The Economics of Arts, Artists, and Culture
Making a Better Case

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Like most Americans, you may be baffled by the continued optimism of our President and his advisors about the economy. Every month more people are laid off, unemployment mounts, and thousands of small businesses, including those headed by artists, collapse. More people lose their homes to foreclosure. Economists are beginning to murmur that deepening unemployment could extend the recession and that the federal debt-financed stimulus program is not enough.

It’s a wonder that people aren’t marching in the streets. Health care is important, but jobs and viable self-employment are the major ways that people support themselves in modern society. If we count people involuntarily employed part-time and those who have given up searching, unemployment approaches twenty percent. Many more have suffered pay and benefits cuts.

The Failings of the Economics Profession

This downturn and the distress that accompanies it reveal, in retrospect, the poverty of economic theory in our times. Academic economics, despite its prestige, is riven by an outdated macro/micro dualism.

As they recycle elegant theories worked out in the nineteenth century, micro-economists celebrate markets as efficient allocators of scarce resources among unlimited wants. Using the concepts of supply and demand and assuming robust competition, micro-economists analyze the problems that bankers, for instance, confront in selling mortgages. If they set the interest rate and points charged too high, people won’t buy, preferring to rent or trade off less housing space for other things they want. If too low, the bank can’t cover its costs and risks. Financial markets thus ensure that household preferences evoke appropriate use of capital and labor in the housing economy. They aren’t supposed to fail, and if they do, government meddling is at fault (Milton Friedman was famous for this logic).

However, many markets are highly imperfect, and if assumptions like perfect information and no degree of monopoly aren’t met, a strong case can be made for public regulation. Furthermore, societal values such as equity (in this case the right of all to shelter regardless of income) and stability (protection from sudden homelessness or foreclosure) are often as important as efficiency. But in the late twentieth century, micro-economics prioritized efficiency over other goals and deduced the virtues of market-clearing so rigorously that they concluded regulatory vigilance was no longer needed.

When housing and credit markets did fail, up stepped the long-sidelined macro-economists, with their focus on how the economy works in the aggregate. Macro-economists work not at the level of individual firms or households, but sum up the totals of spending, investment, jobs, and so on in a national economy. Their theories hold that there can be insufficient demand and over-production (not logical in pure micro-economics) and that governments should be responsible for counteracting instability and the periodic crises to which capitalist economies are prone. Following the mid twentieth century’s wildly successful prescriptions of John Maynard Keynes, they counsel that government should act as consumer of last resort, borrowing and spending to keep the economy moving. If only the government will step in and start spending where consumers are not, the current stimulus logic goes, we can reverse the downturn and repay the debt from renewed prosperity. And, it doesn’t matter what we spend it on (Paul Krugman before the National Press Club in late 2008): construction, energy, health care, transportation, or arts and culture.

This logic is deeply flawed. It matters critically what we spend the stimulus funds on, both for the speed at which the money travels through the economy and for longer-term investment payoffs. But because, in hiring younger scholars, academic economists have prioritized abstraction, rigor, and orthodoxy, few economists now work at the mezzo-economic level, studying how industries and occupations form and operate, how state and local governments fund and supply public services, which kinds of spending have long term growth impacts, and how consumers at different ages, locations, and levels of educational attainment and wealth spend their incomes.

The Mezzo-Economics of Artists

Take artists, for instance. Orthodox micro-economists dismiss concern for artists’ relatively low earnings given their high educational attainment as simply a case of market over-supply. The logic goes thus: artists love their work, and so they crowd into this “market,” earning lower returns. There are plenty of them, so we don’t really need to fund them. In contrast, scientists who are highly subsidized both in higher education and through government research funding, are assumed to be scarce and valued because they enjoy high salaries and low unemployment rates. However, large percentages of scientists work on government projects, from defense to medical research to climate change, so the analogy is inappropriate. Their skills are simply more highly valued in our political system at present.

