

THE ARTS IN AMERICA:
TO BE OR NOT TO BE?

by

James Spalding

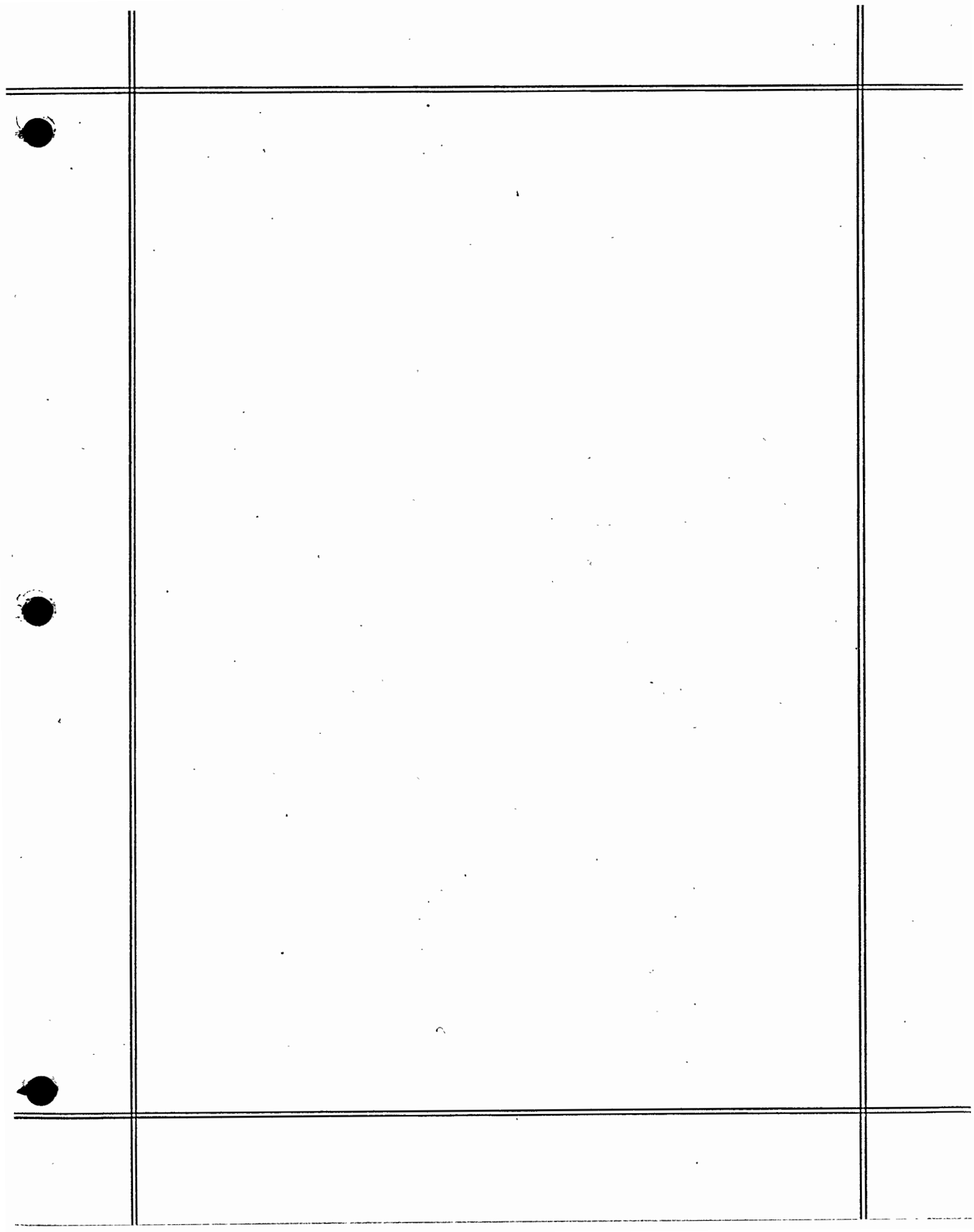
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I hereby recognize and pledge to fulfill my responsibilities as defined in the Honor Code and to maintain the integrity of both myself and the College as a whole

James Spalding



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CHAPTER I

INTRODUCTION

It has finally come to pass.

The Arts are beginning to be recognized as more than simply a luxury in today's society. It is evident that people everywhere are recognizing the necessity of the Arts as a relief from our automatic push-button world, and as a vital tool in our political and economic realms around the world. "Over a longer period of time, the arts and products that reflect artistic accomplishment will,...,be increasingly central to economic development." (14, p.68). The movement of classical dance companies between the Soviet Union and America illustrates the ability of the Arts to be an effective means of détente in international politics.

So why are the Arts, which can be so pervasive an influence, continually struggling for financial support? The answer lies within the economics of the industry itself and within the consumer and his preferences for the Arts. This financial crisis of the Arts is the subject of this report.

The past few decades have seen a tremendous growth in both attendance at arts performances and the arts organizations themselves. Many have labeled this growth an unparalleled "culture boom," but Baumol and Bowen, in their definitive study of the performing arts economy, are a bit more cautious:

While the phenomenon that has been described as the "culture boom" is indeed a reality, its scope and magnitude have been exaggerated in many reports on the subject, and its character and significance misunderstood." (8, p. 8).

In the fifteen years since Baumol and Bowen produced their study, the Arts have grown even more, furthermore, the National Endowment for the Arts (NEA) feels this growth "appears not to have come near its potential." (21, p. 9). This fact had, until now, been recognized only by those closely involved in the Arts. Laurence Chalmers, President of the Art Institute of Chicago, stated that the basic problem facing the Arts today is economic survival. (4, p. 54). Large sums of money are needed for professional performances of high quality, and, for most nonprofit professional arts organizations, this money cannot be covered completely by the box office. Both private and public gifts are needed to make up the gap between earned income and expenditures.

The Arts in Europe have long been recognized as a public or quasi-public good. Europeans consider it to be a worthwhile investment, and their governments have realized that the people "should enjoy the benefits of a flourishing culture." (11, p. 479). In history, government support of the Arts has been important. Greece had encouraged (at times required) the attendance of its citizens at the annual festivals, and the founding fathers of our republic stressed the importance of Art as a reflection of "the inner ideals of the social order." (27, p. 124, 33, p.2).

The purpose of this paper is to discuss the state of the performing arts today and to point out justifications for public financial support of nonprofit arts organizations in the United States. Many normative questions come into play when discussing public policy issues: are the Arts for the many rather than the privileged few who can afford them? Where should the emphasis of public support be? On professional or amateur groups? On commercial or non-profit organizations? On well established or developing organizations? These are questions which cannot be answered in black or white terms, but they are the building blocks on which public policists must build. These decision makers, however, must feel that the decisions they are making are the right ones, that they have the support of the public:

...[I]n the arts, as well as in government, industry, commerce, or the professions, the question of morality is not primarily a matter of the controlling system: the success of all collective enterprises depends ultimately on the nature of its leadership as well as the cooperation of individuals working toward a common goal.* (italics mine) (11, p. 463).

One problem in dealing with the economics of the performing arts is in placing numerical values on the benefits of the Arts, benefits which accrue to people other than the direct consumer of the service.

The format of this paper is first, to examine the current state of the performing arts, then examine the audience and the employment in the industry. Next, the arguments in favor of and against public support of the Arts will be discussed. Finally, a deeper look at the costs and

revenues, including the major sources of revenue and their particular contributions to the total income of the institutions.

CHAPTER II

THE CURRENT STATE OF THE ARTS

The Arts are flourishing as never before, but describing the current state is difficult because of the lack of concrete reliable evidence. The Arts are continually changing and, for this reason, have been a problem for sociological and economic study.

While the nonprofit organizations in the country are doing well, it is evident that there are some major problems which earlier studies only modestly accounted for. The rate of inflation in recent years has been very high, and it has increased the costs of production of all industries, not just the Arts. Undoubtedly petroleum prices, which have increased over 1600 percent since 1970, are one of the biggest concerns of all arts organizations right now. (34, p. 62). From the cost of scenic paint and plastic to the lighting and heating of auditoriums, the higher prices have taken their toll on the Arts.

The theatre is the only performing art that has fared well as a commercial organization, and indeed is in the best financial shape of all nonprofit arts organizations. (29. p. 33.). Even in the public's mind, the theatre has less need of public support than the opera, dance or symphony orchestra organizations. Specific public attitudes such as this one will be discussed in more detail in chapter III. It is perhaps ironic that the theatre can exist so well. Because

of its organizational features, each new production is a new business as well, utilizing new crews, artistic personnel and materials. Without long runs, revenues from operations may not be able to cover the fixed costs of production—not to mention the variable costs of operations. This somewhat better financial existence of the theatre is not evidence that the commercial organizations have not had their share of problems. To the contrary, the commercial theatre, too, has fallen victim to the problems which beset the entire industry—increasing costs, competition from the mass media—but also from the increased risk associated with any financial investment in the theatre. Jack Poggi studied the economic history of the commercial theatre and noted that the fall of the New York theatre usually associated with the mid 1930's began "as long ago as 1926." (26, p. 50)

The important question is whether theatre has recovered from the depression. If it has, we might argue that the decline was part of a cycle to which every industry is susceptible. If it has not, we must conclude that the commercial theatre has declined as an industry and that its economic difficulties are ingrown and perhaps irremediable." (26, p. 58)

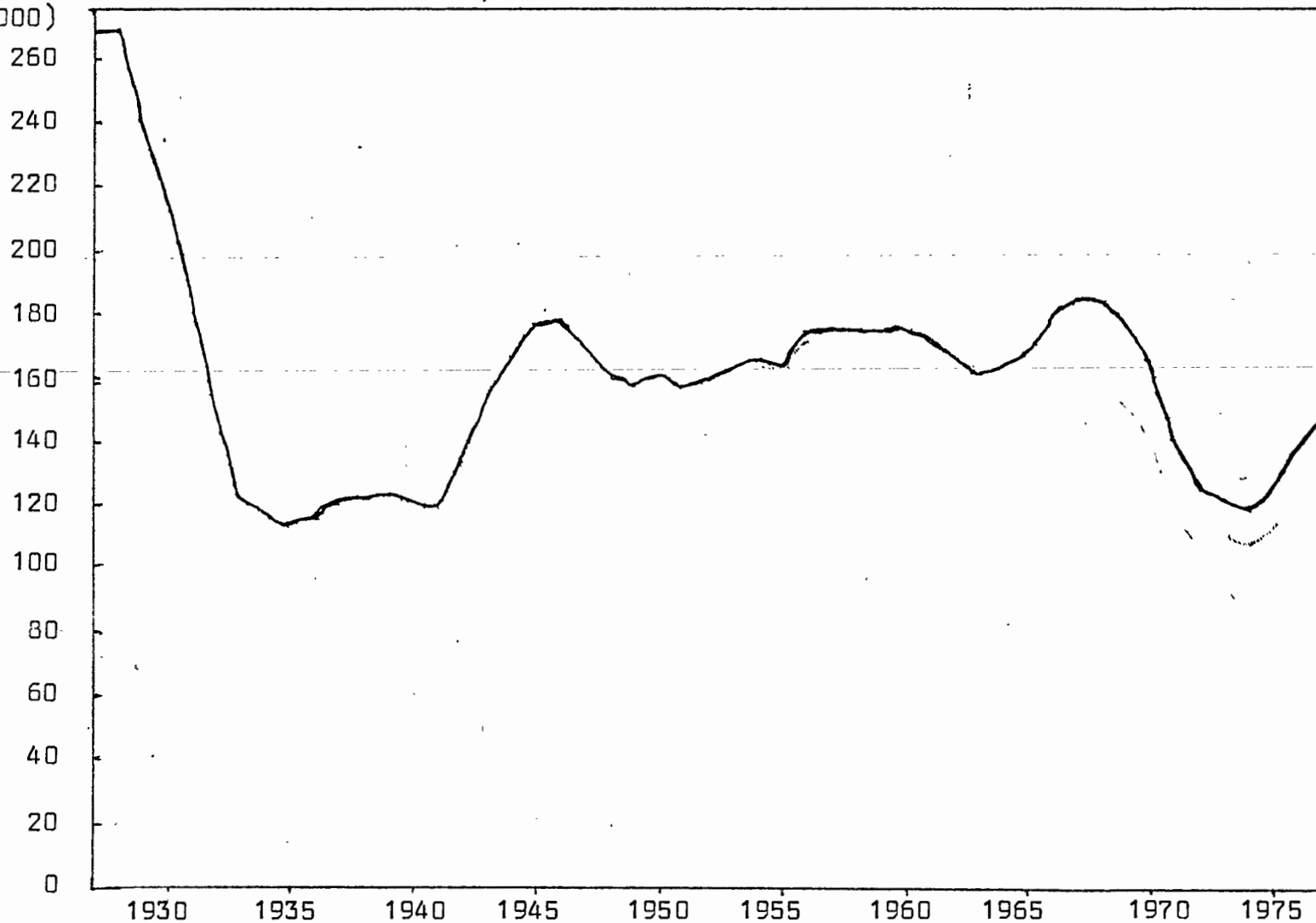
Indeed, Mr. Poggi, although the commercial theatre has come back somewhat in recent years, weekly attendance is still "lower than that for any year between 1943 and 1970." (15, p. IV-18) [see figure 1.]

The nonprofit organizations, however, are different. They have characteristics unique to their organizational structure. First, unlike the commercial theatre, the nonprofit theatre earns no return on invested capital.

FIGURE 1

Weekly
Attendance
(X 1000)

BROADWAY AUDIENCES, ESTIMATED AVERAGE WEEKLY ATTENDANCE IN FEBRUARY



Source: Mathtech. The Conditions and Needs of the Live Professional Theatre. p.IV-20

Although some organizations, particularly symphony orchestras, have corpus earnings, it is considered a minor source of income used to close the gap between expenditures and earned income from operations. (13, p. 40). So no profit is realized because of these earnings. A second characteristic of nonprofit organizations is that most of them claim to fulfill some social purpose, whether it be exposure of experimental works to the public, performing for minorities, or simply widening the audience in any area. These goals, while in the minds of commercial producers, cannot be paramount to the business consideration of "worthwhile investments." Commercial organizations are rarely willing to attempt experimental works because of their uncertainty as revenue producers. For a nonprofit organization, the quality of the work becomes the goal itself, and the "business" of theatre is secondary to this goal.

Since its inception in 1965, the NEA has spurred growth of nonprofit theatre companies all over the country:

In 1965,...,there were approximately fifteen large resident companies throughout the country and roughly the same number of smaller professional groups located principally on the East and West Coasts. In fourteen years time, more than 80 large professional theatre companies have been established in 55 cities of 30 states, and more than 200 small professional theatre companies have been established nationwide. (22, p. 2).

This growth in theatre companies, as well as dance, orchestra and opera companies, illustrates the tremendous potential for arts involvement across the country. Not only has the number of institutions increased over time, but the operating

budgets of those organizations also have risen. The NEA estimates that, because of this growth, the combined operating budgets are 191 percent greater in 1979-80 than they were only five years earlier. (22, p. 16). In a report recently published, Mathtech researchers concur, adding:

The current-dollar operating budgets of 30 established(i.e. budgets of greater than \$250,000 per year) not-for-profit theatres have grown at a rate of approximately 9.1 percent per year. When compared with the rate of increase of the Wholesale Price Index over the same period (approximately 5.9 percent), this indicates real growth in the activities of this segment of the theatre. (16, p. 9).

