When Should Regions Bid for Artistic Resources?

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Some nations grow while others wither. Within nations some states and cities prosper while others stagnate. Cities contain both thriving neighborhoods and ghettos.

I will not survey the immense literature on development but rather I will focus on one particular question: should regions make special bids to attract growth-enhancing resources? And more specifically, might the arts serve as such a resource? If so, under what conditions?

Such questions have at least two motivations. First, we are interested in understanding economic growth more generally. We wish to know to what extent historical growth has been driven by the arts, or by creative clusters more generally. Second, we face ongoing policy questions about how to generate economic growth, and how governments should support the arts.

For the purposes of exposition I will use the word "clusters." A cluster, in this context, refers to some set of interrelated activities. A cluster may be a firm, non-profit, a small sector, collaboration, or a whole industry. An artistic cluster will refer to a group of artistic, creative resources working in a similar sector or in a similar style. Examples of artistic clusters would be a performing arts center, the shooting of Hollywood movies in Toronto, the New York art museums, the Venetian churches and palaces, or the complex of activities and theme parks surrounding Disneyland and Disneyworld.

I consider the economics of clusters within the context of interregional competition. That is, I ask what policies a particular region should adopt, knowing that other regions also will be bidding for growth-inducing clusters. Short of having a collusive world government, the regional bidding assumption provides the relevant context for most policy decisions. A region cannot evaluate its own attempts to nurture culture, and support economic growth, without considering the broader national and global environment.

American cities and states implicitly or explicitly bid against each other for clusters. They offer tax breaks and subsidies to stadiums, automobile plants, and performing arts venues. State level arts spending is now of more importance than the NEA. When the NEA started in 1965, few states had official Arts Councils or any kind of official arts policy. In 1979 NEA funds were 80 percent greater than state legislative appropriations; by 1989 the state appropriations were 60 percent higher.[1] The New York State Council on the Arts (NYSCA) alone is more than half the size of the NEA in real terms. Its 2003 state appropriation is $49.3 million, compared to the NEA's approximately $121 million, forty percent of which is sent out to the states, leaving a real NEA budget of just over $72 million. Despite recent cutbacks, most government growth in the United States, over the last twenty years, has come at the state and local level. Arts policy reflects this fact, which illustrates the relevance of interregional bidding.

Regions must bid for resources and projects at the national level as well. Lord of the Rings was shot in New Zealand, in part, because the filmmakers received significant tax breaks from the New Zealand government. More generally nations often try to lure foreign capital by offering favorable tax and regulatory treatment.

The total cost of a bid, which includes the subsequent ramifications of current incentives, will be called the price of the cluster. A region usually pays some price whether or not it wins the bidding, but it pays a higher price if the cluster actually goes to that location.[2]

The focus on interregional competition is critical for the results to follow. To whatever extent some factor is valuable for growth, we can expect interregional competition to bid

[1] Dimaggio (1991, pp.217-223).

[2] Bidding, of course, can be implicit rather than intentional. A region might lower taxes for some other reason, but the lower taxes will themselves operate as an implicit bid for resources, including artistic resources. The analysis does not require that we pin down a definite "intent" on the part of regional policymakers, only that resources respond to incentives.

up the price of that factor. In the final bidding equilibrium, it is an open question whether that factor still brings net growth benefits, once we consider the price that must be paid.

Consider, for instance, two technologies: picking apples and producing computer chips. Assume that picking apples must always be done by hand, but that computer chips become much more efficient every year. It does not follow that an ambitious economic growth plan should bid for computer chip factories. Similarly it does not follow that an investor should buy shares in chip companies. In many cases market prices already capture the expected productivity differential. For similar reasons, it is not obviously a successful growth strategy to try to lure Silicon Valley to your doorstep, even if we believe that knowledge-producing industries offer special external benefits (Romer 1986).

Citing "growth synergies" does not, by itself, give us much analytical leverage in this context. The notion of synergies implies that many sectors of an economy are, or can be, very productive. If the opportunity cost of investing in one synergistic sector is investing in a different but equally synergistic sector, the net benefit of the former investment is zero.

Starting with these points, let us see when bidding for clusters pays off. I will not assume that markets, and market prices, are in every case efficient. Instead I will seek to determine when market prices, or implicit bidding prices, will fail to reflect the full value of resources, and what those results imply for public policy.

