempting to maintain the status quo. Novelty merely occurs through random variation. Orienting themselves by conventions, actors develop routines for actions and decisions, which unfold according to specific evolutionary paths of development. Which paths of development will dominate depends on how well they match the higher paradigm. As long as such paradigms determine actions, no radical innovations will occur.

I would like to conceive of innovation as the process of the emergence of novelty, as well as the alteration of existing action routines. During this process, novelty materializes itself in various forms, such as in the form of new products and production processes but also in the form of new social institutions, including new social fields of action. Accompanying the process of innovation, creativity is a collective process of action in which novelty is recognized and accepted. This does not necessarily mean that the materialization of novelty always presupposes a creative process. It is entirely possible that this materialization has already taken place but has not yet been recognized and accepted as new by a social process. Innovation happens only when the creative process has begun, and novelty was construed as different from the already known. It is entirely possible that a long period of time might pass between the moment of materialization and that of creative recognition and acceptance.²⁷⁶

In the following chapter, we apply this integrated concept of creativity and innovation to the development of the music industry in order to derive a useful explanatory model.

²⁷⁶ Of course, to recognize novelty does not mean that novelty is already attached to the process of materialization but has not yet been discovered; rather, recognizing novelty means that an alternative to the already known is being socially constructed.

CHAPTER 11

CREATIVITY AND INNOVATION IN THE MUSIC INDUSTRY

1. REVOLUTIONS IN THE 20th CENTURY MUSIC INDUSTRY

Based on empirical evidence, the development of the music industry in the 20th century is characterized by two large structural breaks. The first is that of the Jazz revolution in the 1920s, and the second one is the Rock ‘n’ Roll revolution in the early 1950s.

1.1. Characteristics of the Jazz Revolution

The term Jazz revolution should not be misunderstood as signifying a singular change in the dominant style of music within the evolution of popular music. Rather, I use this term to describe a fundamental change in the music industry’s conditions of production, distribution, and reception that was triggered by a complex interaction of different factors.

One such factor was the introduction of broadcasting towards the beginning of the 1920s. Radio was a process innovation serving as the foundation for novel production methods. The altered production logic between broadcasting and the phonographic industry exhibits this. Whereas the phonographic industry focused on the production of music in material form as records, live broadcast music from concert halls and ballrooms took center stage for radio as a quasi-service. Record production required control over five basic elements: first, the rights to exploit intellectual property; second, technical pre-conditions for recording; third, technical equipment to produce records; fourth, costly distribution networks for what were then very fragile phonograms; and fifth, appropriate marketing in order to call consumers’ attention to new music productions. In contrast, radio broadcasting required control of musicians rather than of the copyrights of the music they played. In technological terms, radio needed an appropriate broadcasting infrastructure and had to ensure that (music) recipients had access to the necessary receivers. Distribution occurred directly, and the broadcasting networks were able to regulate it due to the medium’s serial quality. Radio relied on marketing only to a limited degree to disseminate its content, since advertising clients took care of this. In short, broadcasting was based on different laws than the ones that applied to the production of records.

The phonographic companies had trouble with this new, or rather different, logic of production. They recognized neither the commercial potential of music programs

financed by advertising in the U.S., nor the political function of music in the context of nationalized broadcasting in Europe. It would have been rather easy for the highly capitalized majors of the 1920s—Gramophone Co., Lindström, Columbia, and Victor—to create their own radio stations. But since they did not understand this new production logic, they initially considered broadcasting a temporary phenomenon; once they realized it was here to stay, they fiercely fought its existence. The majors' ignorance about the new medium's potential to succeed was so pronounced that they did not immediately appropriate advantageous technological innovations such as the electrical recording method.

The majors' failed to realize that broadcasting was the medium of the future and subsequently refused to cooperate with radio stations. Already enjoying rapidly increasing numbers of listeners and advertising revenues, the radio networks began to broadcast live mass-friendly entertainment music as well as prestigious art music. The majors thus saw an audience with purchasing power abandon them, which caused their record sales to decrease between 1921 and 1925. The temporary economic boom between 1925 and 1929 disguised the record majors' true condition. We must not forget that U.S. Columbia went bankrupt in 1922 and was saved only due to the intervention of its European subsidiary. Although the latter had advanced in the 1920s to become the largest phonographic company in the world, it had not resolved existing structural problems. This failure forced it to merge with its main competitor, the Gramophone Co., in 1931, thus giving birth to EMI. U.S. Columbia, however, was no longer part of this corporation due to objections by the U.S. antitrust commission; consequently, it moved from one crisis to the next until the broadcasting network CBS took it over in 1938. Victor Talking Machine had already suffered the same fate in 1929 when it was bought by RCA, the largest broadcaster in the U.S.

Gradually, U.S. record companies were subordinated to the production logic of broadcasting and now existed merely as secondary marketers for Tin Pan Alley mainstream music. Simultaneously, the European majors became dependent on national bureaucracies as a result of changed political circumstances. This was especially obvious in German companies after the National Socialists assumed power in 1933.

Since the beginning of the 1920s, the phonographic majors had been preoccupied, trying to figure out how to defend themselves against radio; consequently, they barely noticed the emergence of new, smaller record companies that began to market the music of the lower classes of "black" and "white" Americans, who the majors had completely ignored. Pejoratively termed "Race Music" and "Hillbilly," this music was excluded from radio programs. As a result, independent labels such as Vocalion, Gennett, OKeh, Black Swan, Meritt, and Sunshine were able to develop commercially profitable market segments with the help of original Jazz and Country recordings. Crucial to their temporary success was the fact that many members of the lower classes owned a gramophone but not a radio, since many of their apartments did not yet have electricity, and many of them could simply not afford to buy a radio. These labels also profited the migration of African-Americans from the American South to the prosperous industrial centers

of the country's North and East. In the context of these interactions between social, economic, and technological changes, new music styles such as Jazz and Country emerged and had a lasting impact on the music industry.

By now, it should be obvious that the Jazz revolution was not just a purely music aesthetic phenomenon; rather, it was embedded in a context of social, technological, and economic change. In turn, we must also recognize that this change of music style affected the structures of the music industry. Jazz, and also Country music (only in the U.S.), momentarily increased the range of music providers in the 1920s. Each of the above listed labels worked the market in their own way, and they fundamentally differed from the record majors. This diversity of music providers and forms of musical expression lasted only for a short time, however.²⁷⁷ In the early 1930s, this diversity subsided on all levels, a trend that the Great Depression further accelerated. From now on, the large broadcasting networks dominated the music market. That the phonographic companies did not dominate the market any longer was, on one hand, due to the already discussed inertia of the old majors and, on the other, because it was impossible for independent Jazz and Country labels to rise to the level of the music majors. With an increasing number of households with electricity, the triumph of radio eventually took hold with the lower classes as well. In addition, the original Jazz of African-Americans was adapted by the white music tradition and gradually made "palatable" for broadcasting. In the early 1930s, the different styles were so homogenized that Swing emerged, which became the dominating music style aired on the radio.

1.2. Characteristics of the Rock 'n' Roll Revolution

Just like the Jazz revolution of the 1920s, so the Rock 'n' Roll revolution of the 1950s resulted from a complex process of change, during the course of which a number of factors interacted with each other. Peterson (1991) described this process of change with his 6-Factors model.²⁷⁸ According to this model, changes in the areas of legal conditions, technology, market conditions, industry structure, internal organizational structures, and intra-industrial career paths were responsible not just for the emergence of Rock 'n' Roll but also for the entire reorganization of the conditions of production, distribution, and reception in the U.S. music industry.

On the legal level, two factors initially brought movement to the rusty industry structures: first, the emergence of BMI, which in contrast to the monopolistically operating ASCAP specialized in licensing Rhythm & Blues and Country music, and, second, the new policy of the Federal Communications Commission (FCC), which now provided new licenses to regional and local radio stations. In the 1930s, NBC and CBS still dominated the broadcasting market with the help of both numerous regional franchises and the protection of the FCC's very rigid licensing policy.²⁷⁹

²⁷⁷ For more on the concept of diversity, see Chapter 11.4.

²⁷⁸ See also Peterson (1978, 1982, 1985).

²⁷⁹ The number of radio stations was limited to three to five per state. In addition to the omnipresent NBC and CBS franchises, no more than three additional radio stations per state were able to acquire licenses from the FCC.

But since 1947, hundreds of smaller regional and local radio stations have emerged as a result of the availability of additional broadcasting licenses. These stations could not afford the cost-intensive programming of the national broadcasters with their live-shows, large studio orchestras, and broadcasts from Broadway or concert halls. Therefore, they began to operate their music programs based almost exclusively on records. Consequently, independent record companies no longer perceived these stations as competitors and soon entered into a symbiotic relationship with them. Smaller, under-capitalized R&B labels, especially, supplied these new radio stations with music; thus, for the first time a large part of the population outside of the African-American community became familiar with this new form of dance and entertainment music. In contrast, the large record companies barely cooperated with independent radio stations, since the former were tied to the large broadcasting networks and were thus subordinated to their production logic. The appearance of new radio stations drained advertising revenues away from these networks, which already suffered from lower advertising income due to the market introduction of television; ironically, the most severe competition for scarce advertising revenues came from their own television stations.

Technological innovations signified another important moment of change, such as the market introduction of the $33\frac{1}{3}$ -rpm and 45-rpm vinyl records in 1948/1949, which replaced the fragile 78-rpm shellac record. For the smaller record labels, the nearly unbreakable vinyl record had the distinct advantage of being mailable, thus allowing them to bypass the majors' distribution networks. Moreover, new distribution networks not owned by the majors emerged, which independent labels could use. In this manner, the intense competition among distribution networks at the end of the 1940s dismantled the majors' distribution oligopoly and with it the barrier preventing new record companies from entering the marketplace.

As a result, the industry structure changed dramatically. Whereas in 1948 the four majors—RCA-Victor, CBS-Columbia, Capitol Records, and Decca-U.S.—released 81% of all titles of the weekly top 10 hits, this share had decreased to 34% by 1959 (see Table 13).

Table 13. The hit share of the four largest record companies (1948–1959).

Year	Hit-share of the 4 Majors
1948	81 %
1955	74 %
1956	66 %
1959	34 %

Source: Peterson (1990: 106).

The majors' market share declined to such an extent primarily because they held on to Swing and completely rejected R&B and Rock 'n' Roll. The demand for

alternatives was thus met only by smaller record labels that had emerged in the interim, featuring Rock ‘n’ Roll, Country, alternative Jazz, Soul, or Latin music in their programs. The successful labels were Sun Records, Atlantic Records, Stax, King, Chess, Vee Jay, Dot, and Imperial.

At the end of the 1940s, the record market was oriented towards a mass taste defined by the lowest common denominator, Swing and Hollywood movie music. The majors did not meet the Baby Boom generation’s latent demand for alternative dance and entertainment music. Compared to this, the market situation of the late 1950s was very heterogeneous and diverse. Increased competition enforced a differentiation of the available repertoire. Thus, there were radio stations that specialized in rock music, Jazz, Soul, Country, “Classical music,” religious music, or middle-of-the-road music. Specialized labels recorded this music, which was then distributed by regional and local radio stations.

As a result of this development, the rigidly integrated, vertical organizational structures of broadcasting and phonographic companies were broken. Hierarchical and functionally differentiated departments were no longer necessary, since the goal was not to produce a standardized product. Rather, record labels were now organized as smaller units that purchased many services such as studio time, record manufacturing, and distribution. The labels’ primary task was now to ensure, legally or illegally, that radio stations would play their records.

The role of “creative” personnel had changed drastically in response to the new division of tasks. At the end of the 1940s, technicians and a specialized staff of “creative bureaucrats,” whose job was limited to writing gags or news texts for radio stations, still dominated; by the mid-1950s, the technical apparatus disappeared, and the industry now required generalization instead of specialization. A few technicians took care of broadcasting, and DJs were responsible for program selections. DJs were no longer bureaucrats but showmen with entrepreneurial abilities who knew how to market themselves and the music they played. Record labels got rid of their staffs of hired songwriters and composers and replaced them with autonomously operating artists that were found by A&R managers.

Peterson (1991) impressively describes how a new music style emerges out of the interaction of numerous factors that lastingly altered the music industry’s structures. This change represents more than a mere evolutionary change; it is a structural break that is well described by the metaphor of the Rock ‘n’ Roll revolution. Even though anchored in two different historical contexts, a number of similarities exist between the Jazz and Rock ‘n’ Roll revolutions. In both cases, the complex interweaving of different factors resulted in a structural rupture that quickly caused the majors’ market power to melt like snow in the sun. Intensifying competition overcame the production and distribution oligopoly, and new market participants appeared that contributed to the growing differentiation of the markets, thus increasing the variety of products.

1.3. The Change of Paradigms in the Music Industry

I want to interpret these structural breaks as paradigm changes in the music industry's system of production, distribution, and reception. In contrast to the current views of evolutionary innovation theory, however, these paradigm changes should not be understood in exclusively technological terms. Instead, they should be seen as amounting to a comprehensive cultural change. In my opinion, each industry is determined by a specific cultural paradigm. By this I mean all values, norms, and action heuristics that form the basis for all agents' activities. A paradigm change thus consists of a radical change in an existing system of norms and values. This does not imply, however, that all actors in an industry embody a homogenous structure of norms and values. This is not the case by any means. But, as behavioral science has been able to prove, there are action routines and heuristics, which are not questioned, that principally determine the system of production, distribution, and reception. Those who do not want to subordinate themselves to this regime become outsiders and even outcasts. In a paradigm change, however, it is the old regime that is challenged by a new one. At first the representatives of the old paradigm will ignore the new regime, and then they will try to prevent the new regime from taking over. In the end they fail at this task, because the old regime is no longer able to control all of the simultaneously altering factors that cause this change.

Their lack of ability to deal with new action routines does not lead them to acknowledge that they did something wrong; rather, it is manifested as an aggressive display against novelty and its protagonists. In the early phase of the paradigm change, established companies simply tried to ignore novelty. The electrical recording method, magnetic tape recording, or MP3 technology were all successfully used in a different context, without the music industry's companies ever showing any interest in them. This happened because these technologies could not be derived from the established cultural paradigms and thus existed outside the music industry's horizon. But the industry ignored not just technological novelty but also aesthetic ones such as Jazz and Rock 'n' Roll. Since these music styles did not fit into their thought habits, they simply disregarded them, as if operating by the motto, "what should not be, cannot be." This ignorance, however, was not due to arrogance or narrow-mindedness on part of the majors; rather, it is attributable to the outmoded norms and values of a cultural paradigm, which also determine the thought routines of the decision makers.

