Art for more than **art's sake**

Carter Bales and Sandra Pinnavaia

Public funding for the arts leads to more than just a vague cultural improvement; it yields concrete—and enormous—economic benefits.

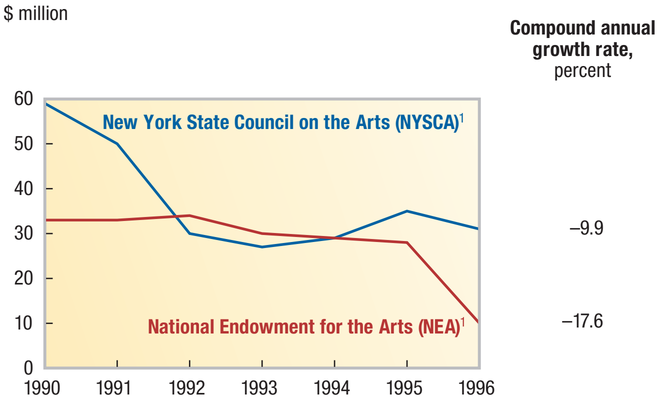
In the early and mid 1990s, public funding for the arts declined dramatically across the United States. New York State provides a good case study: the value of grants from the New York State Council on the Arts (NYSCA) fell by almost half, to $31 million, from nearly $60 million, while grants to New York artists and arts organizations by the National Endowment for the Arts (NEA) declined to $10 million, from $33 million (Exhibit 1, on the next page).[1] Today, funding remains low (*see* sidebar, "Arts funding in the late '90s," on the next page).

This decline may not bother the many people who think of arts funding as charitable giving that might generate vague cultural benefits—the sort of thing better left to private donors—but that narrow point of view is certainly

[1]The terms *arts* and *arts organizations* encompass visual, compositional, and performance art forms—including architecture, dance, electronic media, film, folk arts, literature, music, painting, sculpture, and theater—and the organizations that present them to the public. Because the for-profit and not-for-profit art worlds are so interdependent and because both of them benefit, directly or indirectly, from public support, we have included both in our analysis. Nonprofit organizations in each category are those recognized by the New York State Council on the Arts. Specific for-profit arts organizations include art galleries and auction houses, commercial theaters, and motion picture and television production companies.

EXHIBIT 1

Public funding for New York artists: A decade of decline



[1]Data reflect actual disbursements after all budget amendments; NYSCA data include full appropriation (including administrative costs).
Source: National Endowment for the Arts; New York State Council on the Arts

wrong. Economic analysis shows that the arts are an attractive public *investment* for states, counties, and communities: the yield is high, the risk low, and the opportunity sizable. Strategic investors, who focus on the long-term outlook for an investment, will be impressed by the way that arts institutions can create jobs and serve as the core of economic-revitalization plans. Tactical investors, who are primarily interested in short-term cash returns, will be impressed by the tax income generated from arts-related spending.

Furthermore, individual philanthropists have not, and never can, replace government support. Public funding for the arts is fundamentally different from private giving: it tends to provide crucial support for less glamorous activities and for artists in the less visible stages of their careers. If public funding remains in its current anemic state, large parts of the industry will grind to a halt, and the health of what is left will be seriously compromised. Public

Arts funding in the late '90s

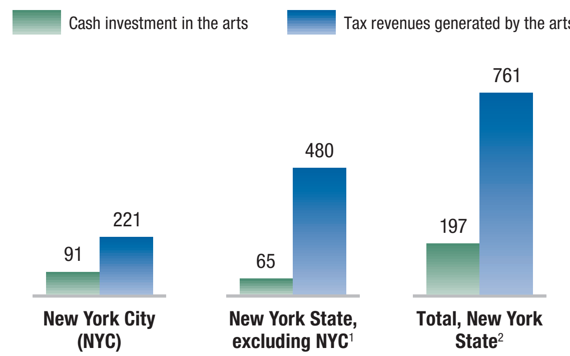
During the past several years, there have been signs that public funding for the arts in the United States is recovering. Federal appropriations to the National Endowment for the Arts have continued to fall sharply, from a total of $158.8 million in 1996 to $97.6 million in 2000. Fortunately however, funding from state legislatures has more than made up the loss: total state expenditures on the arts and culture increased from $262.2 million in 1996 to a projected $396 million in 2000. In New York State, despite its large artistic community, the trend has been less positive. Funding from the New York State Council on the Arts has, it is true, increased slightly, from $35 million in 1995 to $41.2 million in 1999–2000. Nonetheless, it remains well below its high of almost $60 million in 1990.

funders need to realize now that, unless they reaffirm their support for the arts, this significant investment opportunity will disappear.

