

# **An Economic Rationale for State Support of the Arts in Alaska**

prepared for the Alaska State Council on the Arts  
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## **I. Introduction**

For 30 years, the State of Alaska has invested in the development the arts in a significant way. Since the establishment of the Alaska State Council on the Arts in 1967, the Alaska state legislature has invested \$44.5 million in arts activities across the state. That investment has been critical to the establishment of a strong cultural infrastructure in Alaska.

The state-supported cultural infrastructure has yielded a number of important economic benefits to Alaska residents. In addition, the process of state support for the arts has strengthened and extended a number of policy initiatives that the State of Alaska has pursued for some time.

This investment in the crucial arts industry may parallels the state's support of commercial businesses, in the form of tax credits, subsidies, and low-interest loans. In so doing, the legislature of the State of Alaska has expressed an interest in the financial well-being of key companies and industries located in the state, knowing that the financial health of the state is in large measure tied to the health of business. The arts industry in the state is a valuable economic asset, employing Alaskans, supporting the development of rural economies, and in developing a workforce with valuable creative skills.

## **II. State Support of Privately Owned Businesses**

Throughout history, state governments have voiced their reluctance to subsidize private business efforts, but nevertheless, have constantly stepped forward with public funds to support development in the private sector when the present and/or future health of a state's economy appeared to justify such action. Today, even as the superficial sentiment regarding state support of private enterprise remains "hands off," the public's acceptance of such support and even their expectation of that support is now a common feature of private sector thinking. The key elements of economic need that appear to stimulate public acceptance of cross-sector subsidies are the following:

- The need to equalize the health of an economy across a state. The fact that some areas of a state are economically advantaged while others languish or appear to plateau has created a dynamic of demand for state support for private-sector enterprises. State legislatures want to bring economic health to their regions and when they run out of ways to accomplish stimulus through normal public-sector means, they use direct private sector assistance as an appropriate tool. Frequently, the choice elected officials must make is whether to support a private sector enterprise with public funds, save jobs and maintain the health of the local economy or stand in opposition to such support and lose access to the most effective tool they have at their disposal to keep their local economies healthy. It is important to note that the public perceives the health of its local economy in very immediate terms and readily compares their local situation with that of similar communities in the state.

- The need to enter into public-private partnerships in order to maintain the health of major industries. Every state has at least one major industry that is essential to the economic health of the entire state economy and/or regions within that economy. Faced with changes in the economic health of these existing major industries, state governments often feel compelled to provide them with public subsidies in order to ensure that the industries continue to contribute to the health of the overall economy. Often these industries are "dying" industries and the state's interest is not to revive and expand them so much as to make their demise less catastrophic and unexpected.
- The need to remain competitive in attracting new business activity. As business activity has become less location-dependent, states have entered into an aggressive competition to lure new business to their state, and to keep existing business from leaving to reap greater benefits elsewhere. This process, which has been widely criticized as a zero-sum game, has resulted in the creation of a number of fiscal-benefit mechanisms that are directed to the private sector. This type of activity has long existed in state tax law, however in the past twenty years, states have invented a panoply of programs that address this need. In spite of the fact that many of the programs are widely criticized and that in recent years a number of states have curtailed them, one can point to a number of instances where the availability of such funds have had an immediate and substantial impact on the health of a state's economy.
- The need to build the state's economic infrastructure in a way that will prepare it for the future. Preparing for the future security of the state's economy is a responsibility that states have assumed. While many would dismiss a state's involvement in any level of "state planning of the economy," in fact all states are engaged in such activity to a greater or lesser degree. The fact that the state takes an active role in the education of the future workforce, supports research that may benefit the state economy in the future, and supports the development of capital-intensive infrastructure such as roads, airports and industrial parks are but a few examples of how a state invests public funds in resources and infrastructure that will better ensure a healthy economy in the future.

### **III. The Parallel Between Public Funding of the Arts and Commercial Incentives and Subsidies**

The State of Alaska has sponsored initiatives that encourage economic growth, increase state services to rural areas, and stimulate employment. These initiatives have largely been structured as incentive and subsidy programs to commercial businesses. Such programs that generally transfer funds from the public to the private sector are widely accepted by Alaska's residents. State support for the arts in Alaska also can be viewed through the lens of these programs.

