

Connecticut: A State of the Arts?

THE “CREATIVE ECONOMY” TAKES CENTER STAGE

BY STEVEN P. LANZA

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The economics of the arts had an inauspicious beginning. William Baumol’s 1966 book, *Performing Arts: The Economic Dilemma*, co-authored with William Bowen, launched the field of “cultural economics” with an ominous message: the performing arts are largely incapable of productivity improvement. Playing Mozart’s “String Quartet No. 14 in G major”, for example, still requires four musicians, the same as in 1782 when the piece was written, so over time unit labor costs will rise, profits will fall, and artistic output will, necessarily, decline.

But Baumol’s so-called “cost disease” has not spelled the end of the arts and entertainment industry. For one, as Baumol himself has since acknowledged, rising productivity and incomes in other sectors of the economy can increase the demand for artistic output, giving the industry a boost. What’s more, the arts are economically stagnant only under a very narrow definition of productivity. In fact, technological advances like sound and video recording make entertainment services far more readily available today than they were generations ago.

Recently, some economists have turned Baumol’s dire prediction about the future of the arts on its head. According to Richard Florida, skilled well-educated, high-income workers are also tremendously mobile and they look to locate in communities with attractive cultural, social and environmental amenities. Art galleries, museums, theaters, parks and restaurants might, this theory implies, act as economic development magnets, drawing in new talent and new businesses.

SPOTLIGHT ON THE ARTS

Connecticut’s main claim to fame in the arts-and-entertainment world isn’t exactly of the high-brow variety. Since the early 1990s, the state has been home to two world-class casinos, Foxwoods and Mohegan Sun, that offer (besides the requisite gambling facilities) retail shops, restaurants, hotels, theaters and sports venues. Together the casinos’ 13,500 slot machines, more than 600 gaming tables and related ventures employ more than 20,000 workers and generate over \$2 billion in revenue annually—and the state gets a 25% cut from slot machine proceeds. Those numbers are only likely to climb higher when Foxwoods completes its current \$700 million expansion, which will add 40% more space to the existing facility.

But Connecticut is hardly lacking in more conventional attractions. Hartford’s famed Wadsworth Atheneum is the nation’s oldest public art museum and one of a number of nationally-ranked museums and art galleries in the state. Also in the capital city, Mark Twain’s Connecticut home, where the iconic 19th century writer penned the adventures of *Tom Sawyer* and *Huckleberry Finn* and other famous works, is but one of dozens of homesteads and other historical sites that together paint a vivid picture of the state’s storied past. Mystic Seaport offers visitors a peek back on the state’s seafaring history, while at the nearby Mystic Aquarium the views are from underwater. And Bristol’s Lake Compounce, fresh on the heels of a \$3.3 million renovation, is the nation’s oldest amusement park, featuring theme rides, kiddie shows and a con-

tinuous stream of food and beverage during the summer months.

And more may be on the way. The latest buzz surrounds plans for a \$1.6 billion entertainment complex in Preston on the site of the former Norwich Hospital, only minutes from the casinos. The proposal, advanced by Utopia Studios, Ltd., would include the largest movie, television and music studio outside California, a year-round theme park rivaling Disneyland, a 6,000-student performing arts college, a major hotel, a marina, and a retail shopping complex. Advocates of the project foresee the addition of at least 10,000 new jobs to the economy, and perhaps more than 20,000, counting the employment of 5,000 temporary construction workers during the building phase.

And in a separate initiative, unrelated to the Utopia proposal, the state is implementing a special incentive package for the film industry. A bill approved by the General Assembly in May 2006 and signed by the governor will provide, among other things, a 30 percent tax break for movies made in Connecticut with a \$50,000 budget or better. New York, Massachusetts and Rhode Island already provide tax breaks to their local film industries, so Connecticut's plan should, backers believe, level the playing field and attract more of this growing industry to the state.