EXHIBIT **2**

A big bang for New York's buck

Returns on public arts investment, 1995, $ million



	New York City (NYC)	New York State, excluding NYC[1]	Total, New York State[2]
Return on investment, percent	240	700	380

[1]Funding includes New York State Council on the Arts appropriation ($35 million) and estimated state budget line items ($30 million).
[2]Surplus in total funding comes from regional, county, other city, and National Endowment for the Arts funding.
Source: *The Economic Impact of the Arts on New York City and New York State,* New York: Alliance for the Arts, 1997; New York State Council on the Arts; City of New York Department of Cultural Affairs; National Endowment for the Arts; Mid-Atlantic Arts Foundation; McKinsey analysis

High yields

Public funding for the arts generates returns that are multiples of the money invested in them. Returns on the federal level are relatively small in scale and impact, but for states and local communities the numbers are impressive. In 1995, the total economic impact of the arts in New York State, for example, came to $13.4 billion,[2] including direct spending on the arts, related spending by cultural tourists and arts patrons, and the effect of this spending as it circulated throughout the economy. The sales, income, and business taxes generated by this spending totaled no less than $761 million, yielding a return on investment of 240 percent for New York City and 700 percent for the state (Exhibit 2).

To understand how those returns are generated, consider the experience of two arts festivals. The 1996 Clothesline Festival, in Rochester, New York, required a total budget of only $25,000 but generated $778,000 in festival-related expenditures by attendees. This spending in turn generated $45,000 in tax revenue, much of it from out-of-state and out-of-county residents, for the state and county. And these sums aren't the total return on the festival, because they include only direct spending by attendees, not its economic multiplier effect.

That same year, the Saratoga Performing Arts Center's summer season, with a total budget of about $11 million (including $38,000 in state funding), generated total related spending of $14.2 million, and the state and county collected $426,000 in tax revenue. Roughly one-fifth of it came from

[2]*The Economic Impact of the Arts on New York City and New York State,* Alliance for the Arts, 1997.

out-of-state residents who were unlikely to have spent their money elsewhere in New York. Multiplying the impact of these two arts events by the thousands that take place every year makes it obvious how the state's $65 million art investment returned nearly half a billion dollars in tax revenue.

Beyond tax receipts, the arts industry enhances the economic vitality of the state by creating employment and business opportunities, by attracting a pool of talented workers, and by contributing to other important industries. The arts account for 3 percent of New York State's gross domestic product, nearly as much as the construction industry. They employ more than 183,000 artists—upward of 2 percent of the state's labor force—and at least as many nonartists. And because most artists can't support themselves solely with income derived from practicing their art, they provide a highly educated, creative labor pool for nonarts industries such as advertising, architecture, design, fashion, media, and publishing.

The arts account for 3 percent of New York State's GDP, and they employ upward of 2 percent of New York's **labor force**

The arts provide equally important economic returns for local communities; indeed, they are often the centerpiece of economic-revitalization plans for both urban neighborhoods and rural areas. In Buffalo, New York, for example, the publicly supported revival of the theater district launched a revival of the city's dying downtown. Many other new businesses—including restaurants, a culinary-training institute, cigar bars, dance clubs, cafes, and an entertainment-cinema complex—opened in the area to capitalize on the presence of 1.2 million people who visit theater district stages each year. As a result, a significant amount of neighboring commercial, office, and residential space has been built or renewed. Almost everyone, from City Council members to entrepreneurs, agrees that these business opportunities would not have existed without the "destination appeal" of the theater district—which, in turn, could not have been revived without public support. The arts have been similarly instrumental in spearheading economic growth and revitalization in many other areas around the state, from the Lincoln Center and Chelsea neighborhoods of New York City to the small towns of Peekskill and Saratoga Springs.

Because the economic returns on public arts investments are so overwhelmingly positive, the many better-known noneconomic returns can be thought of as cost free. The arts upgrade the quality of life, helping to attract and retain high-quality workers and professionals. A vibrant arts scene engages students, enhancing education by increasing interest in the academic disciplines and in the improvement of learning by developing creativity. Arts organizations reach out to their communities, sponsoring programs designed especially for children and the disadvantaged. They also encourage volunteerism and build a sense of community. In doing so, they can help change attitudes and break down social barriers, stereotypes, and prejudices. And of course the arts play an important role in reflecting, preserving, and advancing culture.

