

The Arts, Consumption, and Innovation in Regional Development

Ann Markusen, Anne Gadwa Nicodemus, Eilsa Barbour

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Economic development strategy at the state, regional, and local levels has been dominated by economic (or export) base theory, which posits that exports drive overall growth, whether measured by employment, output, or value added. The dominance of export base theory directs policy attention and incentives chiefly to businesses whose output is exported from the city or region. In the United States, where economic development is practiced principally at the state and local level, public sector development agencies are preoccupied with outside export-type enterprises, which they try to attract to the local area, rather than with local startups, especially those aimed at area consumers.¹

Although arts advocates often stress the local multiplier effects of additions to arts capacity and programming enabled by public funding, they largely fail to demonstrate that such additions can produce net increases in growth and jobs unless the additions draw tourists or produce commodified goods for export. This chapter revisits export base theory, probing its origins and showing its limitations, and reviews cross-sectional and longitudinal evidence from national studies questioning the causal

relationship between exports and growth. Despite caveats since its inception, economic base theory—which distinguishes between locally consumed and externally consumed goods and services and assumes that the former evolve in lockstep with the latter (despite evidence to the contrary)—is a guiding principle of economic developers at state and local levels. We argue that export base practices are based on a truncated view of regional growth potential, one that is especially antagonistic to arts and culture.

We offer an alternative, consumption base theory, which posits that investments in certain types of consumption base activity can create net new jobs and income by

- offering residents opportunities to spend more of their discretionary income on new locally produced goods and services
- seeding innovations that later expand into export markets
- nurturing organizations and occupations that re-spend more of their earnings locally than others do
- attracting and retaining entrepreneurs, firms, and workers.

We explore this theory in the context of arts and culture. First, an increase in local arts activity can capture a larger share of residents' discretionary income, creating sustainable jobs. This is a phenomenon broader than import substitution, in which people simply buy locally the same items and services that they previously imported. The argument here is that given local access to new types of arts and cultural programming, people will change the composition of their spending toward the arts and away from other consumer goods and services. Or, put another way, proximity to arts and cultural offerings will alter people's tastes and preferences (or tap into latent preferences) in ways that change the basket of goods and services that they spend their money on.

Second, new arts and cultural offerings first serve a local market (as do offerings in other fields), which functions as a testing ground. Musicians (other than the classically trained, orchestra-bound types) may begin in a garage, move out into pubs and cafes, and build a local group of fans before exporting their work. New plays, choreography, and visual art are created and honed in local venues. Most successful arts and cultural innovations are first rooted and nurtured in local consumption markets and marketed farther afield only when they are proven and mature.²

Third, because most arts activities are highly labor intensive, higher shares of income generated locally may be re-spent locally. A visiting orchestra or Broadway troupe, whose performers drive in for a night and take their incomes with them, would not have much local effect, nor would a museum exhibit in which the artwork is shipped in from elsewhere. But if residents patronize local artists who live and work in the community, their expenditures are apt to recycle locally at higher rates, supporting other workers, businesses, and landlords. Furthermore, it is widely believed that artists spend higher shares of their income on fellow artists' work—unlike workers in most other occupations—and often do so locally, so that the multiplier effect is again larger.

Fourth, arts offerings may attract and retain residents, entrepreneurs, firms, and workers in non-arts sectors. Their productions contribute to the quality of life in a town or region. Retirees, in particular, appear to be drawn to arts-rich communities, as are self-employed people who are able to live and work wherever they wish. Employers often credit the arts with increasing their appeal to both managers and skilled workers, and some find that arts-rich locations help them attract customers, too.

Finding empirical evidence for consumption base growth is challenging. If arts and culture are treated as non-basic, as in the export base model, economists would expect the size of arts and cultural capacity and participation to expand and contract with overall area employment—that is, to be explained by export base dynamism. However, longitudinal analysis is difficult to conduct because good time series data on the supply of and demand for arts and culture do not exist.³

As a second best, researchers can do a cross-sectional analysis to explore whether cities and regions, taking population size and other factors into account, exhibit the comparable arts and cultural capacities and participation rates that would be expected under export base assumptions. They can also explore whether larger, denser cities have relatively larger arts and cultural complexes, an outcome observed in historical research and attributed to greater economies of scale in cultural production.⁴ Where regions' and cities' arts capacities and participation rates diverge from these expectations, a plausible case can be made for the ability of arts and cultural activity to independently generate jobs and output.

We used cross-sectional data on California regions and cities (at times compared with other U.S. cities, metros, and regions) to explore whether nonprofit arts and cultural activity appears to be a non-basic sector, as economic base theory assumes, or whether there are large variations in its distribution, a finding that would support a consumption base argument. The probe also examines whether the marked differentials discovered can be explained by differences in resident populations' demographics (proxies for tastes and preferences) and economic functional roles.

We show that nonprofit arts capacity (supply) and participation (demand) by region and city in California do not correlate closely with overall size of population, which export base theory would predict. Nor do they correlate closely with demographic features of urban and regional populations, proxies for differences in tastes and preferences. The empirical analysis finds highly differentiated rates of arts organizations per capita and arts revenues per capita at both the regional and city level, as well as disparate arts-participation rates among regions. Regression of presence of arts organizations and arts participation on a set of local resident socioeconomic and local economy characteristics found that those differentials could not be fully explained. Furthermore, when comparing the Los Angeles and San Francisco Bay regions, there was no evidence that nonprofit arts activity, either arts offerings or participation rates, was driven by the concentration of for-profit cultural industries.

The chapter concludes by hypothesizing that over the longer run, evolutionary capacity building by individuals and organizations can create a nonprofits arts and cultural sector that helps to create and sustain jobs and boost incomes as well as provide products with intrinsic artistic value. This process may succeed in large part because area residents are envisioned as active participants, not passive consumers, in the process. Among the California regions, the San Francisco Bay area is a particular standout: its arts-participation rate, presence of nonprofit arts organizations (number of organizations and aggregate budget), and share of employed (including self-employed) artists are far above what can be explained by demographic factors, economic roles, or the presence of cultural industries. In addition, the sparsely populated and heavily forested Northern and Sierra regions also host very high numbers of arts organizations per capita as well as participation rates that are above the state average. We illustrate the

plausibility of the growth potential of arts capacity building with a short explication of one small rural town's successful effort to reverse long-term decline by investing in an arts center that serves the local area. In closing, We suggest implications for arts advocates, public sector economic development agencies, and arts agencies and recommend routes for further research.