Thus, a basic pattern of collective action emerges that typically consists of four phases:

Phase 1: Ignoring the new

Phase 2: Playing down the relevance of the new for one's business

Phase 3: Fighting the new and its protagonists

Phase 4: Accepting the new

This pattern, which characterizes collective action, can currently be observed in the development of online music and music providers on the Internet. The established record companies did not embrace MP3 technology, which was available beginning in the early 1990s, since this technology did not fit into the thought and action schemata of the industry. Furthermore, the companies' capital was tied up in production and marketing processes completely focused on phonograms. If phonograms ever became obsolete, these investments would become "sunk costs." The result would likely be the economic decline of most record companies. Moreover, due to the amount of capital tied up in phonographic technology, it would be possible for the majors to change technology only in the case of high opportunity costs. In essence, they find themselves in a locked-in situation from which they cannot escape without financial losses.²⁸⁰ Thus, a major's only chance is to ward off the new paradigm by attacking it with existence-threatening lawsuits claiming copyright violations. However, if this new technology is indeed part of a paradigm change in the music industry then the industry's defense will be hopeless. In the case of a paradigm change, the entire system of production and marketing, which the established companies have controlled thus far, changes. Right now, many signs exist that suggest that we are in the middle of such a paradigm change. The much more cost-effective distribution of music data over the Internet challenges the capital-intensive distribution of phonograms. Music exchange sites, which frequently cannot be challenged legally, undermine the copyright system. Composers and interpreters basically have the opportunity to market themselves without the record labels' help. However, on the Internet, the cost for searching and information are very high for consumers. To become better known as a musician, it is still necessary to bundle information in the way that record labels are capable of doing with the help of their marketing instruments. This last factor, the control over marketing, remains in the hands of the music majors. However, it is questionable whether this controlling power suffices for the majors to get the upper hand of this new action system, which is currently in the process of establishing itself. After the successful paradigm change, music will be distributed as music data rather than in form of phonograms. The core of the music industry will then be made up of companies that provide access to music data as a service. This does not mean that these companies have to produce music themselves; it merely means that they will function as gatekeepers in a service economy. It is uncertain whether the currently established record companies can continue to be these gatekeepers.

Based on what we have said thus far, we can delineate the development of the music industry since the emergence of the phonograph according to three structural breaks and a corresponding succession of three cultural paradigms (see Figure 35).

²⁸⁰ See David (1985) for a case study.

Paradigm 1: The era of music publishers lasting from the late 19th century to the early 1920s,²⁸¹ which was dominated by the production logic of music publishers.

Structural Break 1: The Jazz revolution of the early 1920s.

Paradigm 2: The broadcasting era lasting from the 1920s to the mid-1950s, which was dominated by the action routines of large broadcasting networks and nationalized radio in Europe.

Structural Break 2: The Rock ‘n’ Roll revolution of the 1950s.

Paradigm 3: The era of phonographic companies, which saw the perfection of the production and distribution of phonograms. This era began with the rise of Rock ‘n’ Roll and has lasted until today.

Structural Break 3: The digital revolution of the late 1990s.

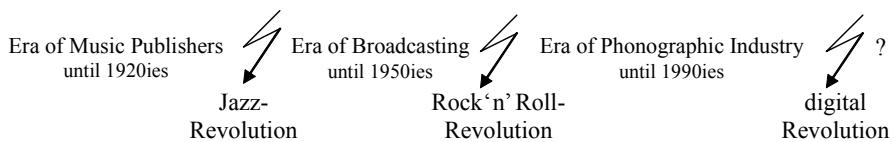


Figure 35. The emergence of cultural paradigms in the 20th century music industry.

However, these structural breaks are not isolated phenomena of the music industry; rather, they are embedded in a comprehensive process²⁸² of change that Blaukopf (1989) and Smudits (1988, 2002b) describe as mediamorphosis.²⁸³ Simply put, mediamorphosis consists of a transformation of cultural communication that occurs as a result of technological innovation in the media (Smudits 2002b: 44). A mediamorphosis effects a dramatic change of artistic productions, which results in altered conditions of production, distribution, and reception. Since early modern times, we can identify four partially overlapping mediamorphoses (see Figure 36).

Aside from the first and second mediamorphoses, which developed their revolutionary effects long before the emergence of music industrial production, we can observe the effects of the third and fourth technological mediamorphoses (the

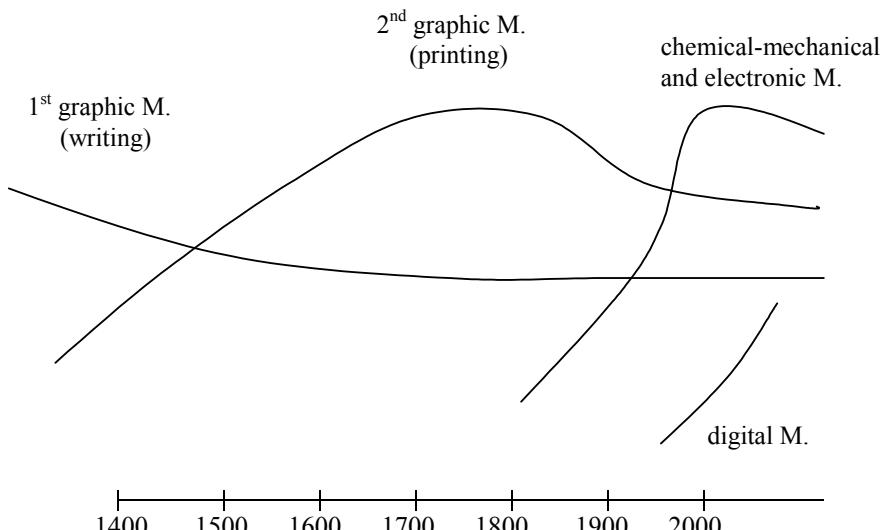
²⁸¹ In the U.S., Tin Pan Alley was the embodiment of this era, whereas in Europe it was operetta and Schlager productions.

²⁸² This process of change, however, should not be uncritically understood as technological or artistic “progress” (see Smudits 1999).

²⁸³ For the history of the concept of mediamorphosis, see Smudits (2000). Blaukopf (1969, 1977, 1982) provided the groundwork for this concept, especially in relation to the phonographic medium.

chemical-mechanical and electronic mediamorphoses) as well as the digital mediamorphosis in the music industry.

The chemical-mechanical mediamorphosis in the music industry is demarcated by the invention of the phonograph and shellac record. As I have already shown, this resulted in a shift of power in music production and distribution during the era dominated by music publishers. But the real structural break was triggered only by the second technological, that is, the electronic, mediamorphosis, which in its early period produced radio and later on the music companies of the phonographic industry. We are currently witnessing a digital mediamorphosis, which will result in a new structural break in the music industry—namely, in what I have called the digital revolution. Just like its predecessors, this latest mediamorphosis will radically change the production of art, especially in the music industry. We can describe these transformations as cultural paradigm changes. The next two sections will describe in detail how this change happens.



Source: Smudits (2002b: 204).

Figure 36. The emergence of mediamorphoses since early modern times.

2. CULTURAL PARADIGMS AND CREATIVE TRAJECTORIES IN THE MUSIC INDUSTRY

Cultural paradigms, which exist in an industry, can be characterized with the help of thought and action routines that all protagonists share. As Nelson and Winter (1982) have shown, development within a cultural paradigm does not occur in eruptions and without pre-conditions but, rather, is part of an evolutionary process. This evolutionary development of an industry is embedded in a historic evolutionary process of change, which proceeds in waves (see Freeman and Soete (1997) as well

as Freeman and Perez (1988)). We can thus understand innovation activity as a historic process, which cannot be interpreted independently of the attendant social context. This is the very reason why in the first nine chapters of this book I presented the historical development of the music industry since the introduction of the phonograph. In the music industry, too, we can observe a succession of waves that were caused by innovative thrusts. These thrusts more or less correspond to the technological epochs identified by Freeman and Perez (1988).

2.1. Cultural Paradigms in the 20th Century Music Industry

In contrast to evolutionary economists, however, I want to expand the concept of innovation to include social, legal, organizational, aesthetic, etc. factors, rather than reducing it to just technological factors. “Industrial culture” is merely not affected by technological changes but also by the changes of norms adhered to and values held by acting persons.

At the beginning of the era of music publishers, the music industry’s thinking and acting focused on the production of music in printed form, which was disseminated with the help of a network of music publishers, music theatres, and phonographic companies. Amateur musicians, who imitated then current music hall and vaudeville hits on various instruments and in small ensembles, primarily constituted the demand side of the market. In this system of production, distribution, and reception, the phonographic industry initially played only a subordinate role.

However, once the technological prerequisites for the mass production of phonograms came into existence around 1900, the phonograph and the record constituted a system that can be considered the core of a rapidly growing system of technological, social, and organizational innovation. In incremental steps, the record’s replay quality improved, and it was soon recordable on both sides. Phonographs were supplied with an electric motor, and mass production made them cheaper. As a piece of luxury furniture, the phonograph entered wealthy households, whereas households with less income bought its cheaper version. The first retail stores specializing in selling phonographs and phonograms appeared, but even larger department stores established music departments. The manufacturing of phonographs and phonograms changed from an initially artisanal level of production to a factory production system based on the division of labor. Technologically sophisticated recording studios were created that allowed for orchestral recordings. Advertising was used as an important means to increase sales and was produced in special marketing departments created just for this purpose. The functional differentiation of phonographic companies further corresponded to the development of international corporate structures, which unified a number of labels and production sites all over the world.

The rapidly growing market for phonographs and phonograms pushed the market for sheet music to the background. Power in the music industry shifted as a result of the phonographic companies’ economic success. Phonograms were now at the heart of the music industry, for which music publishers provided the copyright protected repertoire, and for which live performances functioned as a key promotional

instrument. However, the Tin Pan Alley sound barely changed in this process of transformation. Of course, there were short-lived novelties such as rapidly changing dance fashions; and new music forms such as Ragtime or Blues were incorporated into the repertoire. But this does not indicate a radical break in music style.²⁸⁴

All of the developments described above took place within the existing cultural paradigm that dominated the music industry into the early 1920s, when a new paradigm, broadcasting, appeared. During the Jazz revolution, which we already discussed, the structures of the music industry were radically altered. In this new paradigm, live performances of musicians, which were broadcast into the homes of radio listeners, assumed a central position. The phonograph was integrated into radios, which were produced on the same assembly lines that were once used to assemble Gramophones and Graphophones. Phonographic companies were integrated as sub-units into broadcasting conglomerates, and their role became to exploit popular music titles for a second time. The broadcasting era reached its peak with Swing music, which was created in such a way that it perfectly matched broadcasting criteria. Radio used technological innovations such as the electrical recording method, the Magnetophon, and High Fidelity before phonographic companies made use of them. In contrast, however, phonogram technology—the 78-rpm shellac record—remained unchanged despite EMI's experiments with the LP in the 1930s. BMI's founding as the exclusive licensing organization for U.S. broadcasting networks can be viewed as another indication of the dominant position assumed by the broadcasting corporations of the music industry in the 1930s and 1940s.

As mentioned earlier, this seemingly omnipotent broadcasting system of production, distribution, and reception was shaken by the Rock 'n' Roll revolution of the 1950s. This new paradigm change initiated the era of the phonographic companies. The very system of production, distribution, and reception that is still valid today formed in those years. Company-owned music publishers had control of creative inputs. Record contracts ensured that successful musicians were bound to the company for a long time. Company-owned labels produced any music as soon as it promised to be commercially successful. Yet, the majors left musical experimentation to independent producers and record labels. Carrying all the risk, they were nevertheless tied to the majors through distribution contracts; in case of success, the major acquired both the artists and the record labels. The control of the distribution of phonograms thereby assumes the central role in the music industry's hierarchy of power, since it regulates access to the market. Organizationally, the majors are vertically integrated to a high degree. Today, they are part of even larger corporations that, since the 1980s and 1990s, have been active in the cultural industrial area. Yet, the transformation of ownership structures did not terminate the existing cultural paradigm.

Innovations, which have been occurring under the existing cultural paradigm since the 1950s, always emerged in the name of improving the dominant system of

²⁸⁴ The same holds true for Europe where the music industry was dominated by Schlager songs from opera, operettas, vaudeville, and music halls.

production, distribution, and reception. This includes technological product innovations such as the music cassette, the car radio, the Dolby noise reduction system, the Walkman, the CD, the Digital Audio Tape (DAT), the Minidisc, and the DVD. Process innovations such as the music video enabled an additional avenue for the promotion of phonograms, which, however, drastically raised the total production cost. Aesthetic innovations also took place in this paradigm, but they did not result in a structural break. New popular music genres emerged in the course of an evolutionary process that differentiated rock music or were gained from subcultures and adapted for the music mainstream, such as Heavy Metal, Punk Rock, Disco music, and, of late, Hip-Hop/Rap.

None of these genres had revolutionary effects, since they did not correspond to technological, social, legal, or organizational changes. This might change in the near future. The digitizing of information created technological innovations in the music industry no longer corresponding to the old paradigm's logic. Together with legal and organizational transformations, however they may look, as well as social changes, which are not yet clearly apparent, the product innovation of MP3 technology and the process innovation surrounding the Internet and the new media might produce a mixture that could be capable of triggering yet another paradigm change. The new cultural paradigm of the digital age would then establish itself in the music industry and lastingly alter its entire system of production, distribution, and reception.

2.2. Creative Paths within the Music Industry's Cultural Paradigm

The cultural paradigm of the music industry provides the framework for their actors' thought and behavioral processes. It separates the thinkable from the unthinkable and makes actions possible or impossible. During the era of music publishers, it was thus unthinkable for a phonographic company to release original "black" Jazz on record, even though the music practice of what was not yet called Jazz was widespread in New Orleans and other cities of the American South. It was also unthinkable that music would be disseminated in any other form but phonograms, sheet music, and live performances, even though the technological prerequisites of broadcasting already existed and had been used in praxis.

Jazz and broadcasting lied outside of the music industry's accepted systems of thought and behavior. These thought and behavior systems determined ways of production, distribution, and reception of music in the respective cultural paradigms. They depended on thought and action routines as well as behavioral heuristics that were selected in an evolutionary process. What succeeded in the past was retained, that which failed was dropped. Success, here, depends on the degree to which these systems adapted to the basic conditions of the cultural paradigm. In this manner, typical thought and behavior patterns emerge for the respective cultural paradigms, which do not form randomly and arbitrarily but rather along the lines of specific developmental paths. The development of the path depends on the extent to which novelty is realized, recognized, and accepted in a collective process of action. At the end of the previous chapter, I called this collective process "action creativity".

In this sense, I will designate the developmental paths within an existing cultural paradigm as creative paths.

We can identify a number of paths, which differ from each other in their thought and action structures, for each of the cultural paradigms that existed in the history of the music industry. In the era of music publishers, the creative path of entertainment music differed significantly from that of art music, which soon was organized under the term “classic.” In order to record a Caruso or Melba, strategies had to be applied that were different from those used in recording the darlings of music halls or operetta stages. As evidenced by the different label and price politics, the marketing of these music styles was also different, which allows us to conclude that the industry served entirely different classes of audiences. Even within the phonographic companies, discrete departments specializing in “classic” or entertainment music emerged, which also published separate catalogs. Analogously, we can also identify specific paths for the broadcasting era and the subsequent era of the phonographic companies.²⁸⁵

Each developmental path is characterized by a system of thought and action that stabilized as a result of routines and standardizing processes. The elements of these action systems are specific business practices (customs), technological possibilities,²⁸⁶ social actors, and specific music practices. These elements work together in a very particular way, which differentiates them from other creative paths (see Figure 37).