FRAMING THE INDUSTRY

Staking the boundaries of Connecticut's arts and entertainment industry, and thus gauging its economic importance, is made difficult by the variety of definitions and classifications one might employ. Using the

North American Industrial Classification system (NAICS), the U.S. Bureau of Labor Statistics (BLS) publishes data on "Arts, Entertainment and Recreation" (AER), which covers performing arts and spectator sports; museums, historical sites, zoos and parks; and amusements, gambling and recreation. In 2005, Connecticut employed about 24 thousand workers, or 1.45% of its workforce, in this sector. That same year 1.89 million U.S. workers, some 1.42% of the total labored in that industry. The ratio of these two percentages—1.45% divided by 1.42%—forms a measure called a location quotient (LQ), which here equals 1.02. That LQ means that the state's share of workers in the AER sector is about 2% higher than in the U.S. as a whole.

But this classification excludes from the sector most of Connecticut's workers employed in the gaming industry. BLS tallies tribal Indian employment, nearly all of it gaming-related, in the local government sector, because the tribes are considered government entities. Adding Foxwoods' and Mohegan Sun's 22,000 workers to the state's AER sector boosts its LQ to 1.96, putting Connecticut's share of workers in arts and entertainment 96% higher than the U.S. average.

Using a different approach, the New England Foundation for the Arts (NEFA) carves out a passel of "enterprises and individuals that directly and indirectly produce cultural products" from various NAICS industries and reassembles them into a cluster it calls the "creative economy." The NEFA classification includes some of the arts portion of the NAICS sector discussed above, but adds in related sub-sectors

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TWO TAKES ON CONNECTICUT'S ARTS AND ENTERTAINMENT INDUSTRY

	Jobs	LQ	Jobs Multiplier
Arts, Entertainment and Recreation as BLS Sees It			
Performing Arts Companies	1,727	1.14	1.2
Spectator Sports	1,134	0.69	1.2
Independent Artists	458	0.83	2.1
Artists' Agents & Promoters	1,435	1.21	1.3
Museums, Historical Sites	2,006	1.33	1.7
Fitness Centers	9,254	1.51	1.2
Bowling Centers	731	0.74	1.3
Other Amusement, Gambling	7,785	0.75	1.6
Total	24,530	1.03	
Other Amusement, Gambling*	29,785	1.71	
Total*	46,530	1.95	
* Including the Casinos			
The "Creative Cluster" as NEFA Sees It			
Applied Arts			
Architectural Services	2,471	1.04	1.8
Design Services	1,351	0.86	2.0
Advertising Services	2,802	1.10	1.8
Photographic Services	1,070	1.00	1.4
	7,694	1.02	
Performing Arts			
Musical Instrument Manufacturing	116	0.66	1.7
Musical Instrument Supply	437	0.96	1.2
Performing Arts Organizations	1,727	1.14	1.2
Arts Promoters	1,185	1.19	1.3
	3,465	1.10	
Visual Arts			
Art Printing	146	0.67	1.8
Photo Film Manufacturing	530	1.36	2.9
Art Good Manufacturing	59	0.52	2.1
Camera Stores	248	1.03	1.5
Art Dealers	133	0.42	1.3
Artists' Agents	250	1.27	1.3
	1,366	0.93	
Literary Arts			
Book Publishers	1,186	1.15	2.5
Media			
Audio-video Media Reproduction	49	0.16	2.0
Motion Pictures	2,140	0.46	1.8
Recording Industry	60	0.22	2.9
Radio TV Broadcasting	1,915	0.62	2.5
Cable Programming & Distribution	5,677	2.04	4.2
	9,841	0.89	
Heritage			
Museums, Historical Sites	2,006	1.33	1.7
Support			
Art Schools	1,269	1.67	1.5
Independent Artists	458	0.83	2.1
	1,727	1.32	
Total	27,285	1.01	

Source: *The Connecticut Economy* based on 2004 data from the U.S. Bureau of Labor Statistics (Jobs and Location Quotients) and from the 2002 IMPLAN input-output model of the Connecticut economy (Jobs Multipliers).

from other industries such as architecture and design, movies, TV and radio, and fine arts schools, among others (see the table).