The Heavy Hand of Export Base Theory

Nonprofit arts and cultural activities are broadly thought of, by economists and others, as serving a local area. Live theaters, art fairs, dance studios, and music venues rely heavily on local or regional patronage. Because of export base theory, a fashion in the field of regional science for more than half a century, economic developers, politicians, and even arts advocates believe that the only growth-generating jobs and sales are those associated with sales outside of the city or region. Indeed, the best economic impact analyses of the nonprofit arts sector consider only those expenditures and associated jobs that are created and supported by tourists traveling to a locality or by the sales or travels of art performers to venues elsewhere.⁵ Even self-employed artists have been championed as partial exporters of their visual work, music, performances, and publications.⁶ If artists are overrepresented in a city or metro area, their excess numbers are assumed to reflect successful sales outside the region, not higher local patronage. In contrast, the cultural industries—motion pictures and television, recorded music, advertising, publishing, broadcasting, design—are mainly the province of the for-profit sector and are assumed to be principally export oriented.⁷ Although arts impact assessments based on these types of assumptions have been skillfully questioned by economist Bruce Seaman,⁸ most arts advocates think that demonstrating how the arts creates jobs is the only way to garner public and legislative support.

What is the causal theory behind such export base practices? The seminal debate on export base theory was conducted by Douglass North and Charles Tiebout in the 1950s. Economic historian North, then teaching at the University of Washington and likely influenced by Canadian Harold Innis's staples theory, argued that a region's growth is constrained by its ability to export. Income from exports is circulated to local workers and suppliers (indirect effects) who then re-spend it, at least in part, in the

regional economy. Also at the University of Washington, Tiebout, in a brilliant critique, pointed out the logical flaw in this argument: the world economy as a whole does not export, yet it continues to grow. Tiebout posited, among other critiques, that an internal division of labor could produce growth, echoing Adam Smith's famous characterization of capitalist production and trade.⁹ Put another way, export growth may follow rather than lead output growth.

As evidence for his hypothesis, North wrote an account of nineteenth-century (1790–1860) American economic growth in which he argued that most of it was attributable to exports of slave-grown cotton. Tiebout's position received empirical support in economic historian Diane Lindstrom's book on nineteenth-century Philadelphia, in which she showed that there were no appreciable exports from the Philadelphia region, a prominent center of population and output growth, during the same period. What drove Philadelphia's expansion was an elaborating internal division of labor within industry and agriculture.¹⁰

Export base theory was quickly distilled into economic base multipliers that became a well-used economic development tool in analyses that often completely ignored the seminal theoretical debate. Furthermore, few longitudinal comparative studies have ever been conducted. A number of economists have run cross-sectional and longitudinal tests of the export base hypothesis using nations as units. For thirty-seven developing countries over the period 1950–81, Jung and Marshall found evidence that supported the export promotion thesis in only four cases.¹¹ Five countries increased output but reduced exports, while four countries experienced export growth but output reduction. Ghartey concluded that export-driven development appeared to explain growth in Taiwan but not Japan or the United States.¹² In a five-country study, Sharma and his colleagues found that Japan and Germany experienced export-led growth from 1960 to 1987, but in the United States and the United Kingdom, output growth induced export growth.¹³ Through the mid-1990s, then, there was no compelling empirical evidence for the claim that exports drive overall growth.

In addition, the evidence is incontrovertible that output for local consumption grows faster than exports as a town grows into a city and a city into a metropolis.¹⁴ In other words, the multiplier is not

stable—local activity tends to increase faster than export activity as a region expands. Furthermore, the local consumption base expands faster in some regions than in others of the same size. Yet economic development policy remains stubbornly myopic about the value of investments in local-serving capacity and insists, as if it were a creed, that exporting enterprises and industries be privileged. The low status of arts and culture in economic development and with government agencies generally is a by-product of such thinking.

A Consumption Base Alternative

Expansion in local consumption can also be a source of sustainable city and regional growth. The theoretical case for its potential encompasses several phenomena. First, changes in regional tastes and preferences and thus in consumer spending in favor of goods and services that are locally produced can produce job growth without any expansion in the export base. This phenomenon is much broader than economists' notion of import substitution. The latter generally refers to the efforts of a region to produce for itself the same goods and services that it previously imported. However, the demand for output from local consumption-oriented sectors may also rise when residents shift their purchases to new types of goods and services that have become available locally, such as live theater and music and opportunities to study art and participate in the making of art. For instance, if area residents can now hear live music at a local club, they may be more apt to spend their discretionary income there than at the local mall. Such shifts can be facilitated with strategic and sustained investments in the local consumption base.

In a second and related phenomenon, new local capacity may generate added jobs and incomes because it generates higher indirect and induced multiplier effects. An ethnic folk arts organization may buy more of its materials, instruments, and business services (the indirect impact) locally than does a small retail import shop at the mall. Workers in some occupational groups may be more likely than others to spend their incomes locally. Professional athletes and performing artists make an interesting comparison. The mounting of professional sports events, a mix of locally oriented (ticket sales) and export-oriented (advertising revenue) activity, involves fewer direct employees and more indirect and

often external-to-the-region expenditures—for trainers and training camps, transportation services, personnel and hotel services at out-of-town games, and players who live elsewhere. In contrast, with the exception of those involved in touring plays, exhibitions, and music acts, most artists who perform in a metropolitan region also live there. Artists likely spend high shares of their incomes locally, including on ongoing music, dance, and visual art lessons and space. Furthermore, performing artists are widely believed to be significant patrons of other arts activities, so larger shares of their incomes may be cycled through the local economy. Accurate multipliers for forecasting total employment effects of new economic development projects, whether the projects serve the export or the local market, must account for activity-specific induced effects and occupation-specific consumption patterns.

