Performing Arts–
The Economic Dilemma

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A Study of Problems common to

Theater, Opera, Music and Dance



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CHAPTER I

Introduction

In the performing arts, crisis is apparently a way of life. One reads constantly of disappointing seasons, of disastrous rises in cost, of emergency fund drives and desperate pleas to foundations for assistance. While some performing organizations have improved their financial position, there always seem to be others in difficulties. The off-Broadway theater, hailed one year as the repository of vitality for the American stage, is mourned for dead before the next season is half over, and even the venerable Metropolitan Opera has several times threatened to suspend a season. In spite of its artistic success, the Phoenix Theater, one of New York's leading off-Broadway theaters, for a while seemed unable to obtain funds sufficient to prevent a hiatus of at least one year (1965–66) in its operations. Doubtless, some alleged crises represent a tactical stance — cries of woe intended to help in raising funds or in negotiating with unions. But many of the problems are real, as we shall see.

Nor is economic emergency in the performing arts a phenomenon peculiar to the United States. In Great Britain, for example, one finds reports of orchestras in danger, of provincial theaters in difficulty, of staggering rises in costs of operation that severely circumscribe the activities of some of the most firmly established performing organizations.[1] True, in Great Britain as in most of Europe, the arts are supported in part by public funds, which help to cushion such shocks. But even these funds have not sufficed to eliminate the chronic financial problems of the arts. Indeed, the authori-

[1] Arts Council of Great Britain, *Reports*. See, for example, 1952–53, pp. 14, 20; 1956–57, p. 12; 1957–58, p. 5; 1962–63, p. 5.

ties who distribute the governmental funds are themselves under recurrent economic pressure. A parliamentary grant which one year seems generous is suddenly rendered inadequate by an unanticipated rise in costs. The Annual Reports of the Arts Council of Great Britain, the administrative arm through which public funds are allocated to all arts organizations, tell of one emergency after another and offer no ground for believing that an end is anywhere in sight. Even in many countries on the European continent, where government assistance to the arts has had a longer tradition and funds have been provided on a far larger scale than in Great Britain, the performing arts sometimes find themselves in financial difficulties.

The central purpose of this study is to explain the financial problems of the performing groups and to explore the implications of these problems for the future of the arts in the United States. It should be pointed out that the authors of this volume are economists who, despite their personal interest in the arts, felt strongly that such an investigation should be conducted as dispassionately as possible, and that it should be carried out much as one would study any industry beset by monetary problems. We did not undertake to discover a panacea which would promise to cure the arts of their financial ills. Rather, we hoped to be able to specify objectively the alternatives facing the arts and to describe their costs and the burdens they require society to shoulder.

Finally, we provide no inspirational message proclaiming the virtues of the live performing arts and their crucial role in the enrichment of human existence. The reader who is not already convinced would surely not be swayed by any report whose focus is the economics of performance.

In order to get at the problem, we naturally undertook, after formulating our basic hypotheses, to assemble the pertinent facts. This turned out to be a task of enormous proportions. Seldom were the pertinent data readily available, and investigation showed that such figures as did exist were often unreliable.[2] We had no choice,

[2] Lest this be considered an exaggeration we offer a not atypical illustration: the often quoted statistics alleging that classical record sales have been growing much faster than sales of popular records. It was found on investi-

therefore, but to seek many of the requisite materials from primary sources wherever these could be found. There ensued months of searching through dusty files in cramped backstage offices, hundreds of hours spent collecting questionnaires from audiences in every part of the country and every type of performance, many interviews with producers, managers and choreographers, and a massive correspondence.

Our data encompass a variety of sub-topics. The main focus of our research was the cost and revenue structure of the performing groups; thus the bulk of our effort was devoted to the accumulation of records of costs, ticket sales, revenues and contributions from other sources. A close second in importance was the information we gathered in trying to determine who constitutes the audience, in terms of education, economic characteristics, geographic distribution, ticket purchasing habits and so on. From these two major efforts we went on to a series of sub-studies: among them studies of performer incomes, of the history and anatomy of cultural centers, of grants and contributions, of the state of the arts in Great Britain (because we expected to find some revealing contrasts there), of particular organizations — case studies conducted in considerable depth.

Our subject matter was defined to include only live professional performance. This territory is at once frighteningly broad and infelicitously narrow. It is, in a sense, too broad because of the vast variety of organizations encompassed, some of which were done an injustice by the inevitable superficiality with which they were studied. One can hardly hope to examine in detail the state of orchestral music, chamber music, opera, ballet, modern dance and the theater, not only the commercial theater on Broadway but regional and off-Broadway theater as well. Yet we have gathered information on each of these and hope we have provided some insights into their problems.

But from another point of view our area is defined far too nar-

gation that the data are in fact unavailable; whatever figures the individual record companies may have on their own sales are a closely guarded secret. Nor is it even clear how one would define the borderline between "popular" and "classical" records. At least some of the published figures had apparently been obtained by lumping all long-playing records in the classical category so that all Beatle albums were presumably grouped along with Buxtehude!

rowly in that it excludes the mass media whose consequences for the state of the living arts have been so profound. One can hardly ignore radio, television and the film in a volume such as this, but these media will not be treated as a matter of independent interest. They will be brought into the discussion only where necessary to help explain the financial state of live performance. Even so, the two forms of performance are in many respects inseparable and, as a result, the mass media will reappear constantly in our discussion.

Another category of artistic activity that was largely excluded from our investigation is amateur performance, which has apparently increased substantially in recent years. It must be admitted that it was not always easy to draw an unambiguous line between professional and amateur activity. In some writings the term "professional" is used to connote high standards of competence; in others it indicates that performers are paid. By and large our emphasis on professional activity meant that we dealt primarily with the major organizations in each field of performance, those which lead the field either in excellence of reputation or financial remuneration and in which the members of the company usually obtain a substantial proportion of their livelihood from performance.

Some of the preceding discussion may appear to suggest that no significant work had been done in this area before the present study. This is, of course, not so. The economic problems of the performing arts have been discussed in a number of recent studies, and we have taken full advantage of the materials they provided. These works, which are listed in our bibliography, are one manifestation of the lively and growing interest in the subject.

