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Irving Berlin **The Unintended Consequences of Risk Control**

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IRVING BERLIN

THE UNINTENDED CONSEQUENCES OF RISK CONTROL

In the late 19th and early 20th century, the music industry engaged in a type of risk control that, in principle, is not very different from the type that many companies engage in today. The modern theory of risk control divides companies or individuals into two groups: those who wish to earn returns with lower variability, and those of a more speculative bent who are willing to endure high variability and risk of loss for the chance of earning higher returns. The two groups meet in the marketplace.

Irving Berlin's life is illustrative of the fact that those companies or individuals who take the speculative approach do not necessarily undertake the risks willingly, but rather by force of circumstance. Since the terms of trade are usually set by the more financially powerful party, the less financially powerful party is often compelled to assume risk that it would otherwise not choose to accept. That power asymmetry can result in certain intriguing unintended consequences, as Berlin's success illustrates.

Berlin was born in late 19th century Russia and his family emigrated from there to the U.S. when he was a child. He was raised on Cherry Street in the Lower East Side of New York City. In the last years of the 19th century, Cherry Street was one of the most notorious streets on the Lower East Side. In Jacob Riis's classic book *How the Other Half Lives*, Cherry Street is mentioned very frequently as a crime ridden, dismal area.

Naturally, Berlin sought a way to escape those hardships, and it was music that eventually provided the path. It's worth noting that he had no professional musical training at all. He could not read music, nor could he play a musical instrument. But he could sing. As a newspaper boy, when he sang to attract attention, he sold more papers. Later, he managed to obtain employment as a singing waiter in the Union Square area of New York City, which was an entertainment mecca at the turn of the century. He was also employed from time to time as a busker whose job it was to sit among the theater audience during a musical and applaud at the right moments. The busker would also sing along during the chorus of various songs and would encourage the audience to do so as well.¹

Since the luminaries of the then music industry frequented the restaurants in Union Square, Berlin came to know some of these personalities, and many of them were active in the music publishing business. That business preceded the recorded music business. In 1900, even though the phonograph had already been invented, very few people could afford to

¹ Busker is a word used to describe street performers and is derived from the Spanish word *buscar*, which means to seek. Historically, a busker was basically a traveling minstrel, or street performer.

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own one, so most people who were interested in music bought sheet music. The center of sheet music production was 28th Street between 5th and 6th Avenues, also known as Tin Pan Alley. It was called Tin Pan Alley because when all the windows were open during the summer—there was no air conditioning back then—one could hear a multitude of instruments being played all at the same time. The sound had no synchronization and from the street it sounded like pots and pans being washed, which is how it came to be called Tin Pan Alley.

Berlin wanted the security of being employed by a music publishing company and, no doubt if there were such companies today, one of them might have been hired him. In that age, however, it was simply impossible, not merely given his background and lack of musical training, but also given the risk predilections of the publishing entrepreneurs in question. The practice in the music publishing industry was to curtail and control risk, so they only paid for the songs that sold.

Most songs didn't sell very well and would never be profitable. There were certain fixed costs for publishing music and placing it with a retailer. The publisher only assumed the risk of producing and distributing the song, with no obligation to pay for the intellectual property unless it produced revenue. They set the terms of trade, and the songwriter had no choice but to accept the risk that, even if their song was published, it probably wouldn't sell and they would be paid nothing. The wholesale price for a song's sheet music was three to five cents, and the songwriters were paid a one penny commission on every piece of their sheet music that sold.²

In spite of being musically illiterate, Berlin was able to compose tunes and write lyrics, because the music publishers had a system for getting the songs down on paper. Aspiring songwriters pitched their songs by going to the music publishers' offices and singing them as best as they could. If the publisher felt that it had potential, the songwriter was escorted into another room where someone trained in musical notation would play it on the piano and transcribe it. Berlin did something along those lines with a tune entitled, "My Wife's Gone to the Country" and, believe it or not, it sold 600,000 copies. His commission was \$6,000, an enormous sum at the time.

Berlin was interested in maximizing his return, and did what he could to reduce his risk exposure. For example, he did not want to hire a pianist to transcribe his songs, because he wanted to keep his costs down. Instead, he taught himself to play the piano. He gained enough proficiency to be able to play his songs, but his lack of skill limited him to playing them on the black keys of the piano, so he could only play in the key of F-sharp major.

At that time, there were many such self-educated musicians. To accommodate them, the Transposing Piano was developed, which only exists today as a collector's item. A foot pedal that works as a clutch connects to a lever located beneath the keyboard. By operating

² Lawrence Bergreen, *As Thousands Cheer: The Life of Irving Berlin* (New York: Da Capo Press, 1996), 52

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that lever, the piano keys can be physically shifted to the right or left so the hammers hit the appropriate strings for the desired key. This mechanism allows untrained players to use the same fingering to play in different keys without having to understand the music theory behind it.³

Berlin was not alone in his humble beginnings. Two of his contemporaries, George Gershwin and Jerome Kern, worked as song pluggers in Tin Pan Alley early in their careers. The sheet music stores of the day hired pianists to sit at their prominently placed pianos and play the popular hits to encourage people to buy the sheet music. They were called song pluggers. Unlike Berlin, both Gershwin and Kern were classically trained pianists, and Kern was raised in an affluent family. Ultimately, all three rose to musical prominence and fame from their start in Tin Pan Alley, but Berlin started with absolutely no advantages, so the odds were against him. The distance he had to travel was that much greater.

It's hard to imagine someone like Berlin, without any kind of formal musical training, being able to reach the top in today's music industry. His early opportunities in music only existed because the publishers set the terms of trade to suit their own risk predilections. Today, even people involved in popular music are usually trained in some formal way or, if not formally trained, they are at least proficient enough on an instrument to be able play their own music.

Berlin's list of hit songs is long. Shortly after his success with "My Wife's Gone to the Country," he composed "Alexander's Ragtime Band." In its era, it was an international hit, and he, a completely untrained musician, earned \$30,000 of royalties in 1912. That song became an international sensation. If he hadn't dared to take a chance on his innate musical talent, his songs would never have been published. Academicians would have us believe that risk acceptance is merely a question of preference, but sometimes it's a question of circumstance.

³ Transposition can be used to accommodate the vocal ranges of various singers. Melodies are based on a musical scale, and there are seven letters in the musical alphabet (A, B, C, D, E, F, G). Scales are named for their first note; i.e., a C scale starts and ends on C, a G scale starts and ends on G, and so on. Transposing a melody from one key to another means changing the scale on which it is based. For example, a song written in the key of C is transposed to the key of D by moving all of the notes equidistantly up one step. The pattern of musical intervals remains the same, but the pitches are all one step higher.