This growth, however, is not indigenous to just the theatre itself, and much of it is due largely to inflation over the period.

The growth of the budgets does not allow as much mobility within the budgeting process as one may imagine. In fact, evidence suggests that the budgetary proportioning of expenditures is determined by the art form itself and is relatively fixed within each art form. Salaries and wages undoubtedly constitute the largest budget component, being naturally higher for symphony orchestras than for small repertory companies. The high salary cost is largely a result of the labor intensive structure of the performing arts and the wage floors imposed by the unions. Both of these points will be discussed in further detail in chapter V.

So there is hope for the nonprofit organizations. Though their income sometimes matches, but rarely exceeds,

their expenses, contributions, both private and public, have rescued many organizations from financial collapse.

Before discussing the income and expenditures of the performing arts organizations in detail, it is important to examine the audience, from both the demographic point of view and the attendance figures. In addition, the attitudes of the consumer and non-consumer of the Arts will be discussed.

CHAPTER III

AUDIENCE ATTITUDES AND ATTENDANCE

Tibor Scitovsky argues that the problem with the Arts is not a problem of supply, but of demand. He blames the consumer of the Arts rather than the economics of the industry itself. (see 31.) He compares the attention (or lack thereof) to the Arts in this country with that of European countries. Scitovsky denounces any of the standard arguments in favor of public support of the Arts, except for one; educating the public's taste:

We are for Culture because it is spelled with a capital C, not because we derive, or know how to derive pleasure from it....

[T]he economic difficulties of the arts have more to do with our preferences than with our economy....
[O]ur very modest appreciation of the arts is part and parcel of our very modest enjoyment of life, and... our Government's miserly attitude toward the arts is again an integral part of a larger collective preference system, which is fully in keeping with consumers' individual preferences as revealed in the marketplace.

The only valid argument for Government aid to the arts is that it is a means of educating the public's taste, and that a public would benefit from a more educated taste. (31, pp. 61,63,64).

Although Scitovsky's argument might be a bit novel in the eyes of some, it nonetheless emphasizes a very important aspect of the performing arts—the consumer.

The opportunities for enjoyment from artistic development have no visible limit, they are almost certainly greater than those from technological development.

But this expansion would be greater were the sources of our present attitudes on art, science,

and technology better understood. (14, p.69).

One of the basic tenets which economists use when trying to study consumer preferences is that the consumer has the opportunity to participate in the Arts. Leisure time is becoming more and more relevant in public policy because of the substitution effect of higher taxes on the individual or the income effect of higher wages. A lower net return for labor services due to taxes may well induce a worker to stay home, because he may feel that the extra work required is not worth the net after tax income he would receive. The same applies to a worker who receives a higher wage. Although he might initially work more, the income effect of the higher wage may afford him the opportunity to stay home, thus effectively increasing his leisure time. Because of these many possible influences on the consumer, the net effect of them all on leisure time is many times unknown.

Increases in productive efficiency may also have positive effects on leisure. As Baumol and Bowen point out, increased productive efficiency would give people the opportunity to participate in performances, so leisure can be a definite benefit to the performing arts. (8, p. 407).

The most popular image of the Arts has been that of the high-brow elitist institution where tie and tails are a must, especially in the opera and symphony orchestra. But recent surveys indicate that this image of the Arts is changing.

In looking at attitudes and preferences of consumers of the Arts, two major sources are being used. First is The National Research Center for the Arts, Inc.[NRCA] 1975 Harris survey of public opinion entitled Americans and the Arts [hereafter Harris Survey]. This is the best and most recent national survey on the subject. The second major source is a survey conducted for the American Council for the Arts[ACA] entitled The New York Cultural Consumer. This study, conducted with support from the New York State Council on the Arts[NYSCA], is also a product of the NRCA. While the results of the New York survey may not be confidently extrapolated to the entire nation, the similarity of results between the two studies is not very surprising. New York has been the leading arts center of the country, so the health of the Arts in this state is, in many ways, indicative of the health of the Arts all over the country.

The National survey, conducted in January, 1973, sampled 3005 Americans 16 years of age and older, and the results, representing 145,480,000 Americans, are validly projectible at a 95 percent confidence level with a sampling error of ± 2 percent. (1, p.3).

The most basic and, perhaps, important conclusion emanating from both of these studies is that Americans in general and audiences in particular do not feel alienated from the performing arts. The Arts are at present enjoying a favorable image. People are attending for reasons connected with the programs offered rather than going merely

for the sake of doing so. Of the New York audience members questioned, 45 percent agreed that "most Americans do not really appreciate the Arts," while 39 percent disagreed with the statement. (5, p. 34). The Harris survey of the nation posed the question of improvements in the Arts. When asked whether it was important to have better arts facilities, 77 percent said yes. (2, p. 8). However, it is worth noting that improvements in medical facilities, roads and highways, schools, and parks and recreational facilities all had higher priorities in the public's mind, ranging from 91 percent for medical improvements to 84 percent for park and recreational improvements.

Perhaps the most revealing of all results were those dealing with the finances of the performing arts and those dealing with government support. Both surveys showed that many Americans feel that nonprofit arts organizations are self supporting, that they not only recover their production costs, but cover operating costs and make a profit as well. Of the New York audiences questioned, 56 percent felt that the performances they had seen were not government supported when, in fact, almost all of the performances were publicly funded, a fact that was even included on the programs which audience members received. Therefore, an important conclusion here is that "the extent of government support has not penetrated the consciousness of many in the audience." (5, p. 40).

When the members of the New York audiences were asked

whether they felt arts performances should be publicly supported, an overwhelming number said yes. 85 percent approved of government support, indicating the belief that the performing arts do make a substantial contribution to society. The strongest support of all arts groups among New Yorkers was for opera—93 percent in favor—attributable, most likely, to the Metropolitan Opera, because of its prestige and popularity within the state. Here the Harris survey of the nation differs most. Only 38 percent of the people surveyed—representing 55,282,400 Americans—felt government should aid the Arts. Local municipal support was most favored among the three levels of government support available. Ironically only 21 percent of the nation felt that opera should be federally supported (in contrast to 93 percent of all New Yorkers), and 22 percent of the Americans were in favor of federal support of symphony orchestras, theatres, and dance organizations. The difference between New York and national opinion with regards to federal support, particularly the opera, is an area worth further investigation.

The NEA's study of audience profiles contains an interesting point concerning the degree of public support:

The rank order of the level of public support for the various art forms closely parallels the degree to which the forms attract a socially elite audience. The more representative an arts audience is of the general public, the more widespread is public support for government financing of the art form." (19, p.41).

This seemingly logical observation could have important

influence for public policy. If the various art forms which are not so widespread could increase their public appeal, it would alleviate the concerns of many who feel that public support for "elitist" organizations is not a viable governmental duty. (see 24, chapter 2).

When asked to compare per capita spending on the arts with other government programs, 39 percent of the nation felt that the sixty cents spent on the arts and humanities should be increased. Only 9 percent felt it should be decreased.

That four in ten Americans believe that federal spending for the arts should be increased and only one in ten that funds should be decreased, is again an impressive indicator of the growing strength of, and support for, the arts in this country. (2, p.22).

Dick Netzer, in a recent book on public support for the arts, goes one step further:

The arts today constitute one of the few areas of public policy about which there is a general agreement that more of a good thing is better.

If public opinion surveys (such as those conducted by the [NRCA]) are to be trusted, most Americans believe that direct government support of the arts at present is too niggardly. (24, p. 13).

Although only 10 percent believe support should be decreased, to claim that four out of ten Americans constitutes "most" is optimistic, to say the least.

Having established public views on government support, the attitudes on corporate and individual support can also be examined.

The Harris survey revealed that 49 percent of the

nation felt that businesses should aid the arts, and 65 percent were in favor of foundation support.

Frederick Dorian inserts a small caveat into his study of European art financing, Commitment to Culture:

Too many americans regard private patronage as a bottomless well. They aren't concerned with what would happen if and when the foundations would exhaust the fortunes they are still allocating to the arts. Some people see in a foundation a substitute for a great father figure who cares, provides, pays all the bills, and will do so ad infinitum. (11, p. 454)

Personal support of the arts is one area where some people might "inflate" themselves a bit. If asked whether they would contribute to the arts, most people might give an honest and forthright answer. But a few, realizing they can appear great philanthropists, may offer more than they are actually willing to pay.

This leads to a discussion of one of the economic problems involved in public policy areas: that of the free rider. The free rider may encourage support, but, realizing that he can benefit from the increased arts performances without paying, will refrain from putting any money forward himself. There is virtually no way of controlling the free rider problem which increases as the base of support increases. The more people who can pay, the easier it is for the free rider to "ride along."

Having taken our proverbial grain of salt, we may now examine the survey questions concerning private individual support of the Arts. 58 percent — representing 87 million Americans — said they would be willing to pay an

additional \$5 in taxes annually to aid the Arts. 51 percent were willing to pay an additional \$10, 45 percent, an additional \$15, and only 41 percent were willing to pay an additional \$25 for the Arts. That most Americans are willing to pay up to \$10 more in taxes illustrates the importance they place on the Arts, and this sentiment seems to prevail. (2, p. 22). In a report to Congress planning out its next five years, the NEA wrote:

There is,...., no indication that public interest in or expansion of the arts has "plateaued," is leveling off or even slowing down. (2, p. 9).

To summarize briefly the attitudes of the public concerning the Arts:

- Interest and participation in the Arts has been increasing and it appears that it will continue to rise.
- Americans are becoming increasingly more aware of the state of arts institutions.
- Americans are accepting the notion of public support for the Arts and are encouraging more support on all levels, both private and public.
- Most Americans are willing to give up to \$10 in taxes for continued support of the Arts. Many are willing to give \$25.

How many people are attending arts functions? Why do they come? Why do they not come?

These are some of the questions this section of the

1. The first step in the process is to identify the problem or issue that needs to be addressed. This involves gathering information and understanding the context of the problem.

2. Once the problem is identified, the next step is to develop a plan or strategy to address it. This may involve setting goals, identifying resources, and determining the best course of action.

3. The third step is to implement the plan. This involves putting the strategy into action and monitoring progress along the way.

4. Finally, the fourth step is to evaluate the results of the process. This involves assessing whether the problem has been solved and whether the resources have been used effectively.

paper will answer. The size of the arts audience, its growth, the barriers to attendance, the associated costs of attending, the demographic profile of the average attender, and the effects ticket prices have on demand are the major points to be discussed.

Approximately one out of every ten adults attended live professional theatre in 1977 and one out of three attended some kind of theatrical performance at all. (16, p. 2). That totals 63.8 million people at professional performances and another 60.7 million at amateur productions. The actual range is between 55 and 65 million people. (15, pp. IV-10). While attendance at theatrical events far outweighs attendance at other arts performances, the Harris national survey notes that 47 percent of the public attended some kind of arts performance in 1972.

Though the actual number of people attending has been increasing, the average citizen is not a member of the audience. The demographic profiles show that the average audience member is very well off in the socio-economic sense. The actual profile will be discussed in more detail later in this chapter.

The dramatic growth in audience size has also been accompanied by a growth in the number of performances and in their national distribution. (21, p. 17). That the distribution has widened lends evidence to support the belief that increase in attendance has been more a result of the

increase in the number of participants rather than the increase in the frequency of their visits. This wider distribution promotes new and larger audiences.

Though the attendance is higher than ever before as a proportion of the population (47 percent), there are still many people who would like to attend the arts but do not. Why not? What are the obstacles that prevent people from attending the arts when they want to? Ticket prices seem the most obvious, and perhaps logical, answer, but while it is true that the cost of attending arts events is a factor, there are many other obstacles to attendance as well. The Harris national survey questioned those who has attended theatre, Opera or Symphony concerts, and Ballet and Modern dance programs no more than three times in the preceeding twelve months. The results are listed in table 11.

One of the most notable features in the table is that ticket prices are further down the list than one might initially have thought.

The major reason given for not attending more often was that the individual simply had no preference for that kind of activity. Perhaps it is here we find some tangible support for Mr. Scitovsky's argument presented earlier. If the preferences of the public for the arts were stronger as a result of better education in the arts, then attendance might surely be higher at these events. Evidence indicates that there is a relationship between the level of education and the frequency of attendance at arts events: Attendance

TABLE 1
REASONS FOR NOT ATTENDING PARTICULAR
ARTS EVENTS MORE OFTEN IN THE
LAST 12 MONTHS

Reason	Event		
	Theatre %	Opera/Concerts %	Dance %
Don't enjoy that kind of activity	25	40	47
No shows available	21	24	26
Inconvenient times	19	12	9
Difficult to get there	14	9	7
Haven't liked the kinds of programs offered	14	7	6
Price of tickets	13	8	6
No one to go with	7	5	4
Part of town	4	3	2
Not sure	1	2	2

Source: Associated Councils of the Arts. Americans and the Arts A Survey of Public Opinion. pp 83-85

TABLE 2
REASONS FOR NOT ATTENDING PARTICULAR
ARTS EVENTS MORE OFTEN IN THE
LAST 12 MONTHS

"Don't enjoy that kind of activity."

Education	Event		
	Theatre %	Opera/Concerts %	Dance %
8th Grade	41	51	54
High School	25	43	49
College	17	27	39

Source: Associated Councils of the Arts. Americans and the Arts A Survey of Public Opinion. pp 83-85.

at a young age definitely has an effect on the frequency of later attendance,..." (5, p. 109). "For each art form, the more frequent attender today is more likely to have first attended before age 20." (2, p. 11). Of those respondents with an eighth grade education, 41 percent preferred some activity other than theatre, 51 percent, something other than opera or symphony concerts, and 54 percent, some activity other than dance[see table 2]. Therefore, the level of education is a strong indicator of the frequency of attendance, and more study in this area by the NEA and The National Endowment for the Humanities[NEH] would be worthwhile.

The second most common obstacle noted was the unavailability of shows. This was strongest among town and rural

TABLE 3

REASONS FOR NOT ATTENDING PARTICULAR
ARTS EVENTS MORE OFTEN IN THE
LAST 12 MONTHS

"The unavailability of shows in the area"

	<u>City %</u>	<u>Suburbs %</u>	<u>Town %</u>	<u>Rural %</u>
Theatre	8	14	33	36
Opera/Symphony	8	12	39	42
Dance	11	13	45	43

Source: Associated Councils of the Arts. Americans and the Arts A Survey of Public Opinion. pp. 83-85

inhabitants [see table 3], and justifies the fears of some who feel that one of the major problems with the Arts right now is their tendency toward centralization. [see 24, p. 27]. That there may be some overlap between this argument and the fourth—the inconvenience of getting there—is understandable. Whether or not a person has some form of transportation in which to travel would determine which answer he would give. If he has transportation accessible, such as a car, bus or subway, he might state the problem as being one of transportation rather than a person who has no auto and, therefore, no accessible arts programs.