Legislators have provided even more dramatic evidence of the growing concern for the financial problems of the arts and have produced a series of bills ranging widely in their provisions. The establishment of arts councils at all levels of government has become extremely fashionable. In a few states they have been given considerable amounts of money and responsibility and charged with a well-specified set of functions. In others, councils seem to have been created as a gesture in support of good works and have

been assigned no clearly defined operational purpose. Hearings and legislation have centered on the regulation and the morality of ticket selling practices. Several states and municipalities have undertaken to provide direct or indirect subsidies to the arts, characteristically on a very modest scale, and in 1965 the federal government, through the agency of a national foundation, provided funds to the arts and the humanities, not in order to give work to the unemployed or to exhibit American culture abroad, but, for the first time, simply to help the arts.

Our study would, therefore, appear to be timely. We hope that this book will be of interest to several types of reader. While we expect that our fellow economists will find portions of this study of interest, we have written primarily for the general reader and for those directly concerned with arts organizations.

The sheer mass of our data and the heterogeneity of the audience we would like to reach have dictated the general form of this volume. It would have been all too easy to inundate the reader with statistical detail, but this would almost certainly have obscured the main threads of our argument. Yet it would have been most unfortunate had we suppressed entirely those potentially valuable materials which specialists would want to see. We have, therefore, compromised by keeping the text as straightforward and unencumbered as possible and relegating our more technical materials to footnotes and appendices.

There are three parts to this book. The first is largely descriptive, indicating in some detail the current economic state of the performing arts in the United States. After a brief chapter describing the organizations with which we shall be dealing, the substantive portion of Part I begins with a re-examination of the much-publicized "cultural boom." The discussion then turns to the characteristics of audiences and the financial circumstances of performers, and culminates in an examination of the economic state of the performing organizations.

The second part of the book is more analytic. It discusses the technology of the performing arts and its implications for their financial future. Separate chapters are devoted to trends in total costs, in major cost components, in box office receipts and in other

earned income. Special attention is given to ticket pricing policies. The last chapter of this section undertakes to bring these elements together and to depict trends in the over-all financial gap between expenditures and earned income experienced by representative arts organizations.

Part III examines the sources of funds used to cover these deficits: contributions by individuals, firms, foundations and governments. Finally, we discuss the implications of our findings for the future of the arts and for public policy. It should be re-emphasized that in our discussion of policy there will be no attempt to provide detailed proposals or to recommend concrete courses of action. Rather, we shall undertake to examine critically the grounds that have been proposed for public support and to suggest the magnitude of the financial commitment that is involved.

Only three of our conclusions will be indicated at this point, but they will suffice to suggest the general direction of this study.

First, it will be shown that while the phenomenon that has been described as the "cultural boom" is indeed a reality, its scope and magnitude have been exaggerated in many reports on the subject, and its character and significance misunderstood.

Second, despite the allegations of increasing grass roots interest in the arts and the optimistic view that audiences include a wide range of social groups, it will be shown that the typical audience at professional performances is drawn from an extremely narrow segment of the population — a group characterized by unusually high levels of education and income.

Third, we will offer evidence that the economic pressures that beset the performing arts have been growing, and that this is no historical accident, but a consequence of what might be considered the technology of their operations, so that the need of the performing groups for contributed funds is likely to continue to grow ever larger.

Before considering the import of this last conclusion it may be useful to review briefly some of the more direct and simple explanations others have offered for the financial difficulties of live performance and to suggest why they simply will not do.

Perhaps the cause most frequently cited is inflation — the general rise in prices which, as far as we can tell, has affected western

society since before the Renaissance. But inflation is not a problem peculiar to the performing arts. Steel price rises and wage increases affect automobile production as well as the theater. Yet the one industry has, by and large, continued to prosper, while the other has been beset by growing deficits. Moreover, as our data will show, costs of performance have risen at a rate significantly faster than that of the general price level. Thus, though since 1957 the over-all rate of price increase in the United States has been negligible, many arts groups have continued to encounter economic troubles. Clearly, inflation is not the basic problem.

Union demands in general and featherbedding in particular have sometimes been nominated as the culprits. Concern with the subject is certainly not unfounded, as is illustrated by the following testimony of a backer of plays:

> A play called "Mr. Roberts," which you have heard mentioned before, the play happened to run in a theater which we were controlling. We were upset to discover we had to have four musicians for the continuance of that season. We thought it would not amount to too much. However, because it was considered a continuing run, for all three or four years that the play ran in the Alvin Theater, four musicians were employed to sit in the cellar and play pinochle. Eventually we had to ask them to play at home, because they were using the services of the ushers to go out and get them cigarettes and beer. It was unfortunate that we did not object to paying $320.00 a week for their not playing, but it was more objectionable to pay them double time for not playing on holidays.[3]

But while other such examples can easily be mustered it does not follow that featherbedding is the heart of the problem.[4] The fact is that in the drama such practices are unimportant except in the commercial theater, and have been of far less significance in musical performance than in the theater. Since it is not Broad-

[3] Lefkowitz Hearings, Vol. II, pp. 46–47, from testimony of Mrs. Margaret Cullman.

[4] One reader pointed out that the example cited is somewhat unfair to the musicians' union. Under current arrangements with the union, each theater owner has the right to choose freely whether his theater will be a "contract" house or a "non-contract" house. In the former, musicians are guaranteed employment, but they perform at a lower wage rate than in the latter. Evidently the theater which was chosen for "Mr. Roberts" had elected to be a contract house, a fact which the producer must have known when occupancy was arranged.

way alone that has suffered growing financial pressures, we must look further for our explanations.

Much has been made of dishonest practices in the commercial theater. The Lefkowitz Hearings on the New York theater which were conducted in 1963 brought to light some flagrant cases — members of theater staffs who regularly received bribes in return for the good seats they channeled into the black market, producers who purchased goods and services at inflated prices from companies in which they surreptitiously held an interest, producers who made free use of investors' funds for their private purposes and expended monies before limited partnership arrangements had gone into effect, thereby exposing investors to unlimited liability without their knowledge.[5] But these sensational exposés have little bearing on the basic problem. Every industry doubtless has its share of dishonest individuals. In any event, since lack of integrity of this variety seems to be rather rare among the non-profit organizations that supply the bulk of the nation's live performances, it cannot be regarded as a basic cause of the economic pressures that beset these groups.

