

# Measuring the Economic and Social Impacts of Cultural Organizations

*Stephen Sheppard*

*Williams College<sup>1</sup>*

## Introduction

In 1941, world-renowned economist John Maynard Keynes became chair of the Committee for Encouragement of Music and the Arts (precursor to the Arts Council of Great Britain) and in the committee's first annual report following the end of the war, he wrote that:

The day is not far off when the economic problem will take the back seat where it belongs, and the arena of the heart and the head will be occupied or reoccupied, by our real problems—the problems of life and of human relations, of creation and behaviour [sic] and religion.<sup>2</sup>

Nearly 70 years afterwards, the day Keynes spoke of remains elusive, and communities as well as the cultural organizations they support are frequently asked about the economic and social impacts that are associated with the presence of such organizations. In measuring the social and economic impact of cultural organizations, there are at least three possible types of impact that should be the focus of our efforts. The economic activity that takes place in the community, economic indications of the desirability of the community and the 'quality of life' available for residents, and the social cohesion and social connectedness of the community. Before proceeding to discuss approaches to measuring each of these types of economic and social impact, we should identify some of the reasons why measurement of economic and social impacts is so important for cultural organizations and community development practitioners. The issue seems to arise with greater frequency regarding arts and cultural organizations than it does with regards to many other producers of goods and services. Why?

Most producers of goods and services can, by collecting payments from those who consume the goods and services made available, collect sufficient revenues to completely cover the costs of production. For some goods and services, and often for cultural goods and services, this is not possible, and purely private decisions made by potential suppliers will result in too little—or even none—being made available to the community. In such cases it will often improve community wellbeing to make some collective decision or implement some policies that will result in a larger amount of the good. These actions can take several forms, ranging from direct public provision to exempting from income taxation any dona-

---

1 Department of Economics, Williams College, 24 Hopkins Hall Drive, Williamstown, MA 01267.

2 John Maynard Keynes, "First Annual Report of the Arts Council (1945-1946)", 1946.

tions of funds to assist in the production. When such policies are implemented, it is natural and appropriate to make some comparison between the collective costs of the policies with the collective benefits of having the increased supply of the good or service. In this sense it is natural and appropriate to inquire about the economic and social benefits of arts and cultural organizations.

### **Local Economic Vitality**

In evaluating the “impact” of cultural organizations, the initial focus is generally the overall level of economic activity in the community, including the total value of goods and services produced, the income generated, and the number of workers employed in this process. Measurements of this sort can be carried out either retrospectively, for an existing organization or set of organizations, or prospectively for a new or proposed organization. For both types of evaluation it is appropriate to begin with an economic model of the local economy that provides an estimate of the difference between the level of local economic activity with and without the organization being evaluated.

For retrospective evaluation, the analysis provides a comparison between the current observed level of economic activity and the total value of output, labor earnings, or employment that would be observed if the organization being evaluated did not exist and everything else in the local economy remained the same. For prospective evaluation the analysis again compares the observed state of the local economy with a counterfactual: in this case the level of economic activity that would be observed if the organization commences production (with a proposed budget and level of production) and all other factors in the economy remain the same.

Such evaluations are most frequently undertaken using linear models that have been calibrated to the structure of the local economy, including current levels of production and employment in each industry, the interactions between different industrial sectors, and the patterns of final sales to local households. In these evaluations the budget of the organization itself and the expenditures of visitors who are drawn to the community from outside provide the starting point for measuring impacts (generally called the direct effect). Additional impacts accumulate based on changes in activity levels in other local industries that supply the organization or its local trading partners (called indirect effects). Finally, these direct and indirect impacts typically result in increased local employment and earnings, and the increased local income will in part be spent purchasing goods and services from local industrial sectors and further increasing local economic activity (called the induced effects). The combined impacts will generally be larger than the direct effects that are based on the budget of the cultural organization, and this increase is often referred to as the “multiplier” for the cultural organization.

There are several important observations to be made about the multiplier and this approach to evaluation of economic impacts. First, the multiplier is derived from a calibrated model of the local economy, usually comprised of data at the ZIP code or county level. It is an estimate that emerges from observed patterns of trade and exchange and when done properly generally produces values between 1.5 and 2.5.<sup>3</sup> While values outside this range are certainly possible, they should be viewed with caution.