Although the public periodically objects to such transfers, they are largely accepted today, even in a climate where a political philosophy that values limited government is dominant. Neither good nor bad in themselves, the subsidies offered the private sector in Alaska provide some insights into the value of state arts funding. The following review of some of the principal Alaska incentive and subsidy programs and their relationship to state arts support clearly demonstrates that the Alaska State Council on the Arts accomplishes many of the same goals at a very modest cost to the state.

- State subsidies to Alaska owned/managed businesses. The State of Alaska provides a number of economic advantages to Alaska-owned or -managed businesses. The state provides loan guarantees to some of these businesses, particularly those located in rural areas. In addition, the Alaska Product, the Alaska Forest Product, and Recycled Alaska product preference programs provide direct 5-7% cost preference advantages to certain Alaska businesses that conduct business with the State of Alaska.

In parallel, the state's support of the Alaska State Council on the Arts encourages the growth of an Alaska-based arts industry. Although the Council does not sponsor a loan guarantee program, the state's support and endorsement of arts organizations fosters stability and increased capacity to secure financial support. Although there is no direct preference for the purchase of arts goods by the State of Alaska, the fact that the state supports up to 5% of an arts organization's operating budget implies a similar purchase of service subsidy to the subsidies currently available to purveyors of other goods procured by the state.

- State subsidies for rural economic development. The State of Alaska provides a substantial network of opportunities for those engaged in the economic development of rural areas. There are grants to promote the broadening and diversification of rural economies, grants to support regional development organizations that address economic development issues and opportunities. These direct and indirect sources of funds ultimately assist the private sector's development efforts.

Similarly, direct grants to rural areas help maintain and expand upon the work of arts organizations located in these areas. In addition, the work the Council does to plan arts development, convene regional meetings and to structure new programs for the specific benefit of rural areas has strong parallels to the efforts other state agencies are extending to these areas.

- Direct subsidies to individuals. The state of Alaska offers a number of subsidies to individuals. Low income assistance to home buyers is one direct benefit. A second is funding for child care costs, better enabling parents to seek employment.

While the Alaska State Council on the Arts does not offer facility subsidies to individuals, it does recognize the economic value of individual artists and offers them technical assistance in areas of facility design and marketing, and seeks to ensure their access to arts organization facilities in which to show and/or perform their work.

In fact, without the availability of those facilities, many individual artists in Alaska would be unable to work in the arts. Although the Council does not provide for child-care for artists, most of Alaska's working artists are low- to moderate-income individuals who would benefit from the availability of other state-sponsored opportunities. The Alaska State Council on the Arts assists them by constantly working to build a market for the work of all Alaskan artists.

- Industry infrastructure development assistance. The State of Alaska provides a number of benefits to the private sector in the form of major industry development assistance. One such program funds the Alaska Science and Technology Foundation to support technology research and projects. The private sector is the direct beneficiary of the research, and ultimately the public benefits through the development of a broader and more diverse economy.

The Alaska State Council on the Arts supports research in a parallel fashion. Through its grant funding it encourages creativity in both the artistic and administrative areas of the field. The Council funds new music and art compositions that in the long term influence commercial music and graphic arts businesses in Alaska. Similarly, the Council underwrites creative administrative strategies that allow arts organizations to bring arts activities to ever broader groups of Alaskans at reduced costs.

- The State of Alaska also provides support, in the form of loans, to resident commercial fishers to upgrade their vessels and equipment.

This industry-strengthening strategy is similar in focus to the overall goal of the Alaska State Council on the Arts which is to strengthen the arts industry as a whole through the careful allocation of state dollars. The vision of the Council is that the arts should be available to all residents of the state and that Alaska-based interpretations of the arts are to be advantaged through the use of state funds. The arts infrastructure that the state has built through its long-term partnership with volunteer arts organizations is the result of intentional industry-strengthening activity.

- The State of Alaska also makes available a bountiful source of loan funds and loan guarantee vehicles. These monies that total in the hundreds of millions of dollars can be used to build plants, maintenance facilities and improvements to mining facilities among other uses. The guaranteeing of loans and the discounting of such funds provide private-sector business in Alaska with a clear advantage. In addition, in a number of cases, if these funds were not available, no economic benefits would have accrued to the state.

