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USING 'ECONOMIC' IMPACT STUDIES IN ARTS AND CULTURAL ADVOCACY: A CAUTIONARY NOTE

ABSTRACT

'Economic' impact studies have been popular in arts and cultural advocacy. Yet the application is inappropriate. 'Economic' impact studies are not designed for the purposes of advocacy. In the case of art and culture, they are more likely to be self-defeating. They also distract attention and resources away from the articulation of better advocacy arguments. Economists have warned against the use of 'economic' impact studies for advocacy, but their efforts have been only partly successful. This paper summarises the case against using 'economic' impacts for advocacy, concentrating on commonsense issues for easy digestion by non-economists.

> Misrepresentation is always beautifully brief; refutation always tediously long.
>
> *John Stuart Mill, 1826*

INTRODUCTION

Economic rhetoric reverberates throughout public policy. To the regular frustration of economists, however, the rhetoric is often based on 'bad' economics, or runs counter to economic sense. Landsburg (1993, 1997), for example, details a variety of political misappropriations of economics, while Hahn (1982) documents the same for whole political ideologies for which economics is the founding doctrine, such as 'Thatcherism' and 'Reaganomics'.

These are more than harmless misinterpretations; they impact on the real world through the actions of politicians, public servants and others with command over resources. They are clear examples of *misinterpreted authority,* a term used by Mabry and Mabry (1981) to characterise the misapplication of theories outside the disciplines in which they were conceived.

Misinterpreted authority not only promotes confusion; in the political arena it also promotes poor policy design and poor resource allocation. As Mill notes in the above quote, attempts to return sanity to an arena infected with misinterpreted authority will be hindered by misrepresentation's upper hand in the ideosphere.

The use of 'economic' impact studies in advocacy is a form of misinterpreted authority. 'Economic' impact studies provide no argument for government funding, nor are they particularly relevant to allocation decisions of government. Indeed, the studies were never designed for such purposes. A number of economists, called here ‘The Refuters’, have pointed this out with direct reference to arts and cultural advocacy, and there are signs that their counter-arguments have had an impact. References in the academic literature to ‘economic’ impacts in art and culture are noticeably clustered around the late 1980s and early 1990s. Schuster (1994) comments: ‘[Economic impacts] have run their course, and we are beginning to discover that their political half-life is limited.’

Nevertheless, the studies remained popular enough in 1998 for the Ontario Arts Council to publish a ‘do-it-yourself’ manual for ‘economic’ impact studies (Infometrica, 1998). And ‘economic’ impacts continue to be the primary *economic* argument adopted by arts advocates, as any survey of the advocacy documents and Websites of arts councils, arts endowments and other major arts advocates can confirm.

Refutation, it seems, may indeed be tediously long. It is the aim of this paper to add to the refutation process by summarising the main concerns of the Refuters in a way that is easily digestible for non-economists. The paper is one-sided. No attempt is made to balance the ‘pros and cons’ of impact studies, nor is any attempt made to survey the literature on ‘economic’ impacts. More comprehensive treatments are available elsewhere (Radich, 1987, 1993; Seaman, 1987). These more comprehensive treatments are often — out of necessity — highly technical, which carries a risk that refutation may be further protracted by technical obscurity. Such obscurity is, however, unnecessary for arguing against the use of ‘economic’ impact studies in advocacy. ‘Common sense’ issues tell us that such a use is inappropriate, and it is these common sense issues that are the focus of this paper.

The paper first clarifies what ‘economic’ impact studies are and briefly examines their use in the arts and cultural policy sphere. It then turns to why such studies are not good advocacy tools — first with reference to simple theory, then with reference to practical and strategic problems. The analysis suggests that ‘economic’ impact studies are not just weak advocacy tools, but may ultimately be self-defeating. To conclude, the paper briefly speculates on the possible sources of the misuse.

WHAT ARE ECONOMIC IMPACTS?

No single methodology characterises all ‘economic’ impact studies. Pleeter (1980) notes that ‘methodological innovations … have produced an almost infinite variety of models that resist categorisation’, making a taxonomy of ‘economic’ impact methodologies virtually impossible. Arts and cultural advocates have tended to adopt two broad approaches: ‘size’ analyses; and ‘flow-on’ and ‘multiplier’ analyses.

SIZE ANALYSES

Size analyses are bald measures of the financial size of some sector or activity, calculated by the simple summing of related income or expenditure. When generated from the appropriate data, a sector's size can be calculated as a percentage of Gross Domestic Product (GDP) and compared with the size of other sectors.