One can also produce examples of waste and mismanagement which have clearly aggravated the financial problems of the arts, but they too are not the main culprits — there are too many well-managed organizations that incur substantial deficits for us to credit incompetence as the central cause of the economic problems of the arts.

We believe we shall be able to demonstrate that the basic difficulty arises, not from any of these sources, but from the economic structure of live performance. This conclusion has implications that are rather sobering. It suggests that the economic pressures which beset the arts are not temporary — they are chronic. It suggests that if things are left to themselves deficits are likely to grow. Above all, this view implies that any group which undertakes to support the arts can expect no respite. The demands upon its resources will increase, now and for the foreseeable future. Happily, however, we shall see that contributions have also been growing and that there is some reason to hope that the sources of

[5] Lefkowitz Hearings, Vol. I, pp. 21–35; Vol. II, pp. 41–52.

philanthropy will be able to meet much of the expanding need for funds. Some classes of performing organization — especially the established groups and those with well-organized fund raising machinery — may, therefore, find survival in the future no more difficult than it is today. But for the smaller, more experimental and less well-organized groups, and the organizations which are not operated on a non-profit basis and so do not live by philanthropy, a state of financial crisis may not just be perennial — it may well grow progressively more serious.

CHAPTER VI

The Financial State of the Organizations

THIS CHAPTER is the culmination of our report on the present economic condition of the performing arts. It summarizes the financial operations of the performing organizations as a group and completes the background of facts required for our analytical investigations in Part II of the book. In this chapter, as in most of Part I, we shall concentrate on a description of the current state of affairs rather than on trends.

The significance of the materials here presented need hardly be emphasized. The economic stability of the live performing arts rests ultimately on the finances of the performing organizations, and we shall find in this chapter that, as a group, the performing arts do not pay their own way. As William Schuman has aptly said, they are "in the business of losing money wisely."[1]

Total Expenditures

The first question one might well ask about the finances of any organization is How much money is involved?

Table VI–1 summarizes the available data on the size of budgets for the several art forms in recent years. The categories have been kept as homogeneous as possible in an attempt to arrive at representative values for each of the groups listed. We have not, for

[1] *Business Week*, August 3, 1963, p. 43.

TABLE VI–1

Median Expenditure Per Year, Per Performance and Per Seat, by Art Form

	Season or Year	Annual Expenditure	Expenditure Per Performance	Expenditure Per Seat
Orchestras:				
Major Orchestras:				
Five Largest[a]	1963–64	$1,873,174	$12,841	$5.33
All Twenty-five[b]	1963–64	715,051	6,647	1.91
Twenty-five Metropolitan Orchestras[c]	1963–64	181,730	4,716	1.99[d]
Opera Companies:				
Metropolitan Opera	1963–64	8,748,219	35,853	9.85
Ten Other Operas[e]	1963	182,244	12,808	5.21
Dance Companies:				
New York City Ballet	1964–65	2,289,418	10,266	3.87
Two Civic Ballets	1963	13,390	893	.51
		20,355	925	1.32
Two Modern Dance Groups	1963	9,181	1,147	1.17
		37,857	2,295	3.83
Theater:				
Broadway:				
Musicals[f]	1964–65		6,509	4.90[g]
Plays[f]	1964–65		3,077	2.83[g]
Off-Broadway Plays[h]	1964–65		758	3.81[i]
Thirteen Regional Companies[j]	1964–65	250,000	720	1.98

[a] The Boston Symphony, Chicago Symphony, Cleveland, New York Philharmonic and Philadelphia Orchestras.

[b] Includes the 23 major orchestras listed in Appendix III–2 and also the Denver and Seattle Symphonies, which are classified as majors by the American Symphony Orchestra League. Financial data from the ASOL's 1963–64 Major Orchestra Report.

[c] Financial data from the ASOL's 1963–64 Metropolitan Orchestra Report.

[d] Based on only 22 orchestras because the New Jersey Symphony plays in various halls and because no seating capacity was reported for the Omaha Symphony.

[e] The Boston Opera Group, Opera Society of Washington, Civic Opera Association of St. Louis, St. Louis Festival Society, Brooklyn Opera, Chicago Lyric, Cincinnati Summer, Houston Grand, Kansas City Lyric, and New York City Operas. Expenditure figures obtained from questionnaires submitted to these organizations or from their annual reports.

[f] Weekly operating costs for Broadway musicals were estimated at $40,000 on the basis of detailed information for two 1964–65 musicals; similarly, weekly operating costs for straight plays on Broadway were estimated at $17,000 on the basis of detailed informa-

example, simply combined the Metropolitan Opera with an agglomeration of smaller opera groups to come up with some sort of "average" company, which could not represent either the one or the other. Similarly, data for the five largest orchestras are presented separately from the figures for all major orchestras. Data on expenditures for dance and chamber groups are both diverse and spotty, and the table, therefore, offers estimates for individual dance companies instead of attempting to provide representative values; it omits chamber groups altogether.

The Metropolitan Opera, with a budget in 1963–64 of $9 million,

Notes to Table VI–1 continued

tion for two 1964–65 productions. Each estimate was divided by 8, the average number of performances per week, to determine expenditures per performance. Production expenditures were calculated by determining the median capitalization figures for 31 plays ($100,000) and 13 musicals ($400,000) reporting to the New York Attorney General for the period June 1, 1964 through May 31, 1965, and then subtracting from these figures, respectively, $20,000 and $50,000, the average amounts of overcall and returnable bonds estimated on the basis of the relation between capitalization and actual production costs of the two plays and two musicals mentioned previously as the sources for weekly expenditures. The estimated total production costs were then prorated over the median number of performances (84 and 232) for the 43 plays and 23 musicals listed in the *New York Times*' statistical summary for the 1964–65 season (issue of June 27, 1965, Section 2, p. 3). Finally, the total expenditures per performance were determined by adding estimated operating and production costs.

[g] Obtained by dividing estimated expenditure per performance by average number of seats (1,328 for musicals and 1,089 for straight plays); these latter figures were calculated from *Stubs*.

