

New England's Creative Economy

THE NON-PROFIT SECTOR:

A period of dramatic cultural industry growth preceding a period of uncertainty

- Major findings from *New England's Creative Economy: the Non-Profit Sector-2000*, an economic impact study released by New England Foundation for the Arts in July, 2003.
- Economist Gregory H. Wassall, Ph.D. reflects on trends in New England's creative economy since 2000.

"Several years ago, we learned from ground-breaking research that the arts and culture sector plays a vital role in New England's overall economy—and we continued to see the economic benefits of investments in the cultural sector through the year 2000. Naturally, we are all now concerned about the impact of the downturn in revenues of cultural institutions that has occurred in the past two years—we know that the economic picture for culture will be a very different one for 2000–2002. We are concerned for artists and arts organizations, of course, and we are concerned about what a slowdown in investments in the sector will mean for the overall economic health of our six states. More people now understand that arts is not an economic "extra" but a critical piece of the New England economy."

M. Christine Dwyer
Co-Chair, NEFA Research & Learning Committee
Senior Vice President, RMC Research



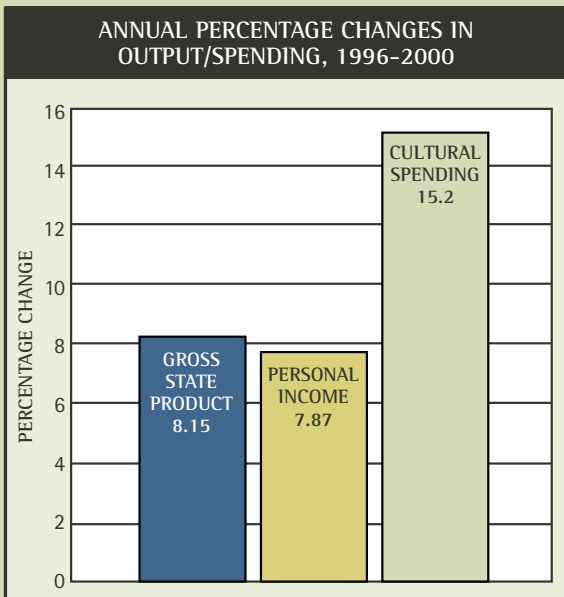
A new study by the New England Foundation for the Arts (NEFA) entitled *New England's Creative Economy: The Non-Profit Sector - 2000*, examines the financial status of New England's non-profit cultural organizations between 1996 and 2000. The study dramatically demonstrates the cultural industry's potential for building the region's economic competitiveness in a period of growth.

The NEFA study provides an in-depth look at the non-profit portion of the Creative Economy Cluster, which in its entirety includes for-profit creative enterprises and self-employed individual artists along with cultural non-profits.

NEFA's study shows that the growth of the non-profit sector of New England's Creative Economy Cluster outpaced the general economy's development from 1996-2000, exceeding expectations outlined in the New England Council's June, 2000 report. ¹

This document highlights a number of the major findings of the NEFA study*, and also explores the effects of the recent economic downturn on New England's cultural industry in a statement by Professor of Economics Gregory H. Wassall, Ph.D. In his statement, Professor Wassall reflects on the likely findings of upcoming research into the current health (since 2000) of the Creative Economy Cluster.

*The full study is available online at www.nefa.org/pubs or by contacting NEFA at 617.951.0010



The Rate of annual increase in spending by cultural non-profits significantly outpaced general growth in the region's economy from 1996-2000.

¹ The New England Council's June, 2000 report, entitled: *The Creative Economy Initiative: The Role of the Arts and Culture in New England's Economic Competitiveness* redefined the Creative Economy Cluster and revealed that it supports more than 245,000 jobs, or 3.5% of New England's total job base For more info visit www.creative-economy.org

Revenues among New England's non-profit cultural sector grew at an impressive rate between 1996 and 2000 – amounting to a total of \$4.2 billion in 2000.

- More than half of non-profit cultural sector revenue during this period – \$2.2 billion – represented earned income
- 18 percent of total revenues on average were received from out-of-state sources
- Between 1996 and 2000, the average organization revenue in this sector grew at an annual rate of 8.8 percent.
- Taken as a whole, annual revenue growth from 1996-2000 among cultural non-profits amounted to a dramatic 19.8 percent, indicating significant development among larger cultural organizations during a period when the region's Gross Domestic Product grew by 8 percent.

INCOME OF NON-PROFIT CULTURAL ORGANIZATIONS, 1996-2000 (in millions)						
	Connecticut	Maine	Massachusetts	New Hampshire	Rhode Island	Vermont
1996	\$515.9	\$103.3	\$1,428.0	\$76.3	\$160.4	\$68.8
2000	\$845.2	\$179.0	\$2,647.0	\$108.9	\$282.7	\$152.1

These significant gains can be attributed to several factors: Arts and culture are "income-elastic." During periods of growth, they attract consumer spending at a rate higher than income growth. The bull market of the late 1990s also benefited cultural non-profits in two ways: investment portfolios that kept pace with the overall stock market, and increased contributions by donors with greater than anticipated financial assets.

Museums generated the largest share of revenues (\$922.8 million), followed by performing arts organizations (\$887.3 million), media organizations (\$511.1 million), libraries (\$399.4 million), arts schools (\$324.3 million), historical organizations (\$285.7 million), and humanities organizations (\$252.6 million).