Size analyses are common in the advocacy arguments of a variety of sectors. A typical example can be found for the Australian pet care industry. Based on the findings of BIS Shrapnel (1995), it is claimed that the 'economic benefits' of the pet industry are that it 'contributes' $2.2 billion to the Australian economy and employs over 30 000 people.[1] Inexplicable comparisons are made with two 'industries' of a similar size: 'flour mills and cereal products' and 'paper and board packaging manufacture'. The rhetoric and the use of data will be familiar to arts and cultural policy analysts. Recent examples in arts and culture can be found in Casey et al. (1996), Australia Council (1996) and Pratt (1998).

Technically, size analyses are not 'economic' impact methodologies at all, as is evident in their omission from summaries of impact methodologies in the economics literature (such as Pleeter, 1980). Size analyses are covered here only by virtue of their widespread use as impact arguments in arts and cultural advocacy. 'Economic' impact studies *proper* measure net financial flows, not gross financial quanta. These 'net flow' methodologies will be referred to here as 'flow-on' or 'multiplier' analyses.

FLOW-ON AND MULTIPLIER ANALYSES

Flow-on and multiplier analyses cover a wide range of methodologies applied to a wide range of phenomena, from one-off or temporary phenomena such as arts festivals, to permanent fixtures such as institutions or whole industries.

For one-off events, such as arts festivals, the objective of a flow-on analysis is to measure spending that would not have occurred in the absence of the festival (which means that these analyses are haunted by the 'counterfactual' — what might have been — more than most other forms of scientific inquiry). For permanent institutions or industries, the analysis is typically aimed at determining the financial interrelationships between the institution or industry and the rest of the economy. In many cases, 'flow-on' spending is calculated as a 'per-dollar rate' of additional expenditure and coined — sometimes rather loosely — a multiplier.

'Multipliers' are used in a variety of contexts in economics. When used in the context of 'economic' impact studies, however, multipliers take on a specific meaning: they indicate the likely financial effects of a change in demand for the output of a sector (what this means in practice will be clarified later). An example of a formal multiplier analysis can be found in the Australian Bureau of Statistics (1995), which calculates multipliers from economy-wide input–output tables.

Except where otherwise stated, references in this paper to 'economic' impact studies should be taken to reflect all the above methodologies. This is merely for convenience rather than to reflect any underlying similarity between the methodologies. That said, their one underlying similarity — their grounding in financial variables — is both their defining strength and their ultimate limitation. By measuring *financial* ebbs and flows and *financial* interrelationships within some bounded system, 'economic' impact studies have a range of crucial policy applications: they provide insight into the structure (or the 'financial topography') of sectors; they help identify trends within sectors; they indicate the likely financial effect of demand and supply shocks and other structural changes, such as policy changes, on the activities and institutions measured; and they provide a way of comparing the financial effects of vastly different projects. But their confinement to financial variables also sets a fundamental limit to the use of 'economic' impacts in the policy arena, particularly social policy, which is customarily concerned with more than money (albeit eternally frustrated by the financial 'bottom line').

'ECONOMIC' IMPACTS IN ART AND CULTURE

'Economic' impact studies are ubiquitous in arts and cultural policy discourse. In 1987, Seaman decried: '"Economic impact" has become the latest version of ego-enforcing psychotherapy.' Schuster (1994) notes that 'it would not be unfair to suggest that in the United States our arts-funding agencies have been going through a period of pre-occupation with the economic impact of the arts'. Radich (1993) ratifies this by locating more than 200 'economic' impacts of the arts studies in the United States over the 20-year period to 1993. Indeed, a conference devoted solely to 'economic' impact studies in the arts was held in 1981 (Violette and Taqqu, 1982). The Website of *Americans for the Arts*, an 'organisation dedicated to building a better America through the arts' contains an overwhelming list of references to 'economic' impacts in art and culture, including review volumes, seminar series and 'how-to' publications.[2]

It would not be inappropriate to caricature 'economic' impact studies as a distraction of arts and cultural advocates. Cwi (1987) suggests that 'more money has been spent on assessments of the impact of the arts than on any other arts policy question'.