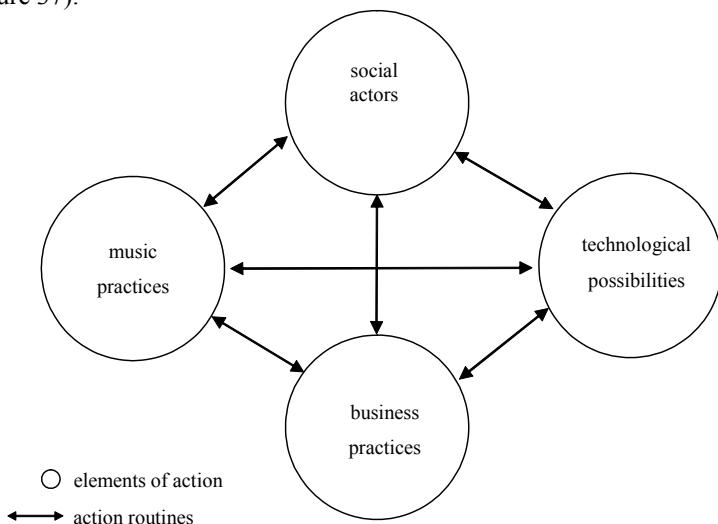


Figure 37. The Elements of a creative path in the music industry.

²⁸⁵ During the mature period of the broadcasting era, the creative path of Swing music is so dominant that no other path could exist except for the “classic” path, which was adapted to the broadcasting logic. In the era of the phonographic companies, new paths such as those of Pop and Rock or Jazz music formed, whereas the “classic” path was once again transformed in this new paradigm and adapted to its new logic.

²⁸⁶ Compare this to how I introduced the concept of the technological paradigm in Chapter 10.2.3.

How elements operate together determines the direction of creativity. The extent to which novelty is realized, recognized, and accepted makes it possible for innovation to occur on all levels of action in the music industry.²⁸⁷ It can come in different forms, such as phonographic technologies (e.g., music cassette), new marketing models (e.g., music video), new forms of distribution (e.g., the shipping of records via mail order), new forms of organization (e.g., networks between majors and independents), new job roles (e.g., independent music producers), and new music genres (e.g., Hip-Hop/Rap). All of these innovations represent something new, yet they are the result of an evolutionary change of creative paths and thus constitute merely incremental innovations.

It follows that innovative processes of an industry always occur within creative paths, which are embedded in cultural paradigms, thus making it impossible for them to bring about radical innovations. How, then, do radical innovations come about, as they have done repeatedly throughout the history of the music industry? They are the results of paradigm changes and enter the dominant paradigm of production, distribution, and reception from outside the industry in order to permanently destroy it. It is telling that the electrical recording method was not developed within the creative paths of the music publishing paradigm but by the broadcasting industry, which assumed center stage in the music industry after the paradigm change. Likewise, the aesthetic innovations of Jazz and Rock 'n' Roll were alien to the existing creative paths, since they sprang from a new paradigm that formed new creative paths. Also, specific forms of organization, such as the network of independent radio stations and record labels, were not part of the dominant broadcasting paradigm. Of late, it was MP3 technology and music distribution over the Internet that were totally alien to the creative paths of the phonographic corporations, which suggests that these innovations, together with other innovations alien to the system, will cause yet another paradigm change. All of these radical innovations, which can be considered carriers of paradigm changes, are based on creativity that is "system-alien" in the sense of collective processes of action that realize, recognize, and accept novelty. That is, how novelty is dealt with differs from how the traditional paradigm deals with it.

3. AN EXPLANATION FOR THE CHANGE OF PARADIGMS IN THE MUSIC INDUSTRY

"System-alien" creativity is therefore the pre-condition for a paradigmatic structural break.²⁸⁸ It ensures the breakup of the paradigmatic frame within which the system of production, distribution, and reception operates. Especially, the routinized relationships between individual elements of action are broken up, which frees up

²⁸⁷ As I discussed at the end of Chapter 10, innovation is understood as a process of change or emergence of new action routines, during the course of which novelty materializes.

²⁸⁸ However, we must not conclude that all system-alien impulses will lead to a paradigm change. They become the trigger for a structural break only when a number of system-alien impulses mutually intensify each other.

space for new possibilities of interaction. In addition, technological possibilities expand, new music practices emerge, the number of actors increases, and new business practices form during the period of paradigm change. The increase of action elements and the break-up of routinized behavior patterns abruptly lead to an increase in complexity. Complexity means that it is impossible to predict which action elements are going to interact with each other, thus resulting in an increase of the potential for creativity within the entire system of action. However, this heightens the uncertainty about the result of actions and lowers the ability to venture a prognosis. As a result, actors will try to eliminate uncertainty by preferring some interactions to others. Slowly, action routines and patterns form and thus provide the basis for new creative paths. Over time, creative paths will stabilize according to the principle of evolutionary selection. A new system of production, distribution, and reception takes shape, and the paradigmatic frame, which determines them, begins to close. This process ends with the establishment of a new paradigm. This does not mean, however, that all creative paths of the old paradigm are bound to disappear; rather, they will now be subordinated to the new paradigm's system of production, distribution, and reception. Figure 38 schematically represents the process of paradigm changes in the music industry.

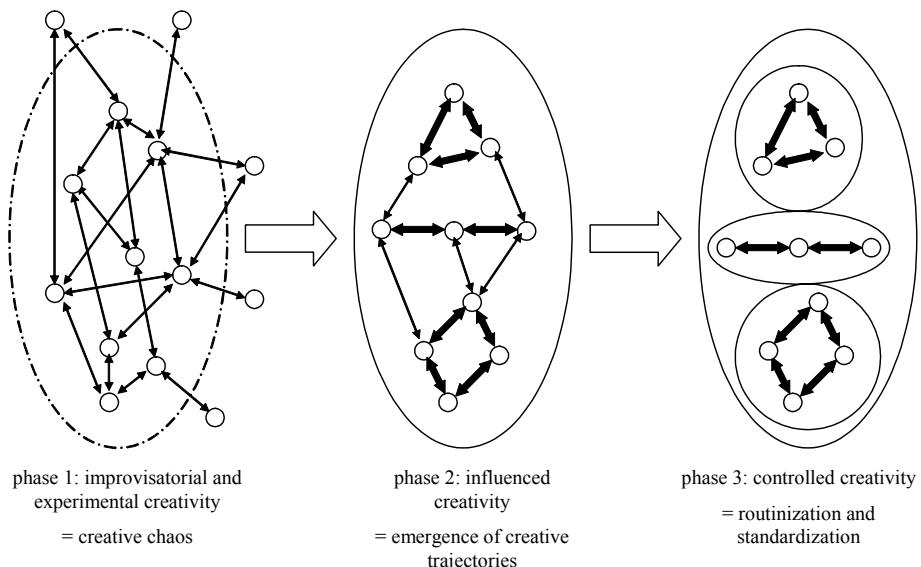


Figure 38. A model of paradigm changes in the music industry.

Each phase of the paradigm change is connected to a different extent of creativity. During the phase of improvisation and experimental creativity, which begins soon after the structural break, multiple and unpredictable links between individual elements of action are possible. Connections are either established with elements of actions that formerly lay outside of the old paradigmatic framework, or

these elements are integrated into the system of action. Such unforeseeable links form the basis for those radical innovations that can occur only during a paradigm change. Hence, Rock ‘n’ Roll was the result of an unforeseeable connection of two music styles, Rhythm & Blues and Country & Western, which up until then had remained strictly separated from each other. It is also possible that unpredictable links are forged between technological possibilities and music practices (e.g., the “electrification” of Blues towards the end of the 1940s) or between actors who thus far worked in entirely different creative paths (e.g., the collaborations between Bill Haley and Decca or Elvis Presley and RCA).

The duration of this phase depends on how quickly individual actors manage to decrease the heightened uncertainty resulting from these additional synapses by having recourse to preferred action links. Thus, the broadcasting networks were already able to enforce their logic of production, distribution, and reception in the music industry by the late 1920s, thus establishing the preference of specific links over others. For instance, established Jazz orchestras preferred collaborating with regional franchises of the broadcasting networks (CBS and NBC) to making recordings with smaller independent labels, which does not mean that such recordings never took place. During the phase of influenced creativity, thus, certain connections remain the exception, whereas others become the rule. For the emergence of novelty, regularity means that experiments are allowed but only to a specific, predictable extent. Hence, the Beatles and George Martin were able to engage in artistic experiments that were trend-setting for rock music, but they nevertheless stayed within the existing aesthetic codes.

We can recognize that the second phase of the paradigm change in the music industry has set in, because new music genres or sub-genres begin to form that accord with different conditions of production, distribution, and reception. Mutual impregnation is certainly possible, since these creative paths have not yet entirely become routine, but they remain rare, as is evidenced by the few crossover successes between the Pop and R&B charts in the 1970s.

The phase of influenced creativity corresponds to the oligopolization of market structures. Dominant market actors emerge on all levels of the value-added chain and begin to dictate the rules of the game. Despite the increasing domination of a small number of actors, however, some individual actors manage to remain a force on the market by taking advantage of market niches. I want to call such an oligopoly a dynamic one. It is dynamic in the sense that the majors are not yet able to fully control the value-added chain; as a result, a steady stream of new actors appear that attempt to succeed in the market with various business and music practices. Hence, despite increasing market concentration in the 1970s, it was still possible for new actors to enter the record industry and at least temporarily maintain their autonomy of action.²⁸⁹

During the Jazz revolution, the phase of influenced creativity was shorter because the broadcasting networks were able to expand their market power so rapidly

²⁸⁹ Think of Motown, Stax, A&M, or Island.

that they managed in a short time period to control the entire value-added chain. This meant that they eradicated other connective possibilities with the help of those action routines that were crucial to the production logic of broadcasting. In the first half of the 1930s, creative paths were completely routinized and music production was standardized. In the U.S., Swing, a 100% radio-compatible music style, ruled entertainment music and would have managed to gain a lasting foothold in Europe had it not been for the catastrophe of World War II that swept over the continent. As a result, European entertainment music was more strongly dominated by Schlager music, which was closely linked to the production logic of radio and film music, whereas the “classic” path was based on the tradition of art music.

These strongly standardized and routinized creative paths, which allowed only for a small amount of novelty, resulted from a few actors who had nearly unlimited power to control the market. This phase of controlled creativity, which is akin to the lasting establishment of cultural paradigms, is based on a static oligopoly. Market participants strive to prevent others from entering the market and attempt to control the conditions of production, distribution, and reception as gatekeepers to such an extent that unwelcome surprises, such as the emergence of new music practices, are no longer possible. But it is possible to stabilize a static oligopoly only when the paradigmatic frame remains unchanged.

This change, however, had occurred by the end of the 1940s in the U.S. with the harbingers of the Rock ‘n’ Roll revolution. Due to their rigid action and thought routines, the four companies that formed the static oligopoly in the U.S. were no longer able to integrate new music trends, which were developing on their periphery, into their production system. This, however, would not have sufficed as a cause for the Rock ‘n’ Roll revolution if the entire paradigmatic frame of the music industry had not changed, as we already discussed above. In a period of barely five years—from about 1950 to 1955—the majors lost control over the music industry’s system of production, distribution, and reception. This system became reoriented as a result of new actors (i.e., new record labels, independent music producers, independent radio stations, Rock ‘n’ Roll musicians) that entered the industry and operated in various constellations of actions, which made possible the paradigm change from broadcasting logic to phonographic logic.

The phonographic companies, which had controlled the music industry since this paradigm change, successfully expanded their market position until the 1990s. Despite increasing routinization of the creative paths, they succeeded in integrating new music genres, as is shown by the commercialization of Heavy Metal, Punk Rock, and Hip-Hop/Rap. Also, the phonographic companies implemented new technologies such as the CD, DAT, and Minidisc, which even triggered a new economic boom at the beginning of the 1980s after a period of stubbornly lingering stagnation. Nevertheless, these successes of the phonographic industry must not mask the fact that in the 1980s the music industry transformed from being a dynamic oligopoly to becoming static. They continued to integrate the value-added chain. The phonographic companies assumed control of the most important music publishers and owned most record manufacturing sites, as well as the key distribution networks. Small record labels, which operated in market niches commercially irrelevant to the majors, were tied to the majors’ corporate structures

through exclusive contracts. This allowed the majors to claim as their own those music innovations that turned out to be commercially successful. In this context, we must not overlook the fact that new music genres adapted to the routines of the creative paths of pop music. The rough edges of original Heavy Metal, Punk Rock, and Hip-Hop/Rap were lost in this process, and the initially rebellious acts of the pioneering phase were replaced by acts that were more adaptable to the pop mainstream.²⁹⁰

All of this is part of a controlled creativity that does not welcome any improvisation and experimentation and instead allows for novelty to occur only in a very narrow framework. Primarily, the industry exploits their back catalogs in the form of “Best of” and “Greatest Hits” records or the re-release of legendary recordings; only secondarily do they develop new acts, which will eventually be adapted to the mainstream. Majors weed out whatever does not fit into this framework in advance. Consumer sovereignty is now limited to the ability to choose from a pre-selected pool of products, which in turn encourages conservative buying habits. This serves as a market signal for the record companies to reproduce the established, thus resulting in a cycle of intensifying supply and demand that makes little room for novelty.

Up until recently, digitization had no influence on this routinization and standardization of the music industry’s system of production, distribution, and reception. The CD was merely considered a phonogram with a storage capacity exceeding that of the vinyl record, and DAT and Minidisc were viewed as digital substitutions for the music cassette. However, record companies did not realize in a timely manner the real potential of digitization, that is, the ability to transmit data without physical carriers. Thus, they reacted according to the familiar schema: ignore, downplay, and fight the new forms of technology, Internet music exchange sites and MP3. These and other innovations enabled by the digitization of music opened up new possibilities for action. In order to trigger a paradigm change, however, other factors that form the old paradigmatic framework have to be changed as well. This includes creating patent and copyright laws that are no longer based on phonograms, as well as encouraging new consumer behavior, business practices, and, crucially, new music practices. All of these action elements are gradually appearing. Trying to live up to the demands of digitization, new copyright legislation was passed in Europe and in the U.S.; however, these new laws remained controversial and in many cases without effect because they did not yet overcome the phonographic logic. The first signs of new consumer behavior can be observed in reference to the enormous and largely uninterrupted success of Internet music exchange sites. New business models for the distribution of music over the Internet are being tested, though they currently do not produce any profit. Finally, new music practices have begun to prevail that make use of the computer as an

²⁹⁰ Thus, more rebellious and provocative Heavy Metal acts, such as Black Sabbath and Alice Cooper, were commercially pushed to the background by more streamlined acts, such as Bon Jovi and Def Leppard. Likewise, the commercial success of N.W.A. and Public Enemy was later surpassed by those of Pop-Rappers.

instrument to produce music. Still, despite these signs, a new paradigm change has not yet occurred. This will eventually manifest itself in a phase of creative chaos when new, previously unthinkable connections will be forged. This will rapidly increase the number of behavioral possibilities and thus variety. Subsequently, the uncertainty about behavioral results will increase as well, which in turn will force the actors to form specific action routines that prefer some behavioral connections to others, ultimately leading to the establishment of new creative paths. How these paths will look is impossible to predict at this moment.