NEFA's taxonomy involves a good deal of slicing and dicing of the NAICS industries but produces a result similar to one that arises from the BLS/NAICS approach. In 2004, the most recent year for which data at this level of disaggregation are available, Connecticut had 27.3 thousand "creative economy" jobs, while the U.S. total summed to 2.1 million. The resulting LQ, 1.01, is virtually the same as the 1.03 figure that year for the NAICS-based arts and entertainment industry.

APPEARANCES ARE DECEIVING

The low LQs for both the NEFA "creative economy" and the NAICS "arts and entertainment" industry belie the true importance of the arts to the state's economy.

For one, LQs vary widely among subsectors within arts and entertainment, suggesting that Connecticut has some key specializations within the industry (see the table). The state's relatively high LQ for heritage (1.33), for example, reflects a high concentration of economic activity in museums, historical sites, parks and zoos, an element of both the NEFA and NAICS approaches. Similarly, a relatively large number of book publishers earns Connecticut a high LQ in the literary arts. Even in areas where the state scores relatively poorly, like media activities (LQ of 0.89), Connecticut shows promise. Its high LQ for cable programming and distribution reflects the presence of ESPN in Bristol and World Wrestling Entertainment (WWE) in Stamford. And, as already discussed, casino gaming is a much bigger business than the official numbers suggest.

A second qualification is that a new job in arts or entertainment has beneficial ripple effects. When the casinos hire more workers, for example, they also boost orders from sup-

pliers, spurring new hires in those industries too. The new recruits demand local goods and services—homes, education for children and more—so additional workers are needed there as well.

This chain-reaction is called the “multiplier effect.” The table shows multipliers for the various arts-and-entertainment sub-sectors. The multiplier for gaming, for instance, is 1.6. That means 100 new hires at the casinos will ultimately generate a total of 160 new jobs (100 x 1.6), once the indirect and induced effects described above play out.

Connecticut’s arts-and-entertainment jobs are generally concentrated in sectors with relatively large ripple effects. But one industry where Connecticut is under-represented is media activities—suggesting that the state’s flirtation with filmmaking may reflect as much common sense as blind passion. The State’s new incentive package may indeed fan the fires of romance, but Utopia’s pursuit of Preston began several years ago, long before talk of tax breaks entered the conversation. So it’s likely the attraction is already mutual.

DRIVING, OR CHAUFFEUR?

Is the state’s AER industry driving growth in the rest of the economy, or is it just along for the ride? After all, jobs at fast food chains and discount department stores have ripple effects, too, but few would suggest that such market activity is an economic driving force. Instead, it’s likely that growth elsewhere in the economy creates the need for more retailers.

One way to determine whether AER is an economic follower or a leader is to test whether changes in its job count trigger changes in total non-farm jobs, or if the causality works in the opposite direction.


Economists use a statistical technique, the “Granger causality test”, to measure this. The idea is simple: Use past changes in nonfarm jobs to explain the current change. Then add

past changes in AER jobs to the equation. If doing so produces a statistically significant improvement in the forecast, the changes in AER are said to “Granger-cause” changes in total jobs.

For Connecticut, a monthly time series of jobs in AER is available back to 1990. But the results are disappointing. The Granger test suggests that arts-and-entertainment jobs do not cause changes in total jobs. If anything, the causality appears to run the other way—total jobs cause more AER jobs—at lags of 2 to 3, and 6 to 10 months.

But wait: A test of the entire leisure and hospitality “supersector,” which encompassing accommodation and food services as well as arts-and-entertainment, did show a strong causal link from the supersector to the economy as a whole, and not the other way around. At lags of 9 months and beyond, changes in leisure and hospitality jobs cause changes in total jobs, and at a high level of statistical significance.

Why might that be? Growth in the AER sector, particularly at the casinos and other hot tourist attractions, will naturally give a boost to the lodging and restaurant businesses. Since Connecticut’s gaming industry is largely excluded from the official industry count, accommodation and food services could be acting as a proxy for the growth at the casinos.

So the evidence suggests that the arts and related activities will play a starring role in Connecticut’s future job growth. 

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