It is telling, however, that the 'economic' impacts obsession has largely been confined to the political arena or to projects funded by public moneys. Cwi (1984) notes that 'most research devoted to assessing the economic impact of cultural activities is sponsored by local or state arts councils'. In Europe, van Puffelen (1996) finds that 'most economic impact studies of the arts [have been] commissioned by organisations with a special interest in promoting the arts' (organisations van Puffelen calls 'arts friendly'). In its 20-year history, the *Journal of Cultural Economics*, the academic flagbearer for the economics of the arts, has carried only a handful of 'economic' impact analyses. The policy section of Throsby's survey for the *Journal of Economic Literature*, a landmark in the academic evolution of 'Cultural Economics', only mentions 'economic' impact studies to refute their use in advocacy (Throsby, 1994). In another major landmark publication, Towse's selected readings for the Elgar Reference Collection (Towse, 1997), the only paper on 'economic' impact studies is Seaman's classic refutation article of 1987. Indeed, nearly every economist who reviews 'economic' impact studies of the arts expresses concern over the technological and practical limitations of the methodologies.[3] Often, however, these concerns are merely stated 'for the record' and followed with summaries of data from 'economic' impact studies, as in Heilbrun and Grey (1993), which merely weakens any preceding refutation.

The zealous political thirst for 'economic' impact studies has prompted some academics — 'Refuters' — to dedicate whole articles to outlining the 'cons' and limitations of 'economic' impact studies. Most notable of the Refuters are Seaman (1987), Bille Hansen (1995a) and van Puffelen (1996). The Refuters catalogue a wide range of concerns, from specific technical problems to broader issues of the context within which 'economic' impact studies are applied. Technical problems are not addressed in this paper, as the use of 'economic' impact studies in advocacy is, above all else, a contextual misapplication:

> Spending-based impact studies are not really relevant to decisions on the allocation of public money. (van Puffelen, 1996)
>
> [M]ultipliers do not present a very convincing argument to secure more funding from governments. (Australian Bureau of Statistics, 1995)
>
> As … evidence for additional public financial support, ['economic impact' studies] are an abuse of economic analysis. (Seaman, 1987)

The use of 'economic' impact studies in advocacy is clearly a misuse, a *misinterpreted authority*. The rest of this paper provides a number of reasons why. The paper first addresses theoretical problems and then discusses some practical issues that compound the theoretical weaknesses. The discussion takes for granted knowledge of simple economic principles. The principle that has the greatest bearing in this paper is the economic concept of opportunity cost — that making a choice invariably means foregoing other options. Time and space do not allow the detailing of this and other relevant economic principles here. Heyne (1994) provides a particularly readable introduction to the often perplexing perspective of economics, while Madden (1998) discusses some of the broader economic principles with special relevance to the arts and cultural industries.

THEORETICAL ISSUES

Government advocacy involves articulating to government the importance and benefits of intervention. The better the articulation, the stronger the case. To fully explore what economics can contribute to this process is beyond the objectives of this paper. There are, however, *economic* reasons to suggest that 'economic' impact studies do not satisfy the requirements of good advocacy.

To begin at the simplest level, take the case of 'size' analyses. Equating size with importance is naive. There is no accepted level of financial 'significance', no level at which the financial size of a sector indicates that it is important or not important.

Indeed, size and importance are not necessarily related at all. Consider a medical analogy: the skin is the body's largest organ, but is it the most important? Without getting distracted by issues of morbidity or mortality, it is more useful to view the body as an integrated whole, as a collection of medical phenomena for which importance is measured by the role played in the drive toward homeostasis. Small organs can be just as important as large organs. Industries in the economy are analogous.[4]

The unsophisticated correlation between size and importance extends to the broader, 'non-economic', advocacy arguments of arts councils and cultural ministries, especially the highlighting of high participation rates in artistic and cultural activities. It is worthwhile to fleetingly point out that high levels of participation are not necessarily convincing arguments for promoting even *higher* levels of participation (indeed, if culture is 'the whole way of life' of a society, any participation level less than 100 per cent can only be attributed to deficiencies in surveying methodology). By any definition, art and culture are important to people, but this does not in itself make it important for governments to intervene. The need for a more specific notion of 'importance' clearly extends to 'non-economic' advocacy arguments *as well as* 'economic' advocacy arguments.

Perhaps mindful of the limitations of equating economic size with economic importance, 'size' analyses are often claimed to demonstrate the economic activity or jobs 'generated' or 'created' by art and culture. Such claims are misleading and inconsistent with the notion of the circular flow of income, which holds that expenditure on, say, an artwork is both income to an artist *and* lost income to non-artists *to the same amount* (even if the expenditure on an artwork were saved instead of spent, it would, in a typical modern economy, be used by banks to fund investment). The impact measured by 'size' analyses is better described as a 'diversion' than a 'creation'.