4. DIVERSITY AS A PRE-CONDITION FOR CREATIVITY AND INNOVATION

Diversity assumes a key role in my explanatory model for the occurrence of paradigmatic change and must thus be explained in greater detail at this stage. Due to its lack of clear definition, diversity is a precarious term, which is also evidenced by those studies that focus on the relationship between music diversity and innovative behavior. Peterson and Berger (1975), for instance, tried to establish an empirical connection between the changing structure of the music industry and music content. To this end, they examined the U.S. single charts (Billboard charts) between 1948 and 1973 in order to document that a high market concentration has negative effects for diversity and the ability to innovate. They also wanted to show that throughout the history of the music industry, phases of increased market concentration and homogenized music production alternate with phases of intensified competition and increasing creativity. In order to measure diversity, they looked at the shares of top 40 titles produced by the top four and top six record companies. This approach assumes, however, that the difference between music titles produced by the majors is less than the difference produced by the independent labels. Furthermore, this approach constructs a deterministic connection between the structure of the market and diversity and innovative behavior.²⁹¹ Both basic assumptions are problematic. It is neither a given that the majors have to be essentially hostile to creativity and innovation nor is it obvious that the structure of the market determines the extent to which creativity is possible. Hence, Peterson and Berger promptly had to account for a contradiction immanent to their empirical material. They observed that musical diversity grew in the 1960s despite increasing market concentration. They explain this anomaly with reference to the social upheavals in the U.S. as well as the human rights and anti-Vietnam War movements.

Rothenbuhler and Dimmick (1982) as well as Burnett (1993) continued Peterson and Berger's (1975) investigations. Burnett (1993) in particular was unable to confirm the existence of an empirical link between market concentration and music diversity. He explains this contradiction by suggesting that the music industry in the 1980s had entered its period of maturity and thus changed its competitive behavior. Instead of fighting for market shares, as would be usual for a growing market, they

²⁹¹ This way of arguing can be related back to the SCP-approach (Structure Conducts Performance) (see Bain 1959 as well as Scherer and Ross 1990).

tried to improve their own position by using synergies and forging symbiotic relationships with independents. They thus use their creative potential, enabling music diversity to increase despite growing market concentration.

Burnett (1993) ignores, however, that the relationship between majors and independents was not lastingly characterized by mutual usefulness but by the distribution power of the former. In addition, the majors tried to integrate new music trends into the mainstream canon of pop music after a pioneering phase of experimentation. In a later study, Burnett (1996) expands his perspective and adds to his analysis the insight that the context of production and distribution in the music industry is of importance for the assessment of diversity. In this context, however, Hesmondhalgh (2002: 234-235) points out that the determination of diversity must have recourse not only to quantifiable data but also to qualitative features in the form of textual analysis.

Wörter (1999) developed an instrument for measuring diversity that is simple to use yet meaningful.²⁹² He distinguishes pre-conditions that produce diversity through their interaction with each other. The first one is quantity, meaning the number of elements in a given action system. The second criterion is balance, which represents the similarity as well as the difference between the behaviors of individual actors. Finally, he accounts for disparity, which allows for the measurement of similar and different approaches within an action system.

Applied to the music industry, we can understand diversity as a function of the number of creative paths (quantity), the difference between creative paths (balance), and the difference within creative paths (disparity). The following relations can be determined:

- (1) A high quantity of creative paths increases the diversity of cultural paradigms.
- (2) A high degree of balance between creative paths negatively influences diversity, whereas a low degree of balance positively influences diversity. However, we have to keep in mind that a high degree of balance between creative paths jettisons quantity and decreases diversity, whereas a lower degree of balance between creative paths promotes low quantity and increases diversity.²⁹³
- (3) High disparity within creative paths positively influences diversity, whereas low disparity within a creative path negatively influences diversity.

Based on this terminology, we can now examine the extent to which diversity exists in individual paradigmatic phases in the music industry. For the era of music

²⁹² Wörter (1999) applies this instrument to distinguish between medical schools in ancient Greece.

²⁹³ That is, it is possible that the diversity of the cultural paradigm is low despite a high range.

publishers, we can locate only a few different creative paths in the music industry. In the U.S., a mixture of music publishers, concert promoters, and phonographic companies dominated the system of production, distribution, and reception, which ensured the perpetual reproduction of a nearly unified music style, namely that of Tin Pan Alley. The European counterpart was the operetta and Schlager industry in which music publishers, concert promoters, and phonographic companies cooperated just like they did in the U.S. Other than this creative path, only art music was able to prevail: it displayed different production characteristics, was primarily distributed through opera and concert venues, and was also available on phonograms from 1900 on.

In terms of music production, art music differed from opera and Schlager music especially because the former was considerably more focused on composers, and because the unity between composition and creator came to the forefront. Although this unity played somewhat of a role in the production of operetta and Schlager music as well, its production was ultimately much more dependent on the division of labor. Under the name of one well-known composer of operettas, an entire team of songwriters and composers operated who contributed individual numbers to the whole work. On the level of distribution, art music was closely linked to opera and concert venues, which, in turn, were visited by upper class and aristocratic audiences. In contrast, operetta and Schlager music appealed to a broad variety of classes and was disseminated through small theatres, music halls, and vaudeville.

However, both creative paths used the phonogram as a means for distribution. Recording conditions were the same for both genres, even though the stars of opera and concert venues had to be treated more carefully than their singing colleagues of popular music due to their star affectations. The latter were easier to replace, since it was their repertoire that was primarily emphasized; with the “classic” path, in contrast, it was the interpreter who embodied the main sales argument. This difference is also mirrored by different label and price politics. The phonographic industry nevertheless made sure that systems of production, distribution, and reception of these two different creative paths would approximate one another, which means that the balance between those two paths increased.

What about the disparity within these paths? It was low in all of the above-mentioned cases. In the Tin Pan Alley path, one music publisher, one concert, and one phonographic oligopoly dominated the respective markets. The companies’ action systems were hardly distinguishable. When U.S. Victor began to record art music, Columbia followed. When one label released Ragtime, soon all labels did the same. The system of production was characterized by a process of mutual imitation, which prevented disparate approaches on all levels of the value-added chain.

We can thus conclude that the range of creative paths was rather low, the degree of balance between the paths high, and the disparity within the paths very low, all of which produced a low amount of diversity.

With the paradigm change of the 1920s, new creative paths emerged within a short time period that displayed different systems of production, distribution, and reception: the Jazz path, the Blues path, the “Hillbilly” path, as well as the musical and film music path. The Tin Pan Alley path was transformed into the dance music

path, and the “classic” path continued to exist even within the newly developing paradigm. The range of creative paths corresponded to a low degree of balance between the paths. The agents’ way of acting differed greatly in production, distribution, and reception. Whereas the paths of dance music and art music began to approach radio, it was especially the interpreters of original “black” Jazz, Blues, and “Hillbilly” who initially used the phonogram as the most important means of production and distribution. With its help, they reached an entirely different audience whose reception behavior fundamentally differed from that of art or dance music consumers. But within most paths we can diagnose high disparity. Many new actors appeared and attempted to succeed in totally new ways. The Jazz path displayed the highest degree of disparity. The existence of various styles such as New Orleans Jazz, Dixieland, Chicago-style, Kansas City-style, and symphonic Jazz point to different concepts of action within this creative path. The “classic” path, too, experienced a great level of differentiation among its behavioral concepts. Although it continued to release records by Caruso, etc., it also released recordings of instrumentals, small ensembles, and, thanks to the electrical recording method, orchestra and entire opera recordings.

This phase of high quantity, low balance, and high disparity within the creative paths lasted until the end of the 1920s. From then on, broadcasting dominated the music industry’s logic of production, distribution, and reception. The creative paths began to approximate each other. Musical/film music, dance music, and “white” Jazz fused into Swing. “Black” Jazz and Blues disappeared from music industrial exploitation, and only “Hillbilly” managed to maintain its position through its presence on the radio. Of the many creative paths of the early 1920s, the only ones to remain in the U.S. in the mid-1930s were Swing, “Hillbilly,” and “classic”; in Europe, only dance music and “classic” still existed as distinct creative paths. Disparity within these paths was also low, because all actors oriented themselves along the lines of the action routines of broadcasting and a standardized behavioral pattern began to take shape. The number of actors—labels, musicians, and broadcasters—was further limited due to the Great Depression. Diversity in the music industry had thus sunk to a very low level since the mid-1930s due to low quantity, high balance, and low disparity.

This changed with the Rock ‘n’ Roll revolution of the 1950s. The creative path of Swing had run its course. In its stead, the “pop music” path emerged, represented by artists such as Frank Sinatra, Dean Martin, and Sammy Davis, Jr. The “black” music tradition was revived after the war and manifested itself in the Rhythm & Blues path, which, together with the Country & Western path emerging from the “Hillbilly” path, brought about Rock ‘n’ Roll. However, the genre of Rock ‘n’ Roll was actually a short-lived phenomenon; by the end of the 1950s, it had already become history, but it had also provided the foundation for the emerging rock music path. In addition to these creative paths, the U.S. also witnessed the emergence of the Folk music path in the 1950s, which was primarily carried by the subculture of the folkies. After Bebop essentially intellectualized Jazz, it became its own creative path, emphasizing the live event in Jazz clubs or concert venues; but just like Folk music, it relied secondarily on records for its distribution. The system

of production, distribution, and reception of the “classic” path, too, displayed some similarities to those of Folk music and Jazz. The “classic” path was the only one to survive both paradigmatic breaks, because its production logic managed to adapt to the altered circumstances. We can diagnose a great range of creative paths in the mid-1950s, which featured a low level of balance and internally were very disparate.

This gradually began to change in the 1960s. With the emergence of the Beatles and what from a U.S. perspective was experienced as the “British Invasion,” the degree of balance, especially among pop music, rock music, and Rhythm & Blues, began to increase. Although this was perceived as mutual impregnation, which it probably was, the conditions of production, distribution, and reception in these paths began to approximate each other. The same holds true for Folk music and Country & Western. As a result of their fusion with rock, they adapted to the gradually developing system of production, distribution, and reception in the forms of Folk-Rock and Country-Rock. Already in the 1960s, the increasing degree of balance between individual creative paths qualified the still existing range of actors and action elements. This specifically happened as a result of large record companies purchasing small independent labels. The latter’s systems of production and distribution no longer differed in significant ways from those of the former, and they were thus easy to integrate into the corporate structures of the large companies. However, since the disparity within individual creative paths was still very high (just think of the fragmentation of rock music into numerous sub-genres), a variety of musical forms of expression continued to exist, although they began to be adjusted to specific market segments from the 1970s on. The majors used market segmentation to control the market, but it led to a decline of disparity within the creative paths, since from now on everything successful was reproduced with the help of production and distribution routines, as well as standardized products. Of course, this still allowed the industry to make commercial use of new developments such as Heavy Metal, Punk Rock, Disco music, and Hip-Hop/Rap; however, all of these innovations were quickly subordinated to the production, distribution, and reception logic of pop music. In the end, the result was crossover, which in the worst cases led to a homogenized soup of diverse music genres that had lost their aesthetic autonomy. Today, we can no longer speak of various creative paths; what we have instead is a dominant pop-rock music path that determines mainstream music. Next to it, there are only the Jazz path, which also suffers from a continual loss of disparity, and the “classic path,” which seems to be increasingly reproduced after the revival of “ancient music” towards the beginning of the 1970s. The best expression for the currently existing puzzlement of the music industry’s actors is the phenomenon of World music. World music serves as an artificial term to encompass local music traditions, but in reality it describes the conditions of production, distribution, and reception of pop music, which now approximate each other on a global level.

If it is the case that the music industry is currently on the verge of a new paradigm change, or if it is even in the midst of one, then we must be on the look out for a completely different logic of production, distribution, and reception. This new logic, however, is visible only in rudimentary form. One indication is the technological possibility to store music in digital form and to disseminate it across

the world through networks, without the help of phonograms. In addition, it is possible to produce music in one's living room without the need for many resources and to market one's product directly over the Internet. But which music will accord to the conditions of the paradigm change is not yet clear, though chances are that it will be electronically generated music. A new pattern of reception has not yet formed either, even though Internet music exchange sites could be the first signs of such new receptive behavior.

Finally, we must answer the question of why after a phase of exploding diversity this level of multiplicity decreases and eventually ends up in dominant creative paths? The reason is found in the uncertainty of commercial success that continually affects the music industry. By uncertainty I mean real uncertainty, as Knight (1921) described it in contrast to risk. Mere risk would allow us to identify a certain probability of the occurrence of a specific phenomenon. Since innovations represent something genuinely new, we cannot provide such probabilities for a phenomenon to come about, thereby forcing us to acknowledge the unpredictability of a phenomenon. During the phase of a paradigm change in a complex system such as the music industry, we cannot predict which connection between action elements is going to take place. The action elements of the old paradigm thus become obsolete, and the actors dominating this paradigm lose their position of power and sometimes even leave the music industry altogether. This uncertainty about synoptic possibilities in a new paradigm leads to an increase in diversity. New actors pursuing different methods appear and interact with each other, which rapidly increases diversity and the potential for creativity within the entire system. However, since it is no longer possible to make long-term plans in the context of such creative chaos, and success and failure are in close proximity with each other, the actors will attempt to enforce their own methods against those of others. Those actors that adapt most easily to the conditions of the new paradigm are bound to be most successful. They will reap success, which they desire to prolong through repeated application of their recipe for success. If they succeed they will routinize their method and standardize the produced products and services. Other actors will then imitate the example of successful routinization and standardization, which then results in a new creative path, as described above. Initially, there will be more than one creative path. However, since even within the paths disparity causes uncertainty, they are bound to try to follow one unified approach. Once creative paths approximate action routines and standards, they will be fused, which gradually leads to diminished diversity.

Successful action routines gradually solidify as behavioral structures; that is, institutions will take form. These consist not merely of organizational units and explicit rules but also of implicit social patterns and conventions, which constitute and stabilize specific practices. For the music industry, we can thus identify companies that operate not just on all levels of the value-added chain but also legal norms, which form the basis of music production (especially patents and copyrights), as well as the artistic field of creating music (see Becker 1982). All of these institutions assume a market position in that they function as gatekeepers in the selection of actors and music practices. They regulate access to organizational

structures and social fields and thus produce scarcity, which is the pre-condition for commercializing the produced music (see Hasitschka, Tschmuck, and Zembylas 2002). In this manner, institutional gatekeepers enforce their action routines in the system of production, distribution, and reception and thus ensure the directionality of the development within a creative path. That is, not all connections between action elements remain possible but only those that were pre-selected by the gatekeepers. Successful gatekeepers will thus attempt to control the cultural paradigm in all its appearances. The greatest degree of control is achieved once no unpredictable connections in the creative paths remain possible, that is, when it is possible to control creativity.

In this sense, creative paths can be “wider” or “narrower,” depending on the degree of control wielded by the various institutions. “Wide” paths welcome more unpredictable synopses than the “narrow” ones. The number of possible unpredictable links is a function of the quantity prevalent in a creative path. The greater the quantity, the more likely is the appearance of unpredictable connections that prevail and thus lead to innovations. Quantity, however, is merely a necessary criterion for innovation. The sufficient criterion is the collective process of action that realizes, recognizes, and accepts novelty. This is what I call creativity. In the end, it depends on the structural make-up of these processes of action whether a system will be welcoming of, or hostile to, innovation. It does not matter that a creative path displays high quantity when it is simultaneously configured in such a way that it has difficulties recognizing and accepting novelty. Hence, both pre-conditions have to be fulfilled: (1) a specific amount of quantity and (2) the willingness to realize, recognize, and accept new connections emerging in unpredictable fashion from this quantity. In this sense, creativity is the precondition for innovation to emerge.

