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1 Introduction

This volume presents original research findings on the impacts of cultural consumption and production on local economies. The chapters are based on papers presented at "The Arts, New Growth Theory, and Economic Development," a May 2012 Brookings Institution symposium sponsored by the National Endowment for the Arts. The central theme of the symposium was that the arts are not an amenity or a sector that exists in isolation but that they are wholly integrated into local economies. Indeed, the complex role of art in local growth is what has made empirical research in the field so challenging and the new research in this volume so welcome to scholars and policymakers who seek to advance public knowledge about the dynamic relationship between art and economic growth.

The following chapters investigate the arts in local economies from a range of viewpoints, presenting original data derived from quantitative and qualitative methods. Topics investigated include location choices by arts entrepreneurs; links between the arts and non-arts sectors; public policies to foster local arts organizations; and the arts' effects on incomes in cities across the United States and the United Kingdom. There is no single method of parsing the complex factors at work, and these chapters should inspire further research along various lines to advance knowledge about the place of the arts in economic development. A brief review of the evolution of arts policy and of thinking about economic growth is presented below, followed by a survey of the contributions of these chapters and suggestions for future research.

Public Policy and the Arts

Until around the turn of the twenty-first century, public arts policy in the United States received relatively little attention. There was enough of a committed interest group to keep public funding of the arts alive at the federal, state, and local levels, although budgets were generally small; however, the greatest public support of the arts came from income tax–deductible charitable donations to nonprofit arts organizations, not from public funding.[1] Typically, the only time that arts policy was newsworthy was when public controversy arose over specific works of art that had received, usually indirectly, some form of government support.

In the 1960s, the rationales for direct public funding of the arts tended to center on the benefits to the public of being able to enjoy fine arts: classical music, opera, ballet and modern dance, some theater, and the visual arts.[2] First, there was the case for equity: the fine arts are part of a fulfilling life that ought to be made available to all, including those who have low incomes or who live far from major art centers. Public funding of nonprofit arts organizations could enable those organizations to undertake outreach activities to underserved populations and to keep ticket prices in check. Second, there was a rationale based on the potential for market failures in the arts: public subsidies are a means of encouraging the production and consumption of forms of art that provide public benefits, especially art forms that would be unlikely to flourish in a purely market-oriented environment. Because the fine arts provide public as well as private benefits, they do not represent purely private consumption. For example, people may benefit from my attending the opera even if they themselves never attend. They might be pleased that the traditions of operatic performance are being preserved so that they have the option of attending one day in the future (or that their children and grandchildren have that option), they might take special pride in knowing that their community is considered a center of culture, or they may simply feel good because others in the community are enjoying art of high quality.

However, even those who enjoy the arts a great deal might find those rationales for public funding somewhat weak. If the real concern is about inequality in the United States, are health, education, and housing not more pressing concerns than art museums and classical music performances? Are the claimed external benefits of private arts consumption of any significant magnitude, or do they simply represent wishful thinking by those who themselves happen to value the arts and their associated public subsidies?

More recently, however, two new kinds of economics-based cases have been made for active public support of the arts. One is the so-called "economic impact" of the arts. In many studies commissioned by arts advocates, impact is calculated by measuring direct consumer spending on the arts (usually restricted to the nonprofit sector), then inflated by a Keynesian-style "multiplier" that generates an estimate of the complete impact on aggregate income resulting from arts expenditures. Although some arts advocates, impact studies in hand, proclaim that the arts warrant public subsidy because of the great amount of total income generated by arts expenditures, the problems with the analysis are clear: the estimated benefits from increased expenditures on the arts do not account for the concomitant *reduction* in non-arts expenditures in the public sector (if the increase in arts spending was the result of a shift in budgetary allocations) or in the private sector (if the increase in arts spending was financed through a tax increase). The analysis works on the naïve assumption that an increase in aggregate demand (if indeed there is one) generates an equal increase in aggregate income, and it fails to acknowledge that *all* sectors of the economy, from plumbing and auto repair businesses to coffee shops, also have an economic impact, yet they do not obviously warrant public funding as a result.[3]

But a second class of economic argument deserves to be taken more seriously. Suppose that increased levels of arts activity serve to increase productivity and wages. If such effects could be demonstrated, then indeed public investments in the arts would have, at least in theory, a solid economic rationale besides any aesthetic case for public support. But by what mechanisms might the arts in fact increase wages? What evidence is there of such an effect? The new research studies presented in the chapters in this volume provide some valuable insights into these questions.

