Part I

The Arts Sector in the Economy: Size, Growth, and Significance

Cambridge University Press & Assessment
978-0-521-87030-6 — The Economics of Art and Culture
3rd Edition
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Excerpt
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1 An Overview of the Arts Sector

LEARNING OBJECTIVES

By the end of this chapter, readers should be able to:

- Define economics
- Offer a succinct statement of the methodology of economics
- Distinguish between the aims of for-profit and nonprofit organizations
- Locate relevant data on the arts industry

In the modern era, the creation 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 being above "mere commerce"; a few have expressed their wish that economists would keep their dirty hands off it (Caust, 2003).

Yet no matter how highly we may value them, art and culture are produced by individuals and organizations working within the larger 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 entertainment and by the tastes and incomes of its potential audience. When governmental agencies make grants to organizations such as 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 larger economy. The definition of "economics" that pervades these pages corresponds to that proffered by Robbins (1932, 16) and is now widely accepted throughout the discipline. Simply stated, economics is the study of how societies allocate scarce resources among alternative uses. Monetary and other resources devoted to the arts can be applied elsewhere, and the arts must compete with those other applications.

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 the concepts and tools of 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 healthcare 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 arts organizations, the arts as a profession, the role of the arts in a local economy, and the relation of rapidly evolving digital technology to art and culture.

1.1 Coverage of This Book

First, however, we must explain what part of art and culture we choose to address. For the purposes of this book, art and culture comprise the live performing arts of theater, opera, classical music, and dance, plus the fine arts of painting and sculpture and the associated institutions of art museums, galleries, auction houses, and dealers. It is important to note at the outset that we are here not defining art and culture in 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 and other creative activities. Among the performing arts, we exclude motion pictures (which are not live) and nonclassical music concerts (even though they are live). We also exclude writing, publishing, broadcasting, video games, and other media, except insofar as those media afford access to the arts as defined above.

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 takes place 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, some of the excluded categories – motion pictures, broadcasting, video games, 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, broadcasting, and digital media do share many traits that would facilitate treating them jointly, but that would require another book, and several very good ones already exist.

Third, the included categories – except the Broadway theater, painters and sculptors, and art dealers, auction houses, and galleries – are organized on a not-for-profit basis in most countries, while the excluded categories are largely made up of commercial, profit-seeking firms or individuals.[1] The distinction is significant not only because we would expect economic decisions to be made differently in the two sectors but also because explicit 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.

Table 1.1 High culture within the economy.

	Arts	Other
Nonprofit	"High culture"	Healthcare, education, social services, etc.
For-profit	Popular music, Broadway, cinema, video games	Humdrum-manufacturing, retail, finance, etc.

Finally, the included categories are older, traditional forms that are sometimes referred to as "high" art, while those that are excluded (except writing and publishing) are newer forms that are also called "popular" or "mass" culture.[2] We do not mean to imply that this distinction reflects our own value judgments, but it is well established in the literature. We shall also point out that while some categories like broadcasting or video games are excluded from this book, we discuss in places how they relate to the arts and culture sectors. For example, we explore how media and digital technologies influence art demand and supply, and analyze the most recent trends in the consumption of digital arts (see Chapter 14).

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 relatively recent 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. Table 1.1 summarizes our delineation.

1.2 Art and Culture as a Subject of Economic Inquiry

With all its compromises, our definition does correspond to the one adopted by most economists who have worked in this field as well as the categories of "core arts" as defined by the National Endowment for the Arts. The field itself remains relatively new, with almost nothing having been written about it before the mid-1960s. Its origin can be dated from 1966, the year in which William J. Baumol and William G. Bowen published *Performing Arts: The Economic Dilemma.* 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.

By comparison, cultural ministries or their equivalents had been a part of European governments for many decades or even centuries prior to this. Artistic production flourished in the Renaissance courts of the ruling families of Italy and the Burgundian Netherlands, for whom patronage of the arts was an expression of princely virtue, power, and prestige. Dynasties such as the Medici of Florence, the Gonzaga of Mantua, and the Dukes of Burgundy provided the impetus for tremendous achievements in the arts and humanities, their territories home to some of the greatest artists of all time. In France, state-sponsored institutions of artistic production began emerging from at least the sixteenth century and this public support continued into the seventeenth century with what are possibly the earliest examples of cultural policies, implemented by Louis XIV's minister of finance, Jean-Baptiste Colbert.