The readiness to accept unforeseen connections depends on the gatekeepers and the market power that they are able to exert. In an oligopoly, gatekeepers have a great amount of market power, which they try to safeguard through control measures. Their measures of control are supposed to ensure that no unpredictable, and certainly no unwelcome, links come into being. Although this does not automatically mean that oligopolists always take advantage of their controlling power, the likelihood that they do is rather high. Because oligopolists tend to use their power to control the market in order to avoid uncertainty resulting from unpredictable connections, we view them as desiring to conserve structures and, consequently, as being hostile to creativity and innovation. They accept diversity only to a controllable extent; and this “diversity” manifests itself mostly in the form of quasi-diversity, which pretends to promote novelty when it is really nothing but conventional. We can observe such a strategy at work in the various phases of the music industry’s development. In the early 20th century, an alliance among music publishers, concert promoters, and phonographic companies created oligopolistic market structures to market Tin Pan Alley productions. In the 1930s and 1940s, an oligopoly of broadcasting networks and record labels linked to them promoted the standardized sound of the Swing era. Although the oligopoly of the phonographic companies, which has been in existence since the late 1960s, did not lead to the

homogenizing of popular music styles, standardization occurred in individual market segments in order to retain control of the entire system of music production.

However, if companies in an oligopoly are confronted with radical innovations that did not emerge within their system of control, they assume a defensive stance, as was the case with the emergence of Jazz in the early 1920s and Rock ‘n’ Roll in the mid-1950s. The results are well known. The oligopoly broke up due to the market entrance of new competitors, the majors lost control of the system of production and distribution, and some of the once seemingly omnipotent music majors subsequently disappeared from the market.

In conclusion, we can identify various combinations of diversity, creativity, and innovation that occurred in the history of the music industry. In the industry’s early period, creative paths were very narrow. Diversity was low and manifested itself in the completely standardized Tin Pan Alley sound. Since the power of control of a few majors in Europe and the U.S. was very high, the willingness to accept novelty on the levels of technology, aesthetics, and content remained low as well. This changed only when the emerging paradigm change in the 1920s increased diversity as a result of the appearance of independent record labels, which began to record Blues and original Jazz. The oligopoly broke up and within only a few years gave way to market competition. In this phase, the acceptance of novelty was very high. Much experimentation took place, which is observable in the innovative thrusts of Jazz music at that time. With broadcasting’s increasing power to control the market, which only intensified with the Great Depression, the potential for creativity remained high in the early 1930s, but the broadcasting stations’ willingness to accept novelty was very low. Thus, many creative paths dried up, with the consequence that in the U.S. only Swing was produced other than “classic” recordings. Eventually, this system was broken up by an external force, which appeared in the form of the Rock ‘n’ Roll revolution. This quickly resulted in an increase of diversity, and the acceptance of novelty led to innovations. Until the 1960s, acceptance of experiments remained high, but then the system of control began to strengthen as part of a newly beginning process of oligopolization. The industry attempted to uphold diversity with the help of market segments and flexible specialization, but novelty was not welcome within the resulting creative paths. For a while, the institutional gatekeepers managed to produce quasi-diversity, which caused an enormous market growth in the 1970s, but a routinized form of creativity was unable to take advantage of it. Consequently, the music industry slid into a sale crisis in the early 1980s, which it momentarily overcame only with the aid of the invention of the CD. They overlooked, however, the fact that the CD heralded a new paradigm change that became visible only when music data began to be transferred over the Internet. Hence, the change from the phonographic paradigm to a new one appears to be merely a matter of time. Technological innovations that will eventually replace phonographic technology are already on the horizon. Likewise, the legal conditions for a new era are up for grabs. It is unclear, however, which aesthetic change will result from this. Whatever shape it will take, however, it will emerge out of the logic of the new paradigm.

CHAPTER 12

CREATIVITY AND INNOVATION IN THE MUSIC INDUSTRY'S VALUE-ADDED CHAIN

Based on the thesis that creativity is a collective process of action and that innovation emerges from it, this concluding chapter will analyze the phonographic industry's most important processes of action that have been at its core since the Rock 'n' Roll revolution. My focus, here, will be the four central processes of the industry's value-added chain: (1) the process of talent- scouting by A&R management; (2) the process of music production and of physically manufacturing phonograms; (3) the process of music marketing and promotion; and (4) the process of phonogram distribution. All four of these processes work together, but for the purposes of analysis, I shall consider them individually. They all have one thing in common, as my comparison of individual historic periods of the music industry in the 20th century will show: depending on how the individual processes are designed and run their course, they create more or less generous conditions for creativity to emerge.

1. THE SEARCH FOR NEW TALENTS: A&R MANAGEMENT²⁹⁴

A central function in the production of music is the discovery of new talent. To this end, record labels employ Artist & Repertoire managers (A&R managers), who are supposed to have a keen nose for future talent. Legends have formed around successful A&R managers who eventually "discovered" famous artists, such as George Martin, who signed the Beatles to EMI's sub-label, Parlophone, or label owner Sam Phillips, who worked as his own A&R manager, producer, and chief of sales, and "discovered" Elvis Presley for Sun Records. These legends insinuate that creativity manifests itself in artists' personal characteristics that a successful A&R manager is capable of recognizing.

However, since I have been arguing that creativity is a collective process of action in which novelty is realized, recognized, and accepted, we must distance ourselves from the idea of a personalized form of creativity. According to what my study has shown, talent is not pre-existing; rather, it crystallizes itself only through the process of collective action. A&R managers thus become part of the creative process, since they are tied to a network of music managers, music agents, and concert promoters, who call attention to new acts. The cases of synthetically created

²⁹⁴ Hull (1997: 30-40 and 123-127) describes the tasks and operational mode of A&R management.

successful acts, such as the Monkees, Milli Vanilli, or a number of Girl and Boy groups, are less common.

During the early period of the phonographic industry in the U.S., talent pools were fed especially by minstrel and vaudeville shows and later by music revues and Broadway musicals. But in order to keep the commercial risk involved in record productions as low as possible, the labels primarily relied on well-known artists and audience favorites.²⁹⁵ Both U.S. concert promoters were also interested in their artists being already well known. Likewise, the monopolistic United Booking Office (UBO) of the entertainment corporation Keith & Albee was mainly interested in working with artists whose recordings were already familiar to a larger audience, since it was easier to profit from these artists than from young, still unknown singers and musicians. In a mutually reinforcing process, the oligopolies of record labels, concert promoters, and talent agencies developed only a few artists who would always be adapted to serve the average music taste. In addition to this, Tin Pan Alley publishers provided the star singers with appropriate musical content. As a result, we get the image of a self-reproducing system that was willing to incorporate new influences only in small dosages, as is evidenced by Tin Pan Alley's so-called Ragtime and Blues compositions, which were rendered unrecognizable in the process of adapting them to the music mainstream.²⁹⁶ Innovations such as Jazz were initially ignored and later on adapted in domesticated form.

Only the emergence of broadcasting interrupted this routinized and standardized back and forth between music industrial actors. Before the introduction of radio, the highest goal for musicians and singers was to make recordings as a celebrated star of a music revue; due to radio's existence, they now aimed at getting their own radio show. The new stars primarily came from large orchestras. Bandleaders operated not just as artistic directors but also as businessmen who, like Jean Goldkette or Paul Whiteman, simultaneously maintained several orchestras. Orchestras were tied to the ballrooms of well-known hotels; from there, local and regional radio stations broadcast dance music live in the evenings. The radio networks provided the most successful singers and orchestras with their own radio shows, which were broadcast nationwide. Before broadcasting became the dominant medium of music distribution in the 1930s, small independent labels played a primary role in the discovery of new talent. In the U.S., Black Swan, Okeh, Paramount, Gennett, Vocalion, and others profited from the fact that the large radio networks catered primarily to the music tastes of the white middle class, which mainly put them in competition with the large phonographic companies. In the 1920s, independent labels were able to freely enter into the market segments of "black" Jazz and Blues ("Race Music"), which up until then had not been recorded on phonograms. They especially recruited "black" musicians who played at the Jazz clubs in the large

²⁹⁵ In Great Britain, talent for record productions was found in music halls, whereas in France it was the variétés, in Germany the cabarets, and in Austria the operetta stages.

²⁹⁶ Think, for instance, of Irving Berlin's "Alexander's Ragtime Band" or William C. Handy's "St. Louis Blues."

metropolises, where performers such as Louis Armstrong, Jelly Roll Morton, Johnny Dodds, and King Oliver earned their dues.

The scene of “black” musicians was less standardized and more open to experiments than that of “white” Big Band music. But it was particularly the variety of concert venues and small record labels that ensured a diversity of musical forms of expression, such as New Orleans style, Chicago style, Kansas City style, or the countless local and regional Blues styles. However, African-American influence also affected white musicians who preferred “hot-play” to the Soft-Jazz of Paul Whiteman.

In the 1920s, various production processes coexisted, which not only provided different outputs but also impregnated each other. The market barriers for new talents were low, since a great number of Jazz clubs, music bars, and dives existed where the demand for new talent was high. The club owners in Chicago, Kansas City, and New York functioned here as the first source of information for the record labels’ A&R people.

The Great Depression forced many clubs and bars to close, and only a few established venues, such as the Reno Club in Kansas City and the Cotton Club and the Roseland in New York, survived the years after the market crash. Concurrently, the market power of the broadcasting networks increased, due greatly to their entry into the phonographic industry at the beginning of the 1930s. Gradually, therefore, the alternative processes of production began to disappear. CBS and RCA bought the large record labels and subordinated them to broadcasting’s production logic. If they had not already been taken over by the majors, smaller labels disappeared as a result of the Great Depression. Despite the continuing economic depression, the size of orchestras increased; this, in turn, heightened the business risk for bandleaders, who largely stayed away from musical experiments and favored arrangements over improvisation. Given the larger economic depression, the resulting higher production costs prevented many young musicians from entering the market.

Due to poor economic conditions and broadcasters’ domination of the market, the Swing era witnessed a leveling of musical differences: pre-given arrangements forced musicians to work in a pre-determined artistic corset. The oligopolistic market structures cemented the homogenization of Swing, essentially preventing any new musical novelty outside the music mainstream from developing.

The Bebop movement of the mid-1940s was a reaction against Swing and had its beginnings in a few Jazz clubs in New York. Small labels that were close to the scene picked up the new sound for their record productions, but they were able to serve only a small market segment. Larger labels stayed away from this market, and thus Bebop was initially not present on the radio. The large broadcasting networks did not deem the experimental and improvisational style of Bebop appropriate for the average music consumer. Nevertheless, with Bebop, a new business model was in the process of emerging, which eventually put the record labels back into the center of the value-added chain. The reason that Bebop, unlike Rock ‘n’ Roll, did not cause a structural break in the music industry is that the technological, social, and legal conditions continued to favor established market participants and stabilized their market power. Thus, young talents such as Thelonious Monk, Charlie Parker,

and Dizzy Gillespie were not yet able to attract the attention of the majors' A&R managers. Consequently, the music of these artists was released by owners of newly created independent labels, such as Francis Wolff and Alfred Lion's Blue Note and Bob Weinstock's Prestige. It was also during this time that the very business process that has been dominating Jazz productions to this day took shape. Young artists who call attention to themselves in local club scenes are signed by larger concert promoters and sent on tour. Only then do recording sessions follow with typically smaller labels or the majors' sub-labels specializing in Jazz. Live performance on internationally renowned Jazz stages constitute the core of this business model, which goes back to concert series such as Norman Granz's "Jazz at the Philharmonic" or various Jazz festivals.

However, Bebop's influence on the music industry was only incremental despite its importance for the development of Jazz after 1945. The decisive break occurred only with the emergence of Rock 'n' Roll, which radically altered the process of talent acquisition. The forerunner was Sun Records and its owner Sam Phillips, who offered everyone the possibility of making a recording for a small fee. This is how Elvis Presley made his first record. Since the recording was not particularly cost-intensive, musicians had plenty of time to experiment and develop new sounds. In this process, Phillips assumed the role of advisor and producer whose feedback pointed musicians in a certain direction. It is due to his initiative that Elvis Presley, who kept reappearing at Sun studio after his first, self-financed recording, was encouraged to sing like a "black" singer. Yet, the musical fusion that became Rock 'n' Roll was not the result of a master plan hedged by Sam Phillips but the effect of experimentation. Likewise, the 12 Sun recordings Elvis made were not chart toppers; they reached a broader audience only after he switched to RCA. After Elvis left, Phillips developed other Rock 'n' Roll acts based on the same model and managed to repeat his success, albeit to a lesser degree.

The improvisation and experimentation of independent labels during the early R&B era were the result of, on one hand, lacking financial resources and, on the other, of flat hierarchies. Many of the independent labels responsible for Rock 'n' Roll's breakthrough were one-man operations or small family businesses. The label founders simultaneously acted as A&R managers and were very familiar with the local music scenes. The Ertegun brothers were Jazz and Blues fans who possessed a sophisticated ear for musical developments and initially engaged all artists personally for recording sessions. Leonard Chess found his label with his brother Philip and also acted as producer and A&R manager for the company.²⁹⁷ In this function, he signed Blues legends Muddy Waters, Howlin' Wolf, and Little Walter to Chess and also contracted Rock 'n' Roll pioneers Bo Diddley and Chuck Berry. As a producer, he was influential in the use of the electric Blues guitar, which assumed its proper role in Rock 'n' Roll. When looking at the list of influential independent labels of the 1950s, we can name numerous other examples

²⁹⁷ On early Chess recordings with Muddy Waters, Leonard Chess can even be heard playing the drums.

of label owners who actively participated in the acquisition of artists and the development of creative output.

It was due to these pioneers of the fusion of “black” R&B and “white” C&W sounds that A&R management assumed a new role in the music industry. They began to develop young, unknown musicians, whom they noticed in their local surroundings, as recording stars and promoted them on local radio stations. They thus turned upside down the production logic of the large radio networks and their record majors, who primarily focused on radio performances and only secondarily on record productions. The major labels embraced this new business model only after it produced profits and advertising revenues began to be channeled away from the broadcasting networks and to independent radio stations.

Throughout the 1950s, numerous independent labels developed the foundations for the successful A&R concept, which to this day exists in its basic form and shape. The different developmental thrusts of rock music after the Rock ‘n’ Roll revolution are all rooted in local and regional concert circuits. For instance, to this day, the so-called Chitlin circuit provides a steady source of new R&B talent. The worldwide success of British acts in the 1960s had its origin in the concert circuits of Liverpool and Hamburg, which the Beatles were part of before George Martin signed them to EMI-Parlophone. The Rolling Stones had their start in London’s club scene in general and at the Marquee Club in particular. Bob Dylan, Joan Baez, and Peter, Paul & Mary began their careers in the late 1950s in the artist cafés of New York’s Greenwich Village and at Folk festivals before signing with record labels. Rock acts that would eventually become famous first created a stir at rock festivals such as Monterey and Woodstock. Heavy Metal’s triumph began in local club scenes, as did Punk Rock a decade later.

