ON THE PERFORMING ARTS: THE ANATOMY OF THEIR ECONOMIC PROBLEMS*

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I. *The Setting*

Romanticism long ago fixed in our minds the idea that there is something inevitable about the association between artistic achievement and poverty. The starving artist has become a stereotype among whose overtones is the notion that squalor and misery are noble and inspiring. It is one of the happier attributes of our time that we have generally been disabused of this type of absurdity. We readily recognize that poverty is demeaning rather than inspiring—that instead of stimulating the artist it deprives him of the energy, time, or even the equipment with which to create or perform.

While we have come to accept the idea that artists are often impecunious, even a cursory encounter with the facts of the matter usually proves surprising. One may or may not see something shocking in the fact that the median total income in 1959 of males classified by the census as actors was $5,640; that for musicians and music teachers the comparable figure was $4,757; and that for dancers and dancing teachers, $3,483.[1] But one must recognize that these figures include income from all sources, some of them (e.g., truck driving, lobster fishing, waiting on tables) rather unrelated to the performer's art.[2]

A detailed and specific investigation of economic conditions in the performing arts was conducted by Senate and House Committees in 1961 and 1962, and the volumes of *Hearings* which resulted are very

* This paper is based on a study being prepared by the authors for the Twentieth Century Fund, through the administrative channel of Mathematica. The study is still in progress, and this paper is nothing more than a brief introduction and a statement of certain theoretical ideas. The Fund has facilitated our work, not only by making generous financial provision for the extensive job of data collection and analysis which has been necessary, but also by helping to secure the cooperation of organizations and individuals and by allowing us full freedom to proceed as we wish. In the volume which will emerge from this study, we shall acknowledge our debt to the many people whose patient assistance has been essential to our work.

[1] U.S. Bureau of the Census, U.S. Census of Population: 1960, Subject Reports, *Occupational Characteristics,* Final Report PC(2)—7A, Table 25.

[2] As the Department of Labor's career guidance publication stresses: "Many performers . . . supplement their incomes by teaching, and thousands of others have to work much of the time in other occupations." (U.S. Dept. of Labor, Bureau of Labor Statistics, "Employment Outlook in the Performing Arts," Bulletin No. 1300-65, 1961, p. 214.) The BLS goes on to warn: ". . . the difficulty of earning a living as a performer is one of the facts young people should bear in mind in considering an artistic career" (*loc. cit.*).

revealing.[3] At that time the minimum weekly salary for Off-Broadway actors was $45 per week (it is currently $60); and what makes this figure significant is that most Off-Broadway actors are at the minimum. In such circumstances it is not difficult to see why Joseph Papp, producer of the New York Shakespeare Festival, was able to report that "banks and landlords consider him [the actor] a credit risk without visible means of support."[4]

Mrs. Helen Thompson, of the American Symphony Orchestra League, presented figures indicating that in 1961-62 the average salary paid to musicians in the twenty-six major orchestras in this country was $4,512; if the four highest-paying orchestras are excluded, the average for the remaining twenty-two major orchestras (again as of 1961-62) falls to $3,500.[5]

Dancers are in even worse financial circumstances, as illustrated by the case of a leading modern dance company whose members normally receive $25 after a trip which frequently includes four days of travel, a day of rehearsals, and a public performance.

In the main, performing artists are employed by organizations—by orchestras, opera and dance companies, producers and impresarios, resident theater companies—and the underlying economic pressures which manifest themselves in low performer salaries are transmitted through these organizations. Inadequate financial flows to these groups can threaten not only the welfare of individual performers but also the very existence of the institutions serving the entrepreneurial and managerial functions in the field of the performing arts. And, notwithstanding the publicity that has been given to the alleged "cultural boom" in America, we continue to hear frequently of theatrical groups which collapse, of opera houses whose seasons are in danger, and performing arts organizations of all kinds for whom financial emergency seems to have become a way of life. It is this situation and the threat that it poses for the cultural prospects of our society which constitutes the setting for the study we have undertaken.

