The Economics of Art and Culture

Second Edition

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1 An overview of the arts sector

In the modern era, the making of art has occupied a special position among human activities. Some might rank it as the highest of all callings; many probably think of it as above "mere commerce"; a few might wish that economists would keep their dirty hands off it.

Yet no matter how highly we may value them, art and culture are produced by individuals and institutions working within the general economy, and therefore cannot escape the constraints of that material world. When the Guthrie Theater in Minneapolis hires actors or electricians, it competes in well-defined labor markets and has to pay what the market, or the unions, require. When it sets ticket prices it has to recognize that its sales will be constrained by competition from other forms of recreation and by the tastes and incomes of its potential audience. When federal or state governments, through their arts agencies, make grants to the Guthrie, those agencies have received their funds through a budgetary process in competition with other government programs, and the government itself raises money by making claims on taxpayers that compete with their desire to spend income in the satisfaction of private wants.

In keeping with its title, *The Economics of Art and Culture*, this book explains how art and culture function within the general economy. In many respects the individuals and firms that consume or produce art behave like consumers and producers of other goods and services; in some significant ways, however, they behave differently. We hope to show that in both cases the insights afforded by traditional economic analysis are interesting and useful.

We investigate the art and culture industry in much the same way that economists might analyze the steel, food, or health-care industries: We look first at the historical growth of the industry, then examine consumption, production, the functioning of arts markets, the financial problems of the industry, and the important role of public policy. Individual chapters also deal with the arts as a profession, the role of the arts in a local economy, and the relation of the mass media to art and culture.

COVERAGE OF THIS BOOK

First, however, we must explain what part of art and culture we propose to deal with. For the purposes of this book, art and culture comprise the live performing arts of theater, opera, symphony concerts, and dance, plus the fine arts of painting and sculpture and the associated institutions of art museums, galleries, and dealers. It is important to note at the outset that we are here not defining art and culture as terms of aesthetic or social scientific discourse, but simply explaining how much of their domain we have chosen to cover in a single volume.

Obviously, the above definition leaves out some important cultural activities. Among the performing arts, we exclude motion pictures (which are not live) and rock, pop, and jazz concerts (even though they are live). We also exclude writing, publishing, and commercial (but not public) broadcasting.

These exclusions, however, are not arbitrary. First, the two included groups are internally coherent. The performing arts categories are all live and share a common production technique: A performance is put on in a venue to which the audience must come; the performance can be repeated in exactly the same way as often as might be desirable to satisfy a larger audience. Thus, if you understand, for example, the economics of theatrical production, you also understand, in principle if not in detail, the economics of opera, ballet, or symphony production. The fine arts category is coherent in a different sense: The subgroups are jointly involved in making, buying and selling, and displaying art objects.

Second, three of the excluded categories – motion pictures, broadcasting, and writing and publishing – are complex industries unto themselves and very unlike the included ones. It would be difficult to generalize about the economics of such unlike activities and impractical to attempt to cover that much diversity in a single volume. Motion picture production and broadcasting do share many traits that would facilitate treating them jointly, but that would require another study.

Third, the included categories – except the Broadway theater, painters and sculptors, and art dealers and galleries – are organized on a not-for-profit basis, while the excluded categories are largely made up of commercial, profit-seeking firms or individuals. The distinction is significant not only because we would expect economic decisions to be made differently in the two sectors, but also because government subsidies are largely confined to the not-for-profit group, and only firms in that sector are eligible to receive tax-deductible private charitable donations. Those forms of support make up an important part of nonprofit sector budgets, again lending coherence to the group and its problems.

Finally, the included categories are old, traditional forms that are sometimes referred to as "high" art, while those that are excluded (except writing and publishing) are new forms that are also called "popular" or "mass" culture.[1] We do not mean to imply that this distinction reflects our own value judgments, but it is well established in the literature.

To be sure, there are ambiguities aplenty in this delineation of the field. Writing is a traditional high art but is excluded nonetheless. Motion pictures are potentially a high art, though a new rather than a traditional form. Many movies have a more serious artistic purpose than some Broadway musicals, though the latter are included here while movies are not.

ART AND CULTURE AS A SUBJECT OF ECONOMIC INQUIRY

With all its defects, our definition does correspond to the one adopted by most economists who have worked in this field. The field itself is

1. The notion of high culture as distinguished from what came to be called low or popular culture emerged in the United States in the second half of the nineteenth century. See Lawrence W. Levine, *Highbrow/Lowbrow* (Cambridge, Mass.: Harvard University Press, 1988), esp. chaps. 2 and 3. Levine also argues that we have recently begun to move away from such rigid distinctions (p. 255).

relatively new, almost nothing having been written about it before the mid-1960s.[2] Its origin can be dated from 1966, the year in which William J. Baumol and William G. Bowen published *Performing Arts: The Economic Dilemma.*[3] This path-breaking study, which long remained the definitive work in the field, attracted wide notice and quickly drew the attention of economists to an important new concern: the financial condition of the arts in the United States. (The specific questions raised by Baumol and Bowen are dealt with in detail in Chapter 8 of this volume.)