Interestingly enough, the third obstacle—inconvenient times—was ranked higher than one might expect. The New York survey showed almost half the population of the state—47 percent—preferring the 8:00 starting time. While later starting times were preferred for performances outside the city, New York audiences preferred an earlier curtain, reflecting their desire to get home sooner when their travel time is longer. [5, p. 70].

The objection to the kinds of programs offered was not identifiable with any particular demographic group, with the possible exception of the sixteen to twenty year old theatre-goers. 23 percent chose this reason for not attending the theatre—9 percent greater than the 21-49 age groups—reflecting the inclination of young people to turn to the television or movie screen as an alternative source of entertainment.

The price of tickets was certainly lower on the scale than one might have guessed. Theatre-goers were strongest in their opinion regarding this obstacle. 13 percent chose this as an obstacle to attendance, compared to 8 and 6 percent for opera and dance respectively. This may be due to the popularity of theatre as an arts activity, thereby allowing the average theatre-goer to be more aware of price increases over time. Aside from the actual prices paid, however, there are other assorted costs of attendance. Transportation, babysitting, meal and parking costs all are a larger part of the cost of attendance. 60 percent of those surveyed in the Harris poll agreed that the costs of attending arts events are the main reason people do not go more often. [2, p. 13]. But, as Mathtech concluded, "While economic barriers should not be totally discounted as a reason for nonattendance,...,they do not seem to be a major factor inhibiting attendance." [15,p.IV-61].

The last two obstacles listed—going alone and the part of town where the event is located—illustrate a concern, especially among older people, for the dangers of "the bad part of town."

One obstacle to attendance not listed in the Harris survey, perhaps because of its implicit nature in today's society, is the competition of the mass media. Mathtech researchers discuss the problem and note that it is strongest for the young and the less well-educated:

[A]s education rises, choice of theatre also rises

and as education decreases, choice of TV increases. ...[Therefore] movies and TV do seem to compete directly with the theatre as a form of artistic expression among certain groups. (*italics mine*)[15,p.IV-64].

But, they continue, movie going does not seem to interfere with theatre going. In fact, "[g]oing to movies, it turns out, seems to be positively associated with going to the theatre.[15, p. IV-65]. TV, on the other hand, does seem to be a deterrent to attendance(see table 4). So while the public does view TV as an equally artistic form of entertainment, attendance at movies cannot be listed as an obstacle to live arts events.

TABLE 4

TV VIEWING AND THEATRE ATTENDANCE
(SAMPLE: CALIFORNIA)

Theatre Attendance	Average hours per week of TV viewing
Never	17.6
None in the past year	16.1
1-5 times in the past year	15.4
Over 5 times in the past year	11.7

Source: Mathtech. The Conditions and Needs of the Live Professional Theatre in America. p. IV-66.

Having discussed the preferences and attitudes of the arts attender and non-attender, the profile of the average attender may be examined.

Why study the demographic profile of an arts audience?

What can be learned from finding the socio-economic characteristics of a group? There are both economic and political reasons for doing so when dealing with issues in public policy. Social profiles can be used to find out just who a service organization is serving. If there is a broad cross-section being reached, then it can be said that the organization is performing a quasi-public service. From the political standpoint, this would be very important when discussing government support of the Arts—that they are indeed serving a large cross-section of the public.

From an economic standpoint, it is important marketing technique to determine to whom your product is appealing. If something is known about those who demand the product, then it can be an effective guide for pricing and distribution policies. [8, p. 71].

Baumol and Bowen conducted an audience study in 1963-64 and arrived at several important conclusions regarding the arts audience. In the 16 years since their study, the NEA has been created and the Arts have grown as never before. Recently, audience studies have appeared again as an important source of information concerning the consumers of the Arts, and these results have been compared, both with each other and with the Baumol and Bowen results. The conclusion is the same in all cases: there has been no significant change in the composition of the arts audience since Baumol and Bowen's study. "We could find no evidence that the audiences were becoming more democratic."

[19, p. 3].

The arts audience is distinguished by several characteristics; they are very well-educated, young individuals who are usually white men and women engaged in white collar occupations, most notably, the professions. They are remarkably consistent "...from art form to art form, from city to city, and from one performance to another." [8, p. 96]. Let us, however, examine each of these characteristics in more detail.

Gender. The stereotypical image of the Arts, that of being a feminine activity, has no basis in fact. The sexual makeup of audiences in general was proportional to that of the population of the area. The NRCA notes that some performances, such as dance, are more frequented by women, but men attend opera more often on the average, so the net effect is equal.

Age. The best way to describe performing arts audiences is young. The median age of the audience, based on several studies, is 35, while the median age of the entire United State population is 28, and of those 16 and older, the median age is 40.[19, p. 1]. New York State's audiences are slightly older(37), but still below the population median (41). Since most of the studies conducted were limited to older adults(most studies required that the respondent be at least 16 years of age), the median audience age would be expected to be higher. "Ballet and theatre

attracted the youngest audiences of the performing arts while opera and symphony drew the oldest audiences." [19, p. 18].

One important benefit that will result from a younger audience is that a strong foundation of support and patronage will be built for the future. Unless a majority of Americans lose interest in the Arts as they grow older, the continued patronage will be added to by the presence of new "younger" audiences. This will further increase the number of people attending the Arts in the United States and ultimately lead to a wider distribution of the Arts across the nation.

Education. Education is the most important indicator of attendance, moreso than income or occupation. The education level of the average performing arts audience member was consistently high. The NEA reports that 30 percent of the arts audience had graduate training of some sort, and 54 percent had earned four year college degrees, compared to 14 percent of all U.S. adults.[19, p. 2]. In New York state, three out of every five audience members had a college degree.[5, p. 11].

Why would education be the best indicator of attendance? It is likely that a person with a high level of education has been exposed to the Arts already, probably at an early age, and we have already seen that there is a strong relationship between attendance at an early age and attendance later in life. So those exposed to the Arts

through education, whether it be formal music training in grade school, or simply as an audience member at college, would attend later in life as well.

Occupation. The percentage of professionals in the arts audience is very high. Though they make up only 15 percent of the work force, they constitute a median 56 percent of the members of the arts audiences employed. [19, p. 21]. Of the New York audiences, "[m]ore than half the members of the audience described their occupation as professional, executive or managerial." [5, p. 17].

The blue collar attendance figure is another important feature of this particular characteristic. Though blue collar employment accounts for 34 percent of the work force, it is only 4 percent of the employed persons in the audience. What may be more revealing is that this figure is probably overstated. If the survey did not allow for a service employee category—which many did not—then the service employees in the audience would select either the blue collar or the white collar category, "giving some upward bias to the totals of each." [19, p. 27].

Although occupation is not so strong a determinant as education, it is a good indirect indication of attendance. Virtually all occupations are associated with some level of education. Professionals need a great amount of education to achieve their careers, but blue collar workers generally do not. So the relationship between occupation and atten-

dance is indeed an indirect one.

Income. Income is the most studied of all characteristics of an audience, because of its obvious price relationship to admittance to the Arts: the higher a person's income, the less concerned he need be about the cost of attending. But what, exactly, is the median income of those who frequent the Arts? The median family income for the U.S. population in 1976 was \$14,000. The median income for arts audiences was \$19,000. When outdoor drama audiences were excluded (most are free), the median jumped to \$20,250. [19, p. 3]. In New York state the median income of the audience was \$17,800 in 1973, compared to the state median of \$12,867.[5, p. 14].

It is becoming increasingly evident that low income is a major barrier to the Arts. Even among infrequent attenders, there were few low income people. But as income rises, demand for the performing arts also rises and it does so proportionally.[24, p. 103]. Higher income is also related to the associated costs of attendance mentioned earlier. Expenditures on meals, transportation and babysitting will increase because of the higher income family's desire to buy a higher quality evening.

Race. The summary statistics of the NEA indicate that nonwhites constitute only 3 percent of the average arts audience, but 20 percent of the general population. In instances where programs were directed specifically toward

the nonwhite population, they responded eagerly, a strong indication that there is a tremendous potential for growth in this segment of the Arts.

It is, by now, perfectly obvious that the performing arts audience is a very small, affluent segment of the general population. "It should be clear by now that 'the common man' is fairly uncommon among those who attend live professional performances." [8, p. 93]. Having now a clear idea of just who the consumer of the Arts is, it would seem very difficult to justify public funding of the Arts. The benefits to a small segment of the public would not be sufficient to justify taxing the general public at large. This is a source of continual debate among policy decision makers today.

The relationship between ticket prices and audience demand has been the subject of little research. Because it is so difficult to isolate the effects of price changes specifically, many feel that the results are too unreliable to provide any strong evidence of a particular association. But a few studies have, nonetheless, attempted to discover just how elastic the association is. Tentative conclusions by Baumol and Bowen and Thomas Moore indicated that demand is inelastic; that is, the percentage change in audience size is smaller than the percentage change in price. Thomas Moore went even further, noting that a "...1 percent

boost in ticket prices, ceteris parabus, would lead to about a 0.5 per cent decline in theater attendance."

[17, p. 92]. If people's attitudes are to be considered reliable indicators of their actions, then we can expect the percentage change in attendance at other arts events, such as the opera, the symphony orchestra or dance programs, to be even less: we saw earlier that consumers react to a price change in theatre tickets stronger than in any other activity.

If audience demand is inelastic, why do arts organizations not raise their prices to increase revenues? There may be many reasons why, but three stand out more than others. First, the nonprofit organization expresses an internal obligation to fulfill some social purpose. That purpose may be restricted or even cut off from the public by raising ticket prices if it inhibits the attendance necessary to fulfill their purpose. This would defeat one of the major reasons for the existence of these organizations.

The second reason deals directly with the composition of the audience. An increase in ticket prices will certainly prevent the low income consumers from enjoying the Arts, resulting in an audience with an even higher average income and education than was had before. This would make even more difficult efforts to justify public spending on these and other related arts organizations. If the only people who can afford the Arts are the wealthy, then the Arts are

becoming more elitist, not less.

The third reason for refraining from substantial price increases is that the cost of substitutes would become more and more affordable as an alternative to live performance. Amateur productions also may pull audiences away from the professionals, because the audience may indeed be willing to sacrifice quality in order to save money.

Having established that organizations may be reluctant to raise prices for whatever reasons they purport, the cost problems facing the Arts could not be resolved even if they did raise their prices. If house capacities were 100 percent, most arts organizations still would not be able to cover costs, and any increased productions to accommodate the increased demand would result in still higher operating costs, costs greater than the earned revenue taken in at the box office to cover them. So public support and private money would still be needed, perhaps even more than before. But even though preliminary studies indicate that the audience demand for the Arts is slightly inelastic, this area of research is still relatively unexplored, and more study is required to produce conclusive evidence of this price demand relationship.

CHAPTER IV

EMPLOYMENT IN THE ARTS

In this chapter the work force of actors, artists and entertainers will be examined. The focus here will be on the actor because of the extremity of his plight in this case. The unemployment of artists is also an area of little conclusive study because of the difficulty of finding out just who is an employed or unemployed artist. Many people will write on census studies that they are unemployed artists when in fact they are employed in some other field. This kind of problem is very hard to identify, let alone solve. The careers of most artists are rarely continuous—one week they are working, the following week they are not. John Kenneth Galbraith notes that the artist has been persuaded that he has no relation to the world of economics. "The more deprived his life, the more truly he is an artist." [14, p. 68]. Galbraith also adds that the artist feels that public support of the artist is repressive to his artistic spirit.

Before examining specifically the employment and unemployment in the arts industry, one important note should be made: as is the case for almost all industries, the financial status of the Arts affects the employment within the industry. So it can be expected that the Arts, plagued with financial problems as they are, should have employment problems to match. They should also reflect the recent

growth of the Arts as well. This is what will now be considered.

The NEA estimated that, in 1970, the artistic labor force was 797,574 people, and, in five years' time, had increased at a rate of 5.7 percent per year to 1,055,000 people in 1975[see table 5]. [19, p. 9]. They add that, at this rate, the labor force of artists "would double in a period of about 12.5 years." [19, p.9]. This growth is very striking, but accompanies, nevertheless, the growth in the arts industry in the nation. This supports the earlier statement about the industry's health reflecting its employment. Mathtech researchers point out an important consideration when examining this data:

...[W]hile total employment of actors has grown, it apparently has not done so as quickly as has [Actors' Equity] union membership. The result is that the average actor seems to find less employment under Equity jurisdiction each year. [2, p. 11].

So while more people are joining the artistic labor force, fewer people are finding work. Actors' Equity does not control all employment in the industry, but virtually all nonprofit professional theatres hire Equity personnel. Because of the employment difficulties within the union, many actors are gaining employment "outside the Equity card." [23, p. 17].

Among all artists except actors, men and women have similar rates of employment. Actors and actresses, on the other hand, have remarkably low levels of employment, and,

TABLE 5

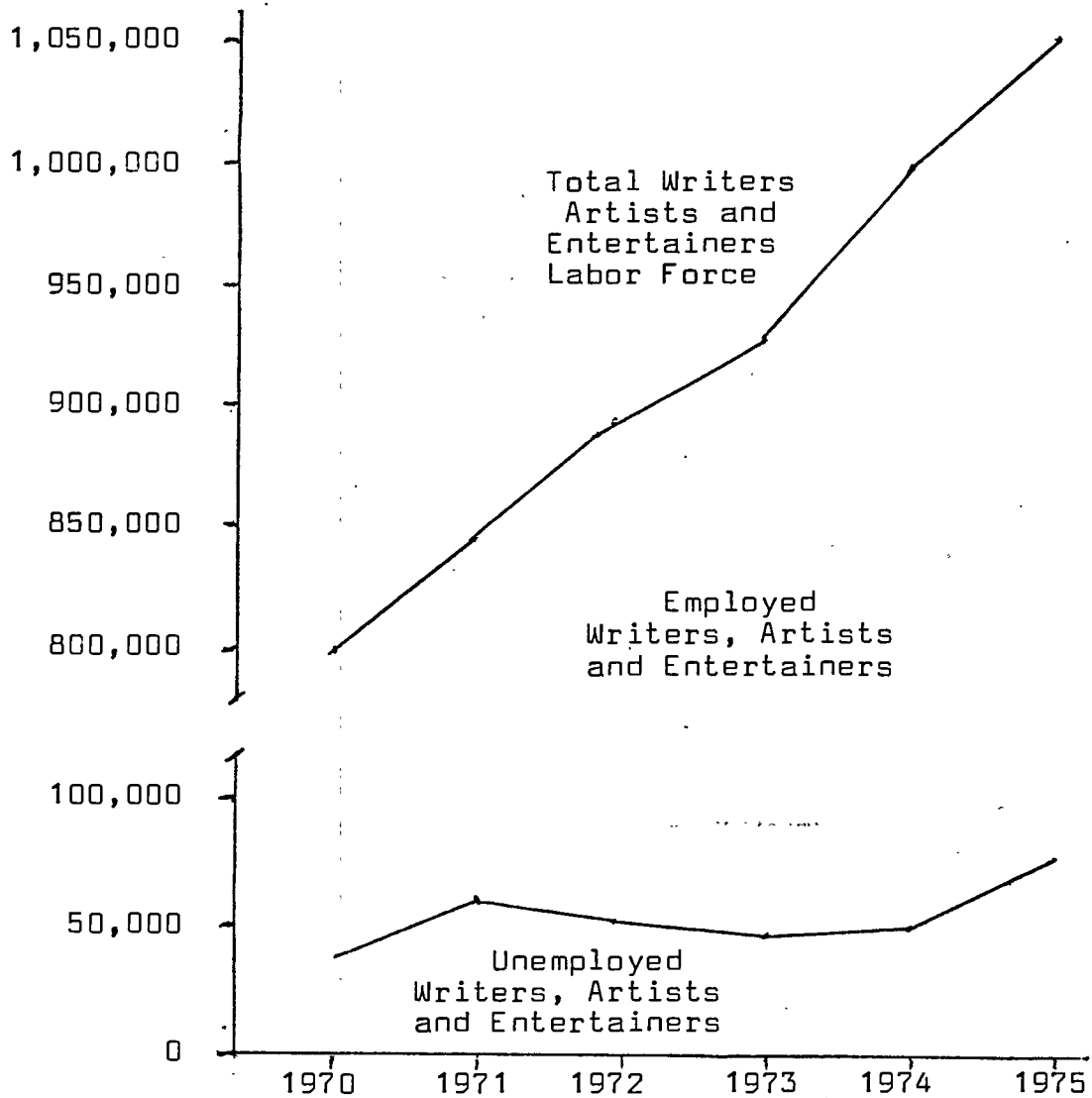
TOTAL WRITERS, ARTISTS AND ENTERTAINERS,
GROWTH OF LABOR FORCE AND UNEMPLOYMENT: 1970 - 1975

<u>Year</u>	<u>Total</u>	<u>Growth Rate from Previous Year</u>	<u>Number Unem- ployed</u>	<u>% Unem- ployed</u>	<u>Standard Error of % Unem- ployment</u>
1970	797,574	-	36,480	4.6%	.1%
1971	846,000	6.1%	60,000	7.1%	.5%
1972	897,000	6.0%	50,000	5.6%	.4%
1973	929,000	3.6%	45,000	4.8%	.4%
1974	1,000,000	7.6%	48,000	4.8%	.4%
1975	1,055,000	5.5%	78,000	7.4%	.5%

Source: NEA. Employment and Unemployment of Artists: 1970-1975. p. 10.