It is notable that until recently independent labels primarily developed the club scene commercially for the music industry. Without the A&R competencies of label owners Sylvia Robinson (Sugar Hill), Rick Rubin (Def Jam), or Marley Marl (Cold Chillin’), Hip-Hop’s commercial breakthrough at the beginning of the 1980s would be unthinkable. In contrast to the A&R departments of the majors, which have continued to grow over the decades, small labels enjoy the advantage of being closer to the scene. Further, because label owner, producer, and A&R manager were often one and the same person, they are more flexible with their decisions, which they frequently make based on gut instinct. Although the majors’ A&R departments work more professionally, they are permanently flooded with new information in the form of demo tapes. In addition, the majors’ hierachal organizations and long paths of communication make it difficult for the responsible personnel to respond efficiently to innovative suggestions.

The loss of innovative capacities can be demonstrated by looking at Motown’s development from being a small independent label to becoming a quasi-major. During Motown’s early years in the 1960s, label founder Berry Gordy, Jr. simultaneously functioned as CEO, songwriter, producer, and A&R manager. Motown was a family business in which the most important decisions were made by Berry Gordy, his sisters, and their husbands. The “creative personnel” of artists and producers who were under contract with the label were part of the Motown family

and participated in family excursions, beach vacations, or BBQs as if it were the most natural thing in the world. In those days, it was relatively easy to gain access to Motown. The Hitsville building on 2448 West Grand Boulevard in Detroit, which housed all offices and the recording studios while also functioning as the family's home, was open to everyone who wanted to make music. Eyewitnesses report a constant presence of new, unknown musicians in the house. In this manner, the 11-year old Steveland Morris, who later became world famous as Stevie Wonder, appeared at the house. The informal character of the label's talent search also made it possible for Martha Reeves, the label's secretary, to substitute for a singer who had fallen ill, which led to a chain of hits for Martha and the Vandellas. We can find many more examples just like these during the early Motown years (see George 1985).

However, the commercial and artistic successes of Motown led to the founding of new business areas. Three years after its birth, Motown was no longer a small record label but encompassed a number of sub-labels as well as a music publisher (Jobete) and a talent agency (International Talent Management, ITM). In order to manage this increasing business activity, the label had to create new structures. They hired a whole management level of professionals, whose knowledge of music was as insubstantial as their competencies in accounting, marketing, and managing was impressive. Motown moved into new, business-friendly offices, and as a result, the much-praised "creative" atmosphere of the old Hitsville building was lost. Young artists no longer had access to the final decision maker, who in turn relinquished his or her A&R function. Talent scouting was now given to the company-owned talent agency, which professionally developed all artists to fit the Motown concept. There was no longer room for experiments and spontaneity. This was true also for young producers, who were signed only if they subordinated themselves to Motown's music concept.

Still, during this period Motown had its greatest successes with several number one hits. But this success was bought with the standardization of creative processes, which towards the end of the 1960s resulted in the label losing its uniqueness. Motown became a substitutable label and depended primarily on the long-term success of those artists who had joined Motown before the end of the 1960s, such as Diana Ross, Stevie Wonder, and Michael Jackson. Berry Gordy eventually sold Motown to MCA, where it became one among many labels that lived primarily off of its glorious past.

Other important record labels such as Chess and Atlantic went through similar development processes. As their labels' success and growth increased, they relinquished their A&R functions and delegated it to departments that were created for this specific purpose. This decision allowed the labels' commercial achievements to increase; yet, this success came at the expense of innovative experiments, which the labels now largely avoided due to the risks they posed for the companies' market success. Responsible for this shift was a buffer zone of managers who pursued their jobs according to rational principles. Generally not coming from the music scene, these managers showed little understanding of artistic activities and usually opposed taking risks. They allowed for innovation to occur

only as small deviations of established formulas so that their companies' commercial success, once achieved, would not be endangered. As long as this success was perceived to be satisfying, the recipe would not be changed and was instead continually reproduced in standardized and routinized form.

In contrast to this model, various small labels operated with different recipes for success, which lent themselves more to innovations. Moreover, new labels continue to appear that push new music concepts and unknown musicians. However, once the oligopolization of the entire industry ensures that A&R management limits itself to a few concepts of the majors, the entire industry's openness to novelty decreases and the potential for creativity and innovation will be lost.

2. THE PROCESS OF MUSIC PRODUCTION

2.1. Creativity, Innovation, and the Contractual Framework

The process of talent scouting and acquisition constitutes the beginning of the process of music production, which continues to focus on reproducing the technology of record production. It is still desirable for young musicians to obtain a record contract. The convention of signing exclusive contracts for the purposes of completing a specific number of recordings during a contractually negotiated time period goes back to the early days of the phonographic industry, when the music content became the main focus of phonographic production. The first record contract was signed in 1898 between the British Gramophone Co. and the darling of the music halls in London, Albert Chevalier. Even this first record contract reveals the basic principle of such deals, namely the compensation of artists based on sales—in Chevalier's case, one shilling (five pence) per 12 records sold. With the entry of celebrated opera stars into the record business, it became crucial for record companies to bind audience favorites to them exclusively and for long time periods. They offered generous advances as financial incentives for artists to sign such long-term contracts. These advances ensured that artists remained under obligation to record companies so that they would not move to competitors at the first best opportunity.

New sources of income for the record companies emerged due to copyright laws that began to govern the most important phonographic markets during the first decade of the 20th century. However, it still took years, and sometimes decades, before the industry was able to force music users to heed the industry's financial demands.²⁹⁸ With the possibility of commercializing creative work with the help of mechanical exploitation rights, the interests of music publishers joined with those of record companies. This enabled the control of the "creative" input (composers, songwriters, and interpreters) in the production of music and its commercial exploitation. The logical consequence was that the phonographic companies

²⁹⁸ Just think of the long fight between ASCAP and the broadcasting industry in the U.S., which resulted in the founding of BMI in 1940.

founded their own music publishing houses or bought existing ones in order to control the rights to the music they recorded. The four music majors that currently control the world market also own the world's largest music publishers.²⁹⁹ Today, the business of copyrights plays an equally important role as record sales.³⁰⁰

The stipulations of record and royalty contracts mirror how much today's music industry is centered on the phonogram as its technological core. Normally, record contracts guarantee that newcomers receive 12% of each record sold at a non-binding retail price; in an "all inclusive" agreement, an additional deduction of 3% for producers has to be considered as well.³⁰¹ The artist's commission of 9% will be lowered further by packaging costs (20-25% of the retail price for CDs), research and development costs (20% of the retail price for CDs), costs for promotional records (15% of the retail price), and finally a reserve for returned merchandise (35% of the retail price); thus, the artist's real compensation, at best, amounts to 3% of the retail price (see Krasilovsky and Shemel 2000: 20-22).³⁰² Assuming a non-binding retail price for a CD at \$15 and a production that goes gold in the U.S. (more than 500,000 copies sold), the artist's contractually guaranteed compensation amounts to \$225,000, of which advances already paid must still be deducted.³⁰³ And if a previous album did not recoup its cost, this loss will also be deducted from any subsequent profits, following the principle of cross-collateralization. Thus, assuming an advance of \$100,000 and losses from earlier record productions in the same amount, the income of a gold record adds up to only \$25,000 before taxes.

The 20 to 30-page long contracts are usually valid for five years. Often, labels also have the opportunity to activate an option for eight to ten additional recordings in case the first one succeeds. That is, in case of continued success, the artist is obligated to record 11 records in five to seven years. In case of commercial failure, the label is allowed to decline this option in return for a one-time compensation payment. In this manner, the label partially moves the commercial risk to the artist, who is thus disinclined to change his or her successful style.

The design of record contracts shows that record companies do not think highly of aesthetic experiments made by their musicians. They prefer artists to not deviate from a path that has proven to be commercially profitable. To this end, the contracts

²⁹⁹ The Warner Music Group owns Warner/Chappell Music Inc., which controls more than one million copyright protected pieces of music. The music publisher Warner Bros. Publications Inc. is directly subordinated to Warner/Chappell. The Universal Music Group owns the Universal Music Publishing Group and the music publisher Rondor Music. Through Sony/ATV Publishing, Sony Music Entertainment Inc. owns the rights to exploit, among others, the Beatles, Bob Dylan, and Jimi Hendrix. The Bertelsmann Music Group makes use of its rights to exploit music through BMG Music Publishing. The EMI Group now only consists of the two business areas, EMI Recorded Music and EMI Music Publishing.

³⁰⁰ This study will only tangentially deal with the copyright system and the legal exploitation of music.

³⁰¹ Superstars receive a commission between 16% and 20%.

³⁰² A comprehensive account of standard record contracts in the U.S. music industry can be found in Passman (1991: 53-166), Hull (1998: 127-134), and Krasilovsky and Shemel (2000: 13-31).

³⁰³ Generally speaking, 150,000 sold copies represent a success for newcomers (Passman 1991: 82). Based on the assumptions stated above, this amounts to \$67,500 in income for the artist, minus advances already paid.

include a number of details that are supposed to ensure continuity. This includes that artist or band names that were selected by a label and thus legally belongs to it cannot automatically be transferred to a different label in case of an artist switching labels.³⁰⁴ This especially makes sense when a band releases records with different line-ups and the band's name signals a certain qualitative continuity. Contracts also provide positive incentives supporting the continuation of successful formulas. Even contracts with newcomers stipulate that their commission will increase by 1% if they release a gold or platinum record. Likewise, in case of appropriate commercial success, the production budget, which includes advances, can be raised. Finally, it is not simply the number of records sold that are responsible for the fulfillment of the contract but also the number of albums a label accepts. This means that the label has the ultimate decision-making power about record releases, and only a few selected stars enjoy a specific amount of contractually guaranteed artistic control.

Based on the above summarizing comments regarding the design of record contracts, it becomes clear that the amount of creativity that affects a record production depends not merely on the artist but also on the record contract's details. For young, inexperienced artists, the first record contract is more than just the reward for their artistic accomplishments; it also defines the conditions under which their creative actions will proceed. The majors measure success by sales numbers; as long as they are satisfactory, it is difficult for artists to get out of a contract, since the labels are bound to use their option rights. In the case of failure, however, the label can terminate the contract in return for a one-time compensation payment. Therefore, there is great pressure to stick with the formula that produced the initial success. Stylistic experiments or innovative novelties are likely to remain the exception in such systems. This is because the extrinsic motivational factors of the contractual system of incentives do not operate synergistically—that is, they are not perceived as information allowing the actors to improve their ability to deal with their tasks; instead, the affected parties experience such factors as controlling intrusions. Many of the stipulations included in a record contract thus operate as creativity-limiting, as defined by Amabile (1993, 1996). The intrinsic motivation, which might have been effective for the artist during the first few productions, will be replaced by extrinsic factors derived from the pressure to produce 10 or 11 records. Eventually, the artist will reach a point at which he or she merely wants to fulfill his or her contractual obligations in order to leave the label or take an artistic break. In such a system, innovation can only come from outside, under the guise of unknown artists; however, as already discussed, in an oligopolistic industry structure it is increasingly difficult for such artists to overcome the barriers designed to prevent them from entering the system.

³⁰⁴ Normally, labels contractually ensure that they have exclusive rights to the artist and band names for the purposes of record releases and supporting marketing activities for the contract's duration. During this period, artists, or a third party, are not allowed to use the artist name for purposes of advertising and promotion without explicit approval of the record label. Even after the contract expires, the record label continues to have the right to use the artist name for products that originated during the period of the contract (see Krasilovsky and Shemel 2000: 345-346).

2.2. *The Music Producer as a Creative Factor*

It is the record, not a song or music, that is the final product, and it is the producer that is at the center of the creation of that product (Hull 1998: 135).

In the context of music production, the producer weaves together financial means, technological possibilities, and music content. And by combining existing possibilities to create new combinations, he acts like a Schumpeterian entrepreneur. Consequently, the producer assumes a key role in the music industry's innovative behavior.

Producers assumed this role only when the record became the central focus of the music industry in the mid-1950s. Of course, during the early phase of the phonographic industry, there were also producers—just think of Fred Gaisberg—who significantly contributed to the production of music; however, they operated solely as employees of phonographic companies and did not see themselves as artistically responsible. They were primarily concerned with ensuring that a recording fulfills the technological sound prerequisites. In the era of acoustic recording technology, it was not possible to edit the recording after it took place. Musicians had to record in one continuous process, which limited the number of possible repetitions in case the first recording was not satisfactory. The process of recording became simplified as a result of the introduction of electrical recording, but it also became more expensive. Whereas it used to be possible to make a recording with a phonograph at any given location, now it was necessary to make a record at a recording studio with the help of specially trained technical personnel. Thus, music production primarily became the responsibility of sound engineers. Producers took care of the availability of financial means, coordinated schedules, and looked after artists on behalf of the record labels.

The altered conditions at the beginning of the 1950s, comprehensively described in the empirical sections of this book, brought about the producer type that to this day plays a central role in the production of music. Many owners of small labels in the 1950s used their flexibility to become producers themselves. Though Sam Phillips, Leonard Chess, and Ahmet Ertegun did not yet produce music, they put together studio bands and background singers and helped musicians to find the proper sound. Each of these producers developed his special way of proceeding, which manifested itself in very different sounds.

Sound recording technology improved with the introduction of multi-track recording and the expanded possibilities to alter the master tape later on with the help of overdubbing and mixing. As a result, the producer became part of the creative process. The producer transformed to the level of artist with the development of complex instrumental arrangements and the use of the first electronic sound instruments. The success of those independent record labels, which characterized the sound of the 1960s, is largely due to the creativity of their producers. Without Smokey Robinson, Norman Whitfield, or the producer team Holland-Dozier-Holland, the Motown sound would not have become a popular music style, just like Stax would not have become synonymous with Soul music.

without its producers. However, producers were employees of labels, which exposed them to continual pressure to conform to the label's aesthetics. But as long as different labels operated with different concepts, the whole music industry was assured that it had enough links to produce aesthetic novelty.

Towards the end of the 1960s, many successful producers began to emancipate themselves from their labels, since they felt underpaid and exploited, as well as robbed of their creative control. The interests of the increasing number of independent producers matched up with those of the majors wanting to profit from new music trends without having to carry the commercial risks involved in developing them. Outsourcing music production to independent producers corresponds to the concept of flexible specialization,³⁰⁵ with the difference being that the corporations were able to continue the process of production with the help of advance financing, marketing, and distribution. The majors used the flexibility of their structures to allow independent producers to deal with new developments before binding themselves to the production in case of success. This strategy enabled the majors from the late 1960s on to appropriate musical innovations such as Heavy Metal, Punk Rock, and Hip-Hop without having to carry the costs of development.