The Alaska State Council on the Arts has no such similar program. The Council did, however, expend considerable funds during the oil pipeline boom period for the construction of cultural facilities across the state. Those funds were expended on the establishment of facilities that are now central to the health of the arts infrastructure in the state. Although the Council does not currently seek access to the scope of

funds that were available for use earlier, it considers itself to be charged with the responsibility of identifying the true needs of the arts in Alaska and the appropriate financial role for state government in meeting those needs.

#### **IV. The Value of Supporting the Arts**

The thriving Alaska arts industry that has been nurtured by funding from the State Council on the Arts has yielded a number of important economic benefits to the residents of the state. In addition to these tangible benefits, the existence of a strong, state-supported arts community has advanced a number of policy initiatives pursued by the Alaska legislature.

Following are several key areas in which state support for the arts can be shown to strengthen the policy perspectives of the state:

##### Encouragement of Volunteerism

Government today cannot address all of the needs of the public. State governments have sought in recent years to respond to the expanding public demand by initiating and/or supporting volunteer-based organizations. These organizations, with the support of state monies, either replace state services or provide new services to the public. Not only do states, including Alaska, commonly allocate funds for the recruitment and training of volunteers, but they also provide some base funding to underwrite the functions and organizations in which these volunteers are involved.

The arts organizations that receive support from the Alaska State Council on the Arts are largely volunteer-based organizations. State financial support of their activities encourages these volunteers to serve the public with their time and financial resources. Also important to note is the fact that most arts organizations do not require government assistance in order to organize. In fact, unlike many contemporary government-funded volunteer activities, arts organizations are commonly organized and administered by volunteers in advance of government support. That support, when it is obtained, is usually used to extend volunteer-based services to a wider portion of the public.

##### Extending the Impact of Public Funds Through Matching

One way scarce public funds can be extended is through matching. Funds from the Alaska State Council on the Arts are, with very few exceptions, matched on at least a one-to-one basis. These matching funds are secured from private individuals, corporations, foundations and through earned income activities. The requirement that state arts funds be matched has always been a part of the funding structure of the Alaska State Council on the Arts. The strategy predates many matching fund programs in state government and has resulted in the development of a network of private partnerships across the state that could serve as a model.

## Extending the Impact of Public Funds Through Leveraging

Although state funding averages no more than 5% of the budget of any single Alaska arts organization, these state funds have an important magnetic affect for Alaska's arts organizations. State funds are important for two primary reasons. One is that the endorsement by the state is often critical to the ability of an organization to secure private-sector support. Although state arts funding need not be present in order for an organization to successfully raise private funds, having the State Arts Council's "seal of approval" is an important endorsement that encourages others to give. All too often, the first question asked of an arts organization "What funds has the Alaska State Council on the Arts provided you with this year?"

The second leveraging effect is the ability of Alaska arts organizations to use state funds to attract funds from outside of the state. The endorsement of the State Arts Council is an important enhancement to the proposals Alaska arts organizations make to regional and national foundations as well as the federal government. Private foundations in particular ask the question, "What is the State of Alaska contributing to this effort?" As these private sources of funding expand and become increasingly available to Alaska arts organizations, the ability of these organizations to identify a strong state endorsement becomes critical to their success in securing funding from these sources. Those organizations are competing with others across the country who can demonstrate such an endorsement. Without it, Alaskan arts organizations may lose the support of these private foundations, and the state economy loses a potential injection of capital from out-of-state.

## Service to Rural Communities

As an agency of the public, state government is responsible for serving all of the residents of a state. While most states take this responsibility very seriously, Alaska is in the forefront in terms of its commitment to serving people throughout its vast geographic territory. This strong commitment to rural economic and community development requires state elected officials and state employees to be creative as well as inclusive in the design of the basket of services they offer to rural communities. While the arts are seldom the sole economic and community-development strategy used by a state, the arts are often an essential part of the mix. In many cases, state supported arts activities may be one of the few access points that rural residents can access to assist in the economic and community development of their area.

Examples of how state-supported arts events have made a difference in rural communities are numerous and varied. In some small communities, state subsidy of an arts festival has supported tourism development, expanded a community's earned-income base and encouraged community cooperative behavior. Other small communities have used state arts funds to support the organization of artist cooperatives and arts sales organizations. In yet other communities, the availability of state arts funds to retain and expand cultural activities has resulted in the establishment and retention of artists whose sales are the equivalents of a small and medium-sized

businesses. The Alaska State Council on the Arts is one of the principle mechanisms that the State of Alaska has to serve rural communities.