Since Baumol and Bowen's significant work emerged, interest in the economic problems of the arts has grown steadily. Scholars from many countries have been active in this new field. In England, Mark Blaug and Alan Peacock wrote numerous papers on the economics of the arts, beginning in the late 1960s. In the United States, an important study by Dick Netzer on the role of government subsidies in support of the arts was published in 1978. In the 1970s, William S. Hendon and others established the Association for Cultural Economics and began publishing the *Journal of Cultural Economics*, available in print and online.[3] In 1979, the Australian economists C. David Throsby and Glenn A. Withers produced an influential study entitled *The Economics of the Performing Arts*. The Swiss and German economists Bruno S. Frey and Werner W. Pommerehne wrote *Muses and Markets: Explorations in the Economics of the Arts*, published in 1989, the same year as William Grammp's *Pricing the Priceless: Art, Artists, and Economics*. More recent English-language compendia include *A Handbook of Cultural Economics*, edited by Ruth Towse and Trilce Navarrete Hernández and published in 2020, *Handbook of the Economics of Art and Culture*, edited by Victor Ginsburgh and David Throsby, and *Beyond Price: Value in Culture, Economics, and the Arts*, edited by Michael Hutter and David Throsby. By now there is a considerable body of useful research not only on the economics but also on the management, politics, and sociology of the arts or the economic history of the arts.[4]

As a final indicator of the significance of economic studies of the arts, several universities have established arts and economics programs, most notably Erasmus University in Rotterdam and Utrecht School of the Arts, both in the Netherlands, Copenhagen Business School in Denmark, University of Valladolid in Spain, and Bocconi University in Italy. According to Eduniversal, which provides a ranking of the best master's degrees worldwide, most programs in arts and cultural management are offered at European universities. Among the fifty universities listed in 2021, about two thirds are in Europe, three can be found in the United States, another three in Australia, and thirteen in other parts of the world (Eduniversal, 2021). The number of universities from non-Western countries offering high-quality programs in cultural economics has been growing in recent years and include institutions from South America (e.g., Brazil) and Asia (China, Thailand, Indonesia, and South Korea).[5]

Several other universities have specialized in educating doctoral candidates in cultural economics. These programs usually center around a key faculty member who has the requisite interest and is able to assemble the necessary resources. For example, The Department of Economics of Trinity College in Dublin has in recent years granted more than ten Ph.D.s with a specialization in cultural economics, all supervised by Professor John O'Hagan, including one of the authors of this book. More formal doctoral programs are also emerging; among others, Labex ICCA in France, an interdisciplinary network initiated by several universities in Paris, has launched doctoral education in areas related to cultural industries and artistic production.

1.3 Estimating the Size of the Arts Sector

How important is the arts sector in the economy? Although lack of data was once a frequent lament of those studying the economics of the arts, the situation has improved in recent years. In prior editions of this book, the authors pored over the National Income and Product Account (NIPA) data for the United States, industry organization data, and even *Variety* magazine to construct estimates of sectoral size. The NIPA data provide a statistical series for every year since 1929 that is uniquely suitable for making the necessary comparison. These are the accounts in which the Commerce Department's Bureau of Economic Analysis (BEA) calculates the size of the gross domestic product (GDP), a measure of the aggregate value of all final goods and services produced by the United States economy during a single year. The GDP is the sum of personal consumption expenditures, gross private domestic investment, net exports, and government purchases of goods and services. We are now able to adapt data published by the BEA in collaboration with the National Endowment for the Arts (NEA) to our purposes.