It depends on the contractual relationship between producer and record label whether or not outsourcing music production away from the majors' production processes makes the diffusion of music innovation easier. The classic case of musicians approaching an independent producer for the purposes of record production who, in turn, attempts to get the musicians a deal with a major label actually represents the exception rather than the rule in the music industry. The norm is represented by so-called "all in" deals, which guarantee the producer a total budget with which he or she has to carry all production costs. Producers prefer such contracts where they can juggle the various expense items, allowing them to determine their own income. The contractual tie to the label is similar to that of a record contract, with the producers being guaranteed 3% of all future sales. The producer contract is thus also dependent on the record's sales success. During the production process, the producer is unlikely to introduce musical experiments that might not be accepted by the market. Since "all in" contracts make the producer responsible for the production budgets, he or she is bound to transfer the commercial pressure to the artists and push for more of the same rather than avant-garde-like pieces. Record labels are capable of indirectly exerting influence on the content of productions by determining production budgets and maintaining their ultimate right to decide whether or not to accept a production. Even if the producer owns the

³⁰⁵ Piore and Sabel (1984) formed the concept of flexible specialization. It refers to the overcoming of mass production by a return to artisanal methods that use the latest technologies. Examples of this are the clothing manufacturers of the Italian Emilia-Romagna or the manufacturers of textile machines in Baden-Württemberg, Germany. Storper and Christopherson (1987) as well as Storper (1989) transferred the concept of flexible specialization to the U.S. film industry, something that Aksoy and Robins (1992) fiercely criticized. For more on the topic of flexible specialization in the music industry, see Hesmondhalgh (1996).

label, he or she still depends on the majors for distribution, which provides the majors with another possibility to control music producers.

The creative leeway of independent producers decreases according to the degree to which their contractual obligations to the major labels become more restrictive. This increasingly happened during the 1990s, when Hip-Hop producers became contractually tied to the majors through “all in” agreements. Eventually, the majors bought the producer labels and offered the most successful producers jobs in house. In this manner, many formerly independent producers became once again employees of the labels, as was already the case in the 1960s. However, the difference is that in the 1960s a great number of different labels pursuing many different creative concepts existed, whereas today four oligopolists dominate the market.

2.3. The Manufacture of Phonograms

Creative production concludes with the production of a master tape, and what follows is mass manufacturing at the record plant. This last step of the production process had changed little over the decades until the introduction of the CD. Of course, plants and logistics were constantly improved, but the basic technology essentially remained the same, notwithstanding the introduction of the vinyl record. New production machines were required only after the CD was introduced in the mid-1980s. The large four thus own a large number of the available production capacities across the world that are being used by the majority of other phonographic producers.³⁰⁶

Despite the undoubtedly enormous process innovation triggered by the digitization of music, the industry continues to be centered on phonograms. Only with the ability to send music data over the Internet without losing quality did the new technology’s potential become palpable. In comparison to manufacturing CDs, online music represents a radical innovation that overcomes music’s dependence on phonograms and instead offers a service. With this, however, the structure of the music industry’s value-added chain changed. To exaggerate only slightly, one person at home on a personal computer can now accomplish the production of music, which thus far has been tied to recording studios and a large staff of artistic and technical personnel. Of course, the functions of talent scouting and artistic music production remain necessary, but only a small capital investment is needed compared to the production of phonograms. For the majors, this causes the problem that as manufacturers of phonograms they have invested a lot of capital into the production of a master tape and the mass manufacturing of phonograms. When, however, music is no longer accessed through phonograms and instead is made

³⁰⁶ The Warner Music Group combined its production sites to form WEA Manufacturing; the Universal Music Group created Universal Manufacturing; and the Sony Entertainment Group founded Sony Disc Manufacturing. Recently, the Bertelsmann Music Group severed the Sonopress record plants from the Bertelsmann AG and incorporated them into the Arvato AG. EMI have owned CD production sites in Swindon near London and Jacksonville, Illinois since 1986.

available as a service producible with few resources, the majors face the real danger that their investments in the production of phonograms become “sunk costs.”

3. MARKETING AND PROMOTION

At this point, I conceptualize marketing not as a comprehensive management concept—beginning with strategic marketing and ending with the operational realization in the context of product, price, distribution, and communication policy—but as a sales policy instrument used to increase record sales.³⁰⁷ As such, it was of great significance in the phonographic industry since its earliest period, as phonographs and phonograms were considered luxury goods requiring that potential buyers first had to be persuaded to buy them. Initially, however, it was the phonograph, not the phonogram, that was advertised. The companies pursued a twofold strategy by offering cheap apparatuses for mass consumption and music furniture for the taste of the elites. Phonograms were considered a sort of “extra” that could serve as a tool to increase the sales of phonographs. This attitude, which regarded the phonograph as the real foundation of the industry’s business, initially led the industry to ignore the promotion potential radio had for the record. The phonographic companies’ ignorance of the broadcasting medium delayed, on one hand, important technological innovations such as the electric recording method and, on the other, caused them to consider aesthetic music innovations as superfluous, since they assumed that consumers would only be interested in the latest phonographs.

It was only due to broadcasting’s role that music became the main concern of the phonographic industry. With the broadcasting industry assuming power in the music industry, the promotion function of the still young medium became the basis of the business. However, promotion focused on musicians, who were used as an incentive to choose one radio station over another, which, in turn, had positive effects on advertising revenues. During the Swing era, the industry viewed the promotion of phonograms, and their resulting sales increase, as secondary.

The real transformation took place when the small independent labels entered a symbiotic relationship with small independent radio stations toward the end of the 1940s. The repeated airplay of records by radio stations became the most important instrument to increase record sales. This led to a new distribution of power in the music industry. Popular DJs assumed a key function for the record labels’ commercial success. Intensified by the top 40 format, radio promotion of records became the most important criterion for success. It is thus not entirely incomprehensible that this success was aided by bribing DJs and program directors, or what is now known as the “Payola” practice.

From the time of the Rock ‘n’ Roll revolution, then, the marketing of records stood at the center of the music industry’s sales policy. In addition to radio,

³⁰⁷ This corresponds to the narrow marketing concept that especially the major companies pursue. “The ‘marketing’ department at most labels includes primarily the sales, promotion, and publicity functions” (Hull 1998: 149).

television shows became the most important promotional instrument, first in the U.S. and later on also in Europe and worldwide. Since the 1950s, it was thus common to invest more and more resources into promotional instruments. In the beginning, radio was typically used to introduce new products to the public. If the initial promotion succeeded, it was systematically expanded with the help of performances on radio talk shows and TV shows. Thus, after they had their first chart success in Great Britain, the Beatles were featured on BBC music entertainment shows and eventually on evening television programs. In order to conquer the U.S. market, it was crucial that the most important pop stations would play their singles; the Beatles were booked for the Ed Sullivan show only once they topped the charts. Depending on the genre, different radio and television formats play the main role in making an act known to a specific target audience. However, the basic principle remains the same: first release a single in the charts and then manufacture media hype. In this context, gossip and scandals can have positive effects on sales if they serve the act's image, as Malcolm MacLaren proved with the Sex Pistols.

This concept was only slightly modified by the introduction of the music video, since it functioned in a manner similar to radio airplay. However, the cost of production skyrocketed as a result of the necessity to promote a pop act with the help of a music video. Acts that are successfully introduced to the market are also sent on concert tours for promotional purposes. This constitutes the fundamental difference between the eras of Swing and Rock 'n' Roll. Whereas the former saw live concerts broadcast on the radio as the main promotional tool, the latter turned this relationship on its head. Concert tours are used to increase record sales, with live records representing the most obvious expression of this business model. Passman (1991: 277) poignantly expresses this with a recommendation for young musicians:

You aren't going to make any money in personal appearances until you're a major star.
Unless you sell a lot of records, you won't put a lot of tushies on concert seats. So
before that time, you'll be touring only to help sell records.

Until the beginning of the 1970s, promotion was the only effective marketing instrument that allowed the music business to decrease its commercial risk. The industry used a push strategy that relied on influencing gatekeepers (DJs, concert promoters, program directors of television shows, etc.) to provide a public for the promotion of music and their acts. This push strategy was based on a tactic of differentiation, which attempted to release a great number of productions simultaneously on the market in the hopes of turning some of them into hits. In the competitive environment of the 1950s and 1960s, this was the only possibility for a company to differentiate itself from competitors. However, with increasing market concentration and decreasing competition, it was no longer as important to push new production on the market as quickly as possible. The majors began to pick up and develop instruments that allowed them to turn the market into segments according to target audiences. The prerequisite for this was the mobilization of market research instruments other than the usual chart rankings. They thus managed to develop for each market segment a perfectly suited music concept. New music trends were

tested with sub-labels or related independent labels and could be fitted to the underlying market segment in case the trend showed appropriate commercial potential. With the advance of information technology—think of electronically legible barcodes or retail surveys of various market research institutes—these techniques could increasingly be fine-tuned. Although market segmentation resulted in additional differentiation of the majors' music repertoire, the industry was largely able to do without experimentations and music produced for marginal groups that were commercially uninteresting. The majors left this field to the independents, which, however, decreased in numbers.

An important instrument for the strategic exploitation of the market that is popular with the large companies is the market share/market growth matrix (BCG matrix) developed by the Boston Consulting Group at the beginning of the 1960s. This matrix divides individual business fields according to their relative market share and market growth potentials into "stars" (high market growth/high market share), "question marks" (high market growth/low market share), "cash cows" (low market growth/high market share), and "poor dogs" (low market growth/low market share) (see, for instance, Hopfenbeck 1998: 462-464). For "stars," the ensuing marketing strategy demands further investment to maintain or expand the market position. For "cash cows," it demands a siphoning off of those means that are not necessary for maintaining the market position; these means are re-channeled in the direction of "question marks" that promise success. In addition, this strategy demands to invest neither in "question marks" that do not promise success nor in "poor dogs"; instead, companies should de-invest in such cases. For a record company's portfolio, this BCG method has an additional effect. Due to the difficulty of assessing the market potential of music genres that are not yet established, or the total lack of market potential of those genres that are consumed only by a minority, they receive less marketing support than those genres that are already established on the market. In times of crisis, the genres that receive less support become the victims of cuts, along with the sub-labels that develop them. In the short term, this may very well be the best decision, but in the long run it decreases the potential for musical renewal. Instruments that are based exclusively on quantifiable market data represent a danger for a company's creative potential. When an entire industry uses these instruments (see Negus 1999: 47-50), it runs the risk of losing its long-term ability to renew in the case of a structural break.

In order to make change manageable, the majors replaced the push strategy with a pull strategy. This strategy establishes a music concept, which has already appealed to consumer taste, as a brand in the form of an act that can no longer be ignored by radio stations, music television stations, and retail. The results were "superstar brands," which represent a very specific music and interpretation style, and deviating from it is seen as undesirable. The conservative element of music taste thus interacts with the risk-averse marketing strategies of the music corporations, intensifying each other in the process. The result is a persistent lessening of the latitude to be creative. Instead of a variety of artistic personalities that existed during the heyday of the rock era in the 1960s, now only a few artist brands remain, many of which deliver what is expected of them and their image. The rest are exchangeable acts, which serve in the short run to exploit the market,

but in the long run they hardly have any lasting commercial or artistic effects. Thus, the justifiable desire of the record labels to know more about their consumers in order to meet and shape their music taste ends up restricting the creative potential of the entire music industry.

4. THE DISTRIBUTION PROCESS

At first sight, the distribution of records, which is the concluding process of the value-added chain in the music industry, does not appear to exert any influence on artistic creativity. Yet, as the history of the music industry shows, the distribution function could especially support or limit creative actions. Due to the worldwide distribution networks to which Gramophone Co., Victor, and Columbia had access only a few years into the 20th century, a cross-cultural exchange of music could take place. With the help of the exchange of matrices, Enrico Caruso and other European opera stars became famous all over the world, Jazz eventually became popular in Europe, and Tango reached Europe and North America. But even during this early period of the industry, worldwide control over distribution exerted by European and two U.S. music corporations revealed certain limitations. In the age of imperialism, it was especially Western music tradition that was exported to the world, whereas indigenous music reached Europe or the U.S. only as a means to satisfy a desire for something exotic or in the form of music-ethnological research.

This already shows that the one who controls the distribution networks also controls the distribution of music content. Music majors differ from independents especially because they own their distribution channels. In contrast, independent companies must rely either on independent distribution companies or the majors' distribution networks for delivering their products to the marketplace. In this context, we can distinguish among three forms of distribution contracts (see Kornmeier 1999: 1107-1108 and Kulle 1998: 145):

- (1) The producer takes care of his own marketing and promotion and leaves the manufacturing, distribution, and delivery to one of the major's distribution networks.
- (2) The producer not only takes care of marketing and promotion but also owns a distribution company for specialized areas and leaves the manufacturing and delivery to one of the major's distribution networks.
- (3) The producer takes care of marketing and promotion but has a major manufacture the phonograms, which subsequently will be distributed by an independent distribution company.

In all of these cases, the major assumes a key role. In the first case, the major ensures that the producer uses only its distribution network to deliver his or her records with the help of exclusive contractual clauses. In this case, the major's

distribution company is in charge of the power to negotiate. In the second case, the producer is unlikely to live solely off of special areas. Thus, the ability to distribute through a major is crucial for his or her survival, which in turn manifests itself once again in contractual clauses that are advantageous to the major. In the last case, the major is not able to interfere with distribution, but it is able to limit the financial capacity of independent companies by charging them higher prices for the manufacturing of what tends to be smaller production orders. As a result, the independent companies either have less room to negotiate on the level of distribution or have to charge consumers higher prices. In this manner, majors can increase their pressure on independents to get them to distribute their product exclusively through the majors' networks.

In each of these cases, record companies function as the music industry's gatekeepers, determining what reaches retail and what does not. They can therefore withhold undesirable music content from the broader public, as was the case with Disco music, which was disseminated only with the help of alternative distribution paths. The majors' power to control distribution is particularly determined by the technology of phonographic systems. In the age of the fragile 78-rpm shellac record, distribution was a highly specialized and costly industry, almost exclusively dominated by large corporations. When radio emerged as an additional distribution path, it lastingly undermined the market power of the majors, which eventually became part of the broadcasting networks. The almost total control of distribution exerted by the large broadcasting networks during the recession years functioned as an insurmountable barrier for small independent record labels and their alternative music repertoire. This is the only way to explain how in the 1930s none of the innovative independent companies was able to survive and how Swing dominated the music market in the U.S. as a quasi-monopolistic music style. But totalitarian regimes such as that of National Socialism or Soviet Communism also attempted to prevent the circulation of undesirable music by controlling or destroying the structures of international distribution.

The (culture) war the majors waged against Rock 'n' Roll was fought especially in the form of their refusal to distribute such music productions. The majors' success was limited, however, since the introduction of the unbreakable vinyl record made the costly distribution system for shellacs superfluous and allowed independent companies to mail records. However, the majors could compensate for their loss of control in the mid-1950s by assuming control of worldwide distribution. One of the deciding factors was the emergence of new forms of retail distribution in the 1960s, such as "Rack Jobber," larger retail chains, and record clubs, which made the distribution of records once again more expensive. The strong negotiating power of the new distributors forced the majors to agree to distribution contracts with clauses allowing for the return of merchandise up to 100%. This means that a retailer is allowed to return all of the merchandise it is unable to sell for a full refund. In this manner, seemingly sure-fire sales hits could become a nightmare. Even the majors were not protected against such nightmares, as, for example, EMI/Capitol experienced in 1978 with its soundtrack for the Beatles' "Sgt. Pepper's Lonely Hearts Club Band." Although they sold three million copies, they had shipped eight million records, resulting in five million returned copies (see Hull

1998: 180). A major can just barely cope with such a disaster, which in the industry is sarcastically known by the adage, “shipped out platinum, came back gold,” but independent companies would be ruined.