A third and potentially expansive way that increments to the local consumption base may produce sustained growth is through their innovative potential. New export sectors often begin as local-serving experiments. A product or service that is pioneered locally, with local support and feedback, may blossom into something attractive to consumers or producers elsewhere, enabling job growth and diversifying the community's economic base. Cortright offers the example of microbrewing in Portland.¹⁵ Microbrewing was first developed by small breweries serving local customers, but the breweries' returns from local demand for their products enabled them to move through the experimentation and development stages and eventually into marketing and capacity investments to reach consumers farther afield. Similarly, a locally oriented dance troupe may mature into one that tours and brings additional income back home. Entire towns have changed their fortunes by fostering arts and cultural distinctiveness—country music in Branson (Missouri), Shakespeare in Ashland (Oregon), New Orleans's unique jazz scene. Many such specializations never materialize when economic development resources are denied to local-serving startups.

Fourth, superior local consumption offerings help to attract skilled workers, managers, entrepreneurs, and retirees to a region to live and work, as argued by quality-of-life and creative city researchers.¹⁶ Such recruits bring their human capital, companies, and retirement incomes into the regional economy, increasing its size and diversity.

Economists and policymakers have no easy longitudinal data with which to explore the relative contributions of these forces to overall urban growth and development. While all are important, the potential for arts and cultural capacity and activities to expand the economy by capturing larger shares of residents' discretionary income and the relatively high propensity for arts and cultural purchases and payroll to be spent locally are the least well explored. As economy-wide evidence for the power of the local-serving sector, however, Markusen and Schrock found that over the period from 1980 to 2000, local-serving occupations in the thirty largest U.S. metros outpaced job growth in export base occupations by four to one.¹⁷

If arts and cultural activity belongs purely to the non-basic sector, so that the extent of arts and cultural activity is dictated by the success of the area's economic base, then differences should not appear in per capita number of arts and cultural organizations, arts employment as a share of the entire workforce, and patronage rates from place to place, allowing, of course, for some modest differences in tastes and preferences. Furthermore, it may be possible to explain city and regional differences in nonprofit arts and cultural capacity, arts-participation rates, and artists' employment on the basis of population size, socioeconomic characteristics of the population, and the presence of commercial cultural industries.

Evidence on Spatial Differentials in Arts Capacity and Participation

Have people and organizations made differential investments in local-serving arts capacity at the city and regional levels that cannot be explained by population size or socioeconomic features of the population?

A study of California's arts and cultural ecology recently completed for the James Irvine Foundation found marked differentials in the number of arts organizations per capita and in arts-participation rates across the state's cities and regions.¹⁸ The study speculates that those differences have resulted from decades-long cultivation in some areas of local-serving arts capacity that sustains jobs and income. The findings also show that the concentration of world-class cultural industries in Los Angeles has not been accompanied by a parallel expansion in arts nonprofits and that arts-participation rates there are slightly

below the state average. These results question the contention that only export-serving arts and cultural activities produce growth.

The methodology employed in the study involved use of several datasets.¹⁹ Estimates of the number of and average budget totals of regional arts and cultural organizations were based on National Center for Charitable Statistics (NCCS) data for 2008–10, drawn from Internal Revenue Service reports, and Cultural Data Project (CDP) data for 2007–09. Because the CDP data are not a random sample and under-represent smaller and especially ethnic, folk, and traditional arts organizations, all CDP data points are benchmarked against the NCCS. For data on socioeconomic characteristics of residents and economic features of California cities, the researchers relied on the American Community Survey (2006–08) the 2000 U.S. census (housing unit density), the California Department of Finance (current city population estimates, 2009), the California consumer price index, and Foundation Center data for 2008 on annual giving. Arts-participation data were drawn from the Survey of Public Participation in the Arts for 2002 and 2008, but because of small sample sizes, analysis of effective demand could be pursued only at the regional scale. The study relied on local knowledge, both from the Irvine Foundation’s arts program and the Public Policy Institute of California, to define meaningful regions (respecting contiguity, metropolitan polarity, and relative ecological and socioeconomic homogeneity in low population areas) that were large enough to ensure statistical significance with the datasets used.

The regional-level analysis finds that California’s largest metros—Los Angeles and the San Francisco Bay Area—host the lion’s share of arts organizations and, on average, larger organizations (**table 3-1**). The Bay Area hosts a high number of arts organizations per capita and has the highest per capita nonprofit arts budget while the relatively populous but less metro-centric Inland Empire and San Joaquin Valley regions host relatively few arts organizations per capita and rank low in per capita nonprofit arts budgets.

[Table 3-1 about here]

But exceptions preclude an inference that differences among regions in per capita numbers and budgets simply reflect population size or economies of scale in the arts. Some of California’s least

populous regions show a strong commitment to arts capacity. The thinly populated and non-cosmopolitan Sierra (5.6 organizations per 10,000 people) and North Coast and North State (5.2 per 10,000) regions host more arts organizations per capita than the state average, though their nonprofits' budgets are on average smaller (table 3-1). The multiplicity of smaller organizations in these rural areas suggests that residents want and have invested in a full range of artistic disciplines and offerings, even if they are modest in scale. In contrast, the Los Angeles (LA) region hosts fewer arts organizations per capita than the state average, though average annual budget size is quite high: \$913,000, almost 50 percent higher than the state average. Yet LA's per capita nonprofit arts budget is 10 percent lower than that in the Bay Area, a region with only half the population that LA has.

[Figure 3-1 about here]

To probe explanatory factors for differences in both per capita numbers of arts organizations and per capita nonprofit arts budgets, the model includes characteristics of residents and economic features of place. The former include income, wealth, educational attainment, race/ethnicity, immigrant status, and age variables. Economic features of place include population size and density, primary city status, jobs per capita, and city government and private philanthropic funding for arts activity. If residents' characteristics explained all of the variation, one might conclude that demand alone explains arts presence, even though past investments in capacity could have attracted more art lovers to the area and produced more art lovers among the existing population. But we hypothesize that place matters: that individual, philanthropic, and public sector efforts to build arts capacity could account for marked differentials.