The first objective of our study is to explain the strained economic circumstances which beset performing companies, to determine whether they are attributable mainly to fortuitous historical circumstances, to mismanagement or poor institutional arrangements, or whether there is something fundamental in the economic order which accounts

[3] U. S. House of Representatives, *Hearings Before the Select Subcommittee on Education of the Committee on Education and Labor,* "Economic Conditions in the Performing Arts," 87th Cong., 1st and 2nd Sess., 1962 (cited hereafter as "House Hearings"). U. S. Senate, *Hearings Before a Special Sub-Committee of the Committee on Labor and Public Welfare,* "Government and the Arts," 87th Cong., 2nd Sess., 1962.

[4] House *Hearings,* p. 111.

[5] House *Hearings,* p. 47.

for these difficulties. On the basis of our analysis we hope to produce some conditional forecasts of the financial future of the performing arts, the prospective costs, the operating revenues likely to be associated with various levels of activity, and the proportion of the resultant financial gaps which one can expect to be met from current sources of contributed income.

This session is intended to deal with theoretical matters and, while much of our work has been empirical, we welcome this opportunity to try to describe the basic economic relationships which seem to us to underlie the financial problems of the performing arts.

II. *Basic Economic Characteristics of Nonprofit Organizations*

Before we turn to the special economic properties of the performing arts, it is useful to devote some discussion to the economics of nonprofit-making organizations in general, for only in this way can the difficulties which beset the performing arts be seen in perspective.

Nonprofit organizations as a group share at least two characteristics: (1) they earn no pecuniary return on invested capital and (2) they claim to fulfill some social purpose. These two features are not wholly independent. Any group which sought to fulfill no social purpose and earned no financial return would presumably disappear from the landscape. Moreover, its goals themselves often help explain why no money is earned by such an organization. While an automobile producer may take pride in the quality of his cars, he is much less likely to regard product quality per se as an ultimate objective of the enterprise than is the head of a nonprofit organization. Nor is the auto producer likely to be nearly as concerned about the social composition of his clientele.

The significant point is that the objectives of the typical nonprofit organization are by their very nature designed to keep it constantly on the brink of financial catastrophe, for to such a group the quality of the services which it provides becomes an end in itself. Better research, more adequate hospital facilities, more generous rehearsal time, better training for those engaged in these activities—all these are not merely incidental desiderata. They are fundamental goals in themselves, and with objectives such as these, the likelihood of surplus funds is slim indeed. These goals constitute bottomless receptacles into which limitless funds can be poured. As soon as more money becomes available to a nonprofit organization, corresponding new uses can easily be found, and still other uses for which no financing has been provided will inevitably arise to take their place. Any lively nonprofit organization always has a group of projects which it cannot afford to undertake and for whose realization it looks hopefully to the future. Once this fundamental fact is grasped, it is hardly surprising that such groups feel themselves constantly strapped. It becomes clear that they are simply built that way.[6]

Nor is it just through its quality aspirations that the social goals of the nonprofit enterprise contribute to its financial difficulties. The concern of the typical nonprofit organization for the size and composition of its clientele often causes operating revenue to be lower than would be the case if services were priced to satisfy a simple profit-maximization goal. Since such a group normally considers itself to be a supplier of virtue, it is natural that it should seek to distribute its bounty as widely and as equitably as possible. The group is usually determined to prevent income and wealth alone from deciding who is to have priority in the consumption of its services. It wishes to offer its products to the needy and the deserving—to students, to the impecunious, to those initially not interested in consuming them, and to a variety of others to whom high prices would serve as an effective deterrent to consumption. In short, a low price for the product of a nonprofit group is normally an inevitable consequence of its objectives, and indeed sometimes becomes an article of faith. The ancient doctrine of "just price" is imbedded in the operations of these groups and carries with it all the difficulties which inevitably accompany an attempt to put it into practice.