But vis-à-vis stimulus, artists turn economic orthodoxy on its head. Compared to most other groups of workers, artists are more apt to spend what they make rapidly and on other goods and services in the local economy: ongoing training; space to work, perform, and exhibit; other artists’ work. Artists enhance product design, employee relations and marketing in many industries. As human capital investment targets, artists are also worthy, because their creativity drives cultural industries — media, publishing, advertising, music, and tourism — that are among the most important US exporters. If we had better evidence on these relationships, and more mezzo-economists researching them, arts proponents could make their case more easily.
Arts, Artists and Culture, and Economic Stimulus

The arts and artists received only small scraps of the 2009 stimulus and bailout trillions, compared to banking, finance, housing, energy, autos, health care, transportation and science. Simultaneously, most budget-stretched states are cutting arts appropriations. OK, we got a good bump-up in the tiny NEA budget, confined to nonprofit arts organizations, plus some funding for arts education to employ some artists. And possibly an Artists Corps. Even these modest gains generated lots of heat from skeptics who disparage public funding for the arts.

But why not funding and policy for the rest of the arts ecology? The cultural industries? Resources for individual artists to create and learn business skills? For public art, performance, and new space and services created by arts entrepreneurs? To expand our notion of funding-worthy arts to encompass community-embedded artistic practice?

The Arts Community’s Inadequate Economic Arguments

Part of the problem lies with the arts community itself. We haven’t been able to articulate the many ways we contribute to prosperity, mental and physical health, innovation, and community vitality. How humiliating (and ineffective) to argue, as we did during the stimulus ramp-up, that artists deserve to be funded because they spend money just like any other worker. Not a strong case. It invites politicians to shrug their shoulders and say, “Well, so why not spend it on construction workers? People like highways.”

Infrastructure, medicine, energy, science — these constituencies successfully make their cases to the public (and to politicians through campaign contributions) that their domains are worthy. They do not need to fall back on flimsy re-spending arguments. In contrast, arts advocates rely on economic impact studies that track total spending attributable to arts organizations at national, state, and local levels. Although many arts lobbyists insist that such studies win politicians’ votes on arts agency budgets, the studies rely on vulnerable methodologies and logic. Many local people patronizing arts establishments would have spent the same discretionary income on other forms of entertainment or leisure. Many people counted as tourists come to the area not for the arts but for business or family, so their spending cannot be cleanly allocated to the arts either. Also, a lot of the money spent in the arts sectors comes from government to begin with, through NEA and state arts agency funding, local government commitments, and the generous tax exemption for philanthropy.

But economic impact studies do their greatest damage by imposing tunnel vision on the public’s understanding of arts economics. For a medium-sized metro, an arts impact total in the $300 million range might seem like a lot. But in contrast to transportation, housing, public safety, or health care, it’s tiny. Yet the arts and cultural sector includes artist- and designer-rich industries like advertising, publishing, recording, film and television, broadcasting, internet, software, and commercial music and theatre, none of which are incorporated in arts impact studies. Nor are individual artists’ enterprises. Many artists market their work independently, often outside their home regions, but spend their incomes locally. And let’s not forget the many community arts and cultural events with their lavish regalia, costumes, music, visual art, and spoken word, all of which involve considerable spending that is recycled within the local community.

Becoming Creative about the Crisis

This crisis presents many opportunities and fronts for change. It demands creativity, a quality in which our sector specializes. Can the hard-hit arts community broaden its vision? Develop a more compelling case? Link arms with its cultural industry and community partners? Insist on new public initiatives? Commission some good mezzo-economic analysis?

Imagine, for instance, if the arts community challenged the national stimulus spending focus on physical infrastructure. Most infrastructure funding goes to construction, an industry swelled from the excesses of the housing and consumer-spending bubble (think shopping malls). Some of it is going to new ex-urban beltways, exacerbating suburban sprawl. Construction workers, whose ranks are similarly swelled and who are now hard-hit by unemployment, will not be any better positioned for career changes when we’ve burned through the current stimulus funds. Wise public policymakers should plan for a construction workforce the size of pre-bubble days and adapt workforce development policies to help these largely white, male, non-college-educated workers develop new skills.

Imagine if we reconceptualized our constituency to include the cultural industries, asking their managers to join forces with us in making the public case for arts and cultural investments and funding. If we don’t, we’ll continue to be divided and politically marginal. Imagine if we minimized the walls dividing individualized artists from their communities, and nonprofit from community arts organizations, and developed a much bigger vision of what Americans need in the arts and cultural realm. Instead of asking for small percentage increases limited to nonprofit arts funding, imagine approaching Congress, state legislatures, and the public with the kind of legitimacy that high tech or health care or transportation has, in all cases the result of strong alliances between for-profit, nonprofit, university, and community interests.