The regression analysis was done at the city level, including all California cities with a population in excess of 20,000 (N = 237). The move from region to city did not alter arts organizational differentials by size. On average, smaller cities had higher numbers of arts organizations per capita than larger cities, mirroring the regional pattern. The smallest cities—the bottom one-fifth, ranked by population size—

hosted 14 arts organizations per 10,000 residents, on average, while the top one-fifth, the largest cities, hosted 3 per 10,000 residents.

Which of the factors that distinguish cities are most important, after the controlling for the others? Ordinary least squares (OLS) regressions were used to evaluate the relative importance of the city features noted above in predicting number of organizations per capita, after controlling for regional location of cities in addition to the city features listed.

The city features mostly closely and positively associated with a higher number of arts and cultural organizations per capita were job density, level of private philanthropic funding for the arts, level of residents' educational attainment, and personal wealth of city residents (**table 3-2**). *Regional* location did not prove to be a statistically significant predictor of the prevalence of per capita organizations after controlling for the other factors, which is strong evidence that *community-level* characteristics of places play the more important role in explaining arts and cultural activity.

[Table 3-2 about here]

The job density finding is of particular interest. Job density, the number of people working in a community divided by the number of people living there, distinguishes job centers (places with a high number of jobs relative to the residential population) from bedroom suburbs, retiree enclaves, and other communities with fewer jobs relative to population. Job center cities are more likely to host businesses whose owners, managers, and employees contribute to local arts and culture through patronage or contributions. Businesses may feel that strong arts and cultural offerings enhance employee motivation, help them attract and keep employees, and encourage retail customers. Workers commuting from nearby communities may attend venues or participate in arts and cultural events at lunchtime or after work, and because they are familiar with the area, they may bring their families and friends there on the weekends. Job centers are apt to generate more in property taxes, which may be available to fund arts and culture, among other priorities, since business property tax rates are higher than residential rates.

The jobs-per-capita measure is not strongly correlated with either city size or central city status; therefore historic city-centeredness is not at work here. Those findings may reflect the fact that the larger

California metro areas, especially Los Angeles and the Bay Area, are quite polycentric, especially compared with East Coast and Midwestern cities. Communities like Long Beach, Culver City, Santa Monica, Pasadena, San Jose, Oakland, and Berkeley are both job centers and arts and cultural hubs. Analytical work at the community level suggests a mosaic of diversified hubs within the state's arts and cultural ecology, a complement to the finding that arts organizations are dispersed across the entire state, with a higher-than-average number of arts organizations per capita in smaller, mainly northern, regions.

This analysis, based on the California Irvine study, is exploratory. It offers plausible evidence for arts and culture as a source of endogenous job creation, but it is not definitive. Several caveats should be noted. First, as noted above, longitudinal analysis would provide a more satisfactory test of the impact of nonprofit arts on longer-term growth. Second, some portion of the nonprofit arts sector's output of goods and services is sold to consumers outside of the region, and the analysis (like most economic base analysis) does not take that possibility into account—that is, it does not break down the sector indicators (employment, output, revenues) into export and local base components. San Francisco and Sierra arts nonprofits could be earning portions of their revenues from visitors. Third, the longer-term formation of a local population is not independent of past arts capacity additions—one of the consumption base tenets. Over time, if the consumption base theory is correct, art lovers might be found disproportionately among in-migrants (and arts-indifferent people among the out-migrants).

Fourth, with few exceptions (see below with respect to artists), the study does not explore the relationship between the arts and cultural nonprofit sector and the overall size of regional economies, again a phenomenon more appropriate for analysis over time. It focused on nonprofit arts enterprises, which are rarely studied, because new data were available and because the capacity-building theory gives central place to decisions by groups of local people to construct an organization, fund it, design and offer programming, and attract participants.²⁰

Artist Density and Commercial Arts Employment

Evidence on the density of artists in the Bay Area workforce compared with that in other metro areas supports a capacity-evolving interpretation (**table 3-3**). The Bay Area was third among the nation's top twenty-nine metros in artist density (including self-employed artists), lower than the Los Angeles and New York metro areas but much higher than many others with larger populations. Subsequent research found that by 2006, the Bay Area location quotient had risen to 249, or second place, displacing Los Angeles to third, and that the Bay Area held that position through 2009.²¹

[Table 3-3 about here]

Could the Bay Area's outsized nonprofit arts and cultural sector and artist pool result from the presence of complementary for-profit cultural industries? If commercial arts activity fosters complementary nonprofit arts activity, the shares of artists working in the commercial and nonprofit arts sectors should be similar across Los Angeles and the Bay Area metros, and artists working in the nonprofit arena, as a share of the total regional workforce, would be, if anything, higher in LA, which has greater commercial arts activity. In 2000, the share of artists working for private sector employers was much larger (54 percent) in Los Angeles than in the Bay Area (42 percent), while the self-employment rate of artists in the Bay Area was higher, as was the share working for the nonprofit and public sectors (**table 3-4**). In addition, the share of nonprofit arts workers in the Bay Area's total workforce was almost 30 percent higher than in LA. Los Angeles's prominence as a commercial arts capital did not translate into a higher per capita number of nonprofit arts organizations or a higher per capita nonprofit arts budget (table 3-1 above). There is little evidence, therefore, for the belief that prominent commercial arts and cultural regions cultivate higher levels of nonprofits arts activity than regions with much more modest cultural industry complexes.

[Table 3-4 about here]

Evidence on Spatial Differentials in Arts Participation

If a city's supply of arts nonprofits is not fully explained by the socioeconomic characteristics of residents, the demand side must also be at work. The unexplained variation could be attributed to tastes and preferences, the inference being that the Bay Area and other northern regions are populated by people who, other things equal, love the arts more. But perhaps it is that higher shares of the population participate in the arts in places where the supply is strong—that availability encourages people to consume more arts and cultural activities and less of other goods and services.

Do participation rates vary spatially and can they be explained by socioeconomic and other variables? Californians participate in the arts at a higher rate than Americans as a whole, and although the participation rate fell from 2002 to 2008, it dropped more slowly in California than in the nation as a whole. Demographic factors do influence arts participation among California adults, but even after controlling for differences in age, family income, race/ethnicity, sex, education level, and metropolitan status, the odds of a California adult attending at least one event were 25 percent higher than for other American adults.