### Grass Roots Decision making

As the public has become less trusting of government in general, leaders in state government have sought ways to involve the public more in government decision making. The state arts agency has always relied upon an extensive grass roots decision making and governance structure, and many of its decisions are made by persons at the local level. The agency engages in a regular cycle of planning that is highly participatory. The volunteer members of the Alaska State Council on the Arts work with these citizen-initiated recommendations to deploy state arts funds in a manner that best reflects the needs of Alaska residents.

In addition to the planning process, the Council uses an extensive array of residents from throughout the state to advise them on the disposition of grants received by the agency. Every year approximately \_\_ Alaska residents engage in discussion and make recommendations as to where and how state arts funds are to be expended. This broad-based review process may be the most consultative existence in the state.

### Investing in the Creative Workforce of the State

As creative skills become increasingly valuable in the world economy, the skills learned through arts education also have become increasingly important. A recent study by Oregon Department of Employment clearly indicated that the creative skills that workers need in order to succeed in today's technological economy were skills that could be learned through the arts. In addition, employers are facing a situation where, although employees need to know facts and possess technical skills, the fact and skills base is changing so rapidly that the facts and skills needed for a job may change many times in the life of an employee. What employers are now looking for are employees who can think creatively and who have the capacity to quickly learn new facts and refine their skills. In addition, employers now seek to hire persons who have the ability to consider creative solutions to everyday work problems. Such creatively, they are finding, is essential to retaining an edge in today's highly competitive world economy.

In order to ensure that Alaska expands its creative workforce, arts education and arts opportunities throughout the state must be sustained. In recent years, the arts in the schools have been under attack as a "luxury" even as employers from across the nation are beginning to realize the value of such education and experiences. The Alaska State Council on the Arts is the key state advocate for the development of the creative component in Alaska's workforce. Its arts education and related programs speak directly to the need to build a creative, competitive workforce.

## V. The Economic Value of Alaska's Arts Industry

In 1991, the McDowell Group completed a study of the economic impact of the arts in Alaska. Although the study is now approximately seven years old, it established a framework that remains relevant, and that can be used to understand the size and scope of the Alaska arts industry.

The report of this study clearly establishes that arts activities in the state represent a meaningful industry. This industry is of sufficient size and scope that, if it were not already located in Alaska, the state would expend considerable resources to attract and maintain it. A review of the report and a comparison of its findings with recent statistics indicates that the arts industry continues to grow financially and that the numbers of organizations and artists in the state have also grown. The following key findings illustrate the dimensions of Alaska's arts industry:

- In 1991, arts organizations of all types employed 1,298 persons on a full- or part-time basis. Much of the work in the arts in Alaska is part-time owing to an insufficient level of full-time employment for arts workers. Studies in other states indicate that such workers are highly educated and productive employees. Although most would prefer full-time employment in the arts industry, their presence in the state provides employers in other industries with a rich source of part-time workers who are of a higher skill quality than is available in the general part-time employee pool.
- The total payroll paid to employees in the arts industry in 1991 was \$8.3 million. Virtually all of these employees spent the largest portion of their income on goods and services in Alaska and all of them paid for local government operations through taxes or assessments.
- The sources of revenue for arts organizations were found to be highly diverse. In 1991, funds from the Alaska State Council on the Arts contributed an average of 7% of the total budget of each private arts organization. Today, this figure has been reduced to approximately 5%.
- At the time, local government contributed 31% of the total funding for cultural institutions, while admissions totaled 24%, corporate contributions 10%, memberships and sponsorships 5%, contracted services 7%, foundations 1%, and "other and private source revenue" 6%. This mix of revenue sources indicates the broad base upon which arts organizations are funded. However, it fails to illustrate how essential funds from the Alaska State Council on the Arts are to the organization's ability to secure funds from other sources. Although Council funds are a low absolute amount, arts organizations work hard to collect funds from every possible revenue source, and state funds would be very difficult to replace since the organizations may have fully tapped its revenues from other sources.
- In 1991, Alaska arts organizations sponsored more than 3,000 arts events that were attended by nearly 1.8 million people. This fact illustrates a benefit of the arts

industry - its ability to reach a large number of people and to serve congruent economic interests through tourism development. Today, arts organizations across the country are considering how their activities can be more effectively integrated with tourism activity. Alaska's arts organizations are participating in this initiative and the number of tourists attending arts events can be expected to rise in the coming years.

