

# *The Economics of Art and Culture*

SECOND EDITION



*Edited by* James Heilbrun  
*and* Charles M. Gray

CAMBRIDGE

more information - [www.cambridge.org/0521631505](http://www.cambridge.org/0521631505)

This page intentionally left blank

## **The Economics of Art and Culture**

This is the first book to cover not only the economics of the fine arts and performing arts, but also public policy toward the arts at federal, state, and local levels in the United States. The second edition offers greater coverage of the international arts sector. The work will interest academic readers seeking a core text on the economics of the arts and arts management or a supplementary text on the sociology of the arts, as well as general readers seeking a systematic analysis of the arts. Theoretical concepts are developed from scratch so that readers with no background in economics can follow the argument.

The authors look at the arts' historical growth and then examine consumption and production of the live performing arts and the fine arts, the functioning of arts markets, the financial problems of performing arts companies and museums, and the key role of public policy. A final chapter speculates about the future of art and culture in the United States.

**James Heilbrun** is Professor Emeritus of Economics at Fordham University. He has been a consultant to the National Endowment for the Arts and is the author of *Urban Economics and Public Policy* (1987) and *Real Estate Taxes and Urban Housing* (1966).

**Charles M. Gray** is Professor of Economics in the Graduate School of Business at the University of Saint Thomas, Minneapolis, Minnesota. He is a nonprofit management consultant and the editor of *The Costs of Crime* (1979), and he has written on various aspects of the economics of the arts.



# The Economics of Art and Culture

Second Edition

JAMES HEILBRUN

*Fordham University*

CHARLES M. GRAY

*University of Saint Thomas*



**CAMBRIDGE**  
UNIVERSITY PRESS

PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE  
The Pitt Building, Trumpington Street, Cambridge, United Kingdom

CAMBRIDGE UNIVERSITY PRESS

The Edinburgh Building, Cambridge CB2 2RU, UK  
40 West 20th Street, New York, NY 10011-4211, USA  
477 Williamstown Road, Port Melbourne, VIC 3207, Australia  
Ruiz de Alarcón 13, 28014 Madrid, Spain  
Dock House, The Waterfront, Cape Town 8001, South Africa

<http://www.cambridge.org>

© James Heilbrun and Charles M. Gray 2004

First published in printed format 2001

ISBN 0-511-04010-5 eBook (netLibrary)

ISBN 0-521-63150-5 hardback

ISBN 0-521-63712-0 paperback

# Contents

<i>List of figures and tables</i>	<i>page</i> vii
<i>Preface</i>	xi
<b>Part I: The arts sector: Size, growth, and audiences</b>	
1 An overview of the arts sector	3
2 Growth of the arts sector	13
3 Audiences for the arts	40
<b>Part II: The microeconomics of demand and supply</b>	
4 Consumer demand: An introduction	61
5 The characteristics of arts demand and their policy implications	85
6 Production in the performing arts	107
7 Firms and markets in the performing arts	116
8 Productivity lag and the financial problem of the arts	137
<b>Part III: The fine arts and museums</b>	
9 The market in works of art	165
10 The economics of art museums	187
<b>Part IV: Public policy toward the arts</b>	
11 Should the government subsidize the arts?	219
12 Public and/or private support for the arts in the United States, Canada, and Western Europe	250

13 Direct public support for the arts in the United States	278
--	-----

**Part V: Art, economy, and society**

14 The arts as a profession: Education, training, and employment	311
15 The role of the arts in a local economy	336
16 The mass media, public broadcasting, and the cultivation of taste	360
17 Conclusion: Innovation, arts education, and the future of art and culture in the United States	385

<i>Index</i>	403
--------------	-----



# Figures and tables

## FIGURES

2.1. Expenditures on admissions as a percentage of disposable personal income	<i>page</i> 14
2.2. Number of symphony orchestras founded by decade	37
4.1. Demand curve for an individual consumer	66
4.2. Deriving a market demand curve	67
4.3. Supply, demand, and market equilibrium	69
4.4. Excess demand for tickets: a Broadway hit	71
4.5. Excess supply of tickets: a Broadway flop	73
4.6. Demand curves derived from a demand function	80
4.7. Changing equilibria with a shifting demand curve	82
5.1. Demand curve and total revenue	87
5.2. Demand, marginal revenue, and price elasticity	92
6.1. Performing arts costs and output	113
7.1. Price and output determination for a theatrical enterprise	122
7.2. Effect of a subsidy on price and output: a nonprofit performing arts firm	131
9.1. Sotheby's Index of art prices: selected categories, 1975–90	166
9.2. Supply and demand: single work of art	171
9.3. Supply and demand: limited number of buyers	173
9.4. Art auction bid below reserve price	174