Regionally, participation rates were markedly higher in the Bay Area than in the rest of the state, average in the Los Angeles area, and below average in the Sacramento, South Coast and Border, Inland Empire, and San Joaquin Valley regions (**table 3-5**). Small sample sizes in the Survey of **Public Participation in the Arts** prevent greater spatial disaggregation, but the residual “rest of state,” which encompasses the Northern, Mountain, and Central Coast regions, also had a relatively high participation rate (60 percent).

[Table 3-5 about here]

The high San Francisco Bay Area participation rate accounts for much of the variation between Californians and the rest of the nation. After controlling for the demographic factors noted above, the odds of a Bay Area resident attending an arts event were 81 percent higher than for other Californians.²² The analysis also finds that the per capita presence of arts and cultural organizations is correlated with attendance at the regional scale.

Inferences about the Contribution of Locally Oriented Arts to Regional Growth

The findings on differences among cities and regions with respect to the presence of arts organizations and residents' participation in arts offerings suggest that place is a powerful crucible shaping California's arts and cultural ecology. We believe that the vibrancy of the Bay Area's arts scene and that of the smaller Northern and Mountain regions are the result of an evolutionary process whereby residents build and invest in nonprofit arts and cultural organizations aimed at the local market.

This expansion of capacity drew both artists and arts-loving migrants from elsewhere as well as previously more arts-oblivious local residents into the creative sphere. Census net migration data show that in 2000, the Bay Area's ratio of incoming artists to all artists was higher than for any other large U.S. metro area. Its rate of net artist in-migration (total in-migrants divided by total out-migrants) for 1995–2000 (1.37), the last period for which data are available, was exceeded only by that of Los Angeles (2.16), where commercial sector opportunities are a powerful draw.²³ Indeed, the rate for Los Angeles, which attracts more than two in-migrating artists for every one that leaves, exceeds the rates for all the major U.S. metro areas.

The place-based analysis takes the story a step further. It confirms that certain communities—in particular, job centers that also attract and retain well-educated, wealthier residents—are currently more apt to provide a home to arts organizations, regardless of region. These communities are able to capture more philanthropic arts funding, which in turn reinforces a “virtuous cycle” of arts presence and attendance. Indeed, by 2008, Bay Area arts nonprofits enjoyed an extraordinarily high amount of private philanthropic funding, \$23.5 per capita, while the figure was \$17.30 in Los Angeles and below \$2.00 in outlying regions (**table 3-6**). Note that funding figures include awards from foundations based outside the region, including elsewhere in the state and the nation.

[Table 3-6 here]

A final speculation concerns art education, which is important in encouraging local arts consumption. As cities, regions, and small towns built arts capacity over the decades and broadened participation, a strong preference for arts and culture could have placed a premium on quality arts

programs in the schools and adult educational forums, further enhancing both the supply and demand for the arts. Arts learning in childhood and/or adulthood is a strong predictor of adult attendance at arts events currently included in the Survey of Public Participation in the Arts.²⁴

A Case Study in Locally Oriented Arts Development

Over a couple of decades of scrutiny, researchers have generated a large number of qualitative case studies of arts capacity building and its impact on cities and towns.²⁵ As an example of successful local consumption base building, We offer the following case.

Live theater and music performances, local art fairs, and opportunities to take lessons in art or to rent space to do art work can increase the share of the local dollars that go into artists' and art organizations' bank accounts, substituting for DVDs, CDs, and non-arts-related purchases of commodities and services from elsewhere. In the late 1980s, a visual artist, John Davis, moved to an abandoned farmhouse outside New York Mills, Minnesota, a declining Finnish farming community three and a half hours northwest of the Twin Cities.²⁶ He started an artist's retreat, believing that visiting artists would bring creative ideas into the region while the idyllic rural atmosphere would enhance their work. Davis then sought out "the artist in every person in the county" in a campaign to convince community leaders, the city council, and a local landowner to renovate an 1885 brick building on Main Street as the New York Mills Regional Cultural Center. He solicited the help of farmers whose oil portraits were stashed away in their barns and people who had never considered singing in a choir as art, and many such people came to support the development of the center, which opened in 1992. Between 1992 and 1997, seventeen new businesses opened and employment increased by 40 percent. By the year 2000, the tiny town's population had grown to 1,200, twice its pre-center size. By 2005, the center hosted six to eight gallery exhibitions a year, some showcasing emerging local artists or historic community photos, and many performances.

Today, the New York Mills Cultural Center acts as a community and tourist hub. A tractor emblazoned on the New York Mills water tower heralds the town's mission, "cultivating the arts." The

downtown landscape has changed dramatically, with a new medical clinic and renovated storefronts replacing abandoned buildings. Visiting and area poets, authors, and storytellers share their work through readings and workshops. Touring theater, music, and dance groups perform in the gallery. The center helps local artists overcome the disadvantages of working far from a major city by holding a monthly forum that brings together area artists to network and critique each others' work. In addition, the center works with other organizations to educate artists about the business side of the arts. Visiting artists offer activities such as jazz improvisation workshops, build public sculptures with community members, and interact with community youth. People travel from miles around to attend events and participate in workshops. Thus a local commitment of development dollars has resulted in a facility that captures local and regional consumer expenditures as well as enables local artists to develop their careers.

Conclusion

This chapter questions the primacy of economic base theory and makes a theoretical case for a consumption base counterpart. Investments in the nonprofit arts and cultural sector are especially good candidates for nurturing economic development, particularly because of special features of their organization and because their intrinsic contributions are so powerful.

The chapter shows that there are wide variations among California's cities and regions in the presence of nonprofit arts organizations, artists' employment, and arts-participation rates across cities and regions and that they cannot be fully explained by the socioeconomic characteristics of residents, economic roles within the region, or the presence of commercial cultural industries. For both a very large region, the San Francisco Bay Area, and a small town in Minnesota, New York Mills, WE offer a plausible interpretation of what occurred over time in arts capacity building and its results. Longitudinal analysis of these ideas is needed, an arduous but possible research task.