FIGURE 2

TOTAL WRITERS, ARTISTS AND ENTERTAINERS LABOR
FORCE, EMPLOYED AND UNEMPLOYED: 1970 - 1975



Source: Table and NEA, Employment and Unemployment of
Artists: 1970-1975. Figure 1, p. 11.

although the total number of actresses is equal to the total number of actors, almost half the actresses were not participating in the work force in 1970. The figure for men was substantially lower but still high by normal standards; one quarter of the men in the acting profession were not participating in the work force in 1970.

In 1970 the unemployment of writers, artists and entertainers was 4.6 percent, more than double that of the technical workers in the Arts (1.8 percent). By 1975, the unemployment rate for this broad category had increased to 7.4 percent, while the technical unemployment level was 3.2 percent[see table 5]. [20, p. 8].

Actors' unemployment was, by far, the most discouraging. In 1975, actors' unemployment was 35.0 percent. The closest category was musicians and composers with an unemployment rate of 7.9 percent. So while artists' unemployment as a whole has not been much higher than the unemployment of the general economy, actors are vastly unemployed.

One problem with being an artist, particularly an actor, is collecting unemployment benefits. To gain the benefits, an individual must work a minimum number of weeks under the same employer. This poses a problem for the artist who does not work the minimum with any particular employer. It becomes increasingly more difficult for an artist to collect unemployment benefits. Some performing arts organizations will actually plan their seasons so their actors may receive the benefits. This

scheduling by these organizations has a miniscule effect on the employment of actors because the average annual employment for any actor who works at all is only 15 weeks. So if an actor finds work at all, it is for such a short time that he is rarely able to collect the unemployment benefits.

This high unemployment and low duration of employment among artists undoubtedly leads to low annual incomes for the artist. The median income of actors employed in the theatre did not exceed \$5,000 for any year between 1970 and 1979. [16, p. 12]. In fact, the median income of all actors from all sources in 1976 was between \$7,000 and \$9,000. This is below the average family income in the United States, and is even more striking in light of the extraordinary salaries paid to "stars." With such a low income, it would be very difficult to support a family. The low income is not due to an economy that has grown faster than wages in the Arts, as might initially be supposed. In fact, the minimum wage rates stipulated by the Arts unions have kept pace with, or surpassed, the rate of inflation in recent years. "...[I]n general, wage rates in the theatre occupations have increased more rapidly than has the general price level. [15, p. V-39]. Are these wages enough to provide a reasonable return to training investments? Many years of training are needed to become a professional in the Arts. Dancers require years of intense training, and musicians and singers need thous-

ands of lessons to become professional artists. This involves tremendous accumulated expense for these individuals. With this in mind, the income of artists seems even lower still.

These problems of employment and income in the Arts are derived from the most basic law of economics; the supply and demand. The number of "artists for hire" is much greater than the number of employment opportunities, so the price paid for artistic services is depressed. Admittedly, unions have gained much ground with minimum salaries, but the problem of finding a job, especially for the actor, remains a permanent one.

CHAPTER V

THE ARGUMENTS

Subsidy. The state of Athens had it thousands of years ago. The Dionysian Festival held every year was attended by virtually every Athenian, and those who could not afford the cost of admission were paid for by a special fund provided by the state specifically for this purpose. [6, p.369]. The festivals were subsidized both by the state itself and by wealthy private citizens whose contributions to the festivals were enforced by the state. [6, p. 373].

Even in this country's history, subsidy has been proven to aid the Arts. The noncommercial arts organizations of the 1920's were financed by wealthy individuals, but when the philanthropy ran dry in the 30's, the United States Government stepped in with the Federal Theatre Project and, as Leonard Bernstein aptly phrased it, "...gave the biggest boost to our artistic life in the country's history up to that point." [4, 27].

Today the Arts everywhere are subsidized, but the actual amount of participation is as varied among countries as the people who inhabit them. But if, as seems likely, the arts organizations continue to encounter the cost pressures that have plagued them for so long, then government support of the Arts is a necessity. Because of high inflation and diminishing portfolios in recent years, private and corporate contributions are not going to be able

to maintain their relative levels of support. Although private individual patronage will be, and should be, the main source of support, the corporate sector during this economic recession will most likely have to reduce or, at best, maintain its present dollar levels of contribution. Therefore, if the artist is to perform his duty to our leisure-loving society by producing a high quality product, he should not be hampered by the barriers of an unstable economy. "Extensive and expanding sponsorship and support of the arts [is] not only a normal but essential function of the modern state." [14, p.282].

Many arguments have
Arguments in Favor. Many arguments have been offered in favor of subsidies. Several studies conducted in the 1960's have posed a number of economic arguments—all of them center on economic considerations facing any supportable venture: public goods, externalities, income distribution and the education of the public. Each of these, in turn, serve specific arguments facing the Arts. For example, the externalities argument refers to a wide array of specific points—innovation in the Arts, prestige, the business community, future generations and many others—and income distribution would relate to problems of accessibility and information costs. Since the free market is very much influenced by consumption and therefore income, the wealthy will exert more influence on the allocation of resources than the poor, resulting, in this case, in a greater

"voice" in arts policy for the wealthy. This is a great disadvantage to the poor, who have as much right to enjoyment of the Arts as the wealthy, so a more equitable solution should be forthcoming. But such a solution should not mean a blanket outlay of funds by government. Instead it should be the difference between the market price of the service and a lower subsidized price for the low income consumers. Such a system could be in the form of an ad valorem or per unit excise subsidy given to consumers with income below some breakeven level, [17, p. 119].

Perhaps some of the arguments are too paternalistic. Even though most individuals are able to decide how to spend their own income, is government intervention justifiable as a means of helping less competent, less "cultured," low income people reach the Arts? Is imposing value judgments on society in this way acceptable simply because it gives them, not what they want, but rather what the government feels they should have? [25, p.76]. These are the normative questions to be answered when dealing with any government policy.

Public Goods. Pure public goods have two characteristics: nonexclusion and nonrivalry. Nonexclusion means that no one can be denied access to the service, and nonrivalry means that one man's use of the service does not diminish the quantity available for use by another. The classic example of a public good is a lighthouse; one man's use of

it does not prevent anyone else from doing so, and anyone may benefit from it, regardless of whether he pays for the service or not. [24, p.21]. The National defense program is another example of a pure public good.

There exists, however a problem with public goods, a problem discussed in chapter III as well—that of the free rider. The high cost of exclusion associated with public goods makes it very difficult to prevent anyone from taking advantage of this situation.

Are the Arts pure public goods? Perhaps Shakespeare in the Park is—anyone may watch and enjoy a free performance of "Macbeth" or "A Midsummer Night's Dream" on a Sunday afternoon in Central Park—but most other arts organizations have one major characteristic that prevents them being labeled pure public goods; that of nonexclusion. Admission to most arts functions is gained through the market process of buying a ticket. For this reason, the Arts are considered a mixed commodity—one which has characteristics of both public and private goods. Education is a mixed commodity. Private costs are paid to attend, but society as a whole benefits because it is enriched by the increased knowledge of its members. Any seat in a half empty theatre could be considered a private good in part because of its nonexclusive quality—consumers must pay the cost of admission to get that seat—but it is a public good as well because it has the nonrival characteristic of enjoyment by anyone who acquires that seat. Because the preferences of

the consumer cannot be accurately measured, the market cannot accurately determine an efficient price for these commodities, a price sufficient to cover the costs. Some sort of subsidy is necessary to balance this inherent disparity between costs and revenues in the Arts.

Externalities. Externalities are another major reason for supporting the Arts in America. Externalities are also a feature of public goods in that benefits (or costs) reach individuals other than the direct consumer of the good. The difference between externalities and public goods is that externalities are unintended side effects of activities, and are not usually as evenly distributed as are the benefits of public goods. Because of these benefits and because the Arts are considered a mixed commodity, subsidy may be necessary to obtain the efficient, optimal output of production.

How do economists measure the benefits that accrue to a society from a source such as the Arts? Can dollar values be placed on such intangibles as the encouragement of experimentation, the prestige of the Arts, or the benefits to future generations? Private producers and consumers consider only the marginal value of their private costs or benefits. They ignore the social benefits in making the market decision. But if the social benefits are greater than the private benefits, a misallocation of resources results, and subsidies are again necessary to achieve the efficient

output.

Dick Netzer points out four major types of benefits relevant to the arts industry: [24, p. 23].

1. The interdependency of art forms.
2. The benefits to future generations.
3. The encouragement of experimentation.
4. The attraction of business and tourism.

The interdependency of art forms. Netzer points out that the major art forms are all related to one another, and that this spillover effect justifies taxing for subsidy in one form individuals who partake of a related form. [24, p.23]. The most obvious example of this occurrence is the relationship of dance to music. Virtually all modern dance choreographers—including Alvin Ailey, Paul Taylor, Twyla Tharp and others—choreograph to music that is being written by composers today. Even the classical ballet companies, which perform such works as Romeo and Juliet, Swan Lake and The Nutcracker Suite, illustrate the express influence one art form—dance—has on another—music. Taking these two forms one step further, the implications for the theatre can be seen. Musical theatre is certainly one of the most popular forms of entertainment today—witness Broadway's resurgence in recent years.

Benefits to future Generations. What better cultural heritage is than Art? It is important that great works of art are preserved and protected so that we may pass these

on to our own children as well. Culture takes time. Baumol and Bowen cite the account of the gardens at Versailles:

"...[T]he man who [asked] the secret of the lush gardens at Versailles...was told the answer was simple: they need only be watered daily for three hundred years." [8, p. 385].

Contemporary artistic individuals and organizations should be encouraged so to embellish the historical culture already so deeply imbedded in our society. This encouragement would yield substantial benefits to the future generations and, as well, to us, for we may well derive personal benefits from bestowing these treasures:

Present generations may derive positive satisfaction from preserving live performances safe in the knowledge that they do not risk being accused of narrowing the range of choice of cultural activities for future generations through allowing the arts to die. [25, p.77].

The Encouragement of Experimentation. This benefit relates, to a strong degree, to the previous one in that encouragement of contemporary artists will lead to new and innovative products:

Entrepreneurs will do less innovating than is desirable, since there will be some experimentation in which the gain to society is greater than the cost but the gain to the producer is less than its cost. [17, p. 122].

The Arts are constantly changing. It takes time and money to promote new blood in the Arts.

Attraction of Business and Tourism. Few people can think of New York city without thinking of the glittering lights on Broadway, or the museums, symphonies and ballet companies.

The Arts can have a marked impression on a business' decision to settle in an area. It has obvious economic advantages: the Arts will attract people to the area and this, in turn, will lead to an increases in the local economy. The King Tut art exhibit at the Metropolitan Museum of Art brought in more than \$1 million dollars of revenue per day to the economy of New York city. [3, p. 25]. In this way, the social benefits far exceeded the costs.

These four externality arguments laid out by Netzer and other economists cover most, but not all, of the externalities involved with the mixed commodity that is the Arts. Baumol and Bowen include the prestige of the Nation as a , perhaps unworthy but, nonetheless, real, benefit:

Many persons who themselves have no desire to attend an Opera or a program of contemporary dance take pride in the international recognition conferred on our singers and the creativity of our choreographers... They would be most unhappy if the United States became known as a cultural wasteland, a nation in which mammon had put beauty and art to rout. [8, p.383].

This concern for the international cultural image is strengthened by a U.S. News and World Report review of worldwide reaction to American Arts in 1977. The conclusion stated that "[w]hile America's political prestige may be declining in some areas of the world, this nation's reputation as a cultural leader is at an all-time high and still growing." [21, p. 10]. So perhaps the the prestige externality is as "worthy" an argument as it is "real."

What are the consequences of these externalities?

One author argues that wider dispersion of the benefits, from the individual consumer to the society around him, is a consequence of the benefits in the Arts. [28, p. 76]. A.T. Peacock sympathizes, but points out that there is no way of measuring these benefits which affect society. [25, p.77]. Instead he argues that international prestige, though limited, is indeed a more accurate measure of the satisfaction society gains.

The externalities arguments represent the largest source of economic justifications for subsidizing the Arts in America. It is important that these benefits be spread among the people, rich and poor, of today, rather than just the rich of today and tomorrow in order to prevent the Arts from becoming more elitist than they are at present. How? Peacock offers a short term and a long term answer:

The short term one requires that support be moved away from the subsidizing of producers of cultural activities toward the subsidizing of individuals. The long term one is to devise a means of altering the preference functions of future generations so that Baumol's disease may be counteracted through the market as well as through the political mechanism which offers state support. [25, p. 80]

In other words, though technologically stagnant, the Arts must be allowed to raise prices in accordance with rising costs (For a detail explanation of Baumol's disease, see the Appendix). Peacock's long term answer means that the consumer must be somewhat willing to overlook these price hikes, and this is, in fact, exactly what has been happening during the past decade: demand

for the higher priced tickets has increased. "Audiences ... have also swelled, well beyond the growth in population with visits and attendance at arts events into the hundreds of millions." [21, p. 9].

So although the public goods and externalities arguments constitute the bulk of the case in favor of support for the Arts, there remain still other arguments.