The remainder of this article will be structured as follows. Sections II, III, and IV will consider three critical factors, along with numerous subcases, for evaluating bidding for creative clusters. Section V will discuss the available evidence in light of these scenarios. Section VI will offer some concluding remarks on where we stand at the end of the analysis.

II. Is location a cooperative game?

I start with the question of whether cluster location is a coordination game. Sometimes clusters will locate in the proper region without any need for a government-subsidized bid. The location decision may have an efficient voluntary solution.

Assume that one municipality, call it Santa Fe, benefits from a new Opera Company more than other municipalities would benefit from attracting the same resources. To pursue this scenario, we must break it down further. Either the Opera Company receives special benefits from being in Santa Fe, relative to other locales, or it does not. Let us consider each possibility in turn.

a. **The Opera Company receives special benefits from locating in Santa Fe**

If the Opera Company will fare best in Santa Fe, we can expect the Company to locate in Santa Fe, even in lieu of a subsidy. Think of Santa Fe and the Opera Company as resembling a happy marriage. A husband benefits greatly from the proper choice of wife. But a governmental subsidy is not required for the relevant marriage to take place. The wife also benefits from the choice of this husband and will marry him without the subsidy. Both parties will be better off if they can mesh their plans, and good information suffices to bring about the felicitous outcome.[3]

Arts advocates frequently talk in terms of synergies, by which they refer to interlocking benefits for the city and the relevant artistic cluster. Whatever we think of the merits of this description, it is broadly inconsistent with the arguments for subsidies in this context. To the extent that synergies are present, we have a coordination game which likely can be solved without subsidies. More generally, it does not follow that the most synergistic investments should command the highest subsidy, if they should receive any subsidy at all.

[3] We can think of the willingness to pay higher city rents as a rough measure of aggregate synergistic benefits.

b. **The Opera Company is hurt by locating in Santa Fe, relative to other possibilities**

Counterintuitively, investing tax dollars in artistic clusters can make the most sense when only one party benefits from the location decision. That is, the city benefits from the cluster but the cluster does not benefit from the city, relative to alternative locations. We might imagine, for instance, that Santa Fe benefits by $10 million in value but the Opera Company loses $2 million in value, relative to alternatives. In this case an appropriate subsidy greater than $2 million will bring the Opera Company to Santa Fe, the value-maximizing location.

Note that this subsidy will be good for growth but arguably it is bad for the arts. The Opera Company, by construction of the example, would attract more interest in some other locale. So this case sacrifices the arts to the exigencies of economic development. By coming to Santa Fe, the Opera Company becomes less effective in promoting its musical mission.

We may be willing to make this trade-off for utilitarian reasons, but rarely is it advertised as such. It is not what most arts lovers have in mind. Furthermore this scenario requires us to move away from the standard rhetoric about the synergies of location. The stream of net uninternalized benefits runs one way only, namely to the city. In a full accounting of the policy, the costs to the Opera Company should be subtracted from whatever economic benefits are reaped by Santa Fe. An economic impact study, as it is usually done, will fail to take these costs into account.

The case for subsidy is most rhetorically appealing when the following conditions are realized. First, both parties benefit from the location decision. Second, the location decision could not have happened without the subsidy. The problem is that these two assumptions cannot always be squared.

The most convincing case for subsidy requires that the Santa Fe subsidy itself makes Santa Fe the best location for the cluster. Assume, for instance, that the subsidy takes the

form of a new opera house. With the opera house Santa Fe is the best locale, otherwise not. In this case, however, we can decompose regional policy into two parts. First, states can sometimes manipulate real resources (e.g., build things) so as to increase total value. Second, states may bid financially for resources but with a given infrastructure. The former policies may be justified, the latter set of policies have fewer arguments in their favor. The resulting lesson is the following: do consider building assets, or otherwise creating real value through infrastructure, but don't offer purely financial benefits to a cluster. It is the infrastructure that creates the new value, not the bid per se.

III. Public choice considerations

So far I have been treating bids for creative clusters as reflecting the value of those clusters to the relevant region. But sometimes bids will reflect the interests of politicians rather than interests of voters. By considering these cases, we can generate some additional results.

