

CHAPTER TWO

DEFINITION OF TERMS

Prior to delving into the total economic impact of the non-profit arts industry, reviewing terms such as direct and indirect impacts and multiplier effects remains a useful starting point. Specifically, a breakdown of the different forms of economic impact yields two main categories: direct and indirect economic impacts. Each time a dollar changes hands, either a direct or indirect economic impact is created.¹

A direct economic impact is a measure of the economic effect of the direct local expenditures of a particular arts-related activity and generally is the first level of economic impact within the community. For instance, when a museum pays its curators and other staff, each staff member's salary, full-time-equivalent employment status, and taxes paid to the different levels of government are evaluated to measure the direct economic impact. Similarly, the purchase of equipment by a ballet company remains an example of a direct expenditure.

An indirect economic impact occurs when an individual or organization spends money obtained as a consequence of a direct expenditure. This local spending on jobs, personal income, purchase of goods and services, and state and local government revenue ripples through a community while creating the indirect economic effect. For instance, when an orchestra purchases an instrument from a music store, a direct economic impact is created; when the manager of this store pays its employee's salary, an indirect economic impact is created. Then, when the employee uses part of his salary to pay for groceries and when the grocery store cashier pays part of the utility bill, additional indirect impacts

are created. Until the original dollar value is spent non-locally, when it is deemed to have 'leaked out,' the dollar is tabulated as an indirect economic impact.

A discussion of direct and indirect economic impacts often brings up the issue of the multiplier effect. The multiplier effect, also referred to as an economic activity multiplier, involves an estimate of the number of times a dollar changes hands within the community. In estimating this multiplier, a single number is used to multiply the expenditures involved. For instance, if the arts industry in a particular city is estimated to have a direct economic impact of \$100,000 and a multiplier of four is used, total economic impact, including indirect, is estimated to be \$400,000. Despite the widespread use of the multiplier effect, economists often caution against over reliance on this technique because the multiplier is developed by making gross estimates of the industries within the community. Since it does not allow for differences in the essential features of these industries, the multiplier could result in an overestimation of the economic impact.

In contrast to the economic multiplier approach, experts tout another, relatively inexpensive method of eco-

conomic impact analysis—an input-output model. These experts contend that an input-output model reflects a much more accurate count of the number of times a dollar is spent in the local community. This model is based on a matrix that closely follows the dollar flow between several pre-determined industries within the community before it leaks out. Using the input-output model, economists can render an accurate estimate of the impact of full-time equivalent jobs, personal income (salary, wages, and entrepreneurial income) alongside tax revenue raised by state and local governments. If a matrix that is sophisticated enough is formulated, the effect of arts organization expenditures such as paying their employees, purchasing supplies, contracting for services, acquiring assets within the local economy—considered direct impacts—and the results of these direct impacts on supporting local jobs, creating personal income and the capacity to purchase goods and services and generating government revenue—considered indirect impacts—combine to produce a precise summary of total economic impact.

In sum, the arts industry contributes to the local economic base primarily in two ways. First, by exporting a major part of its output, the industry brings new net income dollars into the economy. Second, by relying on local firms and local factors of production for its activities, the local arts industry retains dollars within the area. As a result, economic growth occurs because of increased demand for the export of locally produced arts or by reducing reliance on key ingredients such as fixed capital, current supplies, new materials, labor, etc. from other regions.

NATIONAL AND REGIONAL TRENDS

Prior to a presentation of the economic impact of the non-profit arts industry in the SLC states, a review of national trends on this topic remains very instructive. In mid-2002, *Americans for the Arts* released the results of the most comprehensive study ever conducted on the economic impact of the non-profit arts organizations and their audiences in America. This study involved 3,000 local arts organizations and 40,000 attendees at arts events in 91 cities in 33 states, a sample size that surpassed the efforts of all previous studies of a similar nature. The results of this study, still the latest national study available, reinforced the conclusions reached in previous studies that, in addition to substantially improving the quality of life in a community, an investment in the arts also generated tremendous economic benefits. The 2002 study's results came in significantly ahead of the previous *Americans for the Arts* study (completed in 1994), an indication that the arts continued to generate positive economic results despite bleak economic times and cutbacks in state appropriations.²

The sheer magnitude of the economic impact of the arts at a national level is quickly apparent with the latest study's findings that non-profit arts organizations and their audiences triggered a staggering \$134 billion in total economic activity.³ Table 3 presents additional details related to the study's economic impact results.