9.5. Price impact of supply increase by artist	176
10.1. Economies of the museum display function	194
11.1. Optimization in a perfectly competitive market	221
11.2. Private, external, and social benefits of education	224
14.1. Market and organization labor supply and demand	322
14.2. Market supply and demand changes and long-run labor supply	323
14.3. Long-run demand for performing artists: single organization	328

**TABLES**

1.1. Estimated size of the art and culture sector, 1997	8
2.1. Consumer spending on admissions to spectator entertainment	15
2.2. Growth of arts activity in the United States, 1970–1997	19
2.3. Trends in attendance at the live performing arts (for various countries)	25
2.4. Founding dates of the ten largest U.S. opera companies	36
3.1. Surveys of public participation in the arts, United States	43
3.2. International comparison of participation rates	45
3.3. Participation rates by demographic characteristic, 1982 and 1997	47
3.4. Income, education, and exposure to ballet	50
3.5. The effect of selected variables on participation in selected arts forms, 1997	50
3.6. How participation at live performances relates to media exposure in the United States	52
3.7. Classical music annual participation frequency	54
3.8. Average age of participants over time	56
4.1. Utility of compact disks and of concerts to a hypothetical consumer	63
4.2. Hypothetical values of variables for Equation 4.4	78
4.3. Calculating quantity demanded from a demand function	79
5.1. Hypothetical demand and revenue data	90

5.2. Income elasticity of demand, composition of the consumer's budget, and industry growth	96
5.3. Estimates of the elasticity of demand for attendance at the performing arts	99
6.1. Average production and operating costs on Broadway, 1960–61	112
8.1. Hypothetical illustration of productivity lag	142
8.2. Expenditures and income for a typical ballet company, 1970–1971	153
8.3. The earnings gap	158
8.4. Cast size of Broadway plays	161
9.1. Pretax returns and standard deviations of alternative household investments, 1975–1999	183
10.1. Museum expenditures, fiscal 1993 and 1997	188
10.2. Attendance at U.S. art museums	191
10.3. Socioeconomic character of museum and performing arts audiences, 1997	193
10.4. Calculation of net effect, hypothetical change in museum admissions policy	199
10.5. Guggenheim museums	206
10.6. U.S. blockbuster exhibits, 1998	208
10.7. Museum income, fiscal 1993 and 1997	211
11.1. External benefits of art and culture: an Australian survey	233
11.2. Willingness to pay for the arts out of taxes	234
12.1. Level and source of government support for the arts	254
12.2. Mathematics of charitable donations	257
12.3. Income sources, U.S. theater and opera companies	262
12.4. Corporate donational activity, 1976–1996	263
12.5. Income structure in the performing arts: international comparisons	269
13.1. Direct governmental assistance to the arts in the United States	279
13.2. Federal and state funding for the arts	280
13.3. National Endowment for the Arts grants, 1997	290
13.4. Revenue sources of local arts agencies, in the fifty largest U.S. cities, fiscal year 1998	300

13.5. How expenditure patterns of local arts agencies varied with community size, 1996–1997	300
14.1. Definitions of artists	312
14.2. Artist labor force and unemployment, 1983–1989	314
14.3. Artist characteristics, 1998	315
14.4. Median earnings of artists by education, 1979	316
14.5. Artist data from the 1997 survey of public participation in the arts	318
14.6. Most important reasons for considering someone a professional artist	319
14.7. Artists' income from their art, 1996	320
15.1. Geographic distribution of performing artists and painters/sculptors	340
15.2. Estimated number of commercial galleries	343
15.3. The arts industry: New York–New Jersey metropolitan region, 1982	348
15.4. Comparison of economic impact studies of the arts industry	352
16.1. Growth of electronic media	363
16.2. Sources of public broadcasting income	373
17.1. Arts education and attendance at the performing arts, 1992	400

# Preface

In this second edition of *The Economics of Art and Culture* the authors have retained the structure of the first edition while broadening its scope to cover arts activity in Western Europe, Canada, and Australia as well as in the United States. They have also incorporated the latest available information into the text, tables, and footnotes. Thus the book's contents are thoroughly up-to-date.

Although U.S. economists have been writing about the economics of art and culture since the mid-1960s, this is the first work to cover not only key segments of the fine arts and the performing arts, but also public policy toward the arts at the federal, state, and local levels. It is thus the first attempt at a comprehensive survey of the subject.

The authors have planned the level and scope of the book to meet the requirements of two groups of readers: first, an academic audience for whom the book can serve as the principal text in a course on the economics of the arts or on arts management, or as a supplementary text in a course dealing with the sociology or politics of the arts; second, those general readers who are ready for a systematic analysis of the economics and the political economy of the arts in the United States.