Often the general citizenry will benefit from an industry more than will the decision-making politicians. An arts cluster, for instance, might bring opera performances, a more active social life, and a revitalized downtown, in addition to increased tax revenue. Politicians, however, might care mostly about the increased tax revenue.[4] Their lack of concern for the full benefits can lead to underbidding. Alternatively, perhaps the regional government is benevolent, but credit constraints limit its ability to subsidize a bid at full value.

The bidding for the cluster then will reflect only the benefits as perceived by politicians. So take an example where politicians benefit by $500 million but the general public benefits by another $500 million, for a $1 billion total. Political bidding will price the cluster below $500 million, which is clearly below true value.

[4] Of course electoral pressures will to some extent narrow the gap between politician and voter benefits, but it is plausible that some differential will remain (Kalt and Zupan 1984).

The case for subsidized bidding in this scenario, however, remains murky. Presumably other regions will be underbidding as well, and for similar reasons. Generalized underbidding implies that the winning city can get a desirable cluster on the cheap. But generalized underbidding also means that a particular region can attract a cluster without being the best home for that cluster. The winning region is not the one that values the cluster the most, but rather the region that underbids the least. If a particular region remedies its underbidding problem, it does necessarily lead to a more efficient allocation of clusters. In terms of real value created -- for citizenries -- winning the bid simply reshuffles clusters to the higher-bidding governments.[5]

In this case any single locale could bid for the Company at a profit, but no particular location increases social value, relative to other locations. Subsidized bids then redistribute resources rather than creating net value. The relevant benefits are not the gross value brought into a city, but rather the difference in value between the number one and the number two bidding cities. This value differential will be smaller, sometimes much smaller, than the traditional measure of benefits expressed by standard cost-benefit studies. In many cases the value differential, and thus the net gain from subsidy, is zero or negative.[6]

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[5] Under some conditions the government most able to up its bid will also correspond to the region able to receive the greatest net benefits from winning the cluster. But this scenario is less intuitive than it might at first sound. It does not specify a positive relationship between total value for the citizenry and total value for the politicians. (If such a plausible relationship holds, universal underbidding still can lead to a satisfactory outcome; all regions will underbid, but the region that values the cluster the most will underbid the least.) Instead the scenario requires a more convoluted condition. There must be a correlation between value for the citizenry and the ability to increase political willingness to bid at the relevant margin. Whether this relationship will hold is far from obvious. In fact it may be easiest to boost the bid willingness for politicians who did not care much in the first place. In any case there is no obvious correlation here, one way or the other, which suggests that the willingness of a single cluster to bid more can either increase or decrease net social value.

[6] In yet other cases, remedying underbidding will benefit the artistic clusters, but at the expense of the bidding regions. Bidding at a higher level, of course, raises prices in the long-run and makes it more expensive for the region to acquire talent.

In this scenario the arguments for subsidies are weak. As economists and social scientists, it is not our job to teach regions how to benefit at the expense of other locales. It is part of the economist's brief to help distinguish between the regional and general returns to a location decision. Even if one region can bid for a cluster at a profit, the location decision need not maximize total value for the world as a whole. We would instead prefer a solution that increases available social benefits in the aggregate.

To be sure, a higher bid will increase the incentive to create more clusters for the future. In this regard, remedying the underbidding phenomenon can bring more general benefits across a longer run. But again public policy advice should outline the relevant benefits and costs clearly. Bidding more today will not in general improve the allocation of the cluster under bid. We could make the more abstract argument that it will improve the general efficiency of the bidding process. (Of course this still would have to be demonstrated but it is possible.) Nonetheless most of these future benefits may well go to other regions. A policy advisor could recommend a bid on the grounds of general long-run altruism, but it is harder to argue that this particular bid will improve the allocation of the cluster under question.

Recognition of these realities would place many arts advocates in an awkward position. On one hand they wish to argue that the world as a whole does not offer sufficient appreciation for the arts. This suggests that many regions are underbidding for clusters. On the other hand, they wish to induce their own region to offer a higher bid for creative clusters. Yet these two positions do not fit together very well. Bidding at the appropriate level, when everyone else is underbidding, will not in general improve the allocation of artistic clusters.