Toward a Mezzo-Economics for Arts and Culture

How could good mezzo-economic analysis help such a change of course for the arts? For one, the National Endowment for the Arts could do for artists what the National Science Foundation does for scientists and engineers. Via
surveys, NSF conducts (and has for decades) an integrated data collection effort, its Scientists and Engineers Statistical Data System, capturing data on employment, education, and demographic characteristics of US scientists and engineers. Why not an NEA counterpart for artists? The results could reveal how artists are trained, how they move among regions over their careers, and whether and how they work across commercial, not-for-profit, and community sectors. It could ask why they immigrate to the US and where they locate when they do. How new technologies help or undermine their work. How specific public policies have helped (or hurt) them.

What about studies of the cultural industries? Shouldn’t the US Department of Commerce research the cultural industries, including nonprofit enterprises, the way it studies and publishes reports on aerospace, auto, construction, energy, health, metals, and textile industries? To inform good policymaking, we need evaluations of payoffs to regulation (e.g., ownership of the airwaves and intellectual property rights), public investments in the training of artists, and the urban revitalization and community health consequences of arts programming and space investments. The US government supports research on alternative energy policies, the success of environmental regulations, and how to regulate drugs, food, and health care. Aren’t arts and cultural issues just as pressing?

Our advocacy organizations could be more adventuresome, too. What if Americans for the Arts (AFTA) used its research capability to explore how cities create and manage cultural policy and what works for arts, arts lovers, and arts organizations? Many communities large and small have contracted the creative city fever. Are we exploiting this opportunity? What works best? Most cities can’t afford research and evaluation, and few states can either.

On another front, what if, as President Obama has suggested, we eliminate the charitable income tax break? AFTA could research whether the nonprofit arts sector’s reliance on tax breaks to induce donor contributions obscures the link between the public (who are foregoing the taxes) and what people perceive as the benefits. Whether, as a result, donors’ interests and artistic tastes restrict innovation in the cultural field. If eliminated, what other forms of public support could be put in place of tax breaks and what might be the fallout?

**Charting a Mezzo-Economics Course for the Nation**

Across the board, what economic policy needs at this point is a good dose of mezzo-economics. For decades, despite being squeezed out by the deepening orthodoxy in the economics profession, some economists have quietly labored in the fruitful fields where institutional knowledge and detailed data analysis yield clear answers to formidable questions. They are the intellectual offspring of greats like John Kenneth Galbraith, whose interpretations of government, industry and labor made him the best-known economist worldwide for decades. Wassily Leontief, whose inter-industry input-output models enabled the Roosevelt administration to direct production investments during World War II and whose progeny are helping us understand how environmental pollution intersects with industry production. Walter Isard, whose work on industrial location and space economies seeded regional science, now a robust interdisciplinary and international field. The arts have had their attentive economists, too, among them William Baumol, James Heilbrun, Richard Caves, the UK’s Ruth Towse and Australia’s David Throsby among them.

Good mezzo-economics requires collaborations among macro, labor, industrial organization, and regional economists, and other social scientists, too. Macro-economists have long documented that high-income earners spend smaller shares of their incomes than do low-wage workers and people in poverty. So supporting artists would have a stronger stimulus punch than tax breaks for the rich. Applied labor economists have found that higher minimum wages, despite free market logic, do not result in fewer jobs. Urban and regional economists can explain why. Lower-income workers spend their incomes immediately and locally, on food, health care, used cars and car maintenance, rent — relatively labor-intensive activities that put earnings in the pockets of neighbors and other low-income workers. So, spending on health care coverage for the uninsured, on unemployment benefits, and on college students and artists will have faster and more powerful stimulative impacts than spending on infrastructure. Fewer of these dollars will be hoarded, and less will be spent on consumer goods imported into the region.

A second stimulus, if there is going to be one (and it is likely), offers the arts and cultural community an opportunity to present itself broadly and richly. We could craft better arguments for the centrality of arts and culture and the diverse ways they serve our economy, livelihoods, communities, and national spirit. For this we need more voices, more divergent and resonant ideas, and some good old-fashioned institutional and mezzo-economic analysis. Such an agenda needn’t require years to craft. Artists and arts leaders should challenge orthodox micro and macro frameworks, demand better intelligence on how our economy works, and propose fruitful government roles in managing and regulating it.

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