Other claims that that 'size' analyses demonstrate the economic 'benefits' or the economic 'contribution' of an industry are similarly misleading. The existence of intangibles, consumer surplus and externalities, among others, mean that market derived data is only a partial measure of economic benefit (Madden, 1998). Moreover, economics tells us that size statistics are actually a measure of *cost*, not benefit. The $2.2 billion spent by Australians on pets is, therefore, a poor measure of the benefits of pets, but an accurate measure of opportunities forgone in pet ownership. Claims of economic 'contribution' similarly invert economic logic. A recent OECD paper, for example, presents size statistics as a measure of the 'contribution' of the cultural industries to economic 'well-being' in the United Kingdom (Pratt, 1998). But the unavoidable economics of opportunity cost tell us that these industries would contribute more to our economic well-being if their products were free. The fact that we tie up valuable resources to procure their benefits is merely a opportunity cost. Contributions to well-being and to the economy are more complex and subtle than can be captured by simple 'size' statistics.

The case is less obvious for 'flow-on' and multiplier analyses, but the principles are similar. Multipliers show the financial response of various sectors to an increase in demand for their output (Australian Bureau of Statistics, 1995). At first sight, this might seem to suggest that if the top hat industry multiplier is 0.1, and tomorrow we decided we liked top hats, then GDP would rise by 10 cents for every extra dollar we spent on top hats tomorrow. But this interpretation is wrong. By spending more on top hats, we spend less on other commodities. The net effect will be determined by the size of the top hat multiplier relative to the 'inverse multipliers' of industries that lose our custom. GDP might conceivably *decline* from a shift in demand to top hats if those other industries have a greater negative 'economic' impact.

Multipliers are designed only to measure the impact on GDP of increases in demand that do not require substitution from other sectors. In economic terms, this means they measure the effects of demand increases caused by *exogenous* increases in wealth, such as an injection of money from outside the economic system. Only then can the impact be seen as extra wealth 'generated' by demand increases in particular sectors.

This is a crucial point when considering the use of multipliers in advocacy. Using multipliers in advocacy appears to appeal to the argument that governments can increase demand for the output of an industry through government expenditure, and thereby increase GDP ('create' wealth) by the amount of the multiplier. But government expenditure is not exogenous. Increases in government expenditure must ultimately come from somewhere — either diverted away from alternative policy expenditures, or away from the expenditures of citizens through higher taxes. The net effect depends on the 'inverse' impacts of the areas from which the extra money is diverted. Changes in government expenditure may just as easily 'degenerate' as 'generate' wealth as measured by GDP. Governments might wish to print money or borrow from overseas to avoid the immediate implications of wealth transfers, but economic theory predicts that the long-run implications are comparable, if more subtle — citizens will inevitably pay at some point.

Conscious of the issue of *exogeneity*, many 'flow-on' analyses attempt to measure only exogenous revenues (such as 'tourist' revenues). The first point to note here is that 'economic' impact studies are highly sensitive to boundary definition. Tourist revenues from other regions of the same country are of little interest to a national government, as these revenues merely represent monetary transfers between citizens. Similarly, dollars attracted from overseas may have a financial impact nationally, but the net global effect may be close to zero, so 'economic' impacts can hardly claim to be a *general* theory for advocating government intervention (unless, of course, exogenous revenues can be enticed from tourists from outer space!). Furthermore, economic theory constantly warns of the dangers of believing that money can materialise out of nothing (the 'free lunch' illusion), and this principle is as relevant for tourist money as for any money. Overseas economies lose money by the level enticed away by our arts festival. But their loss of wealth is also felt by their trading partners, one of which is probably us. Conversely, our trading partners, one of which is probably them, benefit from our greater wealth through our higher demand for their commodities. The losses and gains flow around a complex web of trade and exchange links that is nearly impossible to audit. 'Economic' impacts never successfully account for all financial effects, and are prone to overstate the net financial impact on the local economy.

Counterfactual, boundary and accounting problems aside, if a meticulous 'economic' impact study of, say, an arts festival proves conclusively that an event attracts significant overseas revenue, their case may appear unquestionably robust. If the festival threatens to 'go under', then it seems inarguably in the interests of government, on behalf of a fair majority of taxpayers, to provide taxpayer funds to secure the festival's survival. Not to secure the profits of the festival would appear to promote economic contraction as opposed to economic growth.