Baumol and Bowen's study was the culmination of a decade of growing interest in the condition of art and culture in the United States. That interest was reflected in the public sector by the establishment of the New York State Council on the Arts in 1961 and the National Endowment for the Arts, at the federal level, in 1965. Evidence of a new awareness appeared even earlier in the private sector. The Ford Foundation initiated a program in the arts in 1957 and by 1965 was offering very substantial support to symphony orchestras and to ballet and opera companies.[4] In the mid-1960s, the Rockefeller Brothers Fund and the Twentieth Century Fund undertook complementary studies of the situation of the performing arts. Baumol and Bowen's massive volume emerged as the contribution of the latter.[5] Since then, interest in the economic problems of the arts has grown steadily. In the 1970s, William S. Hendon and others established the Association for Cultural Economics and began publishing the *Journal of Cultural Economics*.[6] The Twentieth Century Fund returned to the subject when it sponsored Dick Netzer's *The Subsidized Muse*, an important study of the role of government subsidies in support of the arts, published in 1978.[7]

2. For an account of the origins of the field, see Ruth Towse, Introduction, in Ruth Towse, ed., *Cultural Economics: The Arts, the Heritage and the Media Industries*, vol. 1 (Cheltenham, U.K.: Edward Elgar, 1997).
3. William J. Baumol and William G. Bowen, *Performing Arts: The Economic Dilemma* (New York: Twentieth Century Fund, 1966).
4. *Sharps and Flats: A Report on Ford Foundation Assistance to American Music*, Ford Foundation, July 1980.
5. The Rockefeller Panel Report, intended to attract public attention to a wide range of arts policy issues, was entitled *The Performing Arts: Problems and Prospects* (New York: McGraw-Hill, 1965).
6. The association has also sponsored eleven international conferences on cultural economics since 1979 and has published conference proceedings. See notices in the *Journal of Cultural Economics*.
7. Dick Netzer, *The Subsidized Muse*, a Twentieth Century Fund study (Cambridge University Press, 1978).

Scholars from many countries have been active in this new field. In England, Mark Blaug and Alan Peacock published numerous papers on the economics of the arts, beginning in the late 1960s.[8] In 1979 the Australian economists C. David Throsby and Glenn A. Withers produced an influential study entitled *The Economics of the Performing Arts*.[9] The Swiss and German economists Bruno S. Frey and the late Werner W. Pommerehne wrote *Muses and Markets: Explorations in the Economics of the Arts*, published in 1989.[10] By now there is a considerable body of useful research not only on the economics but also on the politics and sociology of the arts.[11] (A more detailed account of the origins of public interest in the condition of the arts in the United States is offered at the beginning of Chapter 12.)

ESTIMATING THE SIZE OF THE ARTS SECTOR

How important is the arts sector in the U.S. economy? Although lack of data is a frequent lament of those studying the economics of the arts, we do have enough information to piece together a rough estimate of the size of the arts industry as it has been defined here.

Components of the estimate are shown in Table 1.1. (The table attempts to measure the arts sector as of 1997, but the reader is urged to see the caveats concerning dating set forth in the table note.) Line A shows that in 1997 consumers spent $9.991 billion on admissions to the live performing arts, including both the commercial and the nonprofit theater, as well as nonprofit opera, dance, and symphony concerts. It is for the reader to judge whether that is a large figure or a small one: In the same year consumers spent $5.377 billion on radio and television repairs, $15.938 billion on flowers, seeds, and potted

8. For these and other important papers, see the works collected in Towse, *Cultural Economics,* vols. 1 and 2, and in Ruth Towse, ed., *Baumol's Cost Disease, the Arts and Other Victims* (Cheltenham, U.K.: Edward Elgar, 1997).
9. C. D. Throsby and G. A. Withers, *The Economics of the Performing Arts* (New York: St. Martin's, 1979).
10. Bruno S. Frey and Werner W. Pommerehne, *Muses and Markets: Explorations in the Economics of the Arts* (Oxford: Basil Blackwell, 1989).
11. Annual conferences on Social Theory, Politics, and the Arts have been held each year since 1974. Selected proceedings have been published in some years. See, e.g., Judith H. Balfe and Margaret Jane Wyszomirski, eds., *Art, Ideology, and Politics* (New York: Praeger, 1985); and David B. Pankratz and Valerie B. Morris, eds., *The Future of the Arts: Public Policy and Arts Research* (New York: Praeger, 1990).