Merit Goods. The Arts, in general, are considered to be merit goods and because the market does not achieve an efficient allocation of these meritorious services, subsidies must be introduced. Netzer points out that barriers due to income are a characteristic of merit goods. [24, p. 16]. He bases his merit goods argument on two possible consequences of the Arts in the price system alone. First is the problem that private demand for some art forms is very low. The best example is poetry. If poetry were to exist solely in the market alone, it would probably be wiped out. The demand for poetry is very low in this country and producers would never publish because revenues would not cover costs. Even the demand for popular poets is low. But the fact that demand for this commodity is low does not justify the annihilation of this art form. It is an important part of our cultural heritage and should be encouraged.

The second consequence is that the performing arts organizations would become very centralized around a few large cities. [24, p. 27]. The obvious effect of this is

that the Arts would become leisure entertainment only to those living close enough to the cities to attend and rich enough to pay the market price. Netzer also adds that "...both merit-goods grounds and market failure arguments justify public subsidy to break bottlenecks in the development of careers of talented young artists." [24, p. 140].

Even the NEA concurs on this point:

[The NEA] is primarily interested in promoting survival of the best of all art forms that reflect the heritage because it views them as intrinsically meritorious and significant as living art or as springboards to artistic development and creativity. [21, p. 33].

These arguments are major considerations when looking at subsidies for the performing arts. Though by no means inclusive of all the arguments, they contain those issues most relevant when making many of the normative judgments necessary in policy evaluations.

Arguments against. Although it is generally agreed that the establishment of the NEA and its support have been a great help to the performing arts institutions, there are still some people who feel that public support of the Arts is not justified government policy. The most common argument against federal control of the Arts is that the government will start to control the Arts. This argument, though much stronger in the early sixties before the arts council was established, is still listed as an inevitable situation.

Federal control of the Arts would not be something

new to Americans. When Roosevelt's Federal Theatre Project was under way during the Works Progress Administration program of the thirties, Federal legislators began censoring the programs on the grounds that the material was too contradictory and so not in the best interest of a nation trying to recover from the great depression. The final result was the abandonment of the program under the Un-American activities committees. In recent years, the NEA has come under attack for exerting more "influence" than it should on arts organizations.¹

Federal control would certainly be a cost greater than the benefits it generates. But this reasoning assumes that the government has no, or little, concern for the quality of the artistic product, and that the final result will be a weaker, rather than a stronger arts community.

One true disadvantage of government control, however, is that it may lead the Arts in a direction that otherwise would not have been taken. The Arts are continually changing. Experimentation and innovation are the key purposes of many arts organizations. For the government to prevent this change in any way, either accidentally or on purpose, would be detrimental to the natural development of the art form.

Thomas Moore points out an avenue available to lead the Arts without central control; giving tax con-

* * *

¹ See the New York Times, May, 4, 1979. (p.C4, col. 5).

cessions to all arts projects, without regard to their content. Moore says that these tax concessions would be most stimulating for the theatre, that they would encourage the theatre to produce more because of the additional funds they receive.

Another way to moderate the central control of the Federal government would be to delegate the arts financing to the state and/or municipal authorities. There are several distinct advantages to this type of policy. First, if the benefits of the Arts are spread out within the state, it is more efficient for a state government to handle the support of the Arts. The result will be various levels of support in the nation and an opportunity for people to move to an area where their interest in the Arts is matched by the level of the Arts in the community.

A second advantage to subnational government control of the Arts is that experimentation is much more possible and much more likely. The various governments will be able to try new and different methods of financing such programs so that, in the end, the result would be a much more economically efficient means of supporting the Arts.

There are also disadvantages to state and local support of the Arts as well. If the benefits of an arts performance are bestowed upon individuals other than those living in the taxed area (i.e. tourists), then taxing the local community would not be the most efficient method. A federal tax, however, could be levied on everyone regard-

less of geographical location or which performance they attend. Another solution would be for local governments to earmark a sales tax on the ticket and related purchases such as the state of Florida does. There is, however, one problem of state and local support that would be very hard to correct, but which is very important to the Arts today; that of the income and employment levels of artists. If one state succeeded in raising the income level of artists in that state, other artists would be attracted to the state, resulting eventually in a depressed income. These macroeconomic problems of income and employment are best dealt with on a national level. So there are several possible solutions to comfort the fear of government control of the Arts, but none are proven successes yet.

There is another argument against support of the Arts which is more economic in nature than political. It deals with the basic values of the Arts to our society. If society wants the Arts, why do we not pay for them? This reasoning seems a bit naïve, but it points out an important concept; people will pay for a product the marginal value of its worth to them. This is quite simplified, but it points out that aid to the Arts would distort the normal allocation of resources. If aid is given, the box office income will not be able to cover costs, thereby providing benefits to the public greater than their cost, a welfare cost to society. [17, p. 130]. Although many would state that there is welfare cost with any public

policy issue, this argument does not justify the statement, "Because support is appropriate for some social activities, it is appropriate for others as well." [8, p.370].

There have been other arguments against support of the Arts. Some have argued that poverty is good for the Arts, that it breeds the suffering necessary for an artist to reveal his true artistic ability. [8, p. 371]. This kind of close minded argument has no basis in fact, but relies, instead, on the cliché image of the Artist as a poor, starving individual. It is apparently felt that poverty and creative ability go hand in hand.

Some politicians claim that there are other, more important ways to spend tax revenues than on the Arts. This argument asserts judgments on the relative value of the Arts to society and ignores the basic need itself. Because support is needed elsewhere is no reason not to support the Arts.

All of these arguments accentuate the problems of public policy decision making in the performing arts. The federal government has proven, through its various arts programs, that it can provide necessary financial support without exerting the dreaded "Big Brother" power it has. Government support has been the breath of life for many arts institutions, one which has stimulated the growth of the Arts and the growth of the audience for the Arts.

CHAPTER VI

COSTS AND REVENUES

The nonprofit professional arts organizations have been important sources of innovation and diversity in the Arts, yet it is these organizations that are plagued by poor financial status. They are trapped between producing the highest quality material they can and paying their bills. For this reason, it is virtually impossible for arts organizations to limit their spending to their earned revenue. For this reason, these organizations suffer from what is commonly called the perpetual cost-revenue squeeze. [16, p. 8].¹

The Ford Foundation notes that, while costs in the Arts are set by the cost level of the general economy, income is determined by the limit on the number of performances and the capacity of the performance hall. [13, p. 8]. This makes it very difficult for arts organizations to cover their costs in any way other than ticket price hikes.

The costs in the Arts have remained fairly steady over the past few decades. The reason for any rising costs in the Arts is that they cannot incorporate the more efficient production methods adapted by other industries. The Arts are a labor intensive industry. "... [E]very increase in money wages will be translated

* * *

¹Several terms have been used to describe this state. They will be discussed later.

automatically into an equivalent increase in unit labor cost. [8, p. 171]. The productive output per manhour of labor does not change at all, so costs rise without an output change.

Another problem in the arts economy is that most arts organizations have economies of scale. This means that one additional unit of output, in this case one more performance, will cost less than the previous one. While this may not seem to be so much a problem at first, in a competitive market the price charged is the marginal cost of producing that additional unit of output. The problem is that this price is below the average cost of the product, therefore the total revenue does not cover the total costs and a deficit results. Eventually in most economies, the marginal cost will be sufficient to cover the costs. The Arts, however, cannot always continue to produce until that point is reached. Production in the Arts is determined by consumer demand and this production is not always an ongoing venture. Thus, most arts organizations must end up producing below their most economically efficient level, resulting in less revenue to cover higher average cost.

Because of these inherent problems in the arts industry, the performing arts will experience perennial increases in relative costs, relative to the cost increases in the general economy.

Has inflation been the culprit in these cost increases? Certainly inflation has affected the Arts, but no more than

it has any other industry. If inflation is not the answer, then what is? Some blame unions, claiming that featherbedding results in substantially higher costs, but this has been a minor problem in the nonprofit theatre. [8, p. 9]. Jack Poggi states that the rising costs are due to increases in the standards of quality expected of the Arts. This will accelerate the costs of material and labor because higher quality material costs more. Thomas Moore blames the increasing costs on increases in cost components. Any change in the relative importance of cost items can also have important financial effects on the industry. Table 6 lists the rates of increase of several cost items in the nonprofit theatre. The largest individual increase is in transportation and travel associated cost—17.2 percent—but table 6 shows that this item constitutes only 2.6 percent of the budget. The evidence still shows that salary and wage related costs are the major source of increases in cost items.

The expenditure components are somewhat predetermined by the particular art form, and the relative importance of these components varies very little with a change of budget size. Some organizations, such as symphony orchestras, will have higher personnel costs and lower scenic costs than the theatre, but within each category the components are consistent. What this rigidity means is that it is very difficult for producers to make any large changes in relative expenditures. An example of this rigidity over time is shown for theatre expenditures in figure 3.

TABLE 6
AVERAGE SALARY AND NONSALARY COST ITEMS
AND THEIR COMPOUND RATES OF INCREASE
FOR 30 NONPROFIT THEATRES

1965 - 1974

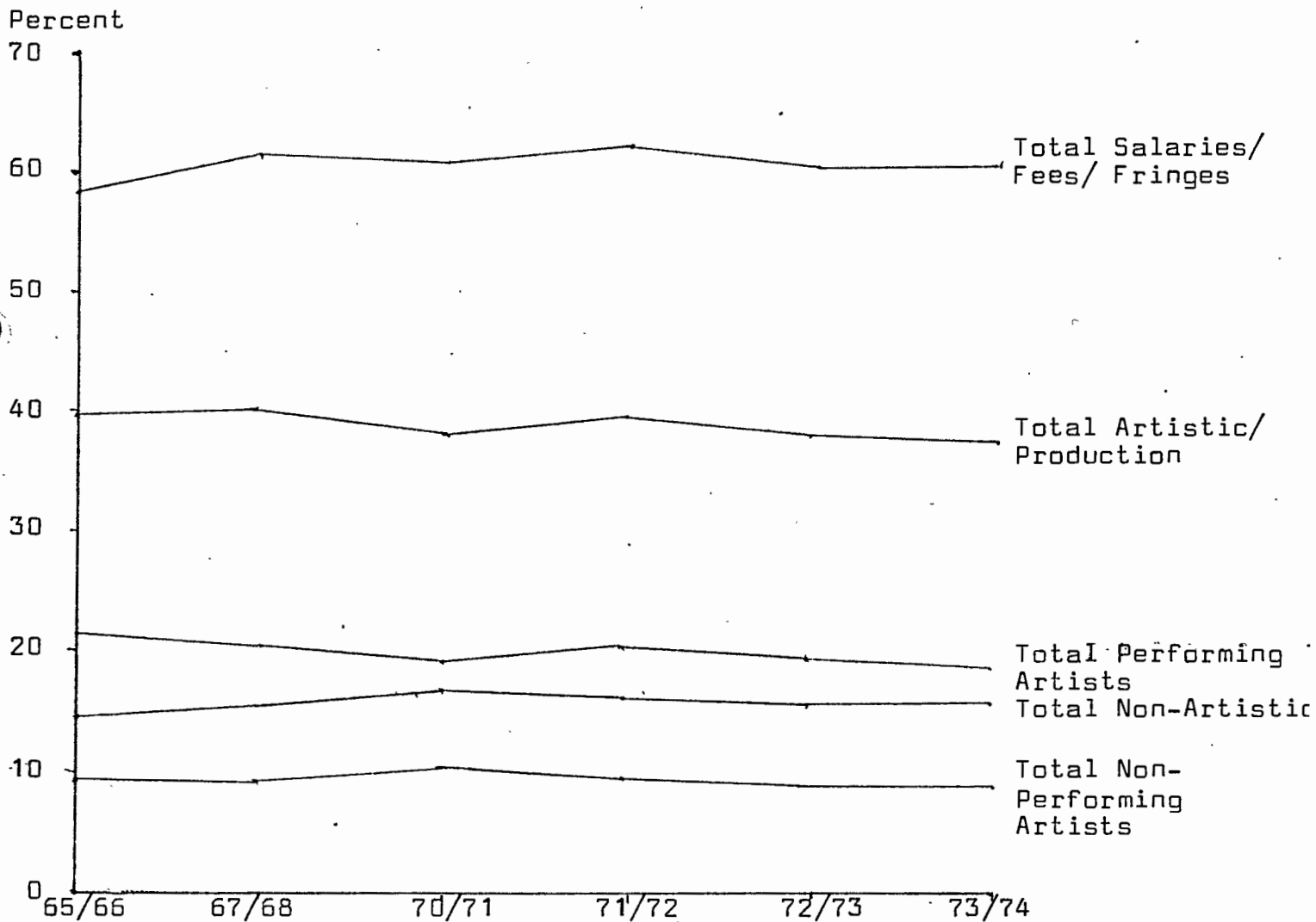
	<u>1965-66</u>	<u>1973-74</u>	<u>Rate of Annual Increase*</u>
Total Salaries	58.3%	61.5%	9.6%
Total Artistic	31.2%	28.9%	-
Performing	-	-	7.9%
Nonperforming	-	-	9.2%
Stagehand/Crew	8.1%	9.7%	10.1%
Employee Fringe Benefits	4.4%	6.4%	13.5%
Administrative	14.6%	16.5%	10.4%
Total Nonsalary	41.7%	38.5%	8.2%
Departmental (scenery, etc.)	9.6%	7.8%	6.9%
Facilities and related maintenance costs	8.4%	6.8%	6.1%
Transportation, Travel, etc.	1.3%	2.6%	17.2%
Royalties	2.5%	2.8%	9.5%
Fund raising costs and fees	0.7%	0.6%	5.2%
Subscriptions/promotional	9.2%	8.8%	8.4%
Other	10.0%	9.2%	8.5%

Source: Mathtech. The Conditions and Needs of the Live Professional Theatre in America, pp. III-75 - 77.

* The rate of annual increase is not the rate of change of the first two columns, but rather the rate of change of the dollar amounts of the cost items over the period.

FIGURE 3

SELECTED SALARY/FEE EXPENSES AS A PERCENT OF TOTAL
OPERATING EXPENSES
FOR 30 THEATRES



Source: Mathtech. The Conditions and Needs of the Live Professional Theatre in America. p. V-68.

Looking closer at table 6 we can see that 61.5 percent of the total cost is for salaries and related benefits. If we add the artistic fees, royalties and script costs together, it totals almost 65 percent of the cost going to artistic personnel. That more than half the costs of all art forms, not just theatre, goes to personnel is important. Earlier we examined the wages from the artist's side; now we can examine it as a cost component.

Baumol and Bowen describe three types of influences on wages the performing arts [8, p. 234]; first is the influence of the general economy on wages. This influence, due mostly to inflation, is not indigenous to the arts industry alone - it affects every industry.

The second influence Baumol and Bowen note is any special circumstance relating to the performing arts that would effect them in some way. The competition of mass media and shortages of skills are examples Baumol and Bowen point out.