The desire to provide a product of as high a quality as possible and to distribute the product in a manner other than that which maximizes revenue combine to produce a situation which is unusual in yet another respect. For such an enterprise a substantial increase in the demand for its product may well worsen the organization's financial health! Marginal costs may well exceed marginal revenues over the relevant interval. An increased number of student applications, an increased number of hospital patients, an increased number of orchestral performances may well increase the size of the contributions required for solvency. More generally, it follows that, contrary to widespread impressions, the much publicized cultural and educational "booms," whatever their composition, may in many cases prove a very mixed financial blessing.

Yet even in such circumstances the organizations cannot simply refuse to expand their activities in response to an increase in demand. By such a refusal the organization would renege on its fundamental

[6] The fact that any nonprofit organization can always find uses for a temporary excess of funds—and indeed may be embarrassed to report to its contributors that it has some money left at the end of the year—makes it very difficult to determine its cost functions. If an auto producer finds that a sudden increase in demand has swollen his receipts, he is only too happy to report higher profits; a nonprofit enterprise, however, may well use the extra revenue in a way which, in effect, deliberately raises it costs.

objectives, and, incidentally, it might even produce a loss in private and community support.

III. *The Performing Arts in Particular*

It is apparent that all of the standard problems of nonprofit organizations which have just been discussed beset the performing arts. It is not surprising, therefore, that the survival of the great majority of its organizations requires a constant flow of contributions. We can then easily understand why the arts find themselves in their present unhappy financial circumstances. But, up to this point, our discussion has offered no portents for the future. Here we don the inherited mantle of the dismal scientist and argue that one can read the prospects of the arts tomorrow in the economic structure which characterizes them today. The evidence will suggest that the prospects offer no grounds for complacency—that there are fundamental reasons to expect the financial strains which beset the performing arts organizations to increase, chronically, with the passage of time.

To understand the prospective developments on the cost side, it is necessary to digress briefly and consider in general terms the implications of differential rates of growth in productivity within the economy for the relative costs of its various outputs.[7] Let us think of an economy divided into two sectors: one in which productivity is rising and another where productivity is stable. As an illustration, let us suppose that where technological improvements are possible they lead to an increase in output per man-hour of 4 percent per annum, but that output per man-hour remains absolutely constant in the stable productivity sector. If these sectors are assigned equal weights in the construction of an economy-wide productivity index, the aggregate rate of increase in output per man-hour will be 2 percent per annum. For the moment let us assume that there is only one grade of labor, that labor is free to move back and forth between sectors, and that the real wage rate rises *pari passu* with the aggregate rate of change of productivity, at 2 percent per annum. Finally, let us suppose that the money supply and the level of aggregate demand are controlled in such a way that the price level is kept stable. Assuming that there are no changes in the shares of capital and labor, this means that money wages will also increase at the rate of 2 percent a year.

The implications of this simple model for costs in the two sectors are straightforward. In the rising productivity sector, output per man-

[7] There is, of course, nothing new in the following observations on the effects of differential rates of productivity change on costs and prices. See, e.g., Tibor and Ann Scitovsky, "What Price Economic Progress?" *Yale Rev.*, Autumn, 1959. Only its application to the state of the arts is novel.

hour increases more rapidly than the money wage rate and labor costs per unit must therefore decline. However, in the sector where productivity is stable, there is no offsetting improvement in output per man-hour, and so every increase in money wages is translated automatically into an equivalent increase in unit labor costs—2 percent per annum in our example. It should be noted that the extent of the increase in costs in the stable productivity sector varies directly with the economy-wide rate of increase in output per man-hour. The faster the general pace of technological advance, the greater will be the increase in the overall wage level and the greater the upward pressure on costs in those industries which do not enjoy increased productivity. Faster technological progress is no blessing for the laggards, at least as far as their costs are concerned.

It is apparent that the live performing arts belong to the stable productivity sector of our economy. The legitimate theater, the symphony orchestra, the chamber group, the opera, the dance—all can serve as textbook illustrations of activities offering little opportunity for major technological change. The output per man-hour of the violinist playing a Schubert quartet in a standard concert hall is relatively fixed, and it is fairly difficult to reduce the number of actors necessary for a performance of *Henry IV*, Part II.