Table 1.1 *Estimated size of the art and culture sector, 1997 ($ millions)*

A. Total consumer spending on admissions to the live performing arts		9,991
Less Broadway	499	
Less road companies	782	
Equals nonprofit sector	8,710	
B. Estimated art museum operating income not including private donations and government support		1,736
C. Total direct governmental assistance		2,096
Federal	1,167	
State[a]	254	
Local	675	
D. Estimated private charitable support to art and culture		3,760
Grand total		17,583

Sources: Line A – Consumer spending: National Income and Product Accounts of the U.S., table 2.4, as revised August 1998; Broadway and road company receipts: League of American Theatres and Producers; Line B – estimated from data for 1988 in American Association of Museums, *Data Report of the 1989 National Museum Survey*; Line C – federal: See components and sources cited in table 13.1; state: National Assembly of State Arts Agencies; local: Dian Magie, "Arts Funding into the 21st Century," President's Committee on the Arts and the Humanities, Creative America Working Papers, Washington, D.C., 1997; Line D – estimated from data for 1992 in Independent Sector, *Nonprofit Almanac 1996–1997* (San Francisco: Jossey-Bass Publishers, 1996), table 4.2.
Note: Lines A, B, and D refer to calendar year 1997; line C federal and state pertain to fiscal year 1997, local to fiscal year 1996. Broadway and road company data are for the 1996–97 season.
[a] The fifty states plus the District of Columbia.

plants, and $28.290 billion on cable TV. Books and maps attracted $25.235 billion of spending.[12]

Since Broadway and road company box office receipts are available separately, we can subtract them from the consumer spending total to obtain an estimate of $8.710 billion for admissions to the *nonprofit* live performing arts. (See the fourth line of Table 1.1.) Gross box office receipts are an excellent measure of the size of commercial theater activity, since the commercial theater has little other income. Consumer expenditure on admissions, however, does not fully measure activity in the nonprofit sector, since nonprofit institutions are legally eligible to receive charitable donations from individuals, corporations, and foundations and may also obtain

12. See source cited for consumer spending in table 1.1.

subsidies from federal, state, and local governments. In the typical case, earned income from admissions and performance fees accounts for only half to two thirds of the total income of a nonprofit performing arts institution. In Table 1.1, governmental assistance and charitable contributions are tabulated separately on lines C and D. Both categories of contributed income, as it is called, underwrite the expansion of the not-for-profit, live performing arts and of museums, beyond the scope they could achieve if dependent solely on earned income to finance their activities.

Data on aggregate operating income provide a reasonable measure of the economic size of the art museum segment of the arts industry. Line B of Table 1.1 shows that it amounted to an estimated $1.736 billion in 1997. That figure is net of income from governmental sources and from private contributions, since those forms of support are shown separately in the table.

"Production" in the fine arts is carried out by painters and sculptors, and distribution of the product is handled by dealers and galleries. Unfortunately, we lack data on the value of these goods and services and so must omit it from the table.

The value of direct governmental assistance to the arts is estimated to have totaled $2.1 billion in 1997. Since these funds paid for activity over and above the levels reported in lines A and B, it must be added in separately. The federal and state amounts are firm numbers, but the aid attributed to local governments is necessarily an estimate, since no accurate count is available. (See Chapter 13 for further detail.)

Finally, line D is an estimate of the value of private charitable contributions to the arts. Like governmental assistance, these donations pay for arts activity over and above the amounts shown in lines A and B.

The total of lines A, B, C, and D is $17.583 billion. To put that figure in perspective, consider the fact that in 1997 the gross domestic product of the United States – a measure of the value of the output of all goods and services – stood at $7,191.4 billion. The arts sector as measured here amounts to only a little more than two thousandths of that sum or, to be more precise, 0.218 percent.[13]

13. Given the rapid growth of the arts sector in the recent decades, this result appears to be consistent with Netzer's estimate that, in 1975, arts expenditures amounted to 0.095 percent of GNP. See "How Big Is the Arts Industry?," *New York Affairs* 4, no. 4 (1978): 4–6, cited at table 2. However, using a different methodology, Netzer estimated the

Our estimate may well err on the low side. The performing arts industry includes a lot of very small institutions, and it seems likely that many of the smaller ones are not captured in any statistical net. General museums, history museums, and historical societies often have important collections of art but are not counted here. The manufacture of classical music recordings and art reproductions is not included. Public broadcasting activity is omitted, although a fraction of it deals with art and culture as defined here. The output of painters and sculptors and the economic contribution of art dealers and galleries are omitted entirely, as are the output of singers and instrumentalists when they perform individually. The value of volunteer labor is not counted. On the other hand, the amounts shown for federal, state, and especially local support include some activities such as zoos, botanical gardens, and historic sites that fall outside the boundaries of the arts as defined in this book.

On balance, we believe our total is probably an underestimate. But even a substantial increase in the total would not change the basic message: The art industry is very small in relation to the U.S. economy. Why, then, do we study it? Obviously, we do so not because it is important to the economy but because it is vital to our culture, and therefore to our self-image.

income of the nonprofit art and culture subsector at $4.71 billion in 1985. Although his 1985 study excludes such commercial activities as the Broadway theater, it includes a wider range of nonprofit activities than we do. Even allowing for expansion between 1985 and 1997, Netzer's 1985 results imply an arts sector smaller in dollar magnitude than ours. See Dick Netzer, "Arts and Culture," in Charles Clotfelter, ed., *Who Benefits from the Nonprofit Sector?* (Chicago: University of Chicago Press, 1992), pp. 174–206.