NGA Center for BEST PRACTICES

Issue Brief

Economic and Technology Policy Studies
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The Role of the Arts in Economic Development

Summary

The non-profit arts industry, with $36.8 billion in annual revenue, is a potent force in economic development nationwide. States and communities have integrated the arts into their economic development arsenal to achieve a wide range of direct and indirect economic goals. Arts programs have served as components of high-impact economic development programs by assisting state and local government in:

- Leveraging human capital and cultural resources to generate economic vitality in under-performing regions through tourism, crafts, and cultural attractions;
- Restoring and revitalizing communities by serving as a centerpiece for downtown redevelopment and cultural renewal;
- Creating vibrant public spaces integrated with natural amenities, resulting in improved urban quality of life, expanded business and tax revenue base, and positive regional and community image; and
- Contributing to a region's 'innovation habitat' by simultaneously improving regional quality of life—making communities more attractive to highly desirable, knowledge-based employees—and permitting new forms of knowledge-intensive production to flourish.

Governors can position their states to use the arts effectively by promoting new partnerships among state agencies, communities, and the business sector and by harnessing the power of the arts and culture as tools that unite communities, create economic opportunity, and improve the quality of life.

Nationally, the non-profit arts industry is a $36.8 billion business that supports 1.3 million full-time jobs. Governments also reap considerable economic benefits: $790 million in revenue at the local level, $1.2 billion at the state level, and $3.4 billion at the federal level.[1]

The Arts in the 21st Century Economy

The arts are emerging as a potent force in the economic life of cities and rural areas nationwide and assuming an important role as a direct and indirect contributor to state economies. Thriving cultural life generates income, jobs, and tax revenue, and it also creates visibility for a state. The arts and heritage activities that are prominent features for some states and regions—Broadway and off-Broadway in New York City; the entertainment industry in Southern California; the summer dance, theater and music festivals of the Berkshires; and jazz in New Orleans, to name a few—establish an identity that becomes a regionally and nationally recognizable destination. In this sense, arts-related events have long been regarded as important components in tourism development. In the New Economy, however, the arts are gaining recognition for their role in making communities attractive to workers who want to be identified with—and participate in—these opportunities during their scarce leisure time.

The arts and cultural life of a region are also principal determinants of quality of life, which is widely recognized as a critical factor in location decisionmaking for New Economy workers and companies. A 1998 KPMG survey of more than 1,200 high-technology workers examined the factors associated with the attractiveness of a new job. It found that "community quality of life" was the second most important factor—just below salary—and more important than benefits, stock options, or company stability.[2] The arts combine with more traditional quality-of-life factors including safe neighborhoods, good schools, strong infrastructure, and accessible recreational and outdoor "natural" attractions, to create more viable, desirable and livable communities. Additionally, the arts promote teamwork and team building, advance visual skills, may help increase standardized test scores and encourage problemsolving—all necessary elements for a productive and self-sufficient workforce. As such, investment in the arts may be among the most innovative workforce development tools at the disposal of state governments.

Public interest has increased yearly in the performing arts to such an extent that they now outdraw sporting events and movie houses, an accomplishment once thought impossible.

Direct Economic Impact of the Arts

Nationally, the nonprofit arts industry is a $36.8 billion business that supports 1.3 million full-time jobs. Governments also reap considerable economic benefits: $790 million in revenue at the local level, $1.2 billion at the state level, and $3.4 billion at the federal level. Economic impacts on individual states and regions include the following:

- The arts generated $849 million in revenue for Virginia businesses, provided 18,850 full- and part-time jobs, and produced $307 million in value-added income for Virginia's workforce and entrepreneurs.[3]
- Total spending of $188 million by non-profit arts organizations in Louisiana has provided nearly 2,500 full-time jobs and produced $4.8 million in state and local government revenues.[4]
- Every dollar Michigan invests in the state's Council for Arts and Cultural Affairs results in $10 of in-state direct spending.[5]
- Oregon is home to 441 non-profit arts and cultural institutions that injected $100.2 million of direct spending in the state's economy in fiscal 2000. Oregon's non-profit arts sector employed 3,623 individuals.[6]
- The arts support more than 245,000 jobs throughout the six states of New England, 3.5 percent of the region's total job base, and more than the area's software or medical technologies industries. The arts industry exhibited a 14 percent growth over a four-year period, much higher than New England's overall economic growth of 8 percent.[7]

Economically, the non-profit arts sector has an important—if difficult to measure—symbiotic role with the commercial arts sector. According to the Policy Economics Group of KPMG Peat Marwick, the non-profit sector acts as a research and development arm for many for-profit enterprises, such as television and film, design, advertising, media, publishing, recording and emerging multimedia industries.[8]