Second, impacts measured in this way should generally be regarded as the maximum short- or intermediate-run impacts on the local economy. As noted above, the impacts make comparisons assuming other conditions and production levels remain constant. Given time to adjust, other factors will typically not remain constant. A new performing arts center may boost local economic activity, but some of these gains may over time be eroded because local businesses that provided other forms of entertainment—from bowling alleys to movie theaters—find that households are spending more time at the new performing arts center and less time pursuing other forms of entertainment. This caution is further motivated by the simple argument that if the population of the community remains the same, and labor productivity is not changed, then total earnings of residents will remain approximately constant. Unless new visitors are drawn from outside of the community to patronize the new cultural organization, there may be zero net increase in local economic activity.

Of course, there are situations when local cultural organizations do increase local labor productivity or attract visitors from outside the community. In such cases cultural organizations may have persistent local economic impacts, and an increase or decrease in the activities of these organizations will generate changes that persist even after all local economic adjustments have taken place.

Whether there is such a long-run relationship between the total production of local cultural organizations and local economic activity has almost never been investigated, but a recent paper attempts to provide such an evaluation.<sup>4</sup> By looking at more than 20 years of data from 380 metropolitan areas in the US, the authors are able to establish that there is a long-run positive relationship between output of cultural organizations and local economic output per capita.

## Quality of Life in the Community

Cultural organizations often make their surrounding communities more attractive places to live. Living in the community requires purchasing or renting a residence. If living in a community becomes more attractive relative to other places, we then expect an increase in the demand for residential property in the community. This increase in demand for property will cause an increase in the market value of residential property.

---

3 That is, the total change in local economic output will be 1.5 to 2.5 times the sum of the budget of the cultural organization and the total expected expenditures of visitors coming from outside the community.

4 Peter Pedroni and Stephen Sheppard, “The Economic Consequences of Cultural Organizations,” Chapter 9 in *The Arts, New Growth, and Economic Development*, Michael Rushton, ed., (Brookings Institution Press, Washington, 2013).

Such increases in property values have been controversial in some communities, and on occasion have caused concerns about whether these increases in property values will result in gentrification and reduced availability of affordable housing. Whether or not such changes take place, the increase in property values would provide an indication of the ability of cultural organizations to enhance the desirability of a community as a residential location and to enhance the wealth and wellbeing of local residents.

These observations do not dismiss or discount concerns about affordable housing, but such concerns should not be an excuse for avoiding actions that improve quality of life in a community. Housing values are also increased by good local schools, but it would be short-sighted to embrace underfunded and underperforming local schools so that housing would be more affordable. A more appropriate response is to embrace and support policies that improve local quality of life while simultaneously working to ensure that housing supply increases include a range of affordable options.

Do cultural organizations have a measurable impact on the value of local residential property? Most observers answer this question affirmatively, but again there are surprisingly few empirical studies that demonstrate and measure this impact. One such recent study examines the creation or expansion of art museums in four different urban areas.<sup>5</sup> In each of the cases, the opening or expansion of the museum resulted in an increase in residential property values with the largest impacts estimated for properties near the museum. Estimated impacts extend for distances from one to more than 20 kilometers.

The total increase in local wealth thus associated with increased production by local cultural organizations ranges from a few million to hundreds of millions of dollars. While further testing and estimation of such relationships is warranted, it seems clear that an important economic measure of local impacts of cultural organizations is the associated increase in local residential property values, an increase that is unambiguously related to the ability of such organizations to improve the quality of life for current or potential residents.

Another possible approach for evaluation of how cultural organizations affect the quality of life in communities is to make use of subjective measures of wellbeing and life satisfaction that have shown promise in other applications. One recent study presents a tentative exploration of this relationship.<sup>6</sup> The study uses a small survey sample in a single city, and establishes a weak relationship between participation in arts activities and responses designed (and used in other studies) to measure life satisfaction and subjective wellbeing of respondents. The statistical analysis presented is limited but the study does suggest some promise for such an approach. This would be particularly true if the analysis could evaluate responses over several time periods, during which there were unambiguous changes in number or levels of operation of cultural organizations.

5 Stephen Sheppard, "Museums in the Neighborhood: the local economic impact of museums," Chapter 8 in *Handbook of Economic Geography and Industry Studies*, Giarrattani, F., Hewings, G., and McCann P., eds., (Edward Elgar Press, Cheltenham, 2013.)

