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Arts and Humanities: Pell Amendments (1975): Memorandum 03

Carl F. Stover

NATIONAL ENDOWMENT FOR THE ARTS

WASHINGTON D.C. 20506

A Federal agency advised by the National Council on the Arts

MEMORANDUM

TO: LIVINGSTON BIDDLE

FROM: CARL F. STOVER CFStover

DATE: MARCH 15, 1976

SUBJECT: ECONOMIC IMPACT OF THE ARTS

Any expenditure of funds for goods and services contributes to other expenditures of funds for goods and services. Wages are used for food, clothing, shelter, etc.; the price paid for goods of all kinds is used to pay wages, interest, transportation costs, etc.; savings and investments (unless literally or figuratively in a buried tin can) provide a capital base for other expenditures.

Hence, for any particular expenditure there is some general economic impact, more or less measurable. This multiplier is evident in wage expenditures, especially given the population's high propensity to spend (consume) rather than invest (save), but it is clearly most dramatic in certain forms of capital investment which provide the productive basis for vast networks of economic activity. It also varies relatively in terms of area, with labor intensive activity generally having the greatest local or regional multiplier effect and capital intensive activity showing the greater national multiplier effect. Of course, there are exceptions to all these generalizations.

The multiplier effect is not cumulative, but overlapping and ultimately circular. If it were cumulative, the economy would eventually explode. However, to the extent that it is cumulative within finite areas and time spans, the multiplier effect is a principal factor in economic growth.

MEMORANDUM

As in all matters of economics, the multiplier is based on definitions--what counts depends on what you decide to count. In this sense arbitrary, it is nonetheless useful in providing some reading of what's going on--as the thermometer's mercury records relative heat and cold--and in providing reflections from futures to be made possible by certain intended actions--as the impending delivery of precise BTU's to a finite closed space can be expected to move the mercury an exact distance. The multiplier is both "artificial", in being removed from the economic phenomenon, and "real", in being a function of it.

Given the complex, multiple, overlapping interactions of any particular economy or sub-portion of an economy, measuring the multiplier is very difficult. In fact, precise measurement is impossible, so what emerges from all studies is something of an approximation, with some being more thorough than others. This being true, it is very difficult to compare data on multipliers from different studies and from different areas of economic activity. A concept like the mathematical notion of Pi, it does not have Pi's advantage of being in a precisely defined universe, such as mathematics provides. (Lesson: all things that can be dealt with by number are not necessarily the same as number.)

The few studies of the economic impact of the arts that have been done reveal multipliers from <u>direct</u> expenditures associated with those activities (payroll, goods and other services) of between 1.0 and 3.0. To my knowledge, there are no studies that deal with the multiplier on the <u>indirect</u> expenditures associated with those activities (hotels, taxis, restaurants, baby sitters), which usually run at least to an estimated 50% of the direct costs. With this addition, the total multiplier on direct expenditures could run up to approximately 5.0.

The attached copy of a memorandum from Harold Horowitz to Richard Contee provides further information, as do pages 9-12 of my recent paper, "The Next Decade in the Arts...."