Now consider the opposing case of generalized overbidding for creative clusters. For instance bringing in a creative cluster might increase opportunities for graft and corruption, while benefiting the citizenry to a minimal degree. Such a mechanism is

commonly alleged to be true for stadium bids. More generally, there is a moderate amount of evidence for a phenomenon known as "winner's curse" (Thaler 1994). Winner's curse can operate because the winning bidder is the one that most overestimates the value of the cluster or the item under bid more generally.

Under the overbidding assumption, a selfish city or region should not try to enter the bidding process at all. The cluster can be won only by overpaying for it. An altruistic region might have reason to enter the bidding process, but only to stop its neighbors from overpaying. The altruistic region could not itself come out ahead by winning the bid, although it could prevent a greater mistake from arising elsewhere.

Once again, these results diverge from the rhetoric and scenarios postulated by arts advocates. It is not a winning political strategy to suggest: "Let us win this bid and take some losses to protect our neighbors from their costly overoptimism." So we do see some circumstances under which a subsidized bid could improve welfare, but the scenario differs significantly from the usual rhetoric.

IV. Secrecy

Creative and economic clusters have their biggest impacts on regional growth when their virtues are not commonly understood. The logic here is evident once we consider cross-regional bidding.

Suppose it is known generally that importing arts activities leads to take-off growth for a city. It is then the case that numerous cities will bid for the arts. To the extent that the bidding is competitive, the price of getting an arts cluster will rise to meet the (risk-adjusted) benefits of having an arts cluster.

To consider the converse case, assume that an insightful entrepreneur suddenly discovers that, say, the Lord of the Rings movies will be a huge hit and stimulate tourism in New Zealand. That entrepreneur then courts the relevant artistic cluster, just as the New

Zealand government did in fact court the director Peter Jackson. In this context we can think of the entrepreneur as either a politician or as working through the private sector.

In either case a cluster with secret value can be bought "on the cheap" and it will yield significant benefits. Furthermore those benefits, when they come, will be a surprise to most observers. An artistic product, event, or movement will appear to have "come from nowhere." The rise of rock and roll in Memphis, the rise of grunge in Seattle, the rise of Silicon Valley, and the early rise of Hollywood all fit this general pattern. Similarly, the original studio investment in Lord of the Rings was considered extremely risky rather than a commercial sure thing. Most observers worried that Jackson had never made a major studio action picture before and they feared that the features would bomb in the marketplace.

Successful clusters, by their nature, involve initial values that are hard to evaluate and are especially hard to verify. High returns come when resources are undervalued in the public eye. So it will not be possible to produce credible general testimony in support of clusters that will succeed. It will not be possible to generate commonly accepted economic impact studies on the cluster. It will appear that the relevant entrepreneur is taking a big chance on the untried, rather than delivering a benefit of obvious importance. Just think of the examples from above. What kind of economic impact study could you produce for "grunge" music, if you were working right before Nirvana and subsequent bands hit it big? Even the music companies had no idea that Nirvana would sell millions of CDs and start the next big musical trend.[7]

[7] My empirical work on creative clusters (Cowen forthcoming, 2005) very much fits the secrecy assumption. In particular, I have studied how a small Mexican village – San Agustin Oapan – has used amate [bark paper] painting and crafts production to boost living standards. San Agustin has moved from extreme poverty to successively rising living standards. When the village started amate painting in the early 1960s, no one thought it had much chance of improving its lot in the process. For some more general treatments of creative commercial clusters, see Cowen (1998) and Cowen (2002).

The policy implications are evident. If we, as outside academics, are producing studies and public arguments in favor of investing in particular artistic clusters, the time for investing in those clusters probably has passed. Similarly, if a cluster passes a publicly-available cost-benefit test, its price probably already reflects its full value. Arguing for such an investment is akin to arguing for buying General Motors stock, citing the large size of the company as a reason for its success.

Entrepreneurs, acting on their hunches (rather than on publicly available information), represent the best means of attracting a growth-enhancing cluster. If an entrepreneur can spot an undervalued cluster, and lure it to a region, or fertilize an already-present cluster, those investments can boost regional growth.