The book is divided into five parts. Part I, consisting of Chapters 1, 2, and 3, serves as a general introduction, suitable for both the academic and the general reader. Chapter 1 defines the area we propose to study, explains the logic of our definition, and ends with an estimate of the economic size of the arts sector, as so defined, in the United States. Chapter 2 provides an important historical dimension.

It describes the growth of the arts in the United States, Canada, and Australia, assesses the claim that the United States enjoyed an “arts boom” in the 1970s and 1980s, and examines the subsequent slowdown in the growth of arts activity. Chapter 3 looks at the size and character of audiences for the arts in the United States, discusses the socioeconomic factors affecting attendance, and compares arts participation rates in the United States with those in other industrialized nations.

Chapters 4 through 8 make up Part II, which deals with the microeconomics of demand and supply and their interaction in markets, and applies those analytic tools to the performing arts industry. In this part all theoretical concepts are developed from scratch, so that students or other readers without previous training in economics will have little difficulty gaining an elementary knowledge of them. However, the general reader who does not want to grapple with the technical apparatus of economic theory can skip Chapters 4 through 7 and pick up the argument of the book at Chapter 8, which looks at the financial problems of firms in the performing arts sector.

Chapters 9 and 10, which analyze the market for paintings and other works of art, and the economics of art museums, make up Part III. Chapter 9 does return to microeconomic analysis to explain how the art market operates and how painters and sculptors earn their living by producing works for the market. The general reader may wish to omit those passages, but will certainly want to read the last section of the chapter, which treats the question of art as an investment.

Public policy toward the arts is taken up in Chapters 11 through 13, which constitute Part IV. Chapter 11 systematically examines a subject that has troubled many observers, namely, the economic justifications of public subsidy for the arts. While the argument favoring subsidy rests on several propositions from microeconomic theory, the bulk of the chapter deals not with the theory but with the question of whether the arts have the characteristics that the theory tells us are necessary to justify public support. The chapter as a whole will therefore be easily intelligible to the general reader.

In Chapters 12 and 13 we put economic theory aside and deal with the political economy of the arts. Chapter 12 introduces the theme of private donational support for the arts, examines the advantages and disadvantages of private versus public support, and compares the

level of aid given in the United States and in other industrialized nations when both private and public support are taken into account. The chapter closes with a review of the controversy between Congress and the National Endowment for the Arts over support given for works of art alleged to have been blasphemous or pornographic. Chapter 13 focuses on the history, scale, and mode of public subsidies to the arts in the United States. The chapter analyzes state and local support as well as federal support through the NEA and other agencies and discusses political as well as economic considerations.

Chapters 14 through 16, covering a miscellany of topics, constitute Part V. Chapter 14 looks at the arts as a profession, invoking micro-economic analysis to explain how the earnings of artists (as workers) are determined in the marketplace. The roles of education, training, and labor unions in the performing arts are examined, and data are presented on artists' incomes by level of education and gender, in order to assess the truth or otherwise of the "starving artist" hypothesis.

The last three chapters of the book will pose no problem for the general reader. Chapter 15 examines the geographic distribution of arts activity, explains why it is highly concentrated in large cities, and analyzes the role of the arts in an urban economy. The substantial economic importance of the arts industry in the New York metropolitan area is compared with its much weaker impact in six typical medium-size metropolitan areas.

In Chapter 16 we analyze the relationship between the mass media, popular culture, and the forms of so-called high art that are the subject matter of this book. The hypothesis is advanced that the mass media have biased public taste away from the high arts, and that public broadcasting is justified as one way of countering the bias. The chapter closes with a discussion of alternative proposals for financing public broadcasting.

Chapter 17 concludes the book with some speculations about the future of art and culture in the United States. We discuss the possible role of an expanded program of arts education in cultivating the taste for high art, thus helping to ensure future growth in the rate at which Americans participate in the arts, but acknowledge that given current attitudes toward public spending, it is unlikely that the necessary funds will be made available.

This book was conceived during a coffee shop conversation at the Third International Conference on Cultural Economics, held in Akron, Ohio, in 1984. Since that date both authors have successfully taught courses on the economics of the arts to undergraduates in their respective liberal arts colleges, using the materials in this book as the principal text. The book, we are certain, covers more than enough topics for a one-semester course, although individual instructors may want to supplement it with other readings at selected points.