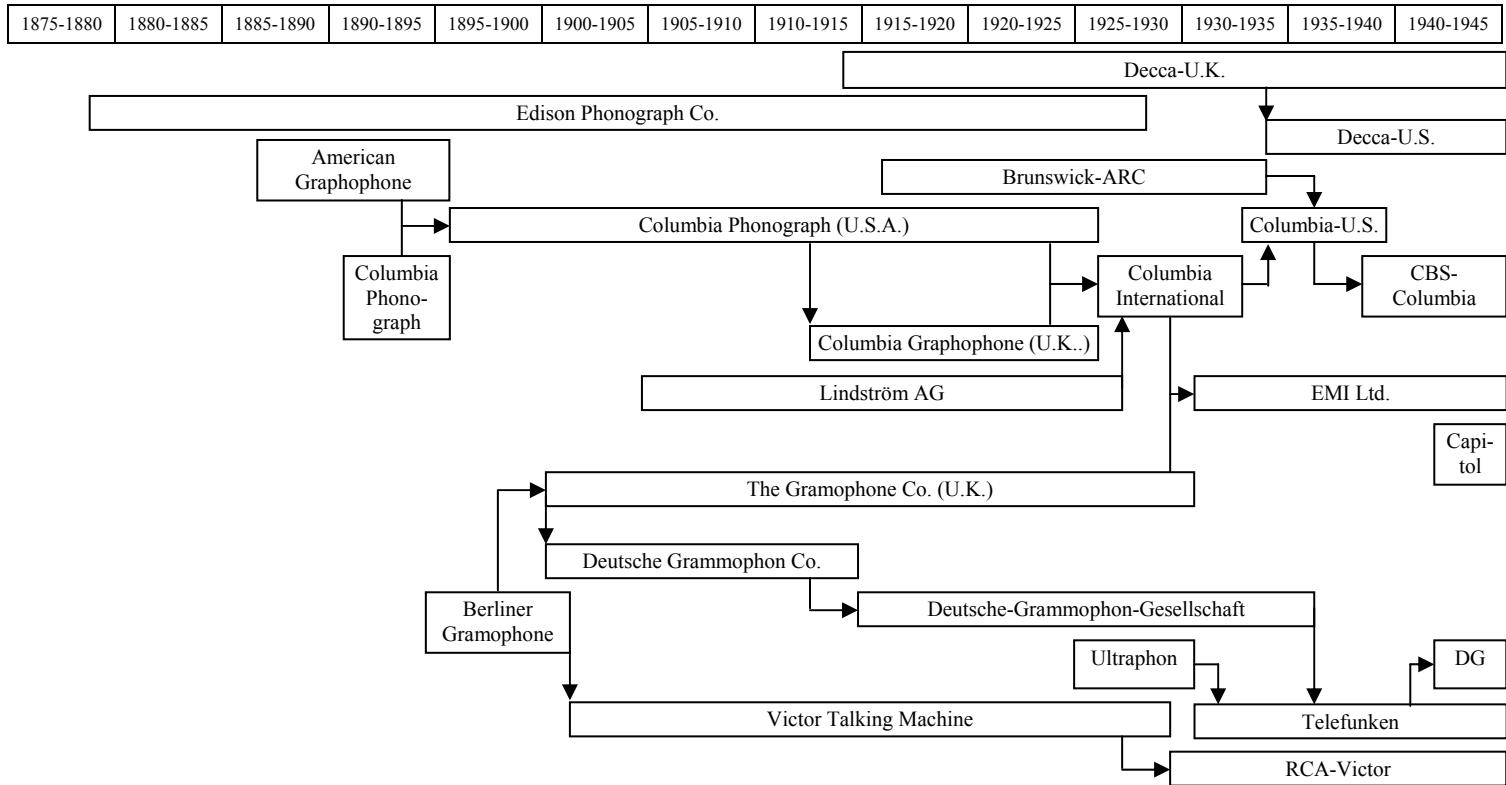
Since the 1970s, independent companies were once again more dependent on the majors’ distribution channels. Only a few companies such as Motown, Arista, A&M, and Chrysalis were able to hold the majors’ influence at bay for a while until they, too, were purchased by the majors. The first step for such acquisitions was the signing of exclusive distribution contracts. With their help, the majors were quickly able to appropriate those musical innovations that the independents made marketable and turned out to be commercially successful; in turn, they did not have to carry any of the economic risk represented by a flop. During periods of growth, this system certainly has the advantage that even the majors can appropriate innovations, which has been the case recently with Hip-Hop. But this strategy becomes problematic once a recession sets in. At such moments, majors terminate their distribution contracts with independent labels or simply buy them and shrink their artist rosters to a few acts, as was the case at the beginning of the 1980s. The result is that many diverse creative paths will be subordinated to a few very similar paths controlled by the majors. As the distribution system’s gatekeepers, they can prevent turbulences that are triggered by excessively radical musical innovations simply by boycotting distribution.

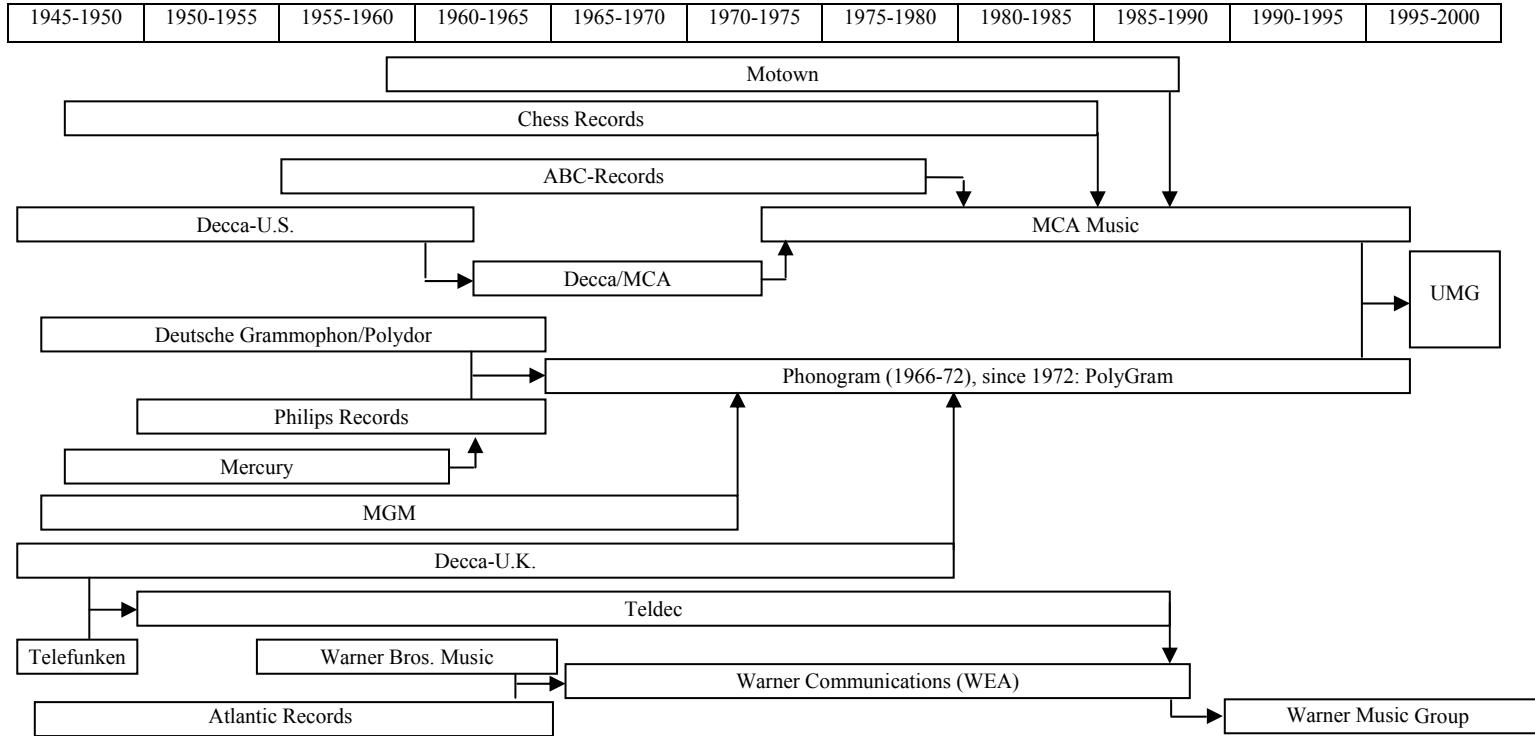
However, the majors’ gatekeeper function in terms of music distribution was enduringly shaken by the success of the Internet and online music exchange. The complex distribution structures consisting of an army of sales agents, warehouses, and in some cases even retail chains³⁰⁸ might become superfluous as a result of the new ability to distribute music directly into consumers’ living rooms. This situation resembles that of the 1920s, when radio represented a completely new form of music distribution. At that time, the phonographic corporations failed in their fight against radio stations, which they fought by suing for copyright violation and engaging in public campaigns against the airplay of allegedly youth corrupting Jazz music. Shortly thereafter, the newly strengthened broadcasting networks bought them. Even though history never repeats itself identically, it would not be at all surprising if companies of the new economy—despite the current crisis—will become the music corporations of tomorrow.

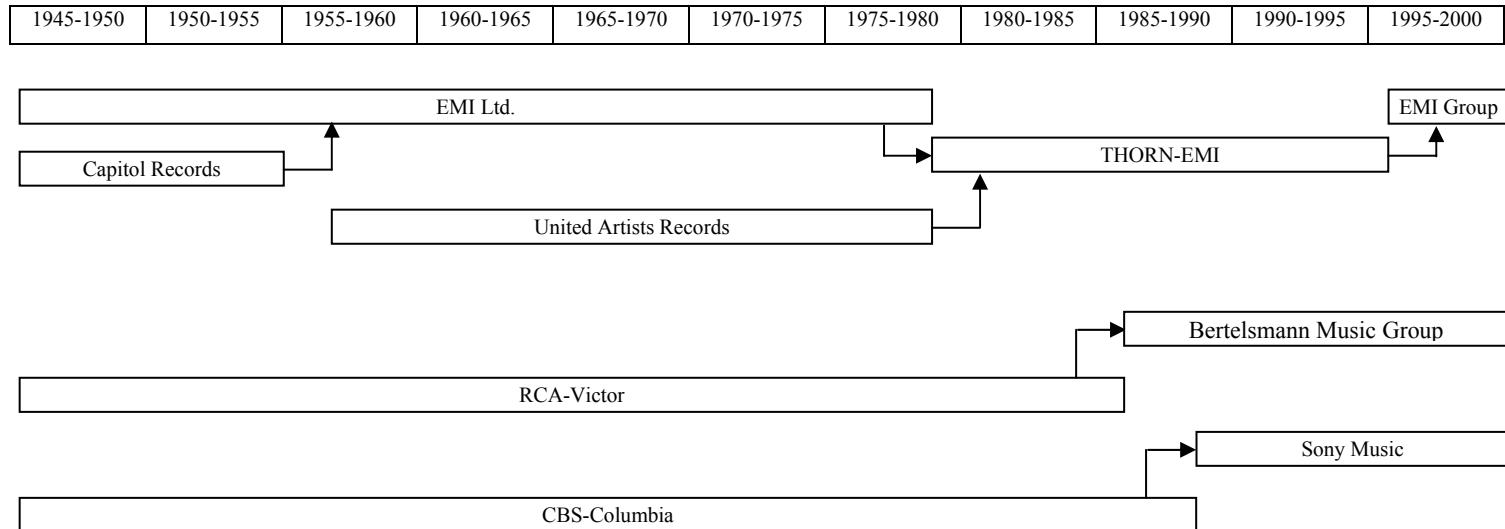
Although the Internet provides a new distribution path, especially for phonograms that have already been well introduced to the market, there is nevertheless the opportunity once again to increase the music industry’s creative potential. Now, it is essentially possible for anyone in the world to offer his or her music to the public. This might inspire new ways of thinking and the forging of new

³⁰⁸ This is primarily true for EMI and its HMV retail chain, which was sold in May 2002 in the stock market. Yet, the EMI Group continues to control a market share of 42.65%. (Annual Report of the EMI Group 2002).

connections, which could trigger new musical innovations. It is just a matter of time before new channels are discovered to disseminate these innovations, but this process may very well be happening right now, ultimately resulting once again in a lasting change of existing music traditions.







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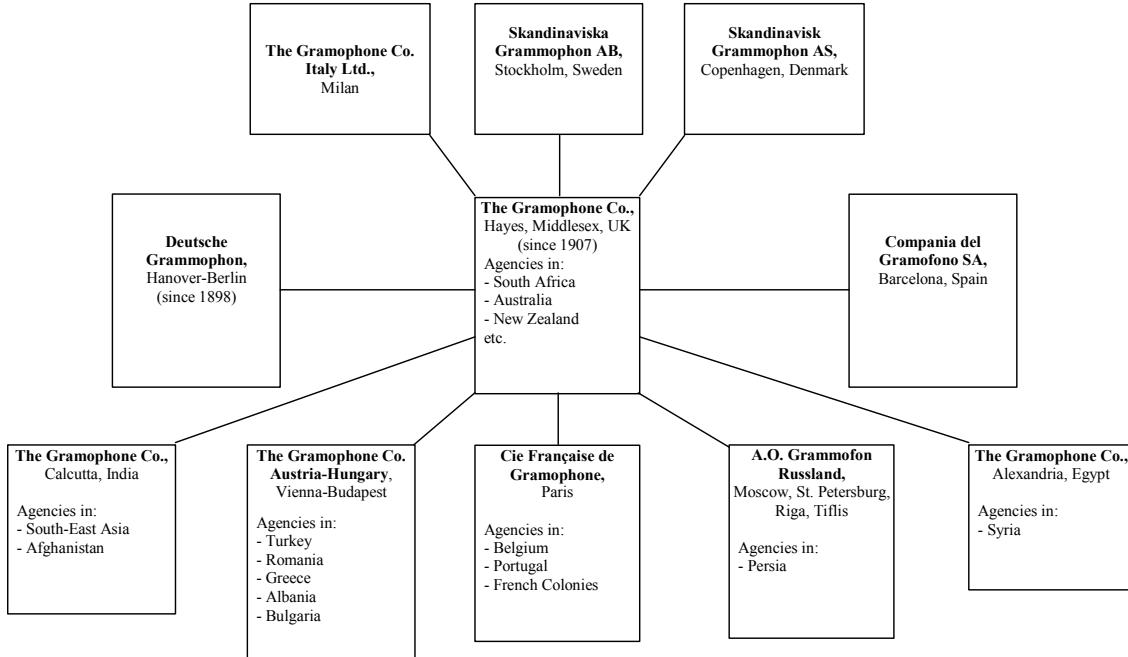


Figure 3. The global Gramophone Co. conglomerate in 1910.