Comprehensive nationwide research on the economic impact of the arts sector as a whole—combining for-profit and non-profit arts industries—is not presently available. However, statistics on the performing arts permit an order-of-magnitude comparison. Public interest in the performing arts has increased yearly to such an extent that these activities now outdraw sporting events and movie houses. According to the Bureau of Economic Analysis, consumers spent $9.4 billion on admissions to performing arts events in 1998—$2.6 billion more than admissions to motion pictures and $1.8 billion more than total spending on spectator sports.[9] Spending on performing arts events increased by 16 percent or $1.2 billion between 1993 and 1998. In the same time period, real expenditures for both motion pictures and spectator sports grew by $900 million.[10]

Creating Economic Activity out of Regional Cultural Traditions

Thriving tourism and cultural destinations are growing out of once-latent artistic and

In rural western North Carolina, the region's crafts contribute $122 million annually to North Carolina's economy according to statistics provided by HandMade for America.

cultural resources and contributing to economic sustainability in rural communities and regions. Cultural activities attract tourists and spur the creation of ancillary facilities such as restaurants, hotels, and the services needed to support them. Cultural facilities and events enhance property values, tax resources and overall profitability for communities. In doing so, the arts become a direct contributor to urban and rural revitalization.

In rural western **North Carolina**, the non-profit organization, HandMade in America, promotes the fine craft of handmade objects as a means to sustain communities and economic development. The organization unified 23 counties and 4,000 artisans under a viable business and marketing plan that branded the region as a cultural destination. Handmade in America helped increase revenues 10 percent to 15 percent for many craftspeople and generated more than $11 million in investment in six of the region's smallest towns. The region's crafts contribute $122 million annually to North Carolina's economy. [11]

Elko, **Nevada**, is a remote rural community with a western heritage that became the stuff of poetry. Though known as strong silent types, good with a rope and gun, many cowboys entertained each other with poems they memorized or rhymes they made up on the spot. Folklorists began surveying local ranchers to find out more about cowboy poets. What they found convinced them that Elko, once the hub for Nevada's 19th century cattle empire, was a perfect choice for a Cowboy Poetry Gathering. With support from NEA, Elko held its first gathering in 1985. Since then, this wildly successful event has grown into a phenomenon that attracts 8,000 visitors and adds some $6 million to Elko's economy. Its success spawned more than 200 similar events across the nation, as well as books and radio shows.

The **Kentucky** Arts Council and eight counties along Route 23 are creating a cultural tourism plan designed to promote economic, community and cultural development in the state. This initiative seeks to prove that cultural/heritage tourism can be used as an effective economic and marketing tool to transform a region once considered moribund into a thriving business endeavor. Route 23 was chosen because of its concentration of musical heritage—many country music stars come from this area—and talent.[12] Plans are underway to create a Website and arts marketing network along the corridor, a video highlighting each county and an audio driving tour.

Arts and Culture Lead Efforts to Revitalize Communities

By partnering with the cultural sector, state, county and municipal governments are melding business incentives and the arts to revitalize decaying downtown areas. Cities such as Philadelphia, Pennsylvania; Charleston, South Carolina; and Newark, New Jersey, have used the creation of arts districts as centerpieces in efforts to combat crime and suburban flight by restoring vitality to the downtown areas. Government-led efforts have catalyzed private development interest in the adaptive reuse of urban structures to create retail, residential, commercial, and cultural spaces. As these projects gain momentum, additional private capital has flowed into the areas surrounding these projects.

Cities such as Philadelphia, Pennsylvania, Charleston, South Carolina, and Newark, New Jersey have used the creation of arts districts as centerpieces in efforts to combat increasing crime and suburban flight by restoring vitality to the downtown areas.

In Philadelphia, **Pennsylvania**, the Avenue of the Arts—a mile-long section of South Broad Street—has been a major catalyst for downtown revitalization. This cultural district, anchored by the Academy of Music and modeled after successful performing arts districts around the country, was initiated by the Central Philadelphia Development Corporation in the early 1980s and supported by cultural institutions, the William Penn Foundation, local property owners and civic leaders. Under the leadership of former Philadelphia Mayor Edward Rendell in the early 1990s, the transformation of South Broad Street into the Avenue of the Arts progressed rapidly and became a centerpiece in the city's strategy to strengthen the area as the region's premier cultural destination.