Table 1.2 presents selected data contained in the BEA–NEA Art and Cultural Production Satellite Account for the year 2019. The choice of the year 2019 is not only dictated by data availability at the time of the writing of this book but it is also the last full "normal" year before the onset of the COVID-19 pandemic, which has significantly distorted the arts and cultural industries globally, and the effects are visible throughout the early 2020s. The total in the first line goes well beyond the coverage of this book, but we include it here for reference purposes. The traditional "core arts" include performing arts companies and art museums. The excluded categories and subcategories include support services (e.g., promoters and agents) and other activities (e.g., publishing, sound recording, and jewelry making) not directly involved in arts production. In addition, many arts activities are embedded in the activities of schools and religious organizations, so they are not included anywhere in these accounts.

The total for the core arts is $902.5 billion. To put that figure in perspective, consider the fact that in 2019, the GDP of the United States – a measure of the value of the output of all goods

Table 1.2 Value added by the core "high" arts and supporting industries, 2019.

Industry and subsector	Current dollars, millions	GDP (%)
Total	9,02,527	4.22
Core arts and cultural production	2,08,113	0.97
Selected categories and subcategories		
Performing arts	85,146	0.40
Art museums	8,112	0.04
Fine arts education	3,642	0.02
Supporting arts and cultural production	6,94,414	3.25

Source: Bureau of Economic Analysis, U.S. Department of Commerce. "Arts and Cultural Production Satellite Accounts". Authors' calculations.

Table 1.3 Estimated size of the EU art and culture sector, 2011.

Category	Euro, millions	GDP (%)
A. Total consumer spending on admissions to the live performing arts (nonprofit provision only)	14,726	0.11
B. Estimated art museum operating income not including private donations and government support	7,717	0.06
C. Total direct governmental assistance	63,741	0.48
D. Estimated private charitable support to art and culture	13,558	0.10
Grand total	99,742	0.75

Sources: Rows A and B – European Grouping of Societies of Authors and Composers, *Creating Growth: Measuring Cultural and Creative Markets in the EU*; Row C – Eurostat, General Government Expenditure on Cultural services (COFOG); Row D – Estimated from data for 2002–2004 in *Financing the Arts and Culture in the European Union*.

and services – stood at $21,381 billion. The arts sector as measured here amounts to only a little more than four thousandth of that sum or, to be precise, 0.44%.

It is for the reader to judge whether that is a large figure or a small one: In the same year, 2019, the value added by the food, beverage, and tobacco products industry was $286.6 billion (1.3% of GDP), while the legal services industry added value of $280.2 billion (1.3% of GDP).

Table 1.3 depicts similar data for the European Union, based on data available as of 2011. These data come from disparate sources, but they offer the same message: the art and culture sector is a small component of the overall economy.

Our point here is not to be absolutely precise about what is included or not, especially given the disagreements on definitions, but to point out the order of magnitude of the arts in the economy. The arts industry is very small in relation to the overall economy, in the United States and in other countries as well. Why, then, do we study it? The arts industry may be small in size relative to the overall economy, but it is essential for the functioning of many related industries, such as the travel and tourism industries. Before the COVID-19 pandemic, a quarter of all new jobs created across the world was in the travel and tourism sector; this amounts to around a third of a billion jobs (or 10% of all jobs), and contributed approximately 10% toward global GDP, albeit with large differences across countries (World Travel & Tourism Council, 2022). And while there are many reasons to travel, places with a good supply of arts and culture tend to attract more tourists. But there is another, no less significant reason why we study the economics of arts and culture. We do so not because the arts industry is important to the economy but because it is an important part of what has come to be known as our cultural capital, and is therefore vital to our self-image as a society.

SUGGESTIONS FOR FURTHER READING

For one account of the origins of cultural economics, see Ruth Towse, "Introduction," in Towse (1997a).

See U.S. Bureau of Economic Analysis (2022) for data on the size of the cultural sector in the United States. Readers who are especially interested in employment aspects of the arts and culture sector should find Chapter 14 useful.

For discussion and development of the cultural capital concept, see Throsby (1999).

Borowiecki and Greenwald (2023) provide in the *Handbook of Cliometrics* an overview of recent scholarship on the fast-growing field of Economic History of the Arts.