A low-risk opportunity

In addition to offering high returns, public funding for the arts is a low-risk investment opportunity. Every investor knows that diversification lowers risk, and public investments in the arts are highly diversified: in 1996, NYSCA invested $29 million in the arts through roughly 2,200 project grants, 598 general operating-support grants, and 20 capital grants, which in all benefited nearly 1,400 organizations. In addition, the state bears only a small part of the risk in any specific investment, because arts organizations substantially leverage public funding to attract private support. For every $1 in public grants received, they raise an average of $9 from private or commercial sources, thereby spreading the risk among many investors.

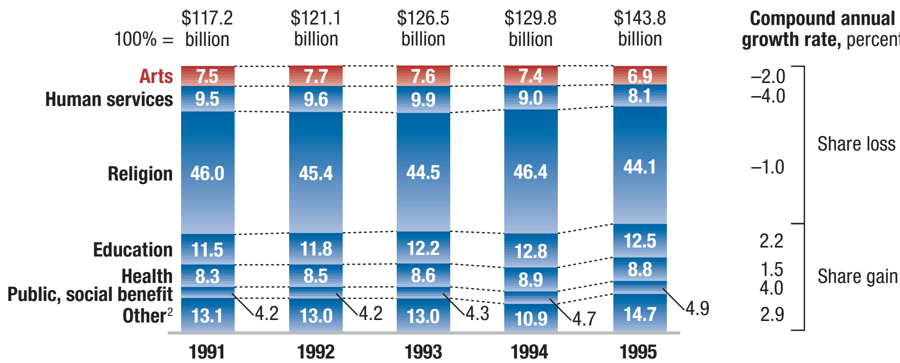
And the pool of potential investments is larger than the current level of diversification indicates. Even New York State is nowhere near to being saturated by the arts, on the side of either supply or demand. On the supply side, capacity constraints now limit access to many forms of art in many places. In 1995 and 1996, for example, 17 world-class museum exhibitions couldn't travel to New York City because no suitable exhibition space was available. Many areas of the state are not served well by arts organizations, as shown by the wide variability in the level of arts funding per resident, ranging from $50 in the capital region to just $17 in the central part of the state.

Moreover, people in the United States have a growing appetite for the arts. Overall spending on US theater, opera, and nonprofit cultural offerings rose steadily at a compound annual growth rate of almost 12 percent from 1970 to 1990, nearly double the growth rate of the consumer price index during that period. Much as the proliferation of home video and television movie channels didn't spur a decline in motion picture box office sales, increased access to the arts, we believe, will stimulate more demand rather than cannibalize existing audiences.

EXHIBIT **3**

US private support for the arts is declining

Recipients of philanthropic donations, percent[1]



[1]Percentages do not total 100%, because of rounding.
[2]Includes environment, wildlife, international affairs, gifts to foundations, and miscellaneous.
Source: Giving USA, 1997

In addition, large segments of the population—defined by age, sex, race, level of education, and geography—now consume traditional art forms at lower-than-average levels; African-Americans, for instance, attend ballet performances at only about a third of the rate that whites do. In general, people under 35 and over 65 years old have substantially lower attendance rates for arts events and exhibits than do other age groups.[3] Many arts organizations are now beginning to respond to this opportunity by reaching out to more diverse audiences. The Brooklyn Museum, for example, has enjoyed skyrocketing attendance with exhibits that are specifically targeted at Hispanic and African-American audiences. Given today's levels of funding, there is little risk that larger public investments would overwhelm the potential demand.

Finally, the arts lend themselves to incremental support, which also allows investors to manage their risk. The impact of many government projects, such as a new stadium or a new tax incentive, can't be evaluated until they have been completed. The success of arts organizations and events, by contrast, can be continually tested and validated through peer review, critical review, and audience appeal, and this makes it possible for investors to change their level of support in response. Unsuccessful investments can be ended, while successful artists and companies can be supported with additional money.

[3]*Arts Participation in America: 1982–1992* (Research Division Report Number 27), National Endowment for the Arts.