Presently, there are 11 cultural and educational institutions and 7 individual performance spaces in the Avenue of the Arts district. The project has also stimulated significant private-sector investment. A number of historic warehouses have been converted to upscale housing, and other preserved structures have been targeted for conversion to moderate-income residences. Total investment in the project stands at approximately $650 million. The district's cultural organizations, hotels, restaurants, and retail businesses generate at least $157 million in revenue annually and support 2,800 full-time and over 1,000 part-time jobs.[13]

Throughout its history, Charleston, **South Carolina**, has stood as a cultural center of the South, but its glory had faded by the late 1960s. Rather than bulldoze its past, culture and history became building blocks for the city's revitalization. The resurrection of its historic homes and districts balanced with commercial development has been one of the hallmarks of Charleston's rebirth as a destination that uses its cultural capital to draw visitors and to create an attractive working environment. The city's renewal coincided with the birth of its world-class cultural event—the Spoleto Festival USA. The event's founder, eminent Italian composer Gian-Carlo Menotti, saw Charleston as a perfect reflection of its counterpart—Spoleto, Italy, with its wealth of theaters, churches, and other performance spaces. The lessons learned in Charleston became the seed for the Mayor's Institute on City Design, which is funded by the National Endowment for the Arts in cooperation with the U.S. Conference of Mayors and the American Architectural Foundation. At the institute, the value of design and a city's cultural assets as tools of economic development are key lessons for leaders seeking solutions to renewing their cities and states as attractive places to work, live and visit.

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Newark, **New Jersey**, which suffered devastating urban riots in the 1960s and subsequent decades of blight, is undergoing unprecedented revitalization after becoming the home of the seventh largest arts center in the country, the New Jersey Performing Arts Center (NJPAC). Built largely with state government funds, but now sustained by earned income and private donations, the public-private partnership that created NJPAC began with a decision by former New Jersey Governor Thomas H. Kean who saw a need for a center to enrich the state's cultural life. He commissioned a consulting firm to study New Jersey's performing arts organizations and determine the type, size, and location of facilities required by the state's performing companies. The consultants recommended creating a performing arts center in a city that could become a cultural district, spurring the growth of other institutions nearby and encouraging the development of facilities such as restaurants, cafés, retail establishments and office buildings. Newark was the most logical choice for NJPAC because of its proximity to private and public transportation and because it presented an opportunity to catalyze the revitalization of a moribund city. The location also promised access to an estimated 4.5 million people—more than half the state's population—who live within a 25-mile radius of Newark.

The key to the project's success was a partnership between government and the private sector. Much of the funding came from state, county, city and federal sources and the remainder came from individuals, foundations and corporations. Governor Kean's initiative continued after he left office with the help of Governors Jim Florio and Christine Todd Whitman. NJPAC solicited donations from foundations and corporations such as Bell Atlantic, Merck & Co., The Black United Fund and Prudential Insurance Company. By NJPAC's grand opening in 1997, the Arts Center had raised $187 million—$125 million from federal, state and city contributions and $60 million from the private sector.

From the beginning, NJPAC has worked to reverse Newark's image as a city consumed by race relations problems. The center provides a venue for world-class artists and it attracts diverse audiences from Newark and surrounding suburbs to revitalize the city. From Itzhak Perlman to the Gypsy Kings, Lauryn Hill to the Vienna Choir Boys, the Royal Concertgebouw Orchestra Amsterdam to the Alvin Ailey American Dance Theater, NJPAC strives for inclusion and diversity. Its outreach efforts are most evident: 26 percent of all ticket sales went to minorities, a number five times greater than normal for any other facility of its size. Moreover, NJPAC has spurred an unprecedented revitalization of Newark. With developers and tenants recognizing Newark's renewed potential, the city is witnessing the return of several sports teams, new restaurants, the development of an underground high-tech culture and the opening of small businesses at a steady clip. Many point to NJPAC as the reason for renewed interest and pride in Newark.

Creating Vibrant Public Spaces to Showcase Urban Amenities

Renovations combining art and function also stimulate economic development in urban areas that lack exposure to foot traffic and tourists. San Francisco, California; and Baltimore, Maryland, have succeeded in reconfiguring underused or poorly constructed public spaces to convert neglected natural amenities into key development assets.

After a major freeway collapsed during the 1990 earthquake, San Francisco, **California**, was presented with an opportunity to reunite its downtown with the waterfront, which had effectively been cut off from the city and its residents. The city's response came in the form of a functional sculpture. The Promenade Ribbon Sculpture is a 2.5-mile ribbon of illuminated glass block connecting the waterfront and downtown areas. The sculpture rises and falls in elevation, alternately functioning as seating, tables for *al fresco* dining, and as a barrier between people and cars. To allow easy vehicle access to waterfront piers and commercial areas, its profile is reduced to ground level in some areas. According to the San Francisco Arts Commission, the sculpture encourages pedestrian activity day and night, and provides an opportunity for people to walk, rollerblade, bicycle, rest, eat and appreciate the beauty of the San Francisco Bay. By opening up the city to more foot traffic, the city's creation has benefited San Francisco's residents and tax base alike.