The third, and perhaps most important, influence noted is that of union activity. Unions were discussed briefly earlier, but the actual extent of union activity in light of the increasing budget costs has not been discussed. There are five basic performing arts unions, all under the charter of the Associated Actors and Artists of America (the four A's). They are: Actor's Equity Association (AEA), Screen Actors' Guild (SAG), American Federation of Television and Radio Artists (AFTRA), American Guild of Musical Artists

(AGMA), and the American Guild of Variety Artists (AGVA). These guilds are the major unions in the performing arts. There are other administrative unions such as the American Society of Orchestra Leaders (ASOL), but their influence on the artist is much smaller than the others, and they have no legal jurisdiction over the artists.

The most flagrant accusation against the unions is featherbedding. Featherbedding is employing more workers than is actually necessary do to the job, whether it be performing or nonperforming personnel. The theatre seems to be the biggest source of this abuse:

In some cases, work rules forced producers to maintain duplicate crews during a New York engagement or to use three separate crews when moving a production. [26, p.70].

The reference was made to a production that was moving to a smaller theatre a few blocks down the street. Union rules required that one union company must load the truck, another must drive the truck from one location to another, and a third must unload the truck. [26, p. 70]. Such examples, however, are admittedly rare, but they point out the potential that exists for inflating costs.

In spite of this opportunity for financial gain, unions have not made significant gains "beyond those achieved by other unions. In fact, some of the theatrical unions were not very demanding." [26, p. 69]. Thomas Moore attributes union activity to only 5 percent of the increase in total costs, attributable, he adds, to increases

in royalties. [17, p. 67].

So while unions have attempted to keep wage and salary increases consistent with the general price level changes, they have only recently managed to catch up with the lag that had been commonplace before.

Artists' earnings, however, are not the only cost item that has been rising. Cost increases have affected every type of expenditure. As mentioned earlier, transportation and travel costs incurred the largest increase of any nonsalary costs in table 6. Subscriptions and promotions, while constituting 8.8 percent of expenditures, rose 8.4 percent during the period, a substantial increase relative to other nonsalary costs. This points out the importance of subscription sales to the performing arts - a point to be discussed in the next section.

One salary item worth noting is fringe benefits. This component of expenditures has been rising at a rapid rate of 13.5 percent per year, but it is only 6.4 percent of total expenditures. This growth shows the gaining importance extra benefits are to artistic personnel. Fund raising costs and fees constitute the smallest portion of expenditures—0.6 percent—and also reflect the smallest rate of increase—5.2 percent per year.

One cost item that will begin to show greater and greater increases in the near future is facilities and their related maintenance costs, including depreciation. Although this item is growing at a 6.1 percent rate, increasing

energy costs can be expected to boost the rate substantially. " ...[A]part from lighting, just heating and cooling an art center has become a major budget item." [21, p.40].

Despite the constant price increases, limited cost-saving measures been applied to the Arts yielding satisfactory results. Some of these measures taken have resulted in reduced standards of artistic excellence. Increasing costs force many small performing arts organizations to cut back on the new and experimental productions they perform, and rely on popular material instead. The consequences of such changes are that nonprofit professional companies are not able to provide the innovation in the Arts they have been known for, and so are not able to provide the valuable services they had intended. Although undesirable, therefore, it is possible to reduce cost increases by allowing the quality of the product to drop.

There are other methods of reducing cost increases, or raising earned revenue to offset these cost problems. Mathtech notes that many nonprofit theatre companies have increased the average length of their runs by more than a third. This increase, where possible, spreads the fixed costs of production out, thus reducing the average cost per production. If substantial revenue gains are realized by the longer runs, then costs may be more easily recovered at the box office.

Alleviating imperfect information is an area that could well increase revenues or reduce costs. Public

awareness of specific productions can be increased by larger advertising and promotional announcements. The public would be more responsive to arts organizations and the results could be longer runs for popular productions and greater incentive to experiment with new material.

The future trend for cost increases is difficult to state with certainty, but it appears that they are beginning to level off a bit, and that future cost increases will be much more in line with general price increases. [24, p. 181]. But these increases, no matter how small, appear to make it necessary for arts organizations to find wider sources of support.

Revenues. The Athenian festivals were financed three ways [6, p. 371]; the choregoi, wealthy citizens who would contribute what they could as backers of the production; the lessors of the theatres, who contributed in-kind; and the state government, which paid wages and admittance for those who could not afford the price of admission. Financing of the Arts today is still much the same. Although the citizens are not actual "backers" in the same sense as in Athens, they purchase tickets and make tax deductible contributions to the Arts. The earned income of an arts operation is the income received at the box office from ticket sales. Concession and program sales are also sources of earned income coming from the individual consumer.

Comparable to the in-kind subsidies of the theatre lessors are the corporate and foundation contributions of today. Although they are rarely in-kind contributions anymore, the gifts and grants by businesses are as much as source of revenue in the Arts today as they were in Athens thousands of years ago. This is the unearned income of arts organizations, because it is a gift, a contribution, not the result of any actual business operations of the company.

Another source of unearned income are the various levels of government. These different sources of income, all of vital importance to the survival of many of the country's nonprofit professional organizations, are the subject of this section of the chapter. Each source will be considered in greater detail, with attention to the relative contribution of each to the welfare of the Arts.

Earned Income. For arts organizations to rely solely on earned income to offset their costs, ticket prices would have to rise at a much faster rate than other prices in the economy at present. The higher ticket prices rise, the lesser is public access to the Arts.

Between 62 and 65 percent of total expenditures in the nonprofit professional theatre is met by earned income, while the figures for other arts organizations vary from 46 percent for symphony orchestras to 71 percent for modern dance companies [see table 7]. Despite this wide fluctuation

TABLE 7

PERCENT OF TOTAL OPERATING EXPENDITURES
MET BY EARNED INCOMES, 1970-71

Theatre	64%
Opera	51%
Symphony Orchestras	46%
Ballet	53%
Modern Dance	71%

Source: Ford Foundation. The Finances of the Performing Arts vol. I, p. 63.

in the industry as a whole, these figures have been constant over the past few years for each individual institution.

The greatest source of earned income for the performing arts, with the exception of modern dance companies, is subscription income. Subscription sales are made prior to the opening of the season and are sold in blocks for the entire season. Opera, symphony and ballet companies gain more from subscription sales than does the theatre because of their stronghold in America as established classical institutions. The growth of this source of income has been estimated to be 10.7 percent per year. [15, p. III-89].

Another important source of income, particularly for theatre and modern dance companies, is the single ticket income taken in at the box office. The reason why ticket income is a greater source of earned revenue for these -

particular organizations stems from the consumers. People tend to choose performances of theatre or dance based on the actual production at the time, rather than the company (although several repertories have established themselves as fine troupes and draw capacity crowds regardless of the production), whereas opera, symphony and ballet companies are all established "performing ensembles," and are more likely to draw subscription sales on the basis of the company's reputation. Tickets as a specific revenue source will be discussed at the end of this section.

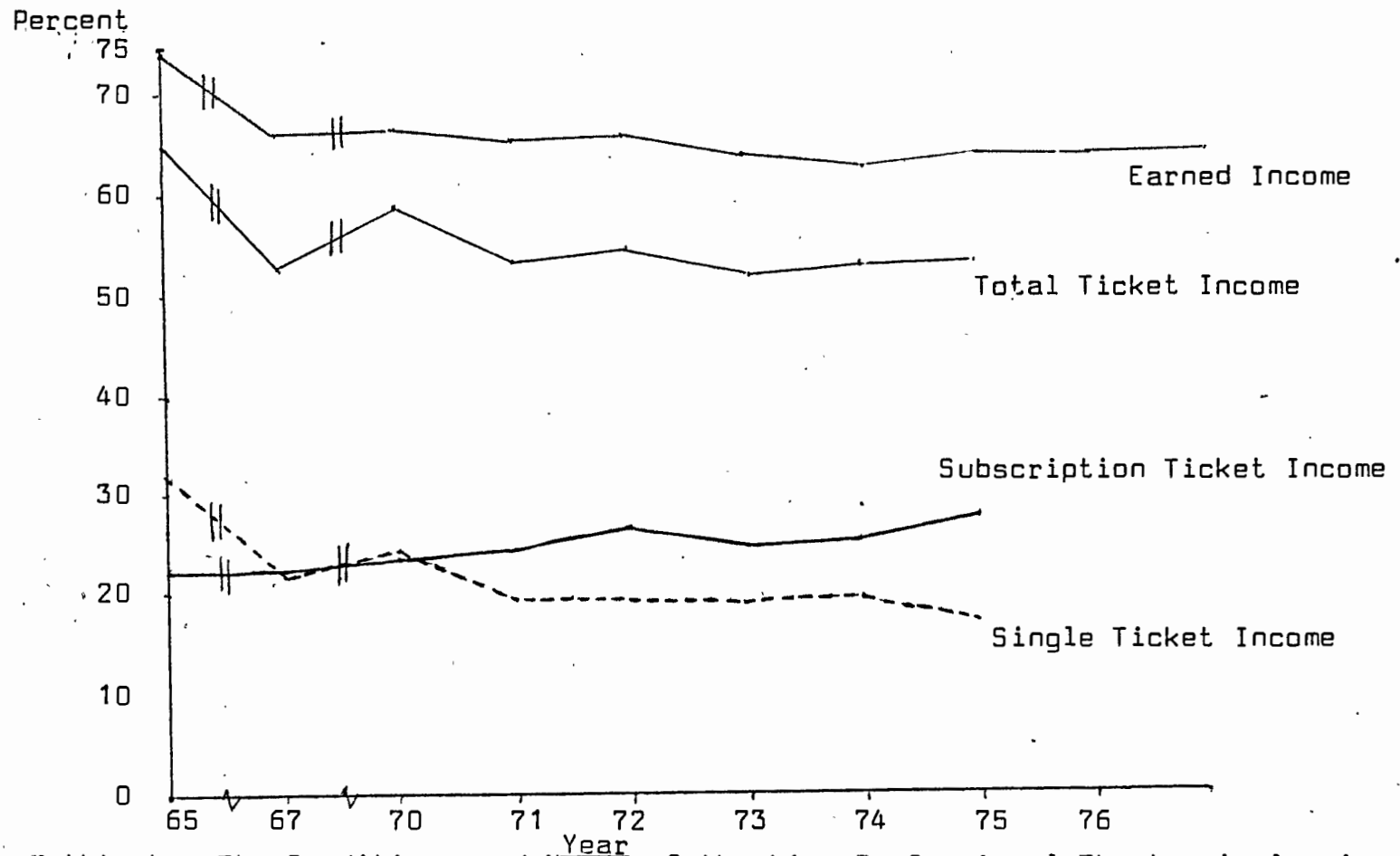
Figure 4 shows earned income, its major components and the relative contributions of each to total operating expenditures of 30 nonprofit theatres. The difference between total earned income and subscription and single ticket income comes from variety of sources. Many companies will perform for a fixed fee regardless of attendance, and this income is listed as service income. Although a relatively new source, it is growing at a very rapid rate—10.7 percent—and is becoming a substantial source of revenue for many institutions. [15, p. III-89].

Another minor source of earned income is that realized from concession and program sales. Auxiliary income has been growing actually faster than box office sales, and it, too, is beginning to constitute a gradually larger source of earned income.

Although total earnings do, and should, constitute the largest portion of income in the Arts, they are not

FIGURE 4

EARNED INCOME AND TICKET INCOME AS A PERCENT OF TOTAL OPERATING EXPENDITURES
30 LARGER NOT-FOR-PROFIT THEATRES



Source: Mathtech. The Conditions and Needs of the Live Professional Theatre in America,
p. III-99

the only source. " ...[T]he theatre may be in for a period of retrenchment if substantial new sources of revenue are not found." [21, p. 15]. Although they were speaking solely of theatre, Mathtech researchers could well have included all the art forms.

Tickets. Although tickets have been examined as an obstacle to attendance, they have not been studied as a source of revenue in the performing arts. "Since attendance cannot be expected to increase dramatically, the only means of increasing earned revenue will be through higher ticket prices." [22, p. 12]. Although ticket prices would be most efficient economically if set at the marginal cost of performance, that price would result in a deficit by being below average cost. So pricing tickets is a very difficult thing for organizations to do.

What is the average price paid for a ticket by audiences? Although no recent national statistics are available, the NRCA survey of New York audiences revealed that "[t]he mean price paid by audiences for a ticket was \$5.90, with prices ranging from free for 17% of the audiences to \$10.00 or more for 13% of the audiences." [5, p. 91]. Several observations were included in the study as well. [5, p. 92 ff.]. The NRCA noted that, as income rose, consumers spent more money on tickets, indicating a preference for better seats. Also, out of state visitors and suburban residents paid higher than average prices for their

tickets. This illustrates the difference in values consumers place on commodities. To a visitor, the value of attending an arts performance is higher than that of a resident of the area. For this reason, a visitor is willing to pay a higher price for that performance. This has important implications for pricing policies in the Arts. People who buy higher priced seats have indicated a preference for good location as their primary reason. Since they are concerned with the location rather than the price, an increase in higher-priced seat prices "might meet with relatively little resistance...." [5, p.94]. This could increase ticket revenues without reducing the availability of the Arts to low income people.

Ticket prices are not the only costs to consider when dealing with potential revenues. We have already seen that consumers consider the total cost of attending when going to the arts events. The associated costs—babysitting, transportation, restaurants, etc.—can affect attendance—and therefore revenues—by changes in their costs as well. Ticket increases on top of other price increases could well place the total cost of the evening out of the reach of some individuals. So these added costs, while not directly incurred by the performing arts, can play an important role in ticket price considerations.

The exact level of associated costs varies from area to area, and income group to income group, but Thomas Moore pointed out that the ticket price is only half the cost of

attending a Broadway show. [17, p.82]. Since Broadway tickets are, on the average, higher than prices in the nonprofit segment, it can be expected that associated costs are more than half the total attending costs for the nonprofit theatres. This appears to be the case in New York state and Boston. The NRCA's study of New York audiences revealed that "people generally spent 2 1/2 times the ticket price in total expense." [5, p. 95].

In Boston, arts institutions spend \$49 million annually and ...for every theatre ticket purchased, seven dollars is spent on items like food, parking, and other entertainment. [3, p.82].

Although the above statement does not reveal the ticket price, if we assume the mean price is used—\$5.90—we can see that the related costs are still more than half total attendance costs.

Associated costs, therefore, can be very important for arts organizations when looking at their own ticket prices. These related costs bestow many benefits upon the community as well. By encouraging consumer patronage of local restaurants and hotels, the arts organizations can draw business to the community and business dollar contributions into their organizations.

With respect to price increases, one observation is clear; if arts organizations had raised all ticket prices in proportion to the increase in total expenditures, low income consumers of the Arts would be severely cut off, while higher income consumers would not.

Several solutions have been offered to stimulate the audiences into purchasing more tickets. Experimental price increases may tell the arts organizations the effects of such a move, but attempts to bring in more revenue this way may fail because increases in ticket prices may reduce the gift-giving incentive of many. Dick Netzer feels that it is important to experiment with ticket prices to prove that organizations are maximizing their earned income. Doing so, however, may result in the loss of unearned revenues and many frequent attenders. [24, p. 174-5]

"Two-fers" had been suggested as a means of attracting a large clientel. Thomas Moore feels that "two-fers" would be most effective for those who have a more elastic demand for the Arts—children, civic clubs and large corporations. The problem with "two-fers" is that they might not produce the increased patronage revenue necessary to recover costs. For every ticket sold as a "two-fer," two seats in the house must be given up instead of one. The net result is a lower average ticket price per seat, such that, at capacity, total revenue is reduced.

