

\$2,500: A Fair Price for ‘Hamilton’

By N. Gregory Mankiw

Consumers of goods and services do not typically wish that producers charged higher prices. But that was exactly my desire on a recent trip to New York City.

The story begins with a basic mismatch: I am a big fan of theater, and I live just outside Boston. While Boston is a good city for the arts, it is not the mecca that New York is. Unfortunately, I’m in New York only a few times every year. But when my professional or personal life takes me into the city, I always try to squeeze a play into my schedule.

That occurred most recently over Columbus Day weekend. I was in New York visiting colleges with my wife and younger son, who is a high school senior. Most colleges don’t give tours on Sunday, so we had Sunday afternoon free — perfect timing to see a matinee.

We had no doubt about what we wanted to see. “Hamilton” had received rave reviews from both critics and our friends who had seen it. We had much enjoyed “In the Heights,” an earlier musical by Lin-Manuel Miranda, the genius behind “Hamilton.” And as an economist, I have always viewed Alexander Hamilton, the first Treasury secretary, as one of the most important and intriguing founding fathers.

You may have heard that “Hamilton” tickets are hard to come by. The show is so popular that tickets from the theater sell out quickly and far in advance. On a recent episode of “Saturday Night Live” that Mr. Miranda was hosting, the television show’s producer, Lorne Michaels, jokingly asked him about getting “Hamilton” tickets. Mr. Miranda demurred.

We, however, had no problem getting tickets. Two weeks before our trip, I logged into StubHub, the online ticket marketplace owned by eBay. I found the performance we wanted, located some great seats and within a few minutes was printing our tickets.

The rub is the price. Including StubHub’s fee, I paid \$2,500 a ticket, about five times their face value. Such a large markup is not unusual.

Now, at this point, some people might object to this price. Terms like “scalping” and “price gouging” are pejoratives used to demonize those who resell tickets at whatever high prices the market will bear.

To be sure, most people can’t easily afford paying so much for a few hours of entertainment. That is indeed lamentable. The arts expand our horizons, and in a perfect world, everyone would have the opportunity to see a megahit like “Hamilton.”

Yet there is another way to view the situation. It was only because the price was so high that I was able to buy tickets at all on such short notice. If legal restrictions or moral sanctions had forced prices to remain close to face value, it is likely that no tickets would have been available by the time my family got around to planning its trip to the city.

High prices are a natural reflection of great demand and scant supply. In a free market, in which private individuals can engage in mutually advantageous gains from trade, they are inevitable until demand subsides or supply expands.

The comedian Jay Leno learned this lesson some years ago. In 2009, while the economy was suffering through the Great Recession, Mr. Leno, a car enthusiast, generously performed two free “Comedy Stimulus” shows for unemployed workers near Detroit.

Yet zero is not, as economists put it, the equilibrium price to see a live performance by Jay Leno. Some of the unemployed who received free tickets tried to turn around and sell them on eBay for about \$800. When Mr. Leno learned about this, he objected, and eBay agreed to take down offers to resell the tickets.

But why should Mr. Leno have objected? Some unemployed workers, presumably short on cash, thought that the \$800 in their pockets was more valuable than an evening of laughs. Similarly, the ticket buyers would voluntarily give up their \$800 for a seat. The transaction makes both buyer and seller better off. That is how free markets are supposed to work.

The only person made worse off by the sale is, perhaps, Mr. Leno himself. He wanted to be seen performing before an audience of the unemployed. Doing a show for higher-income residents of Michigan might not be viewed as altruistic, even if it left the unemployed better off. In other words, Mr. Leno’s objection to the eBay resale was arguably a rationally self-interested act in that the resale impeded his ability to appear selfless to others and, even, to himself.

Although I don't object to ticket resales above face value, and I think it is pernicious when others do, I was saddened by my "Hamilton" transaction in one important way. About 80 percent of what I paid went to the ticket reseller, rather than to Mr. Miranda and his investors.

In the past, Mr. Miranda has objected to the automated software that quickly buys as many tickets as it can, so they can be resold at a profit. But there is an easy way to put these resellers out of business: The theater can charge higher prices to begin with.

Such a move would surely increase the show's profitability. From my standpoint as a theater consumer, that's a good thing. Future talents like Mr. Miranda would find it easier to fund their innovative theater projects. And with more projects funded, those consumers who don't buy "Hamilton" tickets — perhaps deterred by its uniquely high prices — would find a greater variety of other shows from which to choose.

Those who run Broadway theaters clearly feel some unease about charging so much. That is one reason they often hold a few tickets back and offer them cheaply in lotteries the day of the show.

Yet Mr. Miranda and his investors could find better ways to give back to the community than vastly underpricing most "Hamilton" tickets and enriching ticket resellers. Maybe fund scholarships for theater students. Or maybe fill more seats with high school students (which is already happening to some degree, thanks to a grant from the Rockefeller Foundation). I can't imagine a better way to spark interest in the study of American history.