But the case is not so simple. This type of advocacy fails to convince government of the import of an event: similar or even larger levels of tourist revenue might be available from other sources. As will be discussed later, the strategic risks for arts and cultural advocacy are significant. More importantly in theoretical terms, economists actually disagree about the ability for exogenous financial injections to lead to permanent increases in wealth or economic growth. A number of the contradictory economic 'schools of thought' are set out in the New South Wales Treasury's analysis of the 'economic' impact of the Sydney Olympic Games (New South Wales Treasury, 1997). Disagreements such as these call into question the whole theoretical premise apparent in advocates' use of 'economic' impact studies. The issue of growth clearly deserves further investigation here.

ECONOMIC GROWTH

As the New South Wales Treasury's analysis indicates, economic growth theory is a hotly debated topic in its own right. Indeed, growth theory is in a somewhat dire condition. Cecen (1997) comments that 'most economists agree that the growth literature has not been able to produce realistic models that can illuminate real world problems', while Hahn (1987) notes of neoclassical growth theory: '[I]n a sense it is not even a theory of growth.'

It is not possible to summarise all the issues here. The growth chapters in Magill (1997) offer a readable introduction. The primary point to make here is that 'economic' impact studies are not persuasive growth arguments: at the 'micro' level, as the New South Wales Treasury indicates, 'economic' impact studies have at best inconclusive implications for growth; at the 'macro' level, they are largely discreditable, as suggested by 'maverick' economist Kenneth Boulding in 1966:

> [Economists] are still too much obsessed by mechanical models, capital–income ratios, and even input–output tables, to the neglect of the study of the learning process which is the real key to development. (Boulding, 1966)

‘Economic’ impact studies are clearly a member of the family of ‘mechanical’ economic models alluded to by Boulding. His emphasis on knowledge processes, however, indicates that there is much for arts and cultural advocates to be optimistic about. Landsburg (1997) reinforces the emphasis: ‘Economic growth is caused by technological progress, and technological progress is caused by gumption.’

This emphasis on knowledge in growth will be welcomed by those who advocate art and culture as promoters of creativity. Economic growth theory is actually a fertile, but largely unexplored, source of arguments for art and culture advocates. Institutional economists, for example, emphasise not just the role of knowledge in economic growth, but also the role of institutions, where institutions are defined as ‘the regular, patterned behaviour of people in a society and … the ideas and values associated with these regularities’ (Neale, 1994). The similarity between this notion of institution and notions of culture — especially ‘ways of life’ notions of culture — is obvious, and foreshadows immeasurable opportunities for cultural advocates. Furthermore, the increasing attention of many economists on *development* rather than *growth* is also beneficial to arts and cultural advocates. Among other things, it encourages an attractive recalibration of perspective: from the arid notion of the economy as an engine of wealth to the more elegant conception of the economy as an attendant to human well-being, betterment and even enlightenment. Qizilbash (1998) provides a good introduction to how economists have struggled to understand the meaning of economic development. The corollary is that art and culture are not means to economic ends (as advocated by ‘economic’ impact arguments), but that the economy is a means to artistic and cultural ends.

Arts and cultural advocates do appeal to notions of creativity and the need for increases in wealth to be realised in higher artistic and cultural achievements — see, for example, the arguments advanced in World Commission on Culture and Development (1995) and President’s Committee on the Arts and the Humanities (1997). But the arguments are typically elucidated *outside* the economics framework and therefore do not satisfy the requirements of economic advocacy. For an economist, it is not merely sufficient to substantiate the linkages between, for example, creativity and economic growth (i.e. that art and cultural activity promote creativity, that creativity promotes innovation, and that innovation promotes economic development); it is also necessary to demonstrate that there is some systematic ‘under-investment’ in creativity that warrants government intervention. In economic terms, this ‘under-investment’ represents the failure of the ‘market’ (or, more generally, the failure of freely acting individuals).

MARKET FAILURE

Market failure will be most familiar to arts and cultural policy analysts in the form of the ‘justification’ arguments that have preoccupied arts economists: primarily public good, merit good and externalities arguments. The focus on ‘justification’ rather than advocacy tends to make these arguments highly technical, which undoubtedly has impeded their translation into sensible advocacy arguments in the policy domain. Complexity can, however, be avoided by sourcing market failure simply to the existence of 'non-private' benefits, as in O'Hagan (1998). The economic task is then to articulate the non-private benefits, deduce that they are significant, and demonstrate that government can achieve a better outcome through intervention.