These findings have implications for both economic developers and arts advocates. They suggest that judicious investment in local-serving arts and cultural capacity may be especially fruitful for economic development. Arts advocates should free themselves from a single-minded emphasis on

economic impact analysis, which is not very convincing for reasons well articulated by others, and make the broader case for the preeminence of the arts in the consumption base.

For cities and regions hoping to increase their arts and cultural offerings, this chapter underscores the huge significance of nonprofit organizations as major innovators, creators, producers, and presenters of arts and cultural experiences and stresses the need for governments at all levels to understand nonprofits organizations, with respect to size, focus, missions, governance structures, and spatial differentiation. In addition, comparable research is needed on the size, character, and location of the for-profit arts and cultural sector, testing causal theories about its location, including its synergy with the nonprofit and public arts sectors.

Table 3-1. Characteristics of California Arts and Cultural Organizations by Region, 2009

	Population	# of Orgs	% California Nonprofits	Average # Orgs per 10,000 people	Total arts nonprofit budgets per capita*	Average Annual Budget*
Los Angeles Metro	14,325,209	3,749	35	2.6	238.84	912,607
Bay Area	7,378,178	3,190	30	4.3	266.08	615,422
Inland Empire	4,167,153	538	5	1.3	34.70	268,808
San Joaquin Valley	3,984,340	672	6	1.7	25.94	153,828
South Coast and Border	3,364,890	848	8	2.5	102.98	408,638
Sacramento Metro	2,155,116	583	5	2.7	145.75	538,775
Central Coast	1,458,990	605	6	4.1	124.81	300,982
Northern Valley	686,772	168	2	2.4	26.68	109,061
North Coast and North State	421,202	218	2	5.2	115.92	223,965
Sierra	313,658	175	2	5.6	56.93	102,039
Total	38,255,508	10,746	100	2.8	171.49	610,485

Sources: Ann Markusen, Anne Gadwa, Elisa Barbour and Bill Beyers, *California's Arts and Cultural Ecology* (San Francisco, CA: James Irvine Foundation, September, 2011), Table 9. <http://irvine.org/news-insights/publications/arts/arts-ecology-reports>. Data obtained from National Center for Charitable Statistics (NCCS), nccs.urban.org, and Cultural Data Project (CDP), www.culturaldata.org. N=10,746. *2010 \$.

Table 3-2. Determinants of Per Capita Nonprofit Arts/Cultural Organizations, California, 2008-9

# Organizations Per Capita (logged)	
Population ¹ (logged)	- ***
Housing Unit Density (logged) ³	
Principal City ²	
Jobs per Capita ² (logged)	+ ***
Median Household Income ² (logged)	- ***
Gini Index of Income Inequality ²	
Income, Dividend, and Net Rental Income per Household (Wealth proxy) ²	+ ***
Percent of the Population over Age 25 with a Bachelor's Degree or Higher ²	+ ***
Percent of the Population that is Non-White or Hispanic ²	
Percent of Population that is Foreign Born ²	
Percent of the Population Under Age 18 ²	
Private Philanthropic Arts Funding (logged) ⁴	+ ***
City Arts-Related Public Expenditure (logged) ⁵	
Regional Dummies:	
Sacramento Metro	
Bay Area	

Central Coast
San Joaquin Valley
Los Angeles Metro
Inland Empire
South Coast and Border

Adjusted R-squared 0.66

Sources: Ann Markusen, Anne Gadwa, Elisa Barbour and Bill Beyers, *California's Arts and Cultural Ecology: Technical Appendix* (San Francisco, CA: James Irvine Foundation, September, 2011), Table A7. <http://irvine.org/news-insights/publications/arts/arts-ecology-reports>. Data from National Center for Charitable Statistics (NCCS), nccs.urban.org and Cultural Data Project (CDP), www.culturaldata.org. 1. California Department of Finance, www.dof.ca.gov; 2. American Community Survey, 2006-08, www.census.gov/acs; 3. US Census, 2000, www.census.gov/prod/www/abs/decennial; 4. Foundation Center, foundationcenter.org; 5. California State Controller's Office, www.sco.ca.gov. Notes: N=237 (for cities with populations of 20,000 or more, and with further exclusions as specified). * = p<.10, ** = p<.05, *** = p<.01

Table 3-3. Artistic Concentrations, Top 29 U.S. Metro Areas by Employment, 2000

Metropolitan Area	Total	Performing Artists	Visual Artists	Authors	Musicians
Los Angeles, CA	2.99	5.44	2.34	2.71	1.95
New York, NY-NJ	2.52	3.71	2.01	2.99	1.85
San Francisco-Oakland, CA	1.82	1.85	1.83	2.51	1.12
ALL 29 METROS	1.34	1.60	1.26	1.45	1.12
Washington, DC-MD-VA-WV	1.36	1.51	1.01	2.27	1.08
Seattle, WA	1.33	1.15	1.48	1.48	1.06
Boston, MA-NH	1.27	1.24	1.02	2.00	1.15
Orange County, CA	1.18	1.21	1.36	0.92	0.98
Minneapolis-St. Paul, MN-WI	1.16	1.12	1.10	1.33	1.16
San Diego, CA	1.15	0.90	1.27	1.10	1.25
Miami, FL	1.15	1.48	1.05	0.82	1.28
Portland, OR-WA	1.09	1.12	0.99	1.50	0.87
Atlanta, GA	1.08	1.05	1.11	0.97	1.15
Baltimore, MD	1.08	0.96	1.10	0.92	1.30
Chicago, IL	1.04	0.83	1.14	1.27	0.84
Newark, NJ	1.02	1.07	0.97	1.24	0.83
US AVERAGE	1.00	1.00	1.00	1.00	1.00
Dallas, TX	0.99	1.08	1.11	0.73	0.87
Philadelphia, PA-NJ	0.96	0.90	1.04	0.94	0.88
Phoenix, AZ	0.96	0.70	1.13	0.88	0.94
Nassau-Suffolk, NY	0.93	0.83	1.10	0.84	0.76
Kansas City, MO-KS	0.90	0.59	1.16	0.82	0.76
Denver, CO	0.90	1.08	0.82	0.98	0.79
Tampa-St. Petersburg, FL	0.89	0.83	0.89	0.76	1.08