[h] Running costs per performance were calculated by dividing 8, the average number of performances per week, into $3,272, a figure agreed upon by six of the most experienced off-Broadway producers as the amount of gross income needed to balance weekly operating expenses. (Data from *New York Times*, September 6, 1964.) Capitalization costs, prorated on a weekly basis, were determined by finding the median original capitalization figure ($20,000) from among those filed by 22 off-Broadway productions with the New York Attorney General for the period June 1, 1964 through May 31, 1965, subtracting from this figure the estimated average amount of returnable bonds and deposits included in production costs, and dividing the resulting $15,000 by 43, the estimated median length of run of off-Broadway productions in 1963–64 (calculated from length-of-run information given in the *New York Herald Tribune*). The expenditure per performance is the sum of the estimated running and production costs.

[i] Calculated by dividing the estimated expenditure per performance by the average capacity of off-Broadway theaters, 199 seats.

[j] The Actor's Workshop, Alley, Arena Stage, Barter, Center Stage, Charles Playhouse, Cleveland Play House, Cincinnati Playhouse, Dallas, Front Street, Guthrie, Hartford Stage, and Seattle Repertory Theaters. The expenditure figures are estimates compiled by Sandra Schmidt.

is the giant of the live performing arts. Nevertheless, by American business standards, the Metropolitan is a tiny operation. It is dwarfed by the smallest of the 500 largest corporations in the United States.

The other performing groups operate at a level of expenditure considerably lower than the Metropolitan Opera's. The median budget of the five largest orchestras is slightly under $2 million (two orchestras have larger budgets than this and two have smaller budgets, since the median is the figure which divides the cases in half). On the next rung down the economic ladder are the 25 major orchestras, whose median annual expenditure is about three quarters of a million dollars. Orchestras in the next size class, the metropolitan orchestras, spend about $200,000 annually.

Opera companies other than the Metropolitan Opera are about on a par with the metropolitan orchestras. However, these opera companies are such a diverse group (excluding extreme cases, their budgets range from $63,282 to $271,611) that no single figure can properly characterize them.

Regional theaters, with a median expenditure of one quarter of a million dollars per year, are slightly more costly operations than the smaller orchestras and opera companies in the table. We provide no annual expenditure figures for the Broadway or the off-Broadway theaters, since they plan only in terms of single productions. As explained in the notes to Table VI–1, however, we estimate median capitalization costs to be $20,000 for an off-Broadway production, $100,000 for a straight show on Broadway and $400,000 for a Broadway musical.

Expenditure Per Performance and Per Seat

A large budget need not indicate that a particular organization or art form is very expensive. It may mean merely that the typical company in that area of endeavor is active for a large number of weeks during the year. Because of differences in length of season, a better way to determine whether it is inherently more costly to supply one type of artistic activity than another is to compare costs *per performance.*

These costs amount to about $36,000 at the Metropolitan Opera. All other opera companies spend a median amount of about $13,000 per performance, which is approximately the same as the cost per performance of the five largest orchestras. Thus, a performance by one of the smaller opera companies is about as expensive an operation as a concert by one of the most costly orchestras, even though the opera's annual budget is much smaller.

For all major orchestras as a group the cost per performance drops to less than $7,000. The operations of the metropolitans turn out to be more expensive than one might have guessed — nearly $5,000 per performance. Regional theaters and off-Broadway companies have median costs of only about $750 per performance. Costs on Broadway are, of course, higher; they amount to $3,100 per performance of a straight show and $6,500 for a musical.

Finally, it is of interest to examine the costs per potential member of the audience. After all, the unit of "final product" of the performing arts is not the single performance but the seat at a performance (where an empty seat can perhaps be considered an unsold product). The last column in Table VI–1, therefore, reports cost per seat.

When the Metropolitan Opera's 1963–64 budget is divided by the number of performances given and then by the number of seats in the opera house, the cost per seat amounts to about $10. The other operas and the five top orchestras — on the basis of the seating capacity of their home auditoriums — operate at a cost of about $5 per seat, and this figure drops to about $2 for the major orchestras as a group.[2]

In this calculation the relative costs of the off-Broadway and regional theaters no longer appear so low. At regional theaters the cost per seat is about $2, and so is almost the same as that of the major orchestras as a group. And because the off-Broadway houses are small (typically having 199 or 299 seats), their costs per seat

[2] Because an undetermined amount is expended in making recordings, the actual performing cost per seat is undoubtedly somewhat lower than the figures indicate. Also, to the extent that the auditoriums in which the orchestras perform while on tour are larger than the halls in which they regularly play, the true cost per seat of an orchestral performance will be lower than our $2 figure.

are high, averaging approximately $3.80, which is about as high as the cost per seat at any type of performance except the opera, the 5 largest orchestras and Broadway musicals. We can now see more clearly one of the major sources of off-Broadway's financial woes.

In general, the real costs of performance in Great Britain are of the same order of magnitude as those in the United States. This is true of regional theaters and top orchestras. It is also the case when the expenditures of Covent Garden, which includes an independently functioning dance organization, are compared with the combined expenditures of the Metropolitan Opera and the New York City Ballet. To make these international comparisons, our figures were translated into a common unit — the amount of labor which the money expenditures could buy in the respective countries; details are reported in Appendix Table VI–A.

The similarity between the two countries in cost per performance is again remarkable. We found, for example, that the cost of a performance by the New York City Ballet would just about suffice to cover one and one half year's average income of a member of the U. S. labor force, and a performance by the Metropolitan Opera costs the equivalent of five and seven tenths man-years of labor. Fortuitously, performances at Covent Garden are distributed between opera and ballet in just about the same proportions as are performances by these two American organizations. We, therefore, averaged our index of the cost per performance of the New York City Ballet (1.6 man-years of labor) with the figure for the Metropolitan Opera (5.7 man-years) and obtained a figure of about 3.7 man-years, which is extremely close to the Covent Garden figure of 3.8 man-years. A performance of American regional theater companies was found to cost the equivalent of 0.16 man-years of labor as against 0.15 for British regional groups. Real costs per performance for top orchestras are 2.4 man-years of labor in both countries.

The Composition of Expenditures

The next logical question, once total outlays have been discussed, is: For what is the money spent?