Again, it is not possible to fully pursue the issues in relation to art and culture here, merely to point out that a typical 'economic' impact study provides no indication of the existence or extent of market failure.[5] Throsby (1994) explains: 'Studies in [arguing for public support for the arts] have tended to focus on direct expenditures and their multiplier effects, rather than on genuine instances of market failure that might warrant government intervention.'

Furthermore, non-private costs and benefits are often largely intangible — that is, unmeasurable in financial terms. By their very nature, 'economic' impact studies are poor at accounting for intangibles. And it is worth pointing out that governments are prone to put intangible considerations *before* financial considerations. For example, governments often intervene to *depress* the drugs, prostitution and pornography industries despite their sometimes substantial financial flow-on effects. Government action is motivated by the largely intangible external costs of these industries. Economics can provide crucial analytical input into these intangible policy issues, but not with traditional 'economic' impact studies. In the area of arts and cultural policy, a preoccupation with financial 'economic' impact studies appears to have detracted from the application of economics to intangibles.

The point of the preceding theoretical discussion is twofold. First, if arts and cultural advocates wish to use 'economic' impact studies to demonstrate the role of the arts and cultural industries in economic development or highlight instances of market failure, then economic theory is not necessarily on their side. Second, there are better ways of using economic theory to advocate arts and culture.

PRACTICAL PROBLEMS: THE IMPACT OF 'ECONOMIC' IMPACTS

The preceding section highlights theoretical reasons why 'economic' impact studies are not appropriate for advocacy. There are also a number of practical and strategic issues which suggest that 'economic' impacts are not just theoretically weak advocacy arguments, but that they may also be self-defeating.

'Economic' impacts reduce vastly different sectors into one language — money — for comparison with alternatives. The generic treatment has drawbacks. First, it places different sectors into direct competition with each other, an irresistible temptation for governments to choose only 'stars'. How do art and culture measure up? In the case of size analyses, cultural industries account for up to 5 per cent of the GDP and employment of Western democracies.[6] The arts industries are even smaller than this — by any measure, minuscule in comparison to total national product. In the case of multipliers, there is also evidence that the arts and cultural industries generally fall short of being ‘stars’ (Australian Bureau of Statistics, 1995).

To avoid the inevitable incomprehensibility of diminutive numbers, the arts are often compared with other industries. The Australia Council (1996), for example, compares arts industries with, among others, the ‘cosmetics and toilet preparations’ and ‘petroleum and coal products’ industries. Ignoring the problem that these ‘industries’ often consist of only vaguely affiliated ‘sub-industries’ (e.g. ‘oil refining’ and ‘adhesive tape manufacture’ are part of the same industry), there is an overriding randomness in the choice of comparison. It is not clear what industries make an appropriate benchmark for the arts industries, nor why any comparison should be made at all. The practice is unconvincing in advocacy and of little value generally.

Data on the arts and cultural industries regularly demonstrate that appeals to both size and financial flow-on are inevitably futile. Bille Hansen (1995b) finds that higher ‘economic’ impacts can come from some unexpected quarters: ‘In Denmark it has been demonstrated … that a typical cultural institution does not have larger direct and derived short-term economic effects than, for example, universities, *nurseries* and *old people’s homes.’* (italics added) Seaman (1987) argues that ‘[the arts] simply cannot win in the fight about who has the biggest impact’.

The second major problem with the generic treatment of ‘economic’ impact studies is that they obscure uniqueness. ‘Economic’ impact studies allow comparisons to be made between, say, an art gallery, a casino and weapons trade, without distinguishing between the intrinsic, functional aspects of such diverse options. In an absurd corollary, governments solely interested in procuring multiplier benefits should at least compare any appeal to ‘economic’ impact with a simple cash transfer. A financially obsessed government might decide to disperse $1 million into its citizens’ bank accounts rather than invest $1 million into an arts festival, based on a calculation that the cash transfer has a larger net financial effect. Both actions have wealth and job effects, both have multipliers, but the point of the arts festival is lost. Using ‘economic’ impact studies for advocacy can only encourage such incongruous comparisons.

Absurdities of this nature seem to have motivated Bille Hansen (1995a) to make the apparently trite but often overlooked observation that, in ‘economic’ impact analyses, ‘the arts are evaluated on an incorrect basis because account is not taken of the purpose of the activity’.