Although these alternatives to ticket price hikes have been offered, it is still most important to realize that box office sales is the widest source of tickets available to consumers. This sometimes makes it difficult for the consumer to purchase tickets. Computerized outlets, now becoming more popular as a source of tickets, illustrate the potential for gaining audiences away from

the box office, and, ultimately, for increasing revenues. Hoping that the convenience of securing a ticket will induce more frequent attendance, producers might be less reluctant to expand price ranges, or more likely to increase the length of the run of a production.

Tickets are a rather ambiguous source of revenue. Since the relationship between price and demand is not certain, actual potential revenue from tickets is unknown. The strongest objection to experimenting with prices is that it might not work, causing a loss of earned revenue. Dick Netzer, however, feels that, unless arts organizations prove they are maximizing their potential earned revenue, public support of the Arts is not legitimate policy. [24, p.175]

Unearned income. There are two major sources of unearned revenue in the performing arts; the private sector, and the public sector. Each of these will be discussed separately, but the government's role will be emphasized.

Unearned income accounts for a very large percentage of total income, sometimes as much as 43 percent [see table 8]. Although the largest part of this comes from the private sector, government is still contributing substantial sums of money and materials to the Arts. It is inevitable that the levels of unearned income will change, but these changes are controlled by the uncontrollable economic factors of the general economy, whereas earned income is, to a large degree, controllable within the

TABLE 8
SUMMARY OF INCOME AND EXPENDITURES
1970-71*
(in thousands of dollars)

Operating Expenditures	\$137,745
Earned Income	75,956
Unearned Income	59,732
Total Operating Income	135,689
Earnings Gap (net after earned income)	(61,788)
Net after Total Operating Income	(2,056)
Corpus Principle transferred to Operations	2,661
Net after Operating and Corpus Transfers	605

Source: Ford Foundation. The Finances of the Performing Arts. vol. I, p. 40

*excluding the Metropolitan Opera

arts industry itself. This leaves the arts industry virtually helpless in controlling the levels of gifts, but it is possible for the Arts to boost that segment of support by encouraging their patronage, thus increasing the business' gift-giving incentive.

Private. There is no doubt that private contributions to the Arts will have to remain the largest source of unearned income in the performing arts:

The private sector has played a major role in encouraging the development of the arts nationwide and continues to provide the overwhelming portion of support. [21, p.26].

In 1976, the private sector contributed 65.3 percent of all unearned income to the nonprofit professional theatre. The Ford Foundation's study of the Arts revealed that the private sector contributed 92.6 percent of the unearned income of all the performing arts organizations studied in 1965-66, and, although this figure had dropped in five years, the 1970-71 contribution of the private sector was still an incredible 85.0 percent [see table 9].

Although the NEA feels that private support is "heading in a direction of more gifts of smaller amounts," the local private sector will, in all probability, remain the major contributor to the Arts. [22, p. 13].

John Kenneth Galbraith discusses the relationship of the actor to the corporate organization. He notes that, the larger the corporation, the more likely it is to select the "most accomodating" artist, rather than the

TABLE 9
CONTRIBUTIONS AND GRANTS USED FOR OPERATIONS
FOR 30 NONPROFIT ORGANIZATIONS
(in thousands of dollars)

	<u>1965-66</u>	<u>1970-71</u>
Total Local Nongovernment Contributions	\$18,377	\$35,967
National Foundation Grants	3,504	8,193
Total Private Sector	21,881	44,160
Federal Government Grants	549	3,390
State Government Grants	203	2,427
Local Government Grants	983	1,961
Total Public Sector	1,735	7,778
TOTAL CONTRIBUTIONS AND GRANTS	\$23,616	\$51,938

Source: Ford Foundation. The Finances of the Performing Arts vol. I, p. 83

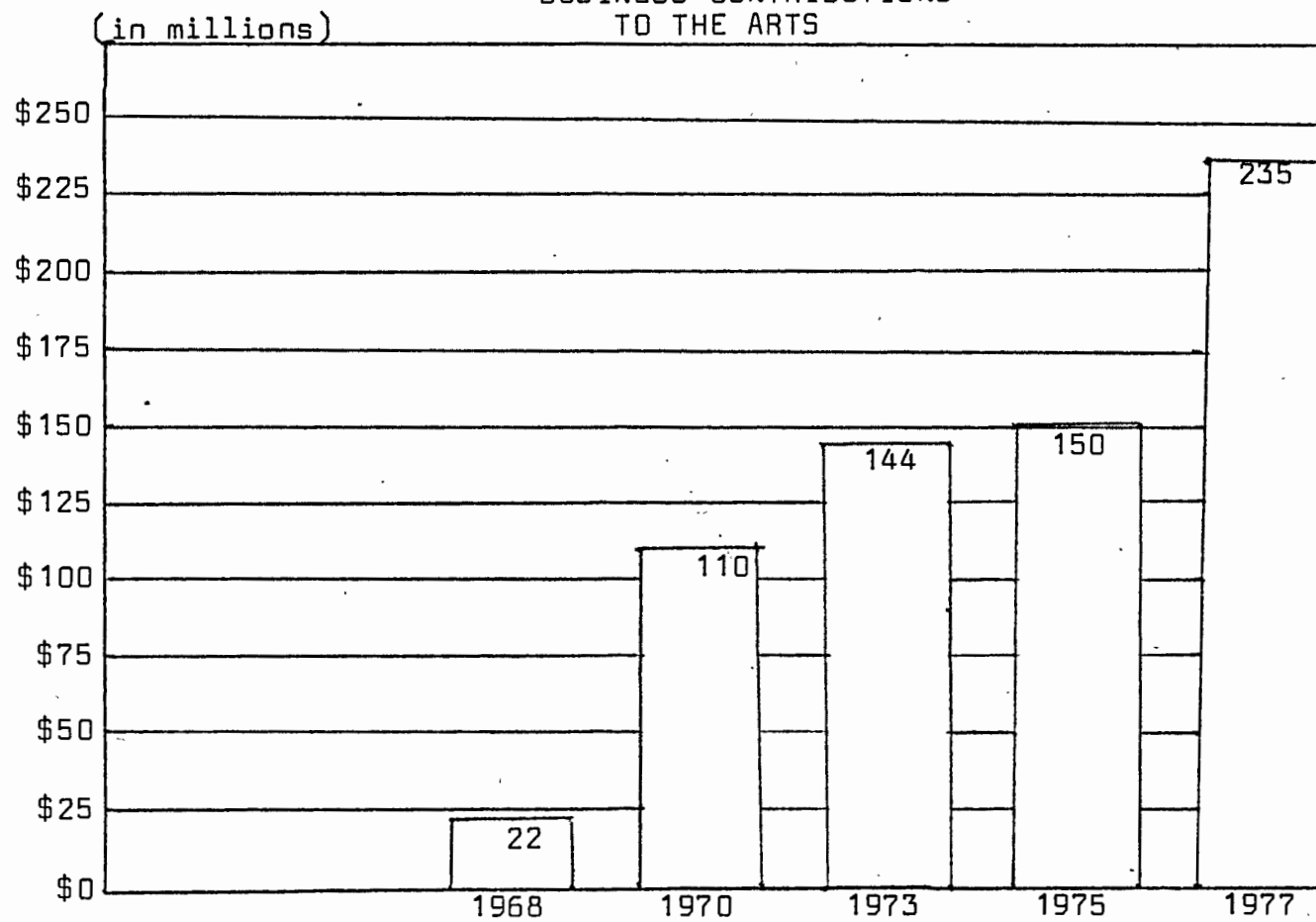
best, because the good artist will not be subordinate to the needs of the corporation. [14, p. 63]. This development of nonprofit professional companies by the corporation is encouraged by the federal tax provisions to both the corporation and the nonprofit organization it creates. Mr. Galbraith points out that, even though the large firm may be more proficient—long runs, technological efficiency, low costs, etc.—the small firm can support the superior art. It can respond more easily to the artist. [14, p.63-4].

The NEA reports that corporate contributions to the performing arts in 1972 were 4.1 percent of all corporate philanthropy, and, by 1976, that figure had risen to 8.1 percent. In the nine year period from 1968 to 1977, corporate giving to the Arts had risen from \$22 million to \$235 million, an increase of more than 30 percent per year [see, figure 5]. [21, p. 26]. This represents remarkable growth, given the economy of the 70's. In spite of high inflation, corporations have managed to maintain large contributions to the Arts. This is unusual, for nonprofit organizations are usually the first to suffer when economic times are bad. Mathtech researchers note that the theatre did suffer in the 1970's as a result of inflation:

Considering the rate of inflation since 1973, certainly National Foundations have not kept up with their previous commitment to the theatre, and the rate of annual percent increase of their grants is slower than the rest of the private sector. [15, p.III-89].

FIGURE 5

BUSINESS CONTRIBUTIONS
TO THE ARTS



Source: NEA, General Plan 1980-1984. p. 27.

Mathtech attributes the drop in annual increase to shrinking portfolios and changes in priorities.

In addition to monetary contributions, private individuals and corporations make in-kind contributions as well. Theatres are sometimes loaned to nonprofit organizations at zero, or reduced, cost, effectively resulting in a pure subsidy. Actual statistics, however, on in-kind contributions of this nature are very hard to find.

One final source of unearned income should be noted. Corpus earnings—dividends and interest received on corporate principle contributions—are a relatively minor source of income. Although they are considered sometimes to be earned income, they are more often considered unearned because of the original source of the principal, and also to distinguish this from income from that income earned directly from operations. [13, p. 40].

Public Contributions. The purpose of this paper so far has been to examine the state of the performing arts today and examine the reasons for and against public support of the Arts in America. Though there are many federal policies affecting the Arts—taxation laws, copyright laws, postal rates, government property, public works programs, and general assistance programs—the most beneficial agencies of financial help have been the NEA, the NEH, The Corporation for Public Broadcasting (CPB), and the Smithsonian Institute. These agencies have all contributed greatly

to the welfare of the performing arts in this country and elsewhere. The Arts Endowment has naturally executed the strongest influence in the Arts.

The problem of public policy and governmental intervention is not a new one, but it is an important one that must be considered as a means toward an end. In the Arts, the important question is, What is our cultural goal?" As Frederick Dorian noted, "[i]t would be futile to discuss ways and means of art support before knowing the aims involved." [11, p. 457].

Although modern democracies have been reluctant to acknowledge their responsibilities to the Arts, they are as capable of encouraging excellence in the Arts as any system of government. [29, p. 1]. The importance of the Arts has been emphasized all throughout history:

The legitimate object of government is to do for a community of people whatever they need to have done, but cannot do at all, or cannot so well do, for themselves, in their separate and individual capacities. In[sic] all the people can individually do as well for themselves, government ought not to interfere. [29, p. 112].

An industrial civilization brought to the highest point of development has still to prove that it can nourish and sustain a rich cultural life. [11, p. 482].

These statements by Presidents Lincoln and Kennedy emphasize the commitment the founding fathers of our nation placed on the Arts. Until the 1960's, however, the United States government remained virtually blind to the necessities of the performing arts. Although no one could deny that the Works Progress Administration

of the 30's produced masterful works of Art, the WPA's concern was with unemployment rather than development of Art as a cultural heritage. Without a continuing effort by the federal government to aid the arts institutions, they will lose ground rather than continue to grow. But it is important that the government be subordinate to the contributions of the private sector, as the risk of government control is increased otherwise.

Earlier a discussion was presented focusing on the advantages of national versus state aid. The purpose of this argument was not to choose one over the other, but rather to focus the attention on the importance of both federal and state governments. "...[G]overnmental allocations to the Arts should be on all levels." [11, p. 459].

Quality should be the primary concern of any financing body, whether it be government, business or individuals. To allow mediocrity as a substitute for excellence would weaken the foundation of the performing arts.

The marginal effect government can have on the Arts is a very delicate issue, for it deals "with one of the most sensitive aspects, the aesthetic, of man's existence." [27, p. vii]. This delicate task can, and will, ultimately result in conflict among decision makers, because the systematic methods economists use for some policy formulation cannot always be applied to policy formulation in the Arts. Dick Netzer points out two difficulties associated with arts policy [24, p. 17]; first, those making

the policy decisions "are, and should be, creative and idiosyncratic individuals, not inclined to rigorous policy analysis." The second difficulty is that the amount of money spent on the Arts by the government is very little. This makes it impossible for everyone who needs help to get it. The city of Hamburg gives more money to its opera and ballet companies than this country gives to its entire performing arts. [4, p. 33]. The problem of trying to allocate the funds in optimum quantities is compounded by the popular nature of the subject. Policy decisions in the Arts are much more likely to be an issue of discussion than are those of other public policy concerns, with the possible exception of medical care, social security and welfare. So unless the money put into the performing arts is done so wisely, it is money wasted.

Contributions to the Arts may be affected in coming years if the government commits itself to a balanced budget. Because of the cutbacks in spending that would be necessary, growth of government funding in the Arts would decline, so decisions concerning allocation policies would become more tenuous than before.

One final note should be mentioned. The focus of the preceeding discussion has been on national policy, but the role of the state and local governments cannot be underplayed. Their help can focus greater aid on struggling organizations, a problem national governments may overlook. State arts agencies "represent a major source of financial

and technical support for artists and institutions." [21,p. 22].

Though there are many different ways public support is given to the Arts, the two most important are the tax laws and the Arts agencies, specifically the NEA. This final discussion on public support of the Arts will focus on the tax laws affecting the Arts and the NEA.

Tax Laws. The impact of the tax laws is two-fold; first, the artist is aided, who, because of his erratic earnings pattern, can pay fewer taxes by averaging his income. One successful year could just as well be followed by four unsuccessful ones. By averaging his income, the artist can reduce his marginal tax rate and pay fewer average taxes over time.

The second impact of the tax laws is on the arts organizations themselves. Nonprofit organizations have to pay no taxes at all on profits, if any. Although they rarely have profits, Baumol and Bowen note that the tax laws make their existence easier because of the simplicity of their situation. Contributions to the Arts are deductible as well. The only problem with deducting contributions to nonprofit organizations is that, because of their higher tax bracket, the wealthy actually contribute more to the Arts than the poor, even if their dollar contributions are equal. For this reason, many public policists favor a tax credit, where every dollar contributed is equal, regardless of the tax bracket.

This would reduce the influence of the wealthy and ultimately result, some feel, in a decrease in individual contributions. [8, p. 356].

Property tax exemptions also have an impact on non-profit organizations situated on high-value land. Dick Netzer points out a distinct disadvantage to this law. Because this law is sometimes the only one that affects them, arts organizations begin to direct their funds toward capital improvements, rather than on their programs, which should be the focus of such funds. [24, p. 44].

There are, however, advantages to the exemption laws. Allowing contributions to be deducted relieves the government of the burden of having to choose which organizations should receive funds. Another advantage is that it reduces the welfare cost of subsidizing directly; by allowing funds to go directly from individuals to arts organizations, there is no loss of revenue due to administration and related costs. This puts more money into the Arts than would have otherwise been. Because of the different levels of government available, taxes can more efficiently be levied on those who receive the benefits from the Arts.