Answers in broad terms are given in the "pie" charts of Figure

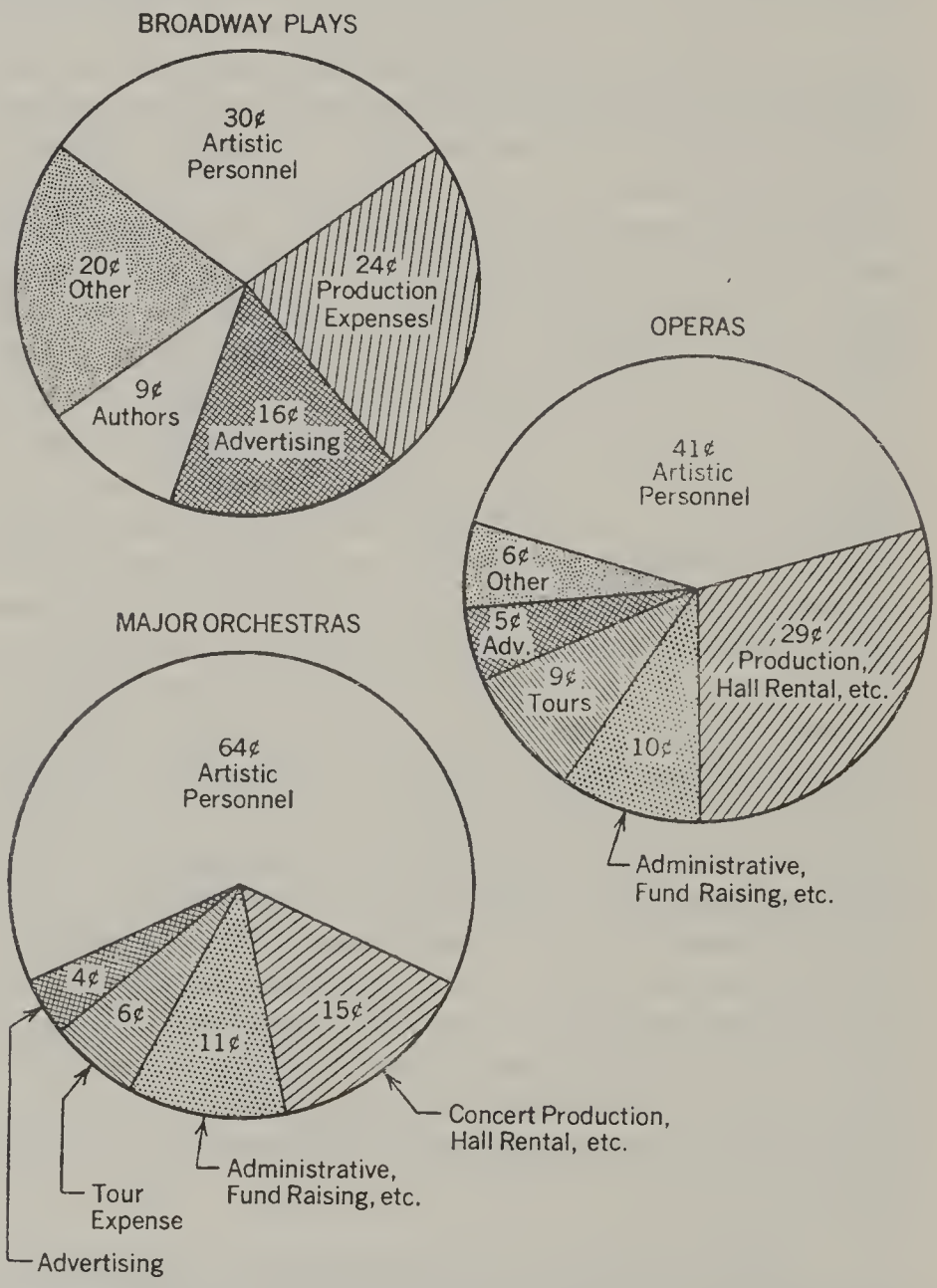
VI–1. The main thing to be observed from these diagrams is that the salaries of artistic personnel account for an overwhelming proportion of total costs — an observation that holds true not only for the three art forms whose expenditures are plotted but for others as well. However, there are differences. In plays on Broadway, salaries of artistic personnel constitute only one third of total cost; for operas the figure is two fifths; and in the major orchestras the artistic personnel salary component reaches its peak, at two thirds of total expenditure.

One of the main reasons for the difference between the theaters and the operas is the variation between them in the relative importance of such items as costuming and staging. Much of the category "other" in these diagrams is composed of this sort of outlay. In terms of proportion of expenditure on artistic personnel, as might be expected, opera lies between orchestra and theater, since the former includes elements of both of these other art forms. Two other differences are interesting both economically and artistically. The first is the large expenditure on advertising by Broadway theaters and the small share of the budgets of operas and orchestras used for this purpose, a finding which demonstrates a difference in the mode of operation of commercial and non-profit organizations. The second dissimilarity is Broadway's substantial expenditure on authors' fees (at least when musical productions are omitted), an expense which is proportionately much smaller in opera and orchestra budgets. Underlying this contrast is the fact that most of what is done on Broadway is newly written, whereas the large musical organizations tend to specialize in a more standard repertoire. If a work is old enough, there is no need to pay authors' fees. Yet major orchestras do commission a number of new works every year, at widely varying rates of remuneration to the composer, and also make payments for the performance of contemporary pieces to the American Society of Composers, Authors and Publishers and to Broadcast Music Inc. — the composers' guilds — which, in turn, provide royalties to their members.

The variations among art forms in the share of expenditure allocated to artistic personnel carry over almost exactly to Great Britain. This suggests strongly that the variations reflect fundamental differences in the technology of these arts, and not just fortuitous

FIGURE VI–1

DISTRIBUTION OF THE EXPENDITURE DOLLAR, BY ART FORM



Broadway Plays: The distribution is derived from 1960–61 figures in a table supplied by Moore entitled "Total Earnings and Expenditures for Life of Play, Various Factors." "Artistic Personnel" includes cast salaries only. "Production

(*Notes continued on opposite page*)

historical developments. The share of salaries of artistic personnel in total expenditures was:[3]

64% for major U. S. orchestras
72% for the London Symphony Orchestra
67% for the Bournemouth Orchestra
41% for the Metropolitan and City Center Ballet combined
41% for Covent Garden
44% for Sadler's Wells
30% on Broadway (excluding musicals)
25–35% in U. S. regional theaters
26% in the Royal Shakespeare Company

Greater regularity would probably be hard to find among economic phenomena.