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In Baltimore, **Maryland**, the Rouse Company developed Harborplace on a vacant, grassy area in one of the least desirable sections of downtown. The project was one of the first to employ state-of-the-art design techniques designed to emulate the intimacy of a classic bayside city center. Today, occupying this space are two glass pavilions housing 150,000 square feet of pedestrian-access retail space—sidewalk cafés, restaurants, and a mix of national and local retailers. Magnet cultural institutions of the Mid-Atlantic have turned this pedestrian friendly space into a marquis location. At present, the National Museum of Visionary Art, Port Discovery, the Baltimore Science Center, and the National Aquarium are all located in a single square mile. Originally an area in Baltimore without amenities or tourism despite its harbor-side location, Harborplace attracted more visitors than Disneyland in the first year it opened. With this transformation, Baltimore created a tourism industry—complete with recreational and convention traffic and associated revenue—where none had previously existed. In addition, the city's downtown established a powerful brand identity based on the harbor's rebirth.

The Arts, Quality of Place, and the Knowledge Economy

In the past decade, states have begun to realize that their economic fortunes are increasingly tied to the location preferences of highly mobile knowledge-workers who form the intellectual backbone of the new economy. These workers value "quality of place" above nearly all other factors—including job market conditions—in choosing where to locate. According to Professor Richard Florida of Carnegie Melon University, four factors determine quality of place: lifestyle, environmental quality, a vibrant music and arts scene, and natural and outdoor amenities.

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In part, this reflects the changes in cultural preferences related to the demographics of this workforce. Vibrant cultural districts hold strong appeal to younger employees, whose skills are seen as essential to success in many industries. Professor Florida explains:

> "Firms such as Zefer, an Internet consulting firm based in Boston's 'cyber-district' have been all but forced to locate their satellite offices in areas where they feel they can get the best talent. Lower Manhattan, San Francisco's 'South of Market,' Chicago's Bucktown and Pittsburgh's 'Cultural District' are among them. Zefer co-founder Matthew Burkley notes that in the future these workers will have even greater power to determine location in large part because they are in such demand…'In today's labor market, you have to be where your team members want to be. You don't tell people how they want to live—they tell you.'"[14]

Beyond simple residential preference, there are solid economic reasons for skills-based workers to seek a vibrant culture relating to the nature of work in the New Economy. First, creativity is an essential raw material: cultural participation keeps the creative skills required of a knowledge-based workforce sharp. John D. Ong, Chairman Emeritus of The B.F. Goodrich Company, explains:

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> "People who create in our companies—whether they be scientists, marketing experts or business strategists—benefit from exposure to the arts. People cannot create when they work and live in a culturally sterile environment....The economic benefits of the arts greatly transcend and outlive any of the normal cycles....That is why business invests in the arts—even when times are tough, and when there is increased pressure to manage money carefully."[15]

Even in traditional manufacturing industries, most new value is created through human capital-intensive activities and interactions requiring a mix of analytical, creative, and managerial skills—engineering, product design, marketing, branding, and advertising. As Joel Kotkin and Ross DeVol articulate in a recent report produced by the Milken Institute, "Packaging, positioning, and the culturally intensive role in production have become far more important, whether selling new clothes, furniture, or restaurant concepts."[16]

Further, access to, and contact with, the creative and cultural sectors is increasingly fundamental for business success. In a network economy, according to Peter Calthorpe and William Fulton, "Economic activity is volatile and unpredictable. It's impossible to predict what an entrepreneur or a business or even an employee might need from one day to the next in order to thrive."[17] In recent years, innovative commercial businesses, non-profit institutions and independent artists all have become necessary ingredients in a successful region's innovation "habitat." Inner-city warehouse districts and other nontraditional business environments are particularly fertile locations for the development of new industries that require a high degree of creativity, intellectual expansiveness, and collaborative work among multiple firms in related industries.

The production of software, media vehicles, and other complex intangible products may flourish in knowledge-value neighborhoods, where knowledge spillovers and collaborative innovation can most easily occur.

Austin's high-tech economy is the product of forethought on the part of the Austin community, led by the Chamber of Commerce, higher education and industry communities.

Leveraging a Vibrant Cultural Scene into High-Tech Success

State and local government leadership in Austin, **Texas**, recognized early that its unique cultural environment was a competitive asset to the New Economy. Through deliberate and strategic action, Austin has built a world-class high-technology economy on the base of a thriving cultural center recognized for its outstanding quality-of-place.