- Alaska has a thriving retail visual arts sales sector. In 1991, there were approximately 400 private sector businesses that sold art. These outlets employed 615 persons and had sales of \$23 million. The researchers noted repeatedly that, due to the limited nature of the response to surveys from this sector and analyses of other data, they believed the sales component of the sector to be at least twice as large as was reported.
- Individual visual artists play a significant role in the makeup of Alaska's arts industry. The 220 artists surveyed in 1991 reported gross sales of \$3.5 million. Because the artists identified to receive the survey were represented only a small portion of the total individual artist population of the state, the researchers suggest that actual sales of art in Alaska total many times the reported figure. In addition to generating economic activity through sales, Alaska's artist also were found to directly spend \$2 million in the state on supplies and materials. Perhaps one of the most promising indications of the potential for the sale of art to benefit the state economy is that in 1991, 31% of all art produced in the state was sold to visitors or individuals and businesses outside of Alaska. This ability to export art in significant quantities holds the promise for further development.
- The production and sale of art by native artists has historically been an important economic benefit to many of Alaska's villages. The growth of the Alaska tourism market has fostered an increased demand for Alaskan native art and the impact such sales can have on very small communities cannot be underestimated.

The arts industry in Alaska is a significant contributing segment of the Alaska economy. The 1991 study of the economic impact of the arts clearly documents the fact that the arts contribute to the size, dynamism and growth potential of Alaska's economy. An additional benefit not quantified in the study is the valuable creative capital that the arts community develops in the state. In addition, the value of having graphic designers, musicians, architects, visual artists dancers and others in the state is not easily quantified. Nonetheless it contributes inestimably to Alaska's quality of life.

## **VI. Conclusion**

The arts industry is a valuable attribute of the state of Alaska. The fact that the arts industry meets many of the state policy expectations indicates that state support of that industry should be considered in the same view as subsidy and incentives programs for other industries in the state. The fact that the core activities in the arts industry are organized, directed and funded by volunteers, should indicate a preference for state encouragement of their activities.

The State of Alaska has made a number of financial incentives and advantages available to private sector interests. Certainly the survival and growth of those business interests are important to the overall health of Alaska's economy for all residents. The activities of the arts industry, however, are no less deserving of state support. Although the industry is modest in size when compared with Alaska's other industries, it is important to maintain in a healthy state for several reasons. First, though seldom the key industry in a region, the arts are often one of several economic activities that keep an area healthy. Increasingly, economic development specialists are becoming wary of very large dominant industries and have come to realize that pinning an area or a state's economic health on the success or failure of that industry is problematic. Economic diversification is an appropriate goal and the arts can play an important role in the achievement of that goal.

Another reason that the state should remain active in arts development is that the arts are a leading source a creative workforce. Exactly how to harness the arts to best prepare the workforce for the future has not yet been perfected, but the power of the arts to serve as a font of creative energy is now widely acknowledged. The fact that the Alaska State Council on the Arts is concerned about the development of this resource should be reason enough to maintain and expand its abilities. Finally, the arts in any state are central to the development and maintenance of a state's identity. The Alaska of the past is partially preserved and remembered by the art its residents generated. The artists of today and the future will be creating images of Alaska that will communicate Alaskan culture to the world for some time to come. In this increasingly homogenized world culture, the state of Alaska can either help create its images for posterity or leave open the possibility that other less informed and less talented people will do so. Support of the Alaska State Council on the Arts is central to this mission.

The Alaska State Council on the Arts is an important supporter of many of the core policy initiatives of Alaska state government. The state encourages its residents to be self-reliant, to contribute to their communities through volunteerism and to stretch public funds and to prepare themselves in a way that will allow them to work in the rapidly changing economy and rather than relying on the support of their fellow state residents. The Council supports these core policy initiatives through its programs that can reach both geographic areas of the state and dimensions of the state's population that other agencies are unable to reach.