That is not to say that this volume covers the whole of arts policy. Questions surrounding the role of the arts in local economic development are important, but they must be considered alongside the "old school" arts policy issues that have always been present: what is the appropriate response to the widely differential access to the arts that arises from individuals' geographic location or socioeconomic circumstances? What is an appropriate balance between investing resources in arts education for the young and supporting current artists and organizations? What is the importance of preserving genres of art that could not survive unaided in the marketplace? These are important questions that go beyond considerations of the arts and productivity or of attracting the creative class. While the importance of the individual issues covered in this volume must be recognized, it is important not to lose sight of the fact that they are parts of a larger whole.

The Arts and New Growth Theory

"New growth theory" (NGT) arises from theoretical and empirical findings that first gained traction in the 1980s.[4] The key aspects could be listed as follows. First, NGT treats advances in growth-enhancing technology as a result of the conscious, strategic decisions of individuals, firms, and governments to invest in the acquisition of skills and knowledge and in potential innovation. It has long been known that in advanced economies, technological change—not the accumulation of current-technology physical capital—is responsible for most of the long-run growth in income per person.[5] NGT *models* technological change (a reason why NGT is often also referred to as "endogenous growth theory") rather than treating it as something that simply "happens" to firms and workers.[6]

Second, NGT recognizes that new technologies are not perfectly guarded by the firms that develop them. There are "knowledge spillovers": firms and individuals in close proximity to others that are developing new ideas get the chance to benefit from those ideas. That is one reason why firms and individuals in the knowledge-based sector gain such benefits from locating near other firms in the sector, thereby forming "clusters." Visual artists value being in New York City and songwriters value being in Nashville not only because there is a thick market of buyers for their products but also because they benefit from being around other painters and songwriters, among whom they find inspiration and develop their ideas. Furthermore, there can be important knowledge spillovers between sectors. An implication is that "technology" is not something that a firm anywhere in the world can simply buy and apply locally. What workers and machines are capable of producing (and it is productivity that determines income) depends on location, which is one reason why producers in knowledge-based industries are willing to pay such a high premium to be able to locate in densely packed cities and why skilled knowledge workers find their productivity and pay highest not where their sort of talent is scarce, but where it is plentiful.[7]

Third, unlike the inputs of physical capital and labor, knowledge and innovation are not subject to decreasing returns. New ideas are non-rival public goods, and once generated they can be used in a countless number of firms and applications. That fact helps explain the observation that over the long term, industrialized countries have seen (the recent recession notwithstanding) growth *rates* in per capita income rise rather than fall since the Industrial Revolution.[8]

What then is the place of the arts in contemporary thinking about economic growth? When economists talk about "the arts" in a local economy, they are talking about a tradable good, one with local production and consumption, imports and exports. Some works of art might be produced locally—a painting, a music recording—and sold elsewhere. Live performances might attract visitors. There also is local consumption of locally produced art—a painting purchased in a local gallery—as well as imports of recordings, books, and films. The effects of the arts on productivity in the local economy could come through consumption or production of the arts or both.

On the arts-consumption side, a vibrant cultural scene, whether based on local or touring artists, may attract to the city mobile, highly skilled individuals who serve to raise average productivity levels in the immediate term because of the knowledge and talents that they bring to the local economy and who in the long run serve to increase the productivity of the broader workforce through interaction and knowledge transfer. That is the essence of so many cities' efforts to brand themselves as "cool" and thereby attract those workers known (not without some controversy over definition and measurement) as the "creative class."[9] The positive effects may accumulate: skilled workers who could benefit from being around other skilled workers might migrate to a city that has built up a strong presence of such workers, even if the new migrants themselves have no interest in the "coolness" of the city—they simply find benefits in being in proximity to other workers, some of whom may have been attracted by the city's cultural life. All of this is not to suggest that a lively arts scene is the only way for a community to gain appeal as a residential choice for skilled professionals; good public schools, safe streets, and outdoor recreation also are important, and for some professionals they will be the primary amenities. But culture certainly matters to a segment of the "creative class," and therefore it becomes an important consideration in local economic development policy. Furthermore, the scale of the cultural sector matters in that a larger cultural scene and potential audience results in increased possibilities for cultural diversity and specialization. As the cultural sector and its audiences grow, the potential for sustaining more esoteric arts appealing to a smaller part of the local population is enhanced.