The \$134 billion total impact generated by the non-profit arts industry includes \$53.2 billion in arts organization spending and \$80.8 billion in event-related spending by arts audiences. The \$53.2 billion was a 45 percent increase over the \$36.8 billion recorded by the 1994 study, certainly an impressive growth rate. Then, the \$80.8 billion in spending by audiences reflects spending for hotels, restaurants, parking, souvenirs, refreshments, or other similar costs. In addition, the almost 4.9 million full-time equivalent jobs created by the industry creates a huge economic ripple effect as the economic activities of these individuals lead to greater tax revenues for each level of government. The almost \$25 billion in local, state and federal government revenues remain a huge return on investment when one considers that cumulatively these different levels of government appropriated a fraction of this amount. For example, in fiscal year 2002, the cumulative legislative appropriations of state governments were \$411.6 million, the federal appropriation to the National Endowment for the Arts in fiscal

Further measurements of the economic impact of New England's non-profit arts industry documented in the 2005 report indicates that 13,592 cultural organizations:

- » spent a total of \$5.418 billion, of which \$1.872 billion was for salaries, and \$3.546 billion was for other operating expenses;
- » received \$5.479 billion in income, of which \$3.172 billion was earned, \$1.573 billion was from foundation, corporate and individual donations, and \$734 million was from federal, state, and local government appropriations;
- » provided 78,600 jobs, including 42,220 artists and humanists;
- » secured 103,266,483 admissions to events, or 7.4 times the population of the entire region (about 67 percent of these admissions were paid admissions);
- » collected and/or paid \$146.4 million in federal payroll taxes and \$10.8 million in state sales taxes; and
- » operated with the help of 274,707 volunteers.

year 2002 was \$115.2 million. The fact that such a relatively small federal and state legislative appropriation spawned such a huge return in the form of local, state and federal revenues clearly indicates the towering multiplier forces operating in the arts sector.

As noted, in 2002, total spending by the nation's non-profit arts organizations (excluding audience spending) experienced a solid expansion rate of 45 percent, from \$36.8 billion to \$53.2 billion compared to the prior 1992 report. Even in a range of other related categories (83 percent increase in corporate support to the arts; 87 percent increase in state arts agency budgets; doubling of foundation giving to the arts; 23 percent increase in private sector giving to the arts; and a 30 percent increase in local government allocations to the arts), a comparison between the two reports documents the extraordinary growth path of the non-profit arts industry. These various government and non-government entities were convinced that financially sustaining the non-profit arts industry was crucial for generating assorted economic benefits.

Even at the regional level, recent reports amply document the impres-

Table 3

Total Impact of the Non-profit Arts Industry

Category	2002
» Total Expenditures	= \$134.0 billion
» Full-time Equivalent Jobs	= 4.85 million
» Resident Household Income	= \$89.4 billion
» Local Government Revenue	= \$6.6 billion
» State Government Revenue	= \$7.3 billion
» Federal Income Tax Revenue	= \$10.5 billion

Source: *Americans for the Arts*, 2002



Charlotte Symphony Pops Concert. Photo courtesy North Carolina Council.

sive economic impact of the non-profit arts industry. In February 2005, New England Foundation for the Arts (NEFA), one of six non-profit entities created to encourage development of the arts and to support arts programs on a regional basis, released a study entitled *New England's Creative Economy: the Non-Profit Sector*.⁴ Examining the financial status of New England's non-profit organizations between 1996 and 2002, the study concluded that cultural non-profits in New England have an economic impact of \$6.654 billion, including indirect and induced spending of \$1.236 billion.

Then, at the local or city level, a late September 2005 report from New York City noted that a near-record 17.2 million visitors flocked to the city in 2004, up 1.4 million from the previ-

ous year.⁵ The record for visitors was set in 2001, when 17.5 million visitors poured into New York City, driven partially by a need to show solidarity after the September 11 terrorist attacks. The city's tourism office reported that a cheap dollar, safe streets and a calendar packed with cultural events was an attractive blend of reasons for an increasing number of foreign visitors (31 percent more than the previous year) to visit New York City.