San Jose, CA	0.84	0.75	0.95	0.95	0.61
Cleveland, OH	0.79	0.61	0.79	0.74	1.05
Riverside-San Bernardino, CA	0.77	0.79	0.84	0.61	0.76
Pittsburgh, PA	0.76	0.63	0.74	0.79	0.91
Houston, TX	0.74	0.65	0.75	0.66	0.91
Detroit, MI	0.74	0.61	0.82	0.73	0.74
St. Louis, MO-IL	0.71	0.52	0.79	0.67	0.80

Source: Ann Markusen and Greg Schrock, "The Artistic Dividend: Urban Artistic Specialization and Economic Development Implications," *Urban Studies*, Vol. 43, No. 10: 1661-1686: Table 1. p. 1667. Data include employed and self-employed people for whom arts is their major occupation (musicians, writers, visual artists, performing artists) from 2000 Census Public Use Microdata Sample (PUMS) data, from Steven Ruggles and Matthew Sobek et al. Integrated Public Use Microdata Series: Version 3.0 Minneapolis, MN: Minnesota Population Center, University of Minnesota, 2004.

Source: Ann Markusen, Anne Gadwa, Elisa Barbour and Bill Beyers, *California's Arts and Cultural Ecology* (San Francisco, CA: James Irvine Foundation, September, 2011), Table 6. <http://irvine.org/news-insights/publications/arts/arts-ecology-reports>. Data from the National Endowment for the Arts, Survey of Public Participation in the Arts Combined File, 1982-2000. www.nea.gov/research/2008-sppa.pdf. Participation defined as numbers/shares of resident attending at least one arts event in the preceding year. Regions aggregated to ensure statistical reliability from relatively small sample sizes.

Table 3-4. Los Angeles, Bay Area Artists, Discipline, Self-Employment, Sector, 2000

	Los Angeles	Bay Area	San Francisco Oakland	San Jose	Santa Rosa Vallejo
All Artists					
Employed	76090	32921	24688	4677	3556
%Self-employed	40	45	44	36	64
%Private employer	54	42	43	52	25
%Nonprofit, public	6	13	13	12	11

Ann Markusen, Sam Gilmore, Amanda Johnson, Titus Levi, and Andrea Martinez, *Crossover: How Artists Build Careers across Commercial, Nonprofit and Community Work* (Minneapolis, MN: Project on Regional and Industrial Economics, University of Minnesota for the James Irvine Foundation, 2006, Table A1) <http://irvine.org/news-insights/publications/arts>. Census 2000 data from Steven Ruggles and Matthew Sobek et al. Integrated Public Use Microdata Series: Version 3.0 Minneapolis: Minnesota Population Center, University of Minnesota, 2003. The Bay Area encompasses the three metros of San Francisco/Oakland, San Jose, and Santa Rosa/Vallejo.

*Counties in each metro area(s): Los Angeles (Los Angeles County); San Jose (Santa Clara County); San Francisco/Oakland combined PMSAs (San Francisco CA PMSA: Marin, San Francisco, San Mateo; Oakland CA PMSA: Alameda, Contra Costa); Santa Rosa and Vallejo (Sonoma, Santa Rosa, Solano)

Table 3-5. Arts Participation by California Region, 2008

	Participation Rate (%)	Number of Annual Arts Participants (1,000s)	Number of Attendances at Selected Arts Events (1,000s)
San Francisco Bay Area	66	3,716	22,855
Los Angeles Metro Area	54	5,422	24,594
South Coast and Border	52	1,101	3,852
Sacramento Metro Area	50	735	1,504
San Joaquin Valley, Inland Empire	42	2,466	9,780
Rest of State	60	974	4,515
Total State	54	14,414	67,059

Source: Ann Markusen, Anne Gadwa, Elisa Barbour and Bill Beyers, *California's Arts and Cultural Ecology* (San Francisco, CA: James Irvine Foundation, September, 2011), Table 6. <http://irvine.org/news-insights/publications/arts/arts-ecology-reports>. Data from the National Endowment for the Arts, Survey of Public Participation in the Arts Combined File, 1982-2008, www.nea.gov/research/2008-sppa.pdf. Participation defined as numbers/shares of resident adults attending at least one arts event in the preceding year. Regions aggregated to ensure statistical reliability from relatively small sample sizes.

Table 3-6. Private Philanthropic Funding for Arts and Culture, per Capita by Region, 2008 (\$)

Region	Per Capita Funding
Bay Area	23.5
Los Angeles Metro	17.3
Central Coast	16.1
Sacramento Metro	6.5
South Coast and Border	3.8
Northern Valley	3.8
North Coast and North State	1.4
Inland Empire	1.1
Sierra	1.1
San Joaquin Valley	0.6

Sources: Ann Markusen, Anne Gadwa, Elisa Barbour and Bill Beyers, California's Arts and Cultural Ecology (San Francisco, CA: James Irvine Foundation, September, 2011), Table 11. <http://irvine.org/news-insights/publications/arts/arts-ecology-reports>. Philanthropic data from Foundation Center, 2008, foundationcenter.org. Population data from California Department of Finance, www.dof.ca.gov. Data cover giving from private philanthropies (not individuals) located outside the region and state as well as within California.

1. See Ann Markusen, *Reining in the Competition for Capital* (Kalamazoo, Mich.: W. E. Upjohn Institute for Employment Research Press, 2007) for theoretical, empirical, and policy analysis of business incentive competition among U.S. and European regions, states, and localities.
2. See also chapter 7 in this volume for an exploration of innovation in arts and culture and its relationship to growth.