Both of our courses have been taught within economics departments, but were specifically open to students who were not economics majors and had taken no previous economics courses. Based on that experience, we are confident that the book can also be used as a text for an economics course in arts management programs at the master's level, where students in all likelihood will have no preparation in economics, or for supplementary reading in courses in the sociology or politics of the arts. Finally, we are confident, as well, that the book will be intelligible to the ordinary general reader, just as our courses were to ordinary noneconomists among undergraduates.

Throughout the book we have provided what we hope are ample citations to sources we have found useful. These indicate our intellectual debts to others who have worked on the economics, politics, or sociology of the arts. We hope they will also be helpful to casual readers, students, and scholars who want to pursue at greater length topics we can only touch briefly in a general survey.

In writing this book we have received indispensable help from academic colleagues, artists, arts consultants, and arts administrators in both the private and public spheres. They gave their time and attention generously in providing us with data, information, insights, expertise, and critical commentary. The list is a long one.

In the first edition we extended thanks to: Diane Aldis, The Breck School; Linda Andrews and Christine Maginnis, Zenon Dance Company; Judy Balfe, City University of New York; Dianne Brace, Dance/USA; Tom Bradshaw and Margaret Jane Wyszomirski, National Endowment for the Arts; Jim Capo, Everett Parker, and Jim Kurtz, Fordham University; Randy Cohen, National Assembly of Local Arts Agencies; Sarah Foote Cohen and Doug Rose, American Council for the Arts; Robert Conrad, Station WCLV; Rebecca



Danvers, Institute of Museum Services; Barbara Davis, Arts Resources and Counseling; Paul DiMaggio, Princeton University; Heather Dinwiddie and Mary Brooks, American Symphony Orchestra League; Bill Hendon, *Journal of Cultural Economics* and Association for Cultural Economics; Barbara Janowitz and John Federico, Theatre Communications Group; Ralph Jennings, Station WFUV; David Kamminga and Marcia Peck, Minnesota Orchestra; Young Lee, Corporation for Public Broadcasting; Jeff Love, National Association of State Arts Agencies; Michael Miner, formerly of Actors Theater of St. Paul; Sally Montgomery, Mount Holyoke College; Karen Nelson; Dick Netzer, New York University; Richard J. Orend, arts consultant; Guy Pace, Actors' Equity Association; David Pankratz, arts consultant; Monnie Peters, arts consultant; Pete Peterson, Vanderbilt University; Nancy Roberts, Opera America; Kevin Sauter, University of Saint Thomas; Mark Schuster, Massachusetts Institute of Technology; Charles Shapiro, Austrian Roth Partners; Linda Shapiro, New Dance Ensemble; Cynthia Starkweather-Nelson, artist; Dean Stein, Chamber Music America; Leila Sussmann, Tufts University; Sandra Taylor, artist; George Wachtel, League of American Theaters and Producers; and Joyce Yamamoto, artist. We also thank our students, who read sequential manuscript permutations from the earliest stages and served as proofreaders and commentators extraordinaire.

For the second edition we gratefully acknowledge the help of Françoise Benhamou, Université de Paris I; Beth Burns, Guthrie Theater; John Church and Mark Scorca, Opera America; Kim Ferreira, Art and Development Initiatives; Dolly Fiterman, Dolly Fiterman Fine Arts; Rene Goudriaan, Economic Research for the Public Sector, The Netherlands; Sam Grabarski, former executive director of the Minnesota State Arts Board; Linda Hoeschler, American Composers Forum; Paula Karhunen, Arts Council of Finland; Volker Kirchberg, University of Luneberg; Pierre Korzilius, Musée d'Orsay, Paris; Wes Kramer, Kramer Gallery; Stan Mansson and Lotta Janson, Statens Kulturråd, Sweden; Jacqueline Reis, Minnesota Council on Foundations; Teresa Rothausen, University of Saint Thomas; Pamela Samuelson, University of California at Berkeley; Jon Severson, Minneapolis Institute of Art; Lisa Shipley, Statistics Canada; and Naiping Yu, financial analyst.

Many of the illustrations were drawn by Phil Swanson and Barbara Birr.

Both authors are grateful for generous research assistance: Gray's work was supported in part by grants from the National Endowment for the Arts, the Faculty Development Program of the University of Saint Thomas, the Minnesota Private College Research Foundation, and the Blandin Foundation; Heilbrun's by two one-year Faculty Fellowships at Fordham University.

We wish to thank Scott Parris, our editor at Cambridge University Press, for his wise counsel, help, and enthusiasm on behalf of this book. We are grateful as well to Stephanie Sakson, who supervised the book's production and did a most attentive job of copyediting.

And finally, we dedicate this second edition of our book to our children, Emily, Margaret, Robert, and Brian.

PART ONE

The arts sector: Size, growth,  
and audiences



# 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