On the arts-production side, consider the effects of local arts production (even if not for local consumption) on the productivity of the workforce. First, the arts themselves are an income-generating sector of the economy. As a creative industry, the arts benefit from the knowledge spillovers that can occur when increased numbers of creators work in close proximity. Clusters in visual art, music recording, publishing, theater, and film production generate jobs and incomes themselves, apart from any effects that they may have on other sectors of the economy, and the scale and importance of the arts-production sector in this respect is unfortunately often overlooked.[10] Second, there are cross-sectoral effects, which may occur through direct links—for example, media and advertising firms draw benefits from locating in cities with a vibrant artistic production scene. But there also are intangible effects arising from a more broadly defined "culture of innovation," whereby a city, through its working artists, develops an ambience that serves to foster creative thinking among the greater variety of knowledge workers who reside there.

The possibilities above represent a selection of those regarding the arts and economic development, but much research remains to be done. The evidence on correlations between clusters of "Bohemian" artists and high-tech entrepreneurship is just that: evidence on correlations, without much indication of whether new investments in artistic clusters help create new growth in other knowledge industries.[11] The rationale for the symposium that resulted in the chapters in this book, then, was to get beneath the surface to investigate relationships between the arts and economic growth, generate new results, and inspire further research.

New Findings

In chapter 2, Jenny Schuetz brings her analysis down to the level of the city block, examining new art galleries and their locational choices and effects on neighborhoods. She looks at galleries in Manhattan, finding that new galleries have a strong preference for locating in what are known to be "gallery districts" and especially for being close to "star" galleries. She also notes that they prefer using old building stock or being close to historical districts (lending support to Jane Jacobs's famous dictum that "old ideas can sometimes use new buildings . . . new ideas must use old buildings")[12] and that they prefer locations where there is high population density and high household income. She finds that "far from seeking out blighted neighborhoods in need of gentrification, galleries prefer to locate in high-amenity neighborhoods that are likely to attract residential and commercial investment." She finds the evidence that galleries spur renewal of neighborhoods rather weak; instead, galleries seem to anticipate neighborhood renewal rather than create it.

In chapter 3, Ann Markusen, Anne Gadwa Nicodemus, and Elisa Bradbury, analyzing evidence from California, find that the strength of local arts communities is difficult to predict from socioeconomic data. Instead, individuals seem to respond to the availability of the arts, lending credibility to the claim that arts entrepreneurs and local policymakers willing to invest in capacity building are capable of influencing the spending patterns of locals. This finding underscores that the economic value of arts production does not lie solely in its ability to generate a product for export (the so-called "export base theory"); it can also generate local economic growth and net new jobs within the region. A local market for the arts can, of course, lead to an export market, but it need not start that way. Investments in the arts generate increased local incomes by further increasing demand for local goods and services and by attracting human capital and entrepreneurship to the region.

What might states do to enhance capacity building in the arts at the local level? In chapter 4, Richard Maloney and Gregory Wassall consider in depth three Massachusetts communities that have benefited from the state's John and Abigail Adams Arts Program for the Creative Economy (Adams Arts). While it is too soon to be able to say much about the long-term outcomes of the program, the authors were able to go into those communities and, in interviews with a variety of local stakeholders, learn about the program's implementation. They find that a culture-based local economic development strategy is not something that can be successfully implemented simply by having a funded program on offer by the state. To develop a coherent plan that results in an actual economic strategy requires skilled practitioners who have the time and energy to devote to the project, in partnership with local organizations and local government.

In chapter 5, Lauren Schmitz turns to another type of local arts funding program, namely the earmarked tax revenue of Colorado's Scientific and Cultural Facilities District (SCFD). Earmarked taxes for the arts have become widespread across the United States as a means of providing somewhat stable sources of public funding for the arts.[13] The tax revenues, which can be based on sales taxes (as is the SCFD), property taxes, tobacco taxes, hotel/motel taxes, and others, generally require voter approval by referendum. There is some research on whether publicly funded grants to arts organizations affect their ability to raise funds privately; this study asks whether earmarked funding also affects fundraising. Comparing the trends in fundraising for organizations not eligible for SCFD funding with trends for those that are, she finds no evidence that the earmarked funding "crowds out" earned revenues from fundraising—a positive argument for using public policy to increase the total revenues flowing to the nonprofit arts sector.