Recent scholarship on any area of cultural economics is regularly explained in nontechnical terms on *Economists Talk Art*, a platform co-founded by one of the coauthors of the book, which aims at providing research-based policy analysis and commentary for cultural policy makers, managers, and the wider public.

PROBLEM SET

1.1 Should we think of art as being above “mere commerce”? Are artistic endeavors exempt from market forces? Do artists work to support themselves or to express themselves? How does the work of an artist differ from that of, say, a tailor, a plumber, or a shoemaker? In what way(s) might the artist’s work be similar?

1.2 What is the role and importance of art patronage and funding in history and nowadays? Support your answer with examples familiar to you.

1.3 By conventional measures, the arts sector is typically very small in relation to the overall economy. It is argued, however, that art and culture provide many benefits for society that may not be captured by these conventional measures.

a. On your own, prepare a list of these benefits.
b. Pair-up and try to identify the three most important benefits from your lists.
c. What attribute of these benefits makes them “societal” or “social”?

NOTES

1 But as Meiksins (2018) points out, nonprofits are infiltrating Broadway.

2 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 Levine (1988, chapters 2 and 3). Levine also argues that we have recently begun to move away from such rigid distinctions (p. 255). For a theoretical treatment of the distinction, see Cowen and Tabarrok (2000).

3 The Association has also sponsored biannual international conferences on cultural economics since 1979 and a range of regional workshops: The European Workshop on Applied Cultural Economics, founded in 2003 and organized in its 10th edition in 2022, or the workshop series organized in North America, South America or Asian. For further details and news in the field see the Association of Cultural Economics International (ACEI) website: www.culturaleconomics.org.

4 Economic history of the arts may be one of the fastest-growing areas in cultural economics in recent years, with coverage in the Handbook of Cliometrics (Borowiecki and Greenwald, 2023) or Handbook of Cultural Economics (Borowiecki, 2020), and with two special issues on this area

expected to be published in 2023 in the *Journal of Cultural Economics* and *European Review of Economic History*.

5 It is unlikely a coincidence that the tourism industry in each of these non-Western countries contributes a very significant fraction toward the overall economy. As we shall see in Chapter 15, the arts sectors and tourism industry are closely related.

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2 Growth of the Arts Sector

LEARNING OBJECTIVES

By the end of this chapter, readers should be able to:

- Explain the difference between size and growth
- Present various approaches to the measurement of growth
- Identify factors that matter for the growth of the arts sector
- Describe the arts industry (sector, market, etc.) status and trends

Given our contention that the arts industry is crucial to our self-image, we are naturally curious not only about its size but also about changes in its status over time. If it is growing rapidly, we are likely to think better of the state of our society than if it is growing slowly or stagnating. We begin this chapter by tracing the growth of the live performing arts in the United States from 1929 to 2020, using data available over that interval, with special attention to the impact of technological innovation. We then examine more recent trends in the United States as indicated by an index based on the NIPA subaccounts introduced in Chapter 1. We give some attention to overall trends in selected other nations, including Canada, Australia, and parts of Europe. In this context, we finish by describing the development of the principal forms of the live performing arts – theater, symphony, opera, and dance. Growth of activity in the fine arts and the growth of art museums are taken up in more detail in Chapters 10 and 11.

Although we may all agree that the arts are more than “mere entertainment,” they are a form of entertainment, nevertheless, and must compete with other forms in the budgets of interested consumers. The historical perspective adopted in this chapter allows us not only to measure the arts’ long-run growth but also to see how they have fared in competition with other kinds of recreation, and especially with other forms of spectator entertainment. In addition, it shows us how well the live arts have stood up against the endlessly accelerating flow of technological innovations, from talking pictures through television to Internet streaming, and from vinyl recordings through the compact disc to the MP3 player and streaming on demand, which have transformed the *non*live entertainment industry over the same span of years.

2.1 Measuring Growth

Beginning in the early 1960s, observers of culture in the United States began to speak of a “cultural boom” that had started at the end of World War II. The considerable attention given to this alleged boom by the media in the 1960s probably indicated that Americans were