The benefits from finding a secretly undervalued cluster relate to Israel Kirzner's (1973) work on entrepreneurial alertness, and Michael Polanyi's (1974, 1980) work on polycentric orders and inarticulable knowledge. Kirzner explains how entrepreneurs become alert to opportunities and understandings that no one previously had seen. His notion of alertness refers to a sudden but rapidly-vanishing epiphany of insight. Polanyi stressed how value creation springs from decentralized polycentric orders that encourage experimentation. He also emphasizes that much of the relevant knowledge is "inarticulable" rather than publicly available. In his view entrepreneurial knowledge is like knowing how to ride a bike, rather than like a series of easy-to-transcribe instructions.

In all cases a successful investment will appear, to outsiders, like a stab in the dark. The entrepreneur may somehow "know," "see," or "feel" success right before him, but the very nature of undervaluation suggests this hunch is not publicly verifiable.

Local governments will stand the greatest chance of attracting successful clusters when they can act on entrepreneurial hunches. That being said, the reality of political entrepreneurship is often problematic. Political entrepreneurship is most likely when we remove governments from the constraints of accountability and political checks and

balances. In other words, we would have to allow local governments to act more like private entrepreneurs. Political entrepreneurs would be free to invest significant resources based on their subjective, non-verified judgments of what is likely to succeed.

Note that the older European model of aristocratic arts support in some way resembled this scenario. A king, duke, or noble would support the artists that he or she preferred, with only a minimum of responsibility to taxpayers and with only a minimum of outside scrutiny. This system produced many losers and hack court artists but also a significant number of real winners; Johann Sebastian Bach and Velazquez were two of the most prominent winners. In an American context, many of the New Deal WPA grants provide examples of successful political artistic entrepreneurship. While American government was democratic during this period, the arts programs faced few constraints. They did not use peer review and handed out grants on what, to external observers, appeared to be an arbitrary basis.[8]

I am not suggesting that we move to an aristocratic model, given its political costs. Reducing accountability would weaken democracy and prove incompatible with modern political institutions and contemporary media scrutiny. Furthermore greater discretion also can lead to many more bad investments, whether in the arts or in other areas. For every successful political entrepreneur, we will find many more unsuccessful bids. Most politicians are poorly suited to serve as cultural entrepreneurs.

When evaluating subsidies to the arts, the key question is how governments can encourage good entrepreneurial bidding, yet without becoming non-accountable in the

[8] In the visual arts, for instance, grant recipients included Jackson Pollock, Arshile Gorky, Philip Guston, Willem de Kooning, Mark Rothko, and Ad Reinhardt. From the earlier crop, the Roosevelt programs funded Stuart Davis, Marsden Hartley, Ben Shahn, Joseph Stella, Grant Wood, Jacob Lawrence, Edward Hopper, Reginald Marsh, John Steuart Curry, John Sloan, Bradley Walker Tomlin, and Rockwell Kent. The Missouri murals of Thomas Hart Benton, arguably his most important works, were WPA projects as well. It would be hard to produce a more impressive list of American painters from this period. Cowen (2004) argues that the peer-reviewed federal programs of the same era did not meet similar successes.

process. I am currently pursuing this question in a book-length manuscript, and I cannot here present a detailed analysis of America's rather complex and scattered arts policies. Nonetheless I hope to argue that the American model of decentralized funding provides a good start. Our government encourages the arts through a mix of tax subsidies, encouragement of non-profit institutions, and legal support for commercial culture, all of which support decentralized entrepreneurship and the discovery of "secret" opportunities. When it comes to direct government funding, the purse strings are distributed across a wide range of agencies, none of which are extremely large. We have the NEA, state and local agencies, cultural outreach programs, Art in Architecture, the Corporation for Public Broadcasting, the Smithsonian, and the arts programs for individuals in the armed services, among other institutions. I argue that we should prefer these institutions to the more centralized "arts ministry" approach so common in Western Europe. Furthermore we might consider less reliance on peer review.

