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# Cultural districts and economic development in American cities



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## ARTICLE INFO

### Article history:

Available online 11 March 2015

### Keywords:

Cultural policy  
Urban economic development  
Cultural districts  
Creative class

## ABSTRACT

Arts policy at the local level in the United States has taken a turn toward emphasis on economic development. In particular, a lively cultural scene is held to be an attractor of mobile, skilled workers, entrepreneurs, and businesses, both in providing a location with interesting opportunities for consumption of culture, and as providing an ambiance that could lead to greater productivity in all industries that rely upon creativity and innovation. This paper assesses the hypothesis that public investments in the arts can spur local development, and the implication for the choices over which are the most effective public investments if the hypothesis is true. It critically examines changes in state and federal arts policy that have shifted focus toward creative places and cultural districts, rather than just artists or nonprofit arts organizations.

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## 1. Introduction

Over the past few decades there has been a resurgence of interest in the role of cities in economic policy and economic growth (Glaeser, 2011). This has not simply been the result of very long-run trends in urbanization throughout the world, but from an interest in understanding the city as the engine of economic growth, as labor increasingly trades in ideas and information rather than in physical objects, and where creativity and innovation are the primary drivers of increasing real incomes. In the policy arena in the United States, where political institutions at the federal and state

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level appear stagnant and dysfunctional, ‘cities and metropolitan areas are becoming the leaders in the nation: experimenting, taking risk, making hard choices’ (Katz and Bradley, 2013, p. 2).

Contemporary thinking about local arts policy has to some degree followed the increased attention paid to cities and urban economic development. Specifically, a primary question has been: what is the role of the arts in contributing to local economic development? We would expect local arts councils to take on a different role than state or federal agencies. For example, the National Endowment for the Arts (NEA) is best placed because of its budget, and ability to be highly selective, to give grants and awards based upon artistic excellence of national and international repute; the benefits of excellence in advancing the arts are at least national in scope, and a national agency is the appropriate level of government for such recognition. State arts agencies are well-placed to ensure that residents of all regions of the country have cultural opportunities; the NEA, as one agency in Washington, DC, with a limited budget, cannot be expected to pursue programs in every region of the country, and some local and regional governments will simply not have the resources to provide much for their residents. State arts agencies can to some degree engage in redistribution, spending throughout the state (or devolving funds through grants to regional arts agencies) to ensure some equitable access to the arts.

So what arts policies are best suited for the local level? There is a range of possible goals for local arts councils: arts education and outreach to youth, community participation and local festivals, cultural facilities, and local cultural heritage preservation are some examples. If local governments choose the impact on economic development as the primary focus of arts policy, it has implications for the kind of projects and organizations that will receive funding and attention. There are opportunity costs in any policy arena, including the arts, and setting priorities is also about, implicitly, declaring what is *less* important.

This paper analyses and assesses current trends in local arts policy in the United States, with particular attention to the focus on cultural districts as arts policy and as an engine of economic development. It begins with a survey of the theoretical and empirical links between the arts and local economic growth. It then turns to a specific, recent innovation: state and federal policy explicitly designed to encourage cultural districts. The paper concludes with thoughts on the future of local arts policy in the US in light of broader changes in the economy and the labor market, and the goals of public support of the arts.

## 2. Background: Public support of the arts and economic development

The most exceptional aspect of public support of the arts in the United States is its decentralization. First, direct funding from government is primarily through local government, using funds raised at that level often combined with transfers from state government arts agencies, which in turn receive transfers of funds from the National Endowment for the Arts. Second, the magnitude of the tax expenditure on the arts through the deduction of charitable contributions to registered nonprofit arts organizations from the base of the personal income tax and the estate tax is larger than the direct grants from government. Thus, public support is devolved such that local governments, and private donors, become the primary decision-makers regarding the ultimate distribution of public funds (Cowen, 2006).

It is difficult to say whether the charitable deduction in the personal income tax and estate tax is ‘arts policy’ as such, since the deduction applies to all registered charities (in the US referred to as 501(c)(3)’s, for the section of the income tax code that specifies which nonprofits qualify for the tax deductibility of donations), not just those in the arts. This perhaps works to the benefit of nonprofit arts organizations, since policy proposals to limit the extent of the charitable deduction, as happened recently, are met with opposition from a wide constituency across the education, health, and social services sectors as well as the arts. And so while there might be small adjustments to the rules governing charitable contributions and taxes, there is no strong constituency for major changes to the current arrangements (Feld et al., 1983; Rushton, 2008).

But if the tax expenditure for charitable contributions, including those to the arts, is for the most part, for good or ill, unquestioned, the same cannot be said for direct public funding of the arts. True, it is no longer the case that very public, political ‘culture wars’ surround public funding of the arts in the

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