The next two chapters deal with links between the arts and related, innovation-based sectors of the economy. In chapter 6, Robert Root-Bernstein and his colleagues from Michigan State University survey professionals in science, technology, engineering, and mathematics (STEM), examining their artistic experiences when they were children and their current activities for evidence on whether arts participation influenced their success and level of innovation in their professional work. In particular, they find that rates of patenting by STEM professionals and rates of entrepreneurship in founding new companies were higher when a professional had more of a background in the arts and participated more in the arts. That is an especially striking result: despite the popular advocacy for the impact of arts education on other aspects of students' academic performance, there is little evidence that goes beyond the simple correlation that students in schools with high levels of arts activity score better on tests than students in schools with lower levels of arts activity. Such studies fail to indicate whether it is the arts that make the difference or whether other factors play a role in the school or the student cohort. Root-Bernstein and colleagues take individuals who have succeeded academically (well enough to be professionals in a technically demanding field) and ask about the links between their cultural lives and their subsequent activity in innovation and patenting. This is clearly a promising avenue for future studies with new, larger sets of data.

In chapter 7, Douglas Noonan and Shiri Breznitz focus on new media arts—digital art, computerized animation, and Internet and interactive art—and on whether cultural districts and research universities lead to increased activity in that field. Using data from U.S. metropolitan areas, they find that cultural districts and the presence of major research universities had little impact on the trend in the share of total employment devoted to arts-related industries, defined broadly. That said, *innovation* in media arts was associated with cities containing cultural districts. There is some evidence that the presence of art schools made a difference in these trends; there also is some evidence that arts-related employment, defined more narrowly, may have been affected by the presence of research universities, although the results for cultural districts remained unchanged. This finding points to a need for deeper understanding of cultural districts and for considering exactly what they are expected to provide for local economies.

In chapter 8, Roland Kushner discusses the local environments most conducive to arts entrepreneurship. Using data since the year 2000 on a sample of U.S. counties, he examines factors associated with the formation of new nonprofit arts enterprises. He finds that faster-growing, more densely populated counties whose residents were more highly educated had a higher ratio of new to old arts organizations. Further, higher cultural spending in the county—but not necessarily higher levels of arts philanthropy—tended to favor new firm growth.

The last two chapters in the volume present analyses that employed econometric techniques, specifically within the context of new growth theory models, to consider the influence of arts activities on local economic growth in the United States and the United Kingdom. In chapter 9, Peter Pedroni and Stephen Sheppard embark on an analysis of U.S. cities to examine how investments in nonprofit cultural spending affect per capita income in the long run, beyond any immediate stimulus effects. The authors model economic growth for an urban area while explicitly recognizing that investment in the arts necessarily comes with an opportunity cost. In theory, it is quite possible for a city to overinvest in the arts, as such investment might come at the expense of more valuable investments in other infrastructure. That said, the authors do find a long-term relationship between arts spending and per capita income: in the median case, a rise in arts spending did in fact lead to a permanent increase in per capita income. (They also find that a rise in per capita income from some other source tended to lead to permanent increases in nonprofit arts spending). However, when they look at individual cities, they find counterexamples, suggesting that overinvestment in the arts might be more than a theoretical possibility.

In chapter 10, Hasan Bakhshi, Neil Lee, and Juan Mateos-Garcia used data from cities in the United Kingdom to investigate the impact of the arts on income. Given that, as noted above, the arts affect the local economy on two dimensions—by providing opportunities for both arts consumption and arts production (and influencing other productive sectors through knowledge spillovers)—the impact of the arts on incomes in the local economy might be positive or negative: positive when the arts increase the productivity of employees but negative when the arts make a city such a desirable place to live that employees are willing to accept lower wages in return for living in an area that provides such amenities. They used a standard model in which the wage of an individual is a function of his or her education and experience, variables capturing the nature of the local economy, and—of particular interest here—the level of local arts activity. They find that although they observed a simple positive correlation between wages and arts employment in cities, when they corrected for individual and local economy characteristics the positive correlation disappeared; indeed, with some measures of cultural employment, the relationship was negative. In other words, the consumption-side effect of workers being willing to accept lower wages in exchange for living in an area with an active cultural scene seems to dominate the production-side effect.