V. Economic impact studies and multipliers

We should be skeptical of most studies showing the economic importance of the arts to a community. Economic impact studies typically show that an arts festival or new arts arena creates so many millions of dollars in economic value. But these studies implicitly treat arts expenditures as having greater value than non-arts expenditures. It is assumed that if the money had not been spent on the arts, no comparable economic or social values would have been produced. But as we have seen the relevant question is comparative in nature. Does an arts arena lead to more value than some alternative, either for the region or for the world more generally? A properly formulated study would look for net rather than gross benefits.[9]

Think of the point in general equilibrium terms. When we look at economic impact studies one industry at a time, virtually all studies appear to generate high benefits for the

[9] For a collection of views on such impact studies, see Economic Impact of the Arts: A Sourcebook (1987). Seaman (1987, 2000) and Cwi (1987) offer the most forceful critiques. See also Madden (2001). Radich (n.d.) and Reeves (n.d.) offer overviews. Seaman (2002) argues for contingent valuation studies as a superior alternative.

sector under question. For this reason, the true net benefits of any single project are not as great as commonly measured. By investing in one good idea we are forsaking another good idea. And by pulling a good project into our region, we are depriving another region of that same project.

The available empirical literature does not strengthen the case for subsidized bids. Stadiums have received by far the most attention. In reality the evidence indicates that stadium subsidies fail to stimulate economic growth at the level of cities or states. Again most economists, regardless of their particular political views, accept this result. Part of the problem is that stadiums, like the arts, are not a big enough part of many regional economies to drive economic growth.[10]

The more general evidence on the economic benefits of the arts is not decisive. Numerous individual cases suggest that the arts can revitalize a community, but these studies do not recognize the points discussed above. The cluster may have come without subsidized bidding (note that rising regions may attract clusters), the cost of winning the cluster may have equaled or exceeded cluster value, or the cluster may have been at least as valuable in some other locale. Furthermore the bid may have been based on secret rather than publicly verifiable information. These possibilities are not theoretical outliers, rather they are the standard cases. Furthermore any case studies run the risk of selection biases. Studies often focus on the winners rather than on artistic investments more generally.

Very recently, Richard Florida's The Rise of the Creative Class has received much attention for its economic development advice. Florida offers a recipe for cities to revitalize their prospects by investing in amenities for creative people, and this of course includes the arts. Florida offers the following summary of his recommendations:

"How do you build a truly Creative Community – one that can survive and prosper in this emerging age? The key can no longer be found in the usual strategies. Recruiting more

[10] On stadiums, see, for instance, the survey by Siegfried and Zimbalist (2000).

companies won't do it; neither will trying to become the next Silicon Valley…companies increasingly go, and are started, where talented and creative people are…The bottom line is that cities need a people climate even more than they need a business climate."

That being said, the empirics do not bear out Florida's contention. The book has numerous numbers, charts and graphs. But he never correlates an index of "people friendliness" with statistics on economic growth. Other research has indeed investigated this question, and the results are not obviously favorable to Florida's core hypothesis. Malanga (2004) summarizes some core results:

"The professor's creative index—a composite of his other indexes—lists San Francisco, Austin, Houston, and San Diego among the top ten. His bottom ten include New Orleans, Las Vegas, Memphis, and Oklahoma City, which he says are "stuck in paradigms of old economic development" and are losing their "economic dynamism" to his winners. So you'd expect his winners to be big job producers. Yet since 1993, cities that score the best on Florida's analysis have actually grown no faster than the overall U.S. jobs economy, increasing their employment base by only slightly more than 17 percent. Florida's indexes, in fact, are such poor predictors of economic performance that his top cities haven't even outperformed his bottom ones. Led by big percentage gains in Las Vegas (the fastest-growing local economy in the nation) as well as in Oklahoma City and Memphis, Florida's ten least creative cities turn out to be jobs powerhouses, adding more than 19 percent to their job totals since 1993—faster growth even than the national economy.

Florida's ten most creative mid-sized cities are even less impressive economic engines. Since 1993, these cities, which include such underperformers as Albany, New York, and Dayton, Ohio, have increased their job totals by about 16 percent—less than the national average."[11]

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[11] Consider also the following (Malanga 2004): "In 2001, a National Commission on Entrepreneurship study entitled Mapping America's Entrepreneurial Landscape ranked

To be sure, these critical empirical results are not the final word. More sophisticated statistical tests, drawing on different indices or using more data points, may point us toward a different conclusion. Nonetheless the lack of obvious "eyeball" support for Florida's hypothesis is no accident. To whatever extent "people friendliness" is obviously valuable, it will be correspondingly difficult to achieve, precisely because we live in a world with competitive interregional bidding.