6 Alex C. Michalos and P. Maurine Kahlke, "Arts and the Perceived Quality of Life in British Columbia," *Social Indicators Research* Vol. 96, No. 1, pp. 1-39, March 2010.

## Social Connections

Community development practitioners, artists, and administrators of cultural organizations have noted that the benefits generated for their host communities extend beyond changes in levels of economic activity. This is no doubt correct, and while the evaluation of residential property values can provide some evidence of the magnitude and extent of such benefits, there is strong interest in developing methodologies that do not rely on observed market prices and transactions.

One potential approach is to directly evaluate the capacity for cultural organizations to strengthen social networks in the community, and to examine the position of cultural organizations within these communities. The idea that underlies this approach is that the social capital that is essential for community function is built through interaction between community residents. This is directly facilitated by cultural organizations that provide a venue for residents and neighborhood groups to meet, interact, and exchange ideas in formal and informal ways.

Two recent studies have drawn attention to this specific function of cultural organizations by introducing network analysis to evaluate the social function of cultural organizations.<sup>7</sup> The first paper introduces some basic measures of network density and the centrality of an organization in its network (essentially the number of other individuals and social organizations that could be connected through their connection to the cultural organization). The second paper presents case studies of three cultural organizations in very different urban settings and regions of the country. In this analysis, applications identified the neighborhoods and geographic areas that are potentially connected through their association and interaction with the cultural organization. Evidence is also presented that demonstrates the ability of cultural organizations to connect nearby communities that are in many respects very disparate.

These studies suggest that the analysis may have great potential for tracking the social impacts of cultural organizations. Undertaking studies of social connection in and between communities requires more data collection than analysis of traditional economic measures because the economic data are routinely collected for other purposes. More complete analysis of social networks would provide measures taken over time, showing how the nature of the social network changes with the opening or expansion of cultural organizations in communities.

## Conclusions and Directions for Future Research

As cultural organizations seek support from the public sector and communities, it is natural and appropriate to inquire about the magnitude of social and economic benefits arts and cultural organizations generate. We have reviewed several methodological approaches

---

7 Kay Oehler, Stephen Sheppard, Blair Benjamin and Laurence Dworkin, "Network Analysis and the Social Impact of Cultural Arts Organizations," 2007, <http://www.c-3-d.org/library/pdfs/NA%20Network%20Paper%20010807.pdf>; and Kay Oehler and Stephen Sheppard, "The Potential of Social Network Analysis for Research on the Cultural Sector," 2010, <http://www.c-3-d.org/library/pdfs/NetworkAnalysisAndCulture.pdf>.

that have been applied for such evaluations. Evaluations using economic models provide a useful starting point, but generally should be viewed as providing an approximation of the short-run impacts. Recent analysis has confirmed that there are long-run sustained impacts on local economies, but the magnitude of such impacts may diverge significantly from the multipliers that emerge from short-run analysis.

Evaluation of the impacts on quality of life and the social structure of communities is more difficult, and three approaches that have been used can potentially measure these impacts. Changes in the value of residential property, changes in survey responses concerning subjective wellbeing, and analysis of local social networks all show promise in this regard. As community development practitioners continue in their efforts to understand the impacts of these organizations, it is essential to choose some approaches that can be applied repeatedly over time. Establishing a baseline of these measures that characterize a community, and then tracking the changes as new organizations open or expand will provide the best approach for measuring the full range of benefits that cultural organizations can bring to our neighborhoods and cities.

*Stephen Sheppard, PhD, is the Class of 2012 Professor of Economics at Williams College and founding director of the Williams College Center for Creative Community Development (C3D). Before coming to Williams, he had been at Oberlin College, the London School of Economics, Washington University in St. Louis and Virginia Tech. Professor Sheppard's research focuses on the economics of housing markets and urban areas, particularly the impacts of environmental and cultural amenities on property values, land use regulation, the causes and consequences of urban expansion in cities around the world, and the impact of cultural organizations on urban and community development. His research has been supported by the Ford Foundation, the World Bank, the National Science Foundation, the National Endowment for the Arts, the Massachusetts Cultural Council, the Institute of Museum and Library Services, the National Center for Real Estate Research, the UK Department of Environment, Transport and the Regions and the UK Department for International Development.*