The non-profit cultural sector contributed \$3.8 billion in spending to New England's economy in 2000.

- Direct spending by cultural non-profits contributed jobs and purchased goods and services at an unprecedented level between 1996 and 2000
- On average, spending per organization from 1996-2000 increased at an annual rate of 5.4 percent, with a total annual increase for the non-profit cultural sector of 15.2 percent.

SPENDING BY NON-PROFIT CULTURAL ORGANIZATIONS, 1996-2000 (in millions)						
	Connecticut	Maine	Massachusetts	New Hampshire	Rhode Island	Vermont
1996	\$502.6	\$104.6	\$1,438.1	\$78.4	\$145.9	\$70.1
2000	\$766.1	\$146.0	\$2,395.2	\$99.2	\$241.1	\$118.8

Spending on operating expenses in 2000, including rent, artist fees, printing, and other costs represented \$2.263 billion of the total. The remaining \$1.5 billion supported salaries for 85 thousand staff members.

Museums contributed \$323.1 million in salaries, followed by performing arts organizations (\$294.5 million), media organizations (\$204.5 million), arts schools (\$150.3 million), libraries (\$138.7 million), humanities organizations (\$104.2 million), and historical organizations (\$94.8 million).

Non-Profit Cultural Organizations contributed more than \$134.7 million in taxes in 2000.

- While exempt from taxes on their direct activities, the payroll taxes withheld and sales taxes generated by cultural non-profits are by no means insignificant. Taxes paid in 2000 included \$122 million in federal payroll taxes and \$12.7 million in state sales taxes.

TAXES WITHHELD/COLLECTED BY NON-PROFIT CULTURAL ORGANIZATIONS, 2000 (in millions)					
Connecticut	Maine	Massachusetts	New Hampshire	Rhode Island	Vermont
\$24.4	\$3.7	\$91.9	\$2.1	\$9.7	\$2.9

New England's Cultural Non-Profits hold over \$11 billion of assets in trust.

For the first time, the NEFA study reports on the net asset position of the sector based on figures reported to the Internal Revenue Service and direct survey. Much of this amount represents the region's priceless heritage of cultural landmarks and artifacts.

- Museums, libraries and historical organizations hold almost two-thirds of the non-profit cultural sector's net assets:
 \$3.9 billion for museums
 \$1.8 billion for libraries
 \$1.1 billion for historical organizations

NET ASSETS OF CULTURAL ORGANIZATIONS, 2000 (millions of \$)					
Connecticut	Maine	Massachusetts	New Hampshire	Rhode Island	Vermont
\$1,772.6	\$410.5	\$7,682.1	\$262.3	\$721.0	\$246.8

Other large asset-holding organizations in the sector are performing arts organizations (\$1.2 billion), arts schools (\$906.7 million), humanities organizations (\$515.5 million), and media organizations (\$467.9 million).

The total economic impact of New England's cultural non-profits increased to \$5.2 billion in 2000.

- The NEFA report uses a strict measure of economic impact by considering only spending from out-of-state income sources. These out-of-state dollars had an additional induced and indirect spending effect amounting to \$1.2 billion over the original \$4.0 billion in total spending.

ECONOMIC IMPACT OF CULTURAL ORGANIZATIONS, 1996-2000 (millions of \$)						
	Connecticut	Maine	Massachusetts	New Hampshire	Rhode Island	Vermont
1996	\$760.04	\$146.6	\$2,554.4	\$102.1	\$241.2	\$94.0
2000	\$969.6	\$211.6	\$3,426.8	\$136.4	\$316.8	\$156.2

Economist Gregory H. Wassall, Ph.D. Reflects on Trends Since 2000

Later this year, NEFA will release the first of an annual series of Creative Economy Indexes, which will gauge the current status of both the commercial and non-profit sectors of the Creative Economy Cluster based on the best available data. The vigorous growth of the non-profit sector in the late 1990s demonstrates the potential of the sector to build regional economic competitiveness during a period of economic expansion. Given the economic contraction since 2000, the degree to which the non-profit sector can retain these gains is an important question.

The June 2000 New England Council report noted that all branches of the Creative Cluster - cultural non-profits, for-profit creative industries, and individual artists - mutually support each other along a set of closely related product lines such as the musical performance and sound recording industries; and that they share the same roots in the economic infrastructure providing basic support for growth and development (regional, state, and local arts agencies; business associations; arts schools and colleges, foundations and unions). The recent economic downturn has taken a serious toll on this infrastructure.

Dr. Gregory Wassall of Northeastern University has conducted NEFA's series of non-profit economic impact surveys since 1978. He reflects on the likely findings of upcoming research into the health of the Creative Cluster since 2000.

"When we have had an opportunity to look at the numbers since 2000, I would not be surprised to find a serious erosion in the nonprofit sector because of the very factors that lead to their flowering in good economic times. Because of the income-elastic nature of the sector, consumer spending on cultural products and individual donations will likely recede. Asset gains will be eroded by investment losses.

More seriously, state government appropriations to state arts agencies are notoriously elastic - tending to grow more rapidly than other appropriations when state budgets are experiencing surpluses and shrinking out of reasonable proportion in tight budget years. New England has a striking example in Massachusetts, its largest state, where the Cultural Council budget has fluctuated by over 60 percent in some years. Given the economic growth potential of the sector, and the interrelated nature of the commercial and non-profits sectors, the lack of coordinated policy in this regard seriously compromises the cluster's ability to build over the long-term."

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