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3. Pathbreaking new research using IRS 1099 data on arts nonprofits, compiled by the Urban Institute, is being done by Steven Sheppard and his colleagues at Williams College. See Peter Pedrone and Steven Sheppard's longitudinal analysis in this volume, which shows that big infusions of investment in arts nonprofits can have a lasting impact on regional growth.
 4. See Judith Blau, *The Shape of Culture* (Cambridge University Press, 1989), for an excellent history of arts and cultural capacity distributions among large U.S. cities up through the 1970s. In chapter 4, Blau hypothesizes that large places may have large institutions but fewer numbers of them, a scale phenomenon, and also raises the possibility that within regions, supply may create its own demand.
 5. See William Beyers and GMS Research Corporation, *An Economic Impact Study of Arts, Cultural, and Scientific Organizations in the Central Puget Sound Region* (Seattle, Wash.: ArtsFund, 2011) (www.artsfund.org).
 6. Ann Markusen and Greg Schrock. "The Artistic Dividend: Urban Artistic Specialization and Economic Development Implications," *Urban Studies*, vol. 43, no. 10 (2006): pp. 1661–86.
 7. See Andy Pratt, "The Cultural Industries Production System: A Case Study of Employment Change in Britain, 1984–91," *Environment and Planning A*, vol. 29 (1997), pp. 1953–74; and Ann Markusen and others, "Defining the Creative Economy: Industry and Occupational Approaches," *Economic Development Quarterly*, vol. 22, no. 1 (2008), pp. 24–45.
 8. Bruce Seaman, "Arts Impact Studies: A Fashionable Excess," in *Economic Impact of the Arts: A Sourcebook*, edited by Anthony J. Radich (Washington: National Conference of State Legislatures, 1987), pp. 43–76.
 9. Harold Innis, *The Fur Trade in Canada: An Introduction to Canadian Economic History* (Yale University Press, 1930); Douglas North, "Location Theory and Regional Economic Growth," *Journal of Political Economy*, vol. 63 (1955), pp. 243–58; Charles Tiebout, "Exports and Regional Economic Growth," *Journal of Political Economy*, vol. 64, (1956), pp. 160–69.

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10. Douglass North, *The Economic Growth of the United States: 1790–1860* (Saddle Hills, N.J.: Prentice Hall, 1961); Diane Lindstrom, *Economic Development in the Philadelphia Region, 1810–1850* (Columbia University Press, 1978).
 11. Woo Jung and Peyton Marshall, “Exports, Growth, and Causality in Developing Countries,” *Journal of Development Economics*, vol. 18 (1985), pp. 1–12.
 12. Edward Gartey, “Causal Relationship between Exports and Economic Growth: Some Empirical Evidence in Taiwan, Japan, and the U.S.,” *Applied Economics*, vol. 25 (1993), pp. 1145–52.
 13. Subhash Sharma, Mary Norris, and Daniel Wai-Wah-Cheung, “Exports and Economic Growth in Industrialized Countries,” *Applied Economics*, vol. 23 (1991), pp. 697–708.
 14. See, for instance, Richard Pratt, “An Appraisal of the Minimum-Requirements Technique,” *Economic Geography*, vol. 44, no. 2 (1968), pp. 117–24.
 15. Joseph Cortright, “The Economic Importance of Being Different: Regional Variations in Tastes, Increasing Returns, and the Dynamics of Development,” *Economic Development Quarterly*, vol. 16, no. 1 (2002), pp. 3–16.
 16. See Robert McNulty, R. Leo Penne, and Dorothy R. Jacobson, *The Economics of Amenity: Community Futures and the Quality of Life*. (Washington: Partners for Livable Places, 1985); Charles Landry and others, *The Creative City in Britain and German* (London: Anglo-German Foundation for the Study of Industrial Society, 1996); Richard Florida, *The Rise of the Creative Class* (New York: Basic Books: 2002); Charles Landry, *The Creative City: A Toolkit for Urban Innovators* (London: Earthscan, 2003).
 17. Ann Markusen and Greg Schrock, “The Distinctive City: Divergent Patterns in American Urban Growth, Hierarchy, and Specialization,” *Urban Studies*, vol. 43, no. 8 (2006), pp. 1301–23. For more general treatments of the potential for local-serving economic development investments to produce growth, see Ann Markusen, “A Consumption Base Theory of Development: An Application to the Rural Cultural Economy,” *Agricultural and Resource Economics Review*, vol. 36, no 1 (2007), pp. 1–13; and Ann Markusen and Greg Schrock, “Consumption-Driven Regional Development,” *Urban Geography*, vol. 30, no. 4 (2009): pp. 1–24.

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18. Ann Markusen and others, *California's Arts and Cultural Ecology* (San Francisco: The James Irvine Foundation, September, 2011 (<http://irvine.org/news-insights/publications/arts/arts-ecology-reports>)).
19. For data limitations, methodology, and variable definitions, see the “City Characteristic Data Source” and “Analysis by City Characteristics” sections of Markusen and others, *California's Arts and Cultural Ecology: Technical Appendix* (San Francisco: James Irvine Foundation, September 2011 (<http://irvine.org/news-insights/publications/arts/arts-ecology-reports>)).
20. Most economic impact and growth studies done on regions use chiefly for-profit sector data and do not include the self-employed, excluding a very large number of artists and related workers. See, for instance, Los Angeles County Economic Development Corporation, *Report on the Creative Economy of the Los Angeles Region* (Los Angeles: Otis College of Art and Design, 2009). See chapter 8 in this volume on entrepreneurship and capacity building in the nonprofit arts sector.
21. Carl Grodach and Michael Seman, “The Cultural Economy in Recession: Examining the U.S. Experience,” *Cities* (<http://dx.doi.org/10.1016/j.cities.2012.06.001>).
22. NEA participation data are generated by an add-on to the Current Population Survey data and thus includes California respondents’ arts participation outside of California. However, it is unlikely that Bay Area residents would travel more frequently to participate outside of the state than would residents of other large California metro regions.
23. Markusen and Schrock, “The Artistic Dividend,” table 4.
24. Nick Rabkin and E. C. Hedberg, *Arts Education in American: What the Declines Mean for Arts Participation* (Washington: National Endowment for the Arts, 2011).
25. See, for example, chapter 3, on three New England towns, in this volume.
26. Ann Markusen and Amanda Johnson, *Artists' Centers: Evolution and Impact on Careers, Neighborhoods, and Economies* (Minneapolis, Minn.: Project on Regional and Industrial Economics, University of Minnesota, 2006), pp. 91–94 (www.hhh.umn.edu/projects/prie/PRIE--publications.html); Dana Gillespie, Carlos