Bille Hansen’s comments remind us that good economic advocacy in art and culture requires, first and foremost, a good understanding of art and culture. In this regard, arts advocates have not been well served by economists. In the advocacy or ‘justification’ arguments of cultural economists, art and culture are too often inadequately understood, typically defined for ease as a list of the institutionalised arts — ‘The Arts’ (see, for example, the definitions in O’Hagan, 1998, and Heilbrun and Gray, 1993). It is no mystery that 'The Arts' tend to be patronised by higher socioeconomic classes. Since cultural economists have made little attempt to articulate the transmission mechanism from 'The Arts' to broader notions of art and culture, their justification arguments have appeared elitist, rather like advocating health expenditure on the complaints of the wealthy at the expense of expenditure on the health issues of the poor. To better inform cultural policy and to provide better advocacy arguments, cultural economists need to import broader notions of art and culture and develop a more sophisticated cultural awareness (Singer, 1992; Throsby, 1995; Bonetti and Madden, 1996).

All indications are that art and culture are fertile subject matter for the economic advocate. For example, Bille Hansen (1995a) focuses on the economics of creativity, a line of inquiry that was pursued by Galbraith (1960) at the very dawn of cultural economics but has been largely ignored by the subject since. Creativity is merely the tip of a largely unexplored iceberg (Bonetti and Madden, 1996).

As recognised earlier, although arts advocates do allude to the intrinsic aspects of art and culture, such as creativity, in their advocacy, these arguments are typically articulated *outside* the economics framework — in other words, they are not seen to input into economic advocacy arguments. Clearly, a conviction among arts advocates that economic advocacy begins and ends with 'economic' impact studies is partly to blame, but it is not without cost. As Seaman (1987) notes: 'In a sense, [arts proponents] are choosing to play one of their weakest cards, while holding back their aces.'

The greatest practical risk in adopting 'economic' impact studies for advocacy, however, is that governments might actually take notice of them. 'Economic' impacts invite governments to intervene in art and culture for financial gain, and the results can be disastrous. Financial objectives are not everywhere harmonious with artistic or cultural objectives, so government intervention will at best be only coincidentally consistent with cultural objectives. Furthermore, mediocre 'economic' impact numbers may dispatch arts and cultural policies further to the periphery of government interests, or encourage the view that cultural policy is a mere adjunct to policies aimed at wealth or job creation. Both the mismatch of policy objectives and the marginalisation of cultural policy are commonly evident (see, for example, Pulford, 1995 and Volkerling, 1994).

There are more subtle strategic effects. Attracting exogenous revenues is a form of protectionism: it aims to divert *their* wealth to *us*. Ignoring the usual theoretical concerns about protectionism, protectionist policies inevitably invite strategic response. Protectionism is an invitation to war — economic war. Similarly, event funding *for the purpose of net financial gain* is an invitation to war — event war. Evidence for this can only be anecdotal, but it resonates across regional and cultural hierarchies. At the 'grass roots' level in Australia, for example, rural towns engage in the fight through local festivals, some only loosely related to the celebration of a unique heritage.[7] And in Australia, as in many countries, towns lacking a natural tourist attraction invariably create one. The Australian townscape is littered with 'Big Things' — a big lobster, a big lawn mower and the world's biggest rolling pin — that stand as testimony to the war for tourist dollars. Similar battles are evident on a grander scale between cities and even countries over major festivals and events.

The point here is not to argue that such cultural expressions are in any way bogus or undesirable, merely that the pursuit of financial gain through the promotion of culture is not culturally neutral and that it may actually lead to excess. Indeed, similar excesses are documented in other strategic situations, such as in international relations and military conflict (see, in particular, Schelling, 1960, 1966) and in 'winner-take-all' markets (Frank and Cook, 1995). Dewatripont and Tirole (1999) actually argue that the tendency to irrational excess is endemic to all forms of advocacy, something Cwi (1984) appears to have witnessed in the case of arts advocacy when he cynically observes that, in 'economic' impact studies, 'almost any number will do as long as it's less than the Gross National Product and greater than zero[!]'.

By the tenets of economics, such irrationality is undesirable, and even though the most ardent economic purist would concede that some irrationality is unavoidable in the practice of government, there is good reason for citizens to covet its minimisation. To *promote* irrationality in government policy is to court chance.

AETIOLOGY

In the face of the misgivings outlined here, particularly the misgivings of economists themselves, it might appear unusual that 'economic' impact studies have been so fashionable in arts and cultural advocacy. While it is not the intention of this paper to fully explain or trace the political progress of the 'economic' impacts epidemic, nor to apportion blame for its origin, some themes are evident. The literature suggests that the studies have been in response to government demand, brought on by financial retrenchment and the rise of an 'economic rationalism' in politics (Pleeter, 1980; Cwi, 1981, 1982). It is inconsequential that this 'economic rationalism' may have been based on a misinterpretation of economic theory, as Lansdburg and Hahn imply: in the advocacy feeding frenzy, the rational institutional response is to supply governments with whatever information they demand or whatever information moves them. If governments have found 'economic' impacts convincing, arts and cultural advocates have merely responded accordingly.