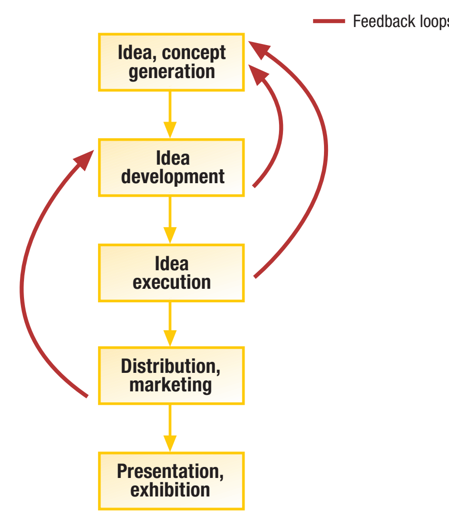
Public funding is needed

Critics of public arts funding argue that private fund-raising will replace, and perhaps even surpass, cuts in government grants. The ratio of public to private giving makes that idea seem plausible at first. But just as public funding fell dramatically, philanthropic giving to the arts declined as a percentage of all charitable giving (Exhibit 3). More significant, public funding for the arts is qualitatively different from private funding. Even if private donors made up for lost government support, they could never truly replace it.

The reason is that public funding supports several critical activities in the arts business system—activities that do not and probably never will attract private philanthropy (Exhibit 4). Public funding often provides the research and idea time that artists and arts organizations need to develop new works; few private investors are willing to support ideas that may or may not pan out. Public funds also support important links—for instance, small distributors such as not-for-profit publishers and little galleries—that help new talent achieve artistic and commercial self-sufficiency.

EXHIBIT 4

The arts ecosystem attracts public funding



Young and emerging artists rely on the government grant system before they become commercially viable or otherwise secure the attention of private donors, and these artists provide creative new talent and ideas that are vital to the entire arts ecosystem. At the other end of the spectrum, more mature artists often need public support to step back from commercial activity to teach the next generation of artists. Public grants enabled Martha Graham, for instance, to reduce her performance schedule (and hence her company's earnings stream) later in life to devote more time to teaching young dancers.

Public funding is also critical for the behind-the-scenes, unglamorous capital and operating expenses of arts organizations. Private donors—particularly of substantial sums—prefer to sponsor an event, an exhibition, a production, or a major building project to which their names can be linked rather than contribute to the general operating budget of an organization.[4] A theater renovation or a new wing for an arts museum is much more attractive than mundane expenditures such as a new roof, provision for wheelchair accessibility, or an air-conditioning system. Even small amounts of public funding for operating expenses and minor capital improvements are indispensable because they create a base for the kinds of project that private donors prefer; without public support, most organizations would be unable to build a complete budget.

Insufficient public funding is **starving the arts** industry of young talent and fresh ideas, killing many small organizations

Finally, public grants play an important role in giving private philanthropists signals about where they should give their money. Many public arts grants, such as those from the NEA and NYSCA, are bestowed only after the recipient has gone through a thorough peer review. Artists benefit from this process, as they do from constructive criticism in general. More important, an NYSCA or NEA grant is a recognized symbol of artistic quality that legitimizes the recipient and helps attract private funding. Such a grant is often acknowledged first in an annual report or program, even though the grant typically represents just a small fraction of the total budget. Indeed, public support can make or break an exhibit or production even for well-established organizations. Only after being awarded a small NYSCA grant for an exhibit could the Museum of the City of New York, for example, raise the rest of the required funding from private sponsors, who had previously been unwilling to commit themselves.

It isn't clear from our analysis exactly what minimum level of public funding for the arts is needed to sustain the investment opportunity. We do, however, know that it is higher than current funding levels. Insufficient financial support is starving the industry of young talent and fresh ideas, killing many small arts organizations, and seriously threatening the larger ones.

Public funding of the arts can't be equated with simple charitable giving that creates ill-defined benefits; the arts industry is a well-primed economic machine that turns public funding into a high-yield investment with low and manageable risk. The returns on arts investments accrue to community, county, and state governments in the form of tax revenue, new jobs, community development, and an improved quality of life. Because of the differ-

[4] *See* Stephanie Lowell, Les Silverman, and Lynn Taliento, "Not-for-profit management: The gift that keeps on giving," on page 6 of this anthology.

ences in the priorities of public and private funders, large sectors of the arts industry may disappear without significant public funding, and this loss in turn would affect the artistic and commercial viability of what remained. State governments that fail to increase their investment in the arts, and thereby allow an important economic and cultural asset to deteriorate, will be making a serious mistake.

This article is adapted from a June 1997 report, *You Gotta Have Art!*, prepared by McKinsey for the New York State Council on the Arts and New York City's Department of Cultural Affairs. The research for the report was carried out with the Alliance for the Arts and had the support of Alliance Capital Management and Reba White Williams.

Carter Bales, a former director in McKinsey's New York office, is general partner of The Wicks Group of Companies; **Sandra Pinnavaia**, a former consultant in the Atlanta and New York offices, is an independent consultant.