The boom in Austin's high-tech economy has been led by the chamber of commerce, higher education and industry communities. Local leadership asserted itself through university-led industry-targeting studies, the chamber's creation of an economic development arm to recruit businesses, targeted intervention by the state, the creation of a business incubator and the recruitment of venture capital firms. Companies relocating to Austin and local startups alike were attracted to the city's assets: a highly educated workforce available at competitive wages, science and engineering strengths at the University of Texas, relatively low-cost land, and an enviable quality of life.

Austin has been one of the most outstanding success stories in the New Economy. High-tech employment in the region has increased 88 percent since 1990, adding 42,250 high-tech jobs. The city ranks as the fourth most wired in the nation, behind San Francisco, Washington D.C., and San Jose. At the same time, Austin has worked to preserve cultural vibrancy as a key competitive asset throughout its sustained period of high-technology growth.

Austin leverages $158 million of state funding (fiscal 2000) with a number of innovative revenue instruments designed to support the arts. Bond funding has been used to launch non-profit institutions, such as the Mexican-American Cultural Center, The State Theater, George Washington Carver Museum and Cultural Center. The city offered bond funding for the development of a downtown theater, but was reimbursed by the nonprofit sector after an unexpectedly successful fundraising campaign.

Austin raises $3.5 million annually through a hotel-based bed tax, dispersing these funds through "cultural contracts" with event sponsors (contingent on matching funds from the private or nonprofit sector). Since the inception of this tax, funding has increased to over 80 percent of the city's nonprofit arts institutions. The city also dedicates 1 percent of total new public construction costs to installing arts in public spaces. General fund allocations support Austin's four museums, an arts center, an outdoor theater, and a winter festival.

Arts Help to Preserve, Expand, New Economy Successes

Even in the most successful New Economy regions, civic leaders are beginning to take stock of artistic and cultural assets, recognizing that they are essential to quality of life, which is, in turn, necessary for sustained growth. In 1997, municipal government authorities in Silicon Valley, **California**, embarked on a yearlong planning process in which more than 1,000 local individuals and groups were consulted on the role of arts and culture in the region's future. This led to the decision by Silicon Valley's public and private leadership that the area would become the first to consciously

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develop and connect creative capacity across business and cultural realms.
The group's blueprint document, 20/21: A Regional Cultural Plan for the New Millennium, includes specific recommendations on arts and cultural education, artistic and organizational development, community and neighborhood arts, as well as leadership and funding. The plan envisions a decade-long, regionwide, collaborative process in which up to $250 million will be raised from private sources. The region's digital industries will work alongside government and the nonprofit sector to maximize the integration of artistic assets into the civic life. Cultural Initiatives Silicon Valley—led by a board of industry, government, and civic leaders—was created to implement these recommendations, working to develop the cultural and creative aspects of Silicon Valley life.

State Strategies for Effective Arts Integration

Governors have several motives to promote the arts as a critical component in an overall economic development strategy. These range from community renewal and revitalization to contributing to an innovative business climate. Arts and cultural districts may thrive without the explicit support of state government. However, the effective synthesis of strategies related to the arts and cultural industries into a broader economic development plan can provide governors with tools and solutions for areas in which more traditional policy instruments have returned unsatisfactory results. Though arts-based strategies will not be the primary economic development drivers for most communities, they may provide the "missing link": where traditional approaches have not been effective on their own, they may, coupled with the arts, become powerful tools for change.

One of the most appealing aspects of an arts-based economic development strategy is the degree of strategic flexibility it can afford governors and local leadership. To advance the integration of the arts in economic development, there are several strategies governors can pursue.

- Encourage collaboration among the business community, state arts agencies, economic development, tourism and education departments to create a more integrated approach to public investments.
- Evaluate and nurture culturally based industries indigenous to the state, especially areas or regions that have difficulty sustaining "imported" businesses due to lack of infrastructure or other factors.
- Focus on changing regional and community images by capitalizing on the design of more people-friendly sites that encourage foot traffic and increased retail and commercial ventures.
- Where vibrant high-technology economies exist, use the arts to continually improve quality of life and the creativity of the business environment—recognizing the needs of the present workforce as well as helping to attract new knowledge workers.
- Work to eliminate stereotypical views of the arts and introduce them as a tool for a state's economic development plans by highlighting their contributions to the state and regional economies.
- Stay informed of innovation concerning the arts on the local level. Future policy initiatives can be consistent with what is already occurring in communities—strengthening current initiatives while building on them—thereby creating a win-win situation for the state and its constituency.

Endnotes

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