Sources of Earned Income

Let us now shift our attention from the cost to the income side of organizational finance. It will be no surprise that the vast bulk of the earned income of performing arts organizations — their in-

[3] Data calculated from sources listed in Appendix Tables VI–A and VI–B.

Notes to Figure VI–1 continued

Expenses" includes crew and stagehands, directors, scenic designers, managers, scenery, props, costumes, electrical and sound costs.

Operas: The distribution is based on a simple average of the percentage distribution of expenditures of the Metropolitan Opera (1963–64) and the New York City Opera (1962–63). The percentage distributions by broad categories were remarkably similar for these two very different organizations. ("Artistic Personnel" includes salaries of singers, dancers and musicians.)

Major Orchestras: The breakdown of spending was constructed after finding the average figure for each category of expenditure reported by the 25 major orchestras in the 1963–64 Major Orchestra Report of the American Symphony Orchestra League. A more detailed summary of the expenditures of these organizations is as follows:

Artistic Personnel (musicians, conductors, soloists)	$ .64
Music Rental, etc.	.01
Hall Rental	.05
Program Expense	.02
Advertising and Promotion	.04
Concert Production and Stage Expenses	.05
Summer Concerts	.02
Tour Expenses (excluding salaries)	.06
Fund Raising Expense	.01
General and Administrative	.10
	$1.00

come from sources other than gifts and grants — comes from the box office. Except for some plays and a few major orchestras, the other sources of earned income are items such as parking lot fees, program advertising and refreshment stands. But these are never very important.

All except a few organizations, which we will discuss next, derive over 90 per cent of their earned income from the sale of admissions, as is illustrated by the following figures for the 25 major orchestras.[4]

Source of Income	Per Cent of Total Income
Subscription Series Ticket Sales	47
Other Home Concerts	23
Tour Concert Receipts	15
Grants for Which Concerts Were Required	6
Subtotal: All Concert Income	92
Program Advertising	2
Broadcasting and Recording (net)	5
Total	100

While all major orchestras obtain income from the first two items in the table — subscription series ticket sales and other home concerts — and while 23 of the 25 reported some *net* income from touring, only 14 reported any *net* income from broadcasting and recording, and the bulk of the income in this category was earned by 5 or 6 orchestras. Thus, for most of the major orchestras, recording and broadcasting is a negligible source of income, even more so than the preceding table suggests. Nevertheless, earnings from sources other than admissions account for a substantial part of the incomes of some of the largest orchestras. In one not atypical case, *net* earnings from record royalties, broadcasting, television,

[4] Mean percentages are listed, based on data from American Symphony Orchestra League Compiled Annual Reports for 1963–64. Because of rounding, the figures do not add precisely to the totals shown.

Lest anyone compare the 15 per cent tour receipt statistic and our tour expense figure of 6 per cent and conclude that touring is necessarily profitable, the reader is reminded that the two percentages are not comparable. The touring cost item does not include salaries of performers, and the bases on which the two percentages are calculated also differ significantly.

and so on constituted 15 per cent of total (gross) earned income, and (though we do not have the figure) the gross earnings from these sources were surely considerably higher.

For some Broadway theatrical productions, income from the sale of movie rights can be very important. These sources sometimes provide amounts comparable with or even exceeding the total box-office returns. A notable example is "My Fair Lady." The total gross from its Broadway run was $9.6 million, while the movie rights were sold for $5.5 million. The report of the League of New York Theatres for 1962–63 indicated that the producers of 25 shows received an aggregate income of over $500,000 from motion picture royalties, but that one half of this went to just two productions (only one of which was a musical). Yet many a Broadway play is produced with an eye to potential sale of movie rights. Despite the narrowness of its distribution, this type of income undoubtedly plays an important motivating role for the commercial theater, and its prospect sometimes makes all the difference in raising funds for a new production.

Authors, producers and investors also derive some income from amateur, stock company and foreign performances; however, the average play receives little from these sources, which often serve primarily as an additional bonanza for the big hits. Even so, a number of producers have been tided over periods of financial stringency by this type of return on plays they had put on in the past.

The Income Gap

We arrive now at the critical financial item — the gap between expenditures and earned income. Heretofore we have referred to this as the "operating deficit" — a fairly standard term, but not a felicitous one when applied to a non-profit organization. To say there is a "deficit" implies that something has gone wrong, that costs must be cut or earnings increased so that the (reprehensible) deficit may be eliminated. But surely the fact that earnings fall short of costs raises questions which ought not to be prejudged in the case of the arts. For just this reason, in educational institutions, where expenditures characteristically exceed tuition receipts, people

do not speak of an "operating deficit," nor do they think in such terms. The phrase "income gap" seems to come closer to what we mean. It emphasizes that the corresponding magnitude represents a lacuna in the organization's finances which needs somehow to be filled.

We turn now to the facts as summarized in Table VI–2. The total gross earned income — concert receipts, recording and broadcasting fees and services — of the median major orchestra in 1963–64 was $415,000. On the average, earned income was just about equal to the amount needed to pay the salaries of artistic personnel. In effect, all other expenses had to be paid out of contributed income. The income gap for the typical major orchestra was $327,000, a sum amounting to 46 per cent of the total budget of such an organization.

The main point to be derived from Table VI–2 is the near universality of the gap. Such gaps occur in the finances of the major orchestras, the Metropolitan Opera, the regional and off-Broadway theaters and most dance groups, though the gaps vary both in absolute amount and in relation to the size of budgets.

The median gaps are almost all very large. They amount to 32 per cent of total expenditures for the five largest orchestras, to perhaps 50 per cent for many dance groups, to nearly 50 per cent for major and metropolitan orchestras, to 45 per cent for operas other than the Metropolitan, to 21 per cent for the Metropolitan Opera and to 15 per cent for the regional theaters.

The theater, and particularly the commercial theater, comes closest to avoiding a gap between earned income and expenditures. Indeed, while much is made of the losses sustained by individual Broadway productions, it appears that Broadway as a whole continues to show a profit.[5] But in the regional theaters an income gap is now almost universal.[6] Even the Arena Stage in Washington,

[5] We must say "appears" because the data required to calculate an accurate rate-of-return figure for the total Broadway investment in recent years are not available. Watts calculated a rate of return for a sample of Broadway plays produced between 1948 and 1958; his annual rate of return figure of 19.5 per cent seems rather high.

