



The Arts as a Growth Engine?

Evidence from Selected Metropolitan Areas

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Economic Impact of the Arts

- Significant element of historic arts advocacy
- Founded on “export base” theory and multipliers
 - $E_t = kE_b$, where E_t is total employment, E_b is export base employment, k is the multiplier
- Fundamental drawbacks
 - Assumes arts sector is part of export base
 - Most evidence contradicts this assumption
 - Even if true, doesn't justify subsidy
 - Diverts subsidy argument from sounder foundations
- The “zombie justification” that won't die

Arts and Quality of Life

- Business location decisions
 - Attracting and retaining employees
- Preponderance of evidence suggests otherwise
 - Skilled workforce
 - Access to markets
 - Access to suppliers
 - Infrastructure investments

Endogenous Growth

- Production function includes “artistic capital” $Q=f(K,L,A)$
- Subject to increasing returns, no equilibrium growth path

Creative Communities and Endogenous Growth

- Florida's work re-invigorated economic impact arguments
 - Florida mentions Romer and “new growth theory” only in passing (*Economist* article)
 - Americans for the Arts embraced concepts
- Uncertain theoretical and empirical support
 - Arts as subset of creative sector \Rightarrow economic growth

Impact Implies Causality

- Export base: $A_b \subset E_b \Rightarrow E_t$
Arts sector as subset of export base “causes” total growth
- Endogenous growth: $A \subset C \Rightarrow Q$
Arts sector as subset of creative sector “causes” growth through productivity enhancement

Granger Causality Tests

How much of current E can be explained by past values of E? Does adding lagged values of A improve the explanation?

- Economic base: shorter term impact (4 lags)
- Endogenous growth: longer term impact (8 lags)

Metropolitan Areas

- Atlanta
- Boston
- Chicago
- Cleveland
- Dallas
- Detroit
- Houston
- Los Angeles
- Miami
- Minneapolis-St. Paul
- New York City
- Philadelphia
- St. Louis
- San Francisco
- Seattle

Evidence of Arts-Induced Economic Base Impact

Five of 15 metro areas

- Dallas*
- Houston
- Minneapolis-St. Paul*
- New York City
- Philadelphia

*Appear on both lists

Evidence of Arts-Induced Endogenous Growth

Three of 15 metro areas

- Atlanta
- Dallas*
- Minneapolis-St. Paul*

*Appear on both lists

Evidence that arts *respond to* growth

Short-term

- Atlanta
- Boston
- Chicago
- Cleveland
- Detroit
- Miami

Long-term

- Houston
- Chicago
- Los Angeles
- Miami
- New York City
- St. Louis

Where next?

- Additional tests
 - More metro areas
 - Experiment with sector definitions
 - Address lingering data shortcomings
 - Changing metro area definitions
 - Withheld data
 - Better control variables