We should not be misled by the intuitive resonance of Florida's point. As academics or art world participants we tend to think of our own location decisions and we realize the importance of culture and the arts. We therefore might think that Florida has identified an important mechanism. But in making this leap we would be confusing the seen and the unseen, a common distinction in economic reasoning. The relevant question for growth is not what lured us to move, but rather which lures involve value creation net of their costs. Viewed in those terms, it is harder to argue that "people friendliness" has any special status for generating economic growth.

U.S. cities on how well they hatch high-growth companies. Unlike Florida, the commission developed a precise method of measuring high-growth centers: it calculated the percentage of companies in a local economy that grew by 15 percent a year for five consecutive years in the mid-1990s. Unlike Florida's anecdotal observations of places where he assumes that plenty of entrepreneurial activity is taking place, the commission's numbers-oriented approach precisely charts America's entrepreneurial topography. Unexpectedly, the study concludes that "most fast-growing, entrepreneurial companies are not in high tech industries," but rather "widely distributed across all industries." Among major cities, Detroit—omitted from Florida's most creative cities—finished second in the commission's report, incubating about 50 percent more fast-growing companies than the average of all major cities, with a particular strength in nurturing high-growth manufacturing businesses. By contrast, New York, which is among Florida's most creative big cities, finished at the bottom of the commission's study, producing fast-growing companies at less than half the rate of all big cities. The results were much the same for midsize cities. While Florida-favorite Austin scored well, finishing Number One among midsize cities, Las Vegas also shone, coming in second, despite ranking as one of Florida's least creative cities. Other inconsistencies abound. San Diego, perennially one of Florida's top-ranked cities, scores way below average in producing fast-growing companies, while Grand Rapids, Michigan, one of Florida's least creative cities, was well above average." Shea (2004) provides a brief overview of some of Florida's critics.

How would we recognize supra-normal returns?

Even if we found an ex post net positive return to arts bids, the case for subsidized bids would remain open. High ex post returns are distinct from high ex ante returns. It is possible that observed bid winners will come out ahead, but that bidding in general brings only normal risk-adjusted returns.

Consider a game where a number of competitors bid for a creative cluster. Only one city will receive the cluster, but all cities must prepare bids. Make the further realistic assumption that preparing a bid costs time and money, whether or not that bid wins. It is well known that bids involve lobbying, bringing together political coalitions, drawing up plans, conducting a public relations campaign, and so on.

In equilibrium these costs limit the total amount that cities are willing to bid. We can think of any attempted bid as involving a risk of pure loss, which of course limits what cities will bid. The reductions in bids will, of course, increase the return to the winning bidder. If your chance of winning is ten percent, you face a ninety percent chance of losing your preparation costs and getting nothing in return. The ten percent of the time you win must bring some especially high benefit, or no one would bid at all.

The resulting equilibrium then has some simple properties. Winning bidders will reap supra-normal returns. At the same time, entering into the bidding process does not involve any special benefits, compared to other endeavors. A bidding city faces some chance of a loss and some chance of a supra-normal gain. The net expected return is equalized with the returns available elsewhere. We also see that it is a mistake to point to the supra-normal returns of observed projects as evidence for the wisdom of bidding. The key question is whether bidding promises superior returns ex ante, and in this scenario the answer is no.

Finally, I would like to offer some perspective on the absence of clear positive evidence linking the arts and economic growth. The discussion of secrecy indicated that successful

bids occur precisely when the value of the cluster is difficult to measure and verify ex ante. We therefore should not expect to find systematic statistical measures to prove the ex ante value of bidding. We will find ex post case study successes, but otherwise be left in the dark by the empirics. Ex ante successes, by their nature, resist publicly verifiable quantification.

So the lack of data does not mean that all government policies should be arts-neutral. It does mean that we should stop expecting publicly verifiable information to produce an effective growth or arts strategy. We also should move away from the idea that there is one right strategy or formula for using the arts to generate growth. Instead we should cultivate the micro-conditions for successful artistic entrepreneurship, knowing that most of our best investments will be surprises once they arrive.