[6] Schmidt, p. 50.

TABLE VI–2

Median Earned Income, Median Expenditure and Median Income Gap, by Art Form

	Season or Year	Earned Income (thousands)	Expenditure (thousands)	Net Gap* (thousands)	Gap as Per Cent of Expenditure
	(1)	(2)	(3)	(4)	(5)
Orchestras:					
Major Orchestras:					
Five Largest	1963–64	$1,539	$1,873	$ (750)	32
All Twenty-five	1963–64	415	715	(327)	46
Metropolitan Orchestras	1963–64	88	182	(83)	48
Opera Companies:					
Metropolitan Opera Association	1963–64	6,871	8,748	(1,877)	21
Ten Other Operas	1963	65	182	(82)	45
Dance Companies:					
New York City Ballet	1964–65	1,744	2,289	(545)	24
Two Civic Ballets	1963	6–8	9	(14)–(6)	70–40
Theater: Fourteen Regional Companies	1964–65	157	250	(40)	15

See notes to Table VI–1.

* Col. 4 need not equal col. 3 minus col. 2 because medians cannot be subtracted from one another.

which has escaped the problem until now, believes it will not be able to hold out much longer.[7]

The same phenomenon — the wide presence of an income gap — is found in Great Britain. (See Appendix Table VI–B.) The most striking piece of information on this subject is the magnitude of Covent Garden's gap between earned income and expenditures. At 44 per cent of the total budget, it easily overshoots that of the Metropolitan Opera. Perhaps this large figure can be ascribed in part to the help provided by the Arts Council — which might reduce pressures to undertake economies considered to be undesirable on artistic grounds. However, a number of British organizations have gaps smaller in relation to total budgets than our own. For example, the two London orchestras included in Appendix Table VI–B have income gaps ranging from about 12 to 18 per cent of expenditures, as compared with 46 per cent for major orchestras in the United States.

We conclude that a gap is certainly present — indeed, except for the commercial theater, it is nearly omnipresent. And it amounts to a sum that is by no means negligible. For a substantial proportion of professional performing organizations in the United States it amounts to more than 40 per cent of their expenditures.

The Total Gap

The size of the total income gap is a crucial figure. This is the amount which, at the present time, society must be prepared to

[7] Chamber music is not included in this discussion. Because chamber music is performed by very small groups, this field usually lacks the formal operations and the budgeting procedures that would permit us to investigate its income gap. It is not even easy to distinguish between performer and organization. However, two illustrative cases may be illuminating. One not atypical chamber music group of which we know succeeded in covering its expenses only twice in seventeen years; both occasions were years in which the State Department sent the group on concert tours abroad. In 1962, the group's best year, its fees for concert performances in the United States and abroad were $42,300. After expenses this left an adjusted gross income of about $6,500 per man.

The other (very famous) group is one whose fee per concert is about $1,000, from which the usual 20 per cent is deducted by the group's agent. Recordings bring very little direct financial return (less than $500 per year per per-

contribute, by some means, if the nation's existing performing arts organizations are to be kept solvent.

In making our estimate we include neither amateur nor strictly commercial organizations. The Broadway theater is omitted because at least a considerable part of its activity is avowedly commercial, and society is not asked to take direct financial responsibility for its survival. Much off-Broadway activity does not qualify legally as "non-profit," but we include all of it in our estimate because, whatever the intention of the producers, off-Broadway theaters are rarely profit-making institutions. Groups operated by colleges and universities are excluded because their function is often as much teaching as it is performance, and their financing may be considered only an indirect social responsibility. The figure we want to arrive at is the gap between expenditures and receipts from admissions and other payments for services rendered. This gap is by no means equivalent to a final deficit. Some of the gap is currently being met out of other sources of funds — committed contributions, income from endowment funds, and the like. In effect, then, the gap figure is an estimate of the deficit which is funded out of voluntary contributions.

Table VI–3 shows our calculation of the total income gap. In this table items based on firm data are separated from those derived from estimates or guesswork. Where an estimate was necessary the table provides, in effect, a plausible range rather than a single figure. Each guess is based on some information as to scale of activity and was made, wherever possible, after consultation with knowledgeable persons in the field.

Our estimate of the total gap ranges from about $20 to $23 million per year. Since about three quarters of this total is based on firm figures, and since the organizations carrying out the most costly activities all have given us their figures, the order of magnitude of our estimate can probably be accepted with a considerable

former), but serve as a valuable vehicle of publicity. After decades of unremitting labor with no vacations, each member of the group now earns an average of $16,000 annually, before taxes, from all sources of income — including teaching, recording, concerts and occasional individual free-lance work. The members of the group have never supported themselves entirely through concerts, nor do they ever expect to do so.

TABLE VI–3

Calculation of Total Income Gap: Non-profit, Professional Performing Organizations, about 1964 (thousands)

KNOWN FIGURES		
Twenty-five Major Orchestras (1963–64)	$ 9,400	
Twenty-four Metropolitan Orchestras (1963–64)	2,210	
Metropolitan Opera (1963–1964)	1,877	
Ten Other Operas (1963)	1,116	
New York City Ballet (1964–1965)	545	
One Modern Dance Company (1963)	5	
Fourteen Regional Theaters (1964–65)	980	
Total Known Gap	$16,133	
ESTIMATED PORTION OF GAP	Conservative Estimate	Liberal Estimate
Other Metropolitan Orchestras[a]	$ 300	$ 400
Other Operas[b]	400	1,000
Other Ballet Companies[c]	500	1,200
Other Modern Dance Groups[d]	50	100
Other Regional Theaters[e]	800	1,250
Off-Broadway[f]	800	1,400
Miscellaneous[g]	500	1,000
Total of Estimated Figures	$3,350	$6,350
Estimated Total Gap (rounded)	$19,500–$22,500	

[a] Based on the assumption that metropolitan orchestras not reporting data operate on the same or a slightly smaller (¾) scale than the average for the metropolitan orchestras reporting.

[b] Based on the assumption that the 25–30 or so other operas offer on the average about 5 performances per year and have a gap of $5,000 per performance.

[c] Based on the assumption that the other half dozen or so professional ballet companies have gaps totaling at least as much as the New York City Ballet's ($545,000).

