Touting for Business: The Economics of Ticket Touts

Geoff Riley (Head of Economics at Eton College) examines the economic arguments for and against the regulation of ticket touting

Hot tickets

Love them or loathe them? A necessary evil to repair malfunctioning markets? Or a curse on society populated largely by exploitative low life? Most of us at some point are offered tickets by touts or are approached by them offering to take tickets off our hands. Should we tolerate or ban them?

The ubiquitous presence of touts is becoming a hot issue at the moment. From sports events to hot-summer music festivals, the genuine fans and concert-goers often seem unable to get the tickets they want at the officially advertised prices.

Tired of long hours waiting for web sites to process their ticket applications and fed up with fruitless bids for tickets in ballots, many people are turning in part desperation to the shady world of the tout to find the tickets they need.

Touting is even a headache for the Vatican with black-marketeers getting to the ticket booth outside the Sistine Chapel at the crack of dawn and then re-selling their tickets at inflated prices to tourists further down the queue!

Crackdown for World Cup 2006

In April 2006 the British government launched a crackdown on touts looking to make money by selling tickets for games at the 2006 FIFA World Cup. Legislation made a swift journey through both Houses of Parliament which now bans unlicensed sales of any ticket for the global football bonanza which gets underway on 9 June 2006. The government has the backing of FIFA for the attempt to block online ticket touting (or “scalping” to use the American term).

The decision to use the power of statute law to ban touts raises interesting questions for economists. Ticket scalping has been around for decades, it is easy to conjure up images of shady touts doing their business along the queues of people lining up at theatres, concert venues and sports grounds, or furtively offering tickets to punters in city centres ahead of major arts or sporting events.

And now the age of e-commerce has opened up huge opportunities for touts, offering a new platform for their buying and selling. The internet has become a “virtual pavement” for existing traders and a new generation of touts, many of whom can see the financial windfalls from buying up tickets in advance and then selling them onto people at a later stage when they are desperate to pay and when their price elasticity of demand is at its lowest!

No bad thing?

Why is touting almost universally regarded as a bad thing? Say for example that I decide at the last minute that I want to go see a sell-out play at the theatre or attend a test match this summer? I find a tout who has a legitimate ticket and who is willing to sell to me. I buy the ticket at an agreed price; the tout wants the money; I want the ticket. The price we agree reflects my willingness and ability to pay and the price the tout accepts is above the minimum price they are prepared to sell at.

Does this transaction not represent a mutually beneficial exchange albeit taking place in a secondary “unofficial” market? Surely it is more
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to stop people re-selling tickets and there were rigorous checks at the entrances to the festival to ensure the buyer was the original purchaser. Tickets were also restricted to two per person to control the incentive to buy up blocks of tickets and then try to off-load any surplus.

Economic justifications for ticket touting

Economists who believe in the power of free market forces have little problem in justifying the existence of ticket scalps. Indeed they point to the failures of the ticket promoters themselves as a root cause of touting behaviour.

Consider the following arguments – do they amount to a convincing case for allowing touting to go on without government intervention?

1. Touts are filling a market gap because the original sellers have failed to find an equilibrium price which matches supply with demand. The issue is one of freedom of choice for both buyer and seller in any transaction.

2. The biggest rip-off is not the activities of touts but the high booking fees that are charged by legitimate “ticket agents”. These agents are little more than legalised touts who have the money to lease offices and phone lines to customers.

3. People who have bought a ticket should have the right to sell it whenever they want, to whom they want and at whatever price they want.

4. Ticket touting would not be on the same scale if promoters offered more tickets to non-neutral fans in the first place. The growing sale of tickets to corporate hospitality businesses creates undue scarcity for the remaining tickets. Black markets are the inevitable reaction to this. In the case of tickets for the FIFA World Cup, only eight per cent of tickets were made available to fans.

5. Excess demand for tickets suggests that prices
have been set too low in the first place. Promoters should be more imaginative in how they allocate tickets for high-demand events. For example suppliers might make more use of auctions in the first round of ticket allocations. The potential purchasers would be able to demonstrate their willingness to pay to get a ticket reducing the need for secondary markets to emerge.

6. Touting can be reduced without the need for legislation. Promoters and organisers could easily enforce tougher controls “at the gate” such as requiring ticket-holders to bring their credit cards and other personal ID to gain entrance to an event.

7. Legislation can prevent some touting, but the financial costs of monitoring and enforcing legislation must be considered. Intervention in the market can risk government failure.

The case for government intervention to make touting illegal

The following arguments are often put forward in support of tougher restrictions on the actions of touts:

1. Touts are nothing more than economic parasites and it is inequitable that genuine fans should pay way over the odds for tickets from touts. They get ripped off and exploited with a large loss of welfare. Touts are more interested in making huge amounts of money rather than providing a necessary service for fans interested in watching their favourite team or band.

2. Promoters have the right to set whatever prices they want for their events. In many cases, the promoter will try to seek a balance between setting a price that covers costs, makes a decent return but sets a “just price” for consumers. Good examples of this include the BBC’s ticket prices for the summer Proms concerts. They could easily set a much higher price but there are broader concerns than simply maximising profit.

3. Touts operate in illegal black markets and rarely pay tax on the incomes and profits they make. They do not deserve the protection of the law.

4. Touting can create huge problems in segregating fans when tickets are sold in secondary markets. Society then has to bear the external costs that come from incidences of hooliganism.

5. The unsavoury tactics used by touts can lead to market failure. One of the information failures is that consumers may not know that they tickets they are buying are legitimate. Touting on the Internet runs the risk that tickets will not arrive and purchases can be left greatly out of pocket.

What do you think about touts? Will the new legislation governing the sale of tickets for the 2006 World Cup have much effect on curbing black market activity or, given that we live in a world of increasing greed and selfishness, should we be looking for better and more effective ways of reducing the ticket scalping that is a fact of everyday life?