Multiplier projections

The arguments above suggest that subsidized bidding for creative clusters, in the context of competing regions, does not obviously bring net social economic value. To this extent multiplier arguments do not apply, since we have no positive number to be multiplied.

That being said, I would like to consider some additional problems with multiplier arguments. We did see cases where arts entrepreneurship could bring net value to a community and to the world. The question then remains what kind of multiplier should be applied to calculate net benefits.[12]

Under the multiplier hypothesis, the expenditure of a single dollar leads to a creation of several dollars worth of value. To provide an example, the construction of an arts arena helps nearby restaurants, which in turn increases the demand for waiters, which in turn sends more money into the community, and so on. As the argument goes, the expenditure of a single dollar on the arts arena might create three or four dollars of value, once the money filters through the economy.

[12] The criticisms of Seaman (1987, 2000) and Cwi (1987) are relevant here.

The logic of such multiplier effects is controversial among macroeconomists. If the multiplier worked so well, it would imply that fiscal policy is extremely effective in stimulating economic growth. Yet the current macroeconomic consensus (Mehrling 2002) suggests that fiscal policy is weak. Increases in government spending seem to displace almost as much value as they create. This view is now held by most macroeconomists on both sides of the political spectrum.

More generally, the multiplier argument does not demonstrate that investing in a cluster increases net social value. For instance, had an arts arena not been produced, the money would have stimulated some other set of demands and created some other set of multiplier effects. The net multiplier effect from the arts arena still might be zero or negative, unless it can be demonstrated that the arts are connected with an especially potent multiplier. No such demonstration, however, has been offered. Multiplier studies typically present a gross multiplier, rather than a net multiplier comparing the long-run impact of one set of expenditures to another.

The multiplier conflates the spending of money with the creation of real economic value through production. Spending causes money to pass from one set of hands to another but that is not the same as an increase in real production. To calculate the true multiplier, we must ask what acts of net production are encouraged by a given arts investment, not how much spending it causes in gross terms. To give an example, if I build a railroad, it may produce more real economic value by raising the value of other assets; the multiplier will be positive. Conversely, I might run into the street and throw a rock at a pane of glass. The shopkeeper will spend more money to buy a new window, the window manufacturer will in turn buy more bread, the baker will buy more of some other commodity, and so on. In dollar terms there will appear to be a multiplier but in real terms there will be no additional creation of economic value, unlike with the railroad.[13]

[13] Considering general equilibrium effects blunts the effectiveness of a multiplier in a number of ways. For instance clusters bring in tourists (and their dollars) from out of town. But if the cluster is small relative to the economy as a whole, it may not stimulate

In sum, multiplier arguments are overrated in their potency and their relevance.

VI. Concluding remarks

Subsidized bidding for creative clusters is more problematic than is commonly believed. Under a variety of assumptions, both realistic and minimal, we have seen that subsidized bidding for creative clusters fails to spur economic growth.

That being said, subsidized bidding can sometimes bring economic value. Those cases are the following:

1. The bid is good for a city's economy, but bad for the arts (#1)
2. The bid is intimately tied up with the creation of infrastructure or real resource investments (#1)
3. The subsidy remedies previous generalized underbidding, thus making the price system more effective in the longer run (#2)
4. The bid is made by a perceptive entrepreneur, who ignores or "sees through" the publicly verifiable understanding of the relevant values (#3)

Of these four scenarios, the second and fourth provide the most positive way forward. The first is unattractive from an arts point of view, and the cross-regional altruism behind the third probably is not politically sustainable in the long run. In terms of policy

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an increase in hotel and restaurant capacity. We might instead find that one group of out of town fans, say football fans, crowds out some other group of tourists. Similarly, a cluster may itself make residents of a region more mobile. Building an opera house will draw opera tourists, but it may make some of the initial residents into opera tourists as well. Those people, having acquired a love for the opera, may fly to Milan to visit La Scala. Similarly, investing in a football team will encourage fans to follow that team to play in other stadiums, and so on. Mobility is a double-edged sword. If the dollars spent by tourists count as a net benefit, it also should count as a net loss every time an individual leaves her home city. And empirically, we find that the more sophisticated, artistic, and urbane an area tends to become, the more likely its residents will travel.

recommendations, a region should strengthen the decentralized micro-conditions for successful artistic entrepreneurship.

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