The exact amount of tax revenue "given" to the Arts, because of the various deductions and exemptions, is hard to define, because profits of arts organizations are not reported. Netzer estimates that the American tax preference for the Arts is at least \$400 million annually, and perhaps as much as \$800 million. He estimates property

tax exemptions to equal \$150 million annually, not as large as the contribution deductions, but a valuable sum to the Arts nonetheless.

These tax laws do have a substantial impact on the Arts, perhaps moreso than the NEA itself. Very few countries have laws which encourage such private giving to the Arts. These tax laws are acting as a silent partner in the government's aid for the performing arts.

The NEA. "The mission of the Arts Endowment is the arts." [21, p. 7]. Though this statement might seem a bit superficial and redundant, it shows that the NEA is trying to focus their efforts, not on any government purpose, but on the purposes of the performing arts. They are trying to draw public attention to issues in the Arts, trying to identify ways to remove barriers to wide access of the Arts and, most of all, trying to achieve greater public awareness of the Arts.

In order to stimulate private contributions, all grants made by the NEA must be matching grants. Every endowment dollar contributed must be matched by a dollar from private sources. Since most grants total only one-half the budgets of approved organizations, the endowment contributions are only one-quarter of the total budget.

In its statement of purpose, the NEA stated four objectives of its agency. Each of these can be tied to specific concerns of arts policy consideration. [24, p. 70-4].

The objective of wider availability helps to overcome barriers to entry caused by income level and information cost. It tries to offset the market pressures of centralization by moving the Arts away from the cities. There is also a disadvantage to wider availability; it may expose audiences to performances, not of high quality, but of inartistic amateur quality, thus defeating the purpose it was intended for.

The second objective of the NEA—preserving the cultural heritage—is aimed at providing quality Art for future generations. This is sometimes regarded as a reason for support of the Arts. By encouraging Art today, we are providing greater resources for our children and grandchildren.

The third objective—developing talented individuals—illustrates a concern for thin markets, and the fourth objective—strengthening the cultural institutions—helps to reduce the high cost of information and the centralizing tendency of the Arts. By aiding the individual organizations, Baumol's disease is substantially reduced, though rarely eliminated.

The establishment of the Endowment has been a great help to many floundering organizations. The NEA reports that, in 1965, only a few nonprofit organizations were eligible for funding, but by 1978, this figure had tripled [see table 10]. [21, p. 13].

For theatre companies with shorter seasons, NEA support

TABLE 10
GROWTH IN SELECTED CULTURAL INSTITUTIONS
ELIGIBLE FOR FUNDING
1965 - 1978
(estimated)

<u>Type of Institution</u>	<u>1965</u>	<u>1978</u>
Professional Symphony Orchestra	58	144
Professional Opera Companies	27	65
Large Professional Theaters	12	70
Small Professional Theaters	10	200
Professional Dance Companies	37	200
Museums (art, science, history)	1700	1800
Media Arts Centers	1	15
Artists Spaces	0	200
State Arts Agencies (including territories and District of Columbia)	7	56

Source: NEA. General Plan 1980 - 1984, p. 13.

represented 1.5 percent of the total budgets of those organizations receiving grants from the Endowment in 1979. [22, p. 13]. The growth of Endowment support has not kept pace with the general economy of the 70's. Theatre Communications Group (TCG) reported that Endowment support to major orchestras was 2 percent lower in 1977 than in previous years, and the NEA itself acknowledges this decline; "The federal portion,...[of earned income] is less today than it was in the early 70's." [21, p. 15]. Though Endowment support has waned in recent years, it has always been an important aid to many organizations. Companies, which once relied on large amounts of federal money, are now strong enough to draw the necessary contributions from the private sector.

Though much can be, and has been, said about the NEA since its inception in 1965, this discussion was designed simply to show the relative importance to the Arts of the federal agency by explaining its purpose and goals. Every state in the nation now has arts councils which serve much the same purpose. They work independently and with both neighboring states and the NEA. The importance of these arts councils can never be overemphasized, but the impact can. While they have proved invaluable, the intentions of all the arts councils is to stimulate private spending, not replace it.

CHAPTER (VII

THE DEFICIT AND CONCLUSION

Financial difficulties are the rule rather than the exception. indeed, these are likely to continue since the various arts are characteristically labor intensive and their audiences are often limited by the capacity of the house and the nature of the art form. [21, p. 14-5].

Many names have been used to describe this state of the Arts, but they mean the same thing; the revenues do not meet the costs and a loss results. This loss is virtually inevitable because of the labor intensive nature of the Arts. Because of this nature, ticket prices must be held down if a variegated audience is wanted. This, in turn, prevents the Arts from recovering its costs. The difference between expenditures and earned revenue is the figure of discussion in this section of the chapter.

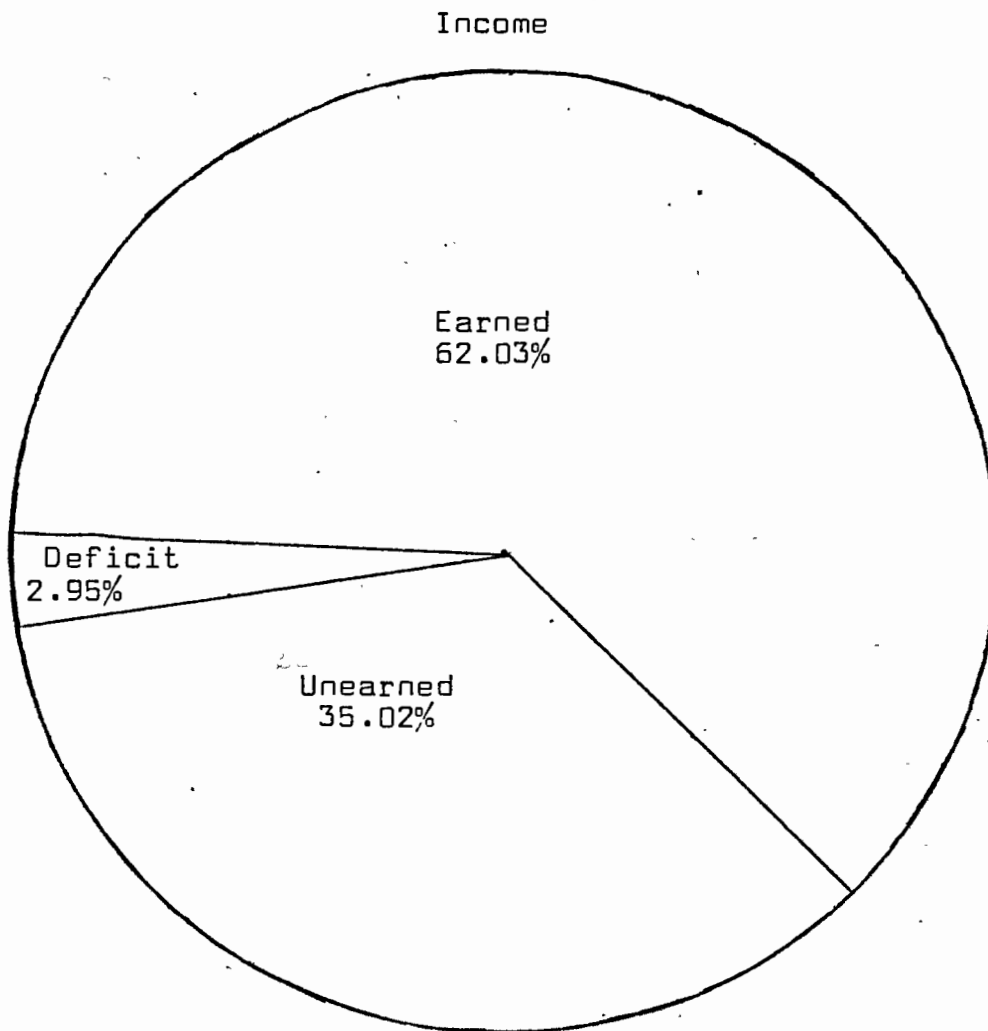
Although the word "deficit" has been used, Baumol and Bowen note that the word denotes some sort of error; "to say there is a 'deficit' implies something has gone wrong, that costs must be cut or earnings increased so that the (reprehensible) deficit may be eliminated." [8, p. 147].

Whether the word used is deficit, earnings gap, income gap, or revenue gap, the meaning is the same. Though small by economic standards, the deficit seems an endless chasm that cannot be crossed, one that will ultimately lead the organization to its death.

Figure 6 shows that, even with private and public contributions, many arts organizations still have a deficit.

FIGURE 6

59 LARGER NOT-FOR-PROFIT THEATRES ALL OVER THE COUNTRY
EARNED AND UNEARNED INCOME AS A PERCENT TO TOTAL EXPENDITURES



Source: Mathtech, Inc., The Conditions and Needs of the Live Professional Theatre in America, p. III-87.

Though less than three percent, the deficit is quite a bit larger when viewed as the costs not covered by earned income alone (37.97 percent). To say that earned income covers less than two-thirds of the total expenditures is a very sobering fact. Although private and public contributions have done much to reduce that gap, a deficit still remains for many organizations. In fact, Baumol and Bowen note that, because of the economic structure of the performing arts, this income gap may continually widen over time. [8, p. 161]. The typical performing arts income gap compounds at a very rapid rate, even if earned income does not decline as a proportion of total expenditures. The Ford Foundation concurs with this judgment; "Over the survey period as a whole [1965-66 to 1970-71], both income and expenditures grew, but total income equalled expenditures less often than it fell short of them." [13, p. 5].

The only remedy that can be expected to quell the growth of the gap is increasing contributions, both public and private. Though many may argue that ticket price hikes would reduce the deficit, the result may be a reduced cross-section of audience members, thus defeating the purpose of many organizations and contributors who want to expand the accessibility of the Arts.

Table 11 shows the percent of earnings gap filled by unearned contributions to income. Though almost ten years old, the figures show that some organizations, specifically the theatre and symphony, do not manage to

TABLE 11

PER CENT OF EARNINGS GAP FILLED BY EARNED INCOME

	<u>1965-66</u>	<u>1966-67</u>	<u>1967-68</u>	<u>1968-69</u>	<u>1969-70</u>	<u>1970-71</u>
Theatre	76	84	80	83	85	99
Opera* (excluding Met)	98	90	90	91	104	114
Opera ⁺	94	100	100	98	92	108
Symphony	92	95	87	89	90	92
Ballet	89	90	86	102	109	102
Modern Dance	133	81	131	115	108	112

Source: Ford Foundation. The Finances of the Performing Arts vol I, p. 76.

*excludes The Metropolitan Opera

⁺includes The Metropolitan Opera

fill their gaps with contributions, while opera and dance companies do.

Sometimes organizations have no deficit and no surplus—contributions match the deficit to the penny. Baumol and Bowen point out several reasons why this may be the case. [8, p. 154 ff]. A residual contribution can be made by an organization or individual to balance the books of an arts company. Another method of eliminating the gap is simply to use good managing and budgeting techniques. If a surplus begins to appear, organizations may begin projects which accommodate the excess revenue. The third reason for having a balanced budget might be accounting adjustments made on the financial statements to eliminate the appearance of a deficit. The problem here is that arts organizations, instead of trying to combat the problem, prefer rather to hide it.

Another reason for a lack of deficit might be related to the quality of the product. Costs can be reduced by using cheaper labor and materials. The result may be a product of lower quality, but the organization has at least managed to eliminate the deficit.

The trouble with a deficit in the Arts is that it leaves no room for experimentation. The performing arts cannot afford to try a new and innovative venture in the Arts, because the result may be a failure and a larger deficit. If organizations knew their budgets would balance, they could take more chances and try newer material

knowing that any resulting loss can be covered by concerned patrons.

Mathtech researchers state three possible alternatives for the future of the theatre, and these can be applied to all nonprofit professional companies. [16, p. 14 ff]. First, the arts organizations may continue to effectively reduce costs or increase revenues from their own activities and actions. The result will be a continual healthy growth of the Arts in the country.

The second alternative is for the Arts to become more and more dependent on philanthropy, thus standing on a base of support that can theoretically fall out in a moment's notice. The result may be greater control of the Arts by government and business as well.

The third, and most frightening alternative, for the future of the Arts, is industry decline. If costs cannot be met, institutions will have to close down their operations.

There is a possibility—and a most likely one—for combinations of the above "futures" of the Arts, but the threat of decline remains a strong one. Despite recent growth, economic pressures, too, are growing, and it will become a strong test of society to aid the Arts in this nation.

Conclusion. Most people feel that this nation will never be without the Arts. This notion comes from people who grew up in the Arts and could never conceive of a world

without it. These notions are analogous to the people on the beach who are watching a man struggle in the water. They may believe that he will survive, but if he goes under, it just might be too late to save him. The Arts are struggling to keep their heads above water. If our nation stands by and watches the Arts go under, they may never have them back again.

It seems that, at a time when people are beginning to regain their interest in the Arts, the Arts themselves are financially crumbling. The future of the Arts can look much better if we come to realize that Art cannot be taken for granted as it has been in the past. The Arts interest more people than sports do, and attendance at art functions each year is greater than that of sporting events.

We grow up in a world built on war and power and control. Someday people will be able to grow up in a world, not of war, but of Beauty and Art and Culture. That day may be a long way off, but public support of the Arts today may soon give birth to the Art that will surround our children. "The arts...belong to the people, for it is, after all, the people who create them." ¹

¹ . "An Historic Occasion." Dance Magazine, November, 1965. p. 34.

APPENDIX

BAUMOL'S DISEASE

The discussion of the technology of the performing arts that Baumol and Bowen present in their study has been used many times to justify public support as a necessity to offset the constant productivity of the arts industry. For this reason, a discussion of the disease is included as an appendix to this paper.

Baumol and Bowen begin by imagining an economy with two sectors; one with constant productivity, and another with rising productivity. The output per manhour in the rising (automobile) industry grows at a rate of 4 percent per year, while the growth of the performance group is 0 percent per year. The reason for the growth—technological innovations—is apparent to the workers, so they request an equal increase in income. Because of this equal increase of wages and productivity, the labor cost per unit of output does not change. The result is that the automobile worker's wages will rise every year at the same rate as the increase in productivity, thus producing greater output for the economy and greater income for the workers.

Meanwhile, the constant productivity industry (the performing arts) is not experiencing any growth, so three possible alternatives are considered; first, there is no increase in wages in the performing arts, so the artist

gets poorer and poorer over time relative to the automobile worker. This will discourage job hunters from seeking employment in the performing arts.

Another possibility is offered; if the artists manage to get their wages raised in accordance with the growth of the general economy (4 percent), the labor cost per unit of output will increase because there is no offsetting increase in productivity in the performing arts. These wage increases will automatically be transferred into costs of production within the industry. " ...[There] is nothing in the nature of this situation to prevent the cost of performance from rising indefinitely at a compound rate." [8, p. 169]. Therefore, rising costs will always be present in the industry.

The third alternative, which the authors say is closest to reality, is that wages rise, but not at the same rate as the rest of the economy. The result here, however, is still the same; the the cost of performance increases at the rate of increase in wages.

The point of their argument is that, for the performing arts, where productivity is stationary, any increase in wages is automatically translated into an increase in costs as well.

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