Moreover, from the standpoint of long-term developments, the essence of the matter is not absolute or relative levels of productivity at a given date but the rates of change in productivity over time. This means that even if the arts could somehow manage to effect technological economies, they would not solve their long-term cost problem if such savings were once-and-for-all in nature. In order to join the ranks of the rising productivity industries, the arts would somehow have to learn not only to increase output per man-hour but to continue to do so into the indefinite future. Otherwise, they must at some juncture fall behind the technologically progressive industries and experience increases in costs which stem not from their own decisions but from the inexorable march of technological change in other parts of the economy.

True, some inefficiencies of operation are to be found in the field, and their elimination can help matters somewhat. Moreover, performing arts organizations can reduce the rate of increase in their unit costs by permitting some deterioration in the quality of their product—by fewer rehearsals, the use of more poorly trained performers, shoddy costumes and scenery. But such a course is never popular with organizations dedicated to quality, and, furthermore, it may lead to loss of audience and community support. Nevertheless, it is not an uncommon "temporary" expedient, imposed by the realization that the cutting of corners may be the only alternative to abandonment of the enterprise.

There is one other important avenue for cost saving open to the performing arts which has so far not been considered. We refer to wages paid performers. In the simple model sketched above, we postulated a situation in which a single, market-clearing wage was paid to all persons regardless of the industry in which they were employed. In actual fact, the live performing arts constitute a rather special labor market—a market in which the need for great native ability and extensive training limits the supply, but in which the psychic returns to those who meet these tests often offers a very substantial inducement to remain in the field. For these reasons, the performing arts are relatively insensitive to general wage trends, especially in the short run. It is largely for this reason that performing arts organizations in financial difficulty have often managed to shift part of their financial burden back to the performers—and to the managements, who also are generally very poorly paid by commercial standards. The level of the incomes in this general field must be considered remarkably low by any standards, and particularly so in light of the heavy investment that has often been made by the artists in their education, training, and equipment. And it is surely explained at least in part by the willingness of those who work in these fields to sacrifice money income for the less material pleasures of their participation in the arts.

However, there are limits to the financial sacrifices society can extract from the performers in exchange for psychic returns. One may reasonably expect that rising incomes in other sectors will ultimately produce untoward effects on the supply of talent. At what point this will occur depends partly on the income elasticity of the demand for psychic income. As the general level of real income rises, it may well be possible to persuade performers to accept a lower relative position in the income hierarchy. However, there are symptoms which suggest that, in some specialized areas, effects involving both quantity and quality are already being felt, though, overall, excess supply continues to be one of the market's most notable characteristics.

In sum, the cost structure of the performing arts organizations promises them no easier future. One might anticipate, therefore, that this structural problem would produce discernible effects on pricing policy. Certainly, in most of the industries in which productivity is stable, we would expect the price of the product or service to rise relative to the general price level. And there is a widespread impression that the arts have indeed behaved in accord with this anticipation—that ticket prices have been soaring. Yet our preliminary evidence suggests strongly that this view is incorrect and is largely a product of money illusion. Indeed, our preliminary data indicate that the rate of increase of ticket prices has barely managed to keep up with the price level and has lagged substantially behind increases in costs.

One might undertake to account for the surprisingly modest rate of increase in ticket prices in terms of a revenue maximization model—on the hypothesis that arts organizations believe the demand for their product to be highly elastic. We suspect, however, that a more valid explanation is the role of a doctrine of just price in the objectives of these organizations.

The tendency for increases in prices to lag behind increases in costs means simply that arts organizations have had to raise larger and larger sums from their contributors—and our analysis leads us to expect this trend to continue. Thus our analysis has offered us not only an explanation for the current state of affairs; it has also provided us with a basis for speculation about the future. What it has shown will not, we are afraid, be reassuring to those to whom ready availability of the arts constitutes an important objective of society. If our model is valid, and if, as may be suspected, there are limits to the amounts that can be obtained from private contributors, increased support from other sources will have to be found if the performing arts are to continue their present role in the cultural life of this country and especially if it is intended that they will expand their role and flourish.