The misinterpretation is intensified through peer pressure. The use of 'economic' impacts for advocacy by a critical mass of sectors creates an incentive for remaining sectors to follow, to demonstrate that their 'economic' impacts are non-zero, to keep up in the contest for media attention, or to surpass — often by whatever means available — the impact numbers of the competition (Cwi, 1982; Gapinski, 1987; Seaman, 1987; van Puffelen, 1996).

Non-economists may be confused by an economics profession that is prepared to undertake ‘economic’ impact studies while simultaneously cautioning against their use. Confusion is compounded by a lack of consensus in economics itself, which — as shown earlier — can cause one economist to attribute growth outcomes from an event’s economic impact study, while another denies any growth potential at all. Nevertheless, economists themselves must shoulder some of the blame for the misuse of ‘economic’ impact studies, as Heilbrun and Grey (1993) point out: ‘Economic impact studies can be faulted for the fact that those who use them (especially non-economists [sic.]) frequently draw incorrect or misleading inferences from them, and *the form and content of the studies virtually incite such errors*.’ (italics added) No Refuter has yet speculated on the effect of bureaucratic funding on the professional standards of practising economists: to concede to an effect would be to admit to a prostitution of economics. Van Puffelen (1996) merely asks rhetorically: ‘Why do economic researchers use questionable reasoning in their studies?’

To add to the confusion, the use of ‘economic’ impact studies in art and cultural advocacy is, as Landsburg and Hahn show, merely one site of a wider conflict between economist and non-economist. Broader misinterpretations complicate the refuting of specific instances of misinterpreted authority.

CONCLUSION

This paper has attempted to summarise the *economic* reasons why the use of ‘economic’ impact studies in advocacy is theoretically and strategically unwise. Economic theory tells us that the studies do not demonstrate the wealth and jobs ‘created’ by the arts and cultural industries, nor the contribution of the industries to economic well-being, economic growth or economic development. Strategically, using ‘economic’ impacts in advocacy may be self-defeating by demonstrating that the arts and cultural industries have mediocre ‘economic’ impacts. Their use in advocacy also distracts attention from better economic advocacy arguments and encourages a poor policy response, particularly by enticing governments to view cultural policy as an instrument of ‘economic’ policy.

It is not the aim of this paper to reprehend arts and cultural advocates or cultural economists. The proliferation of ‘economic’ impacts studies in arts and cultural advocacy can be seen as a perfectly rational response to political demand. Nor is it intended here to imply that art and culture are unimportant to economic development. Indeed, the paper alludes to reasons why art and culture may be *central* to development. The arguments are, however, complex and beyond the scope of this paper. These and other issues relating to the better use of economics for arts and cultural advocacy are the subject of a subsequent paper.

NOTES

1 www.petnet.com.au/statistics.html

2 www.artsusa.org/clearinghouse/gene.html

3 Bristin (1981), Cwi (1981), North (1982), Zimmerman and Radich (1984), National Conference of State Legislatures (1987), Heilbrun and Grey (1993), Radich (1993), Klamer (1996).

4 The medical analogy is undertaken with only passing reference to medical professionals and is itself offered at the risk of misinterpreted authority.

5 Financial 'spill-over' effects are commonly misrepresented in arts and cultural advocacy as 'externalities' (e.g. McDermott Miller Limited, 1998). Financial spill-over effects, although accruing to third parties, are *not* in the spirit of externalities. The notion of externalities was developed to reflect instances of *market failure*, where people's market decisions inadvertently place costs on or provide benefits to others. Such costs and benefits are typically not accounted for in 'economic' impact studies.

6 This 'rule of thumb' is evident from the cultural statistics programs of government statistical agencies: see, in particular, the ongoing publications of Statistics Canada, the Australian Bureau of Statistics and Statistics New Zealand.

7 Parkes, a rural town in New South Wales, Australia, holds an annual Elvis Presley festival, even though the town has no worldly link to the King of Rock and Roll: 'Why Parkes? "Why not?" says Gracelands restaurant owner Anne Steel, who started the Elvis revival with her husband Bob … [W]ho better than Elvis to bring in the crowds?' (Jinman, 1999)

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