While that was found to be the case for wages in general, when they looked only at wages of those working in creative industries, the positive effect appeared to dominate, lending support to the theory that clustering leads to knowledge spillovers and productivity gains.

Looking Ahead

Future directions in economic research, like future directions in artistic creation, are to a degree inherently unpredictable: researchers do not know what new ideas will take hold and spur further works and innovation. They can, however, at least speculate on which avenues of research hold promise.

First, there is much to be learned about how artists and arts organizations in a city affect the productivity and growth of other sectors. What art forms or types of employment matter the most, in what neighboring sectors? Must the working artists be gathered into a "district," or can they simply be present in the same city or metropolitan area, even if dispersed? Are there certain policies or types of infrastructure that enhance the transmission of productive externalities between the arts and other sectors? What is inside the "black box" of positive spillovers between the arts and innovation in STEM industries? How does art education make a more innovative engineer? How does a theater district influence patenting rates? In this volume, Root-Bernstein and colleagues, Noonan and Breznitz, Pedroni and Sheppard, and Bahkshi and colleagues all present new findings on such spillovers, and hopefully there will be more to come.

Second, what policies foster the growth of the arts in local economies? How does a city ensure that "the arts" is not defined only by a core of long-established major arts institutions but also includes entrepreneurship, innovation, and competition? Is the opportunity to use the arts as a key component in economic development strategy restricted only to high-income, highly educated communities that can rely on existing demand for the arts and capacity for leadership in the arts, or are possibilities open to other communities, even to those starting with little? What state and local policies best foster the development of a strong local arts scene? Here the chapters by Markusen and by Kushner consider the development of local nonprofit capacity in the arts; the chapter by Schuetz looks at entrepreneurial choices by new galleries; and the chapters by Schmitz and by Maloney and Wassall examine regional and state policy implementation and effects.

This is an exciting time to be studying the role of the arts in local economic growth. The original research presented in this volume serves as an invitation to explore a field ripe for future case studies and new approaches to modeling the complex relationships that exist between artists, arts organizations, and their cities.

Notes

1. Tyler Cowen called the tax deductibility of charitable contributions "the genius of the American system": *Good and Plenty: The Creative Successes of American Arts Funding* (Princeton University Press, 2006).

2. See, for example, William J. Baumol and William G. Bowen, *Performing Arts: The Economic Dilemma* (New York: Twentieth Century Fund, 1966), especially pp. 370–86.

3. Bruce A. Seaman, "Arts Impact Studies: A Fashionable Excess," in *Economic Impact of the Arts: A Sourcebook,* edited by Anthony Radich and Sharon Schwoch (Washington: National Conference of State Legislatures, 1987).

4. Paul M. Romer, "The Origins of Endogenous Growth," *Journal of Economic Perspectives*, vol. 8, no. 2 (Winter 1994), pp. 3–22; David Warsh, *Knowledge and the Wealth of Nations: A Story of Economic Discovery* (New York: Norton, 2006).

5. The seminal empirical study is Robert M. Solow, "Technical Change and the Aggregate Production Function," *Review of Economics and Statistics*, vol. 39 (August 1957), pp. 312–20.

6. Paul M. Romer, "Endogenous Technological Change," *Journal of Political Economy*, vol. 98, no. 5, part 2 (1990), pp. S71–S102.

7. Edward Glaeser, *Triumph of the City* (New York: Penguin, 2011).

8. Paul M. Romer, "Crazy Explanations for the Productivity Slowdown," *NBER Macroeconomics Annual*, vol. 2 (1987), pp. 163–210.

9. Richard Florida, *The Rise of the Creative Class* (New York: Basic Books, 2002).

10. Elizabeth Currid, *The Warhol Economy: How Fashion, Art, and Music Drive New York City* (Princeton University Press, 2007).

11. Richard Florida, "Bohemia and Economic Geography," *Journal of Economic Geography,* vol. 2, no. 1 (2002), pp. 55–71.

12. Jane Jacobs, *The Death and Life of Great American Cities* (New York: Random House, 1961), p. 188.

13. Michael Rushton, "Earmarked Taxes for the Arts: U.S. Experience and Policy Implications," *International Journal of Arts Management,* vol. 6, no. 3 (2004), pp. 38–48; Michael Rushton, "Support for Earmarked Public Spending on Culture: Evidence from a Referendum in Metropolitan Detroit," *Public Budgeting and Finance,* vol. 25, no. 4 (December 2005), pp. 72–85.