Cultural offerings have long been crucial to the tourism industry in New York City and the president of the tourism bureau notes that "[I]n addition to being a major economic engine, arts and culture contribute greatly to New York's quality of life." In fact, of all the people who visited New York City in 2004, 43 percent attended a cultural event or visited a cultural venue; the percentage was even higher for foreigners, with about 70 percent of those coming from overseas taking part in some cultural activity. These "cultural visitors," as the bureau classifies them, rose by 1 million from 2003 to a total of 4.2 million in 2004. More impressively, the report documents that spending on such cultural attractions as plays, museums, concerts, art exhibits, historical sites, fairs, festivals and zoos increased to \$9.1 billion from \$8.2 billion in 2004, and officials estimated the economic impact of visitors who participated in cultural activities at more than \$15 billion. (The study did not include those who did not participate in cultural activities.)



Photo by Joey Brackner, courtesy Southern Arts Federation.

EMPLOYMENT IN THE ARTS

In March 2005, *Americans for the Arts* released a report entitled *Creative Industries 2005: The Congressional Report*, which documented that arts-centric businesses represent 4.4 percent of all businesses and 2.2 percent of all jobs in the United States.⁶ This extensive study, which tracked employment levels in arts-related businesses, institutions and organizations in all 435 Congressional districts, reported that 49 of these districts had more than 10,000 employed in arts-related jobs. Arts-related jobs were broadly defined to include six creative industries: museum and collections; performing arts; visual arts and photography; film, radio, and TV; design and publishing; and arts schools and services. In addition, the creative industries ranged from non-profit museums, symphonies, and theaters to for-profit film, architecture, and advertising companies.

Some of the more salient features to emerge from the study include the fact that more than 578,000 arts-related businesses employ 2.965 million people and that more than half of the districts have at least 5,200 arts-centric employees. The district with the highest number of arts-centric employees was the 8th Congressional district (New York City) with 119,320, while the district with the least (Kentucky's 5th) had 1,554 people employed in the arts. Similarly, the New York district had 8,033 arts-related businesses while the Kentucky district had 466 arts-related businesses. When the top 50 Congressional districts are ranked by the number of arts-centric employees,

Table 4

Number of Arts Businesses and Arts Employees in SLC States by Congressional District

SLC State	Number of Congressional Districts	Total Arts-Related Businesses		Total Arts-Related Employees	
		Number	District Average	Number	District Average
Alabama	7	5,433	776	26,180	3,740
Arkansas	4	3,298	825	14,849	3,712
Florida	25	36,853	1,474	162,590	6,504
Georgia	13	16,263	1,251	84,131	6,472
Kentucky	6	5,085	848	22,625	3,771
Louisiana	7	6,229	890	28,942	4,135
Maryland	8	10,742	1,343	46,536	5,817
Mississippi	4	2,778	695	11,708	2,927
Missouri	9	8,966	996	55,307	6,145
North Carolina	13	13,648	1,050	63,590	4,892
Oklahoma	5	4,477	895	23,297	4,659
South Carolina	6	5,693	949	29,959	4,993
Tennessee	9	10,347	1,150	54,028	6,003
Texas	32	44,373	1,387	186,158	5,817
Virginia	11	12,418	1,129	66,894	6,081
West Virginia	3	1,682	561	8,432	2,811
SLC Total	162	188,285	1,162	885,226	5,464

Source: *Americans for the Arts*, March 2005

14 SLC state Congressional districts emerge in this ranking. Georgia's 5th Congressional district, representing Atlanta, ranks 10th nationally in this category and is the highest ranked SLC district.

Table 4 provides a breakdown of the creative businesses and employment numbers in the Congressional districts covered by the SLC states.

As indicated in Table 4, the 162 Congressional districts in the 16 SLC states operated 188,285 arts-centric businesses that, in turn, employed

885,226 employees. Texas was the SLC state with the most number of arts businesses (44,373) and employees (186,158), while West Virginia had the least number of businesses (1,682) and employees (8,432). District averages are another interesting level of analysis and, in this category, Florida leads the SLC states with 1,474 businesses and 6,504 employees, on average, in each district. West Virginia occupies the other end of this spectrum with 1,682 businesses and 2,811, on average, in each of its Congressional districts.