[d] Based on the assumption that the other 7 or 8 more or less permanent modern dance companies have gaps about the same as or larger than the one for which we have data ($5,000).

[e] Based on the assumption that the other regional theaters (approximately 25) have total gaps slightly larger than total for the 14 for which we have data ($980,000).

[f] Assumes an average capitalization of $15,000–$20,000 per show, and assumes that about 60 of the new productions and half of about 20 holdovers will have losses amounting to between ¾ and all of their capitalization.

[g] Based on information on the income gap of a chamber orchestra. Assumes the existence of 10–20 miscellaneous organizations of this magnitude.

degree of confidence, even if some of the individual components may be wide of the mark.

It is very important to recognize that a total income gap of less than $25 million for all the professional performing arts in the United States is an extremely small figure, given the scale of our economy. Twenty-five million dollars will not begin to pay for 25 miles of superhighway in a moderately populous area (in urban areas the cost approaches $100 million per mile). Nearly twice $25 million is spent on advertising *every day* of the year, and the advertising budgets of some companies are as high as $100 million per year. The federal government spends more than $25 million every two hours of the day and night, including Sundays and holidays. The total income gap is the price of perhaps three transatlantic jetliners. A substantial number of universities *each* receive more than $25 million annually from the federal government; a few receive $100 million or more per year in federal funds.[8]

We do not mean to imply that the guaranteed provision of $20–$25 million would solve all the financial problems of the performing organizations. The very nature of their economic problem, and the psychological disposition of the artist, preclude a "this much and no more" type of settlement. Moreover, our figures deal only with operating costs; they make no provision for construction of theaters and other capital costs, which, as the experiences of cultural centers have shown, can be very substantial indeed. To us, the noteworthy implication of our total income gap figure is the small scale of professional independent non-profit performing activity in the giant American economy, and the miniscule fraction of the nation's wealth that is required to finance its continued operation.

Filling the Gap: Contributions and Net Deficits

Contributions of various kinds have enabled most performing groups to fill the gap between their earned income and their expenditures. This chapter will not analyze the sources and forms of these contributions — that is a subject for the last part of this book. But

[8] *Industrial Research*, April 1965, pp. 46–49.

it is worth noting that, in addition to the usual sorts of direct monetary contributions by individuals, business firms and government agencies, the organizations have benefited substantially from what might be considered contributions "in kind" — typically, the rent-free use of auditoriums. Statistics on this sort of contribution are difficult to obtain, for it cannot easily be assigned a pecuniary value and is seldom mentioned in an organization's accounting records. As a result, our estimates of the financial gaps often understate their true magnitude, and our data on contributions are correspondingly incomplete.

The data on contributions and net deficits (the difference between the income gap and contributions) are reported in Table VI–4. It will be observed that in a number of cases the amount of contributed income comes very close to meeting the gap in the years covered by the table. For example, the five largest orchestras are left with a median deficit of only $4,000 per year — two tenths of one per cent of their expenditures. The median deficit for the major orchestras is less than $4,000, for the metropolitan orchestras it is only $90 (!), and for no group of organizations have we found a median deficit in excess of $5,300 for the year. While it is true that some organizations end some years with staggering deficits, on looking over the budgets for individual organizations one is struck by the frequency with which contributions are almost precisely equal to the financial gap. In fact, one often encounters cases in which the net deficit is reported to be zero: contributions match the gap to the penny.

There are several reasons for this. One important explanation is the residual contribution. For example, the members of a board of directors, either individually or collectively, may be prepared to make up a reasonable deficit, and therefore will match their year-end donations to the amount of expenditure that has not yet been covered. In part, too, the degree of correspondence between total receipts and expenditure reflects good budgeting and careful management which prevent the organization from spending more than it has received or is likely to receive. Sometimes an accounting adjustment eliminates the *appearance* of a deficit, making it harder to interpret the net deficit figures and reducing their usefulness.

TABLE VI–4

Median Income Gap, Median Contributed Income and Median Surplus or Deficit, by Art Form (thousands)

	Season or Year	Income Gap	Contributed Income	Net Surplus* or (Deficit)
	(1)	(2)	(3)	(4)
Orchestras:				
Major Orchestras:				
Five Largest	1963–64	$ (750)	$ 703	$ (4)
All Twenty-five	1963–64	(327)	294	(4)
Twenty-five Metropolitan Orchestras	1963–64	(83)	86	0
Opera Companies:				
Metropolitan Opera	1963–64	(1,877)	1,638	(240)
Ten Other Operas	1963	(82)	93†	(3)†
Dance Companies:				
New York City Ballet	1964–65	(545)	477	(68)
Two Civic Ballets	1963	(14)–(6)	11–6	0–(3)

See notes to Table VI–1.

* Col. 4 need not equal col. 3 minus col. 2 because medians cannot be subtracted from one another.

† New York City Opera omitted for lack of information.

This adjustment may draw on endowment funds, and relabel them "income on contributions." Conversely, if a surplus appears to be in the offing, a non-profit organization may quickly appropriate funds for "special projects," since a surplus can be embarrassing to such an organization, both in its future fund raising efforts and in its relations with the tax authorities.

Despite the generally low median deficit figure, there are organizations with serious financial troubles. For example, it was reported that in 1965 the Chicago Symphony faced a million dollar deficit.[9] And, in a special release, the National Repertory Theater indicated that during a recent three year period the group accumulated a deficit of $300,000, 83 per cent of which was in the form of a bank

[9] *Chicago Tribune and Sun-Times*, June 17, 1965.

loan.[10] According to news stories, the Royal Shakespeare Theatre in England was in serious financial difficulty in 1965. Despite a state subsidy of £40,000, it had apparently been losing money at a rate of £40,000 to £50,000 per year, and its funds were nearly exhausted. Other examples of such crises can easily be found in the records of the recent past.

What happens in such cases? There have been organizations that simply died — the Civic Repertory Theater in New York and the Ballet Russe de Monte Carlo. More frequently, the organization manages to hang on by borrowing money, sometimes from a bank, sometimes from individuals. Organizations sometimes live indirectly on the succeeding year's subscription income, and thereby postpone a financial crisis from year to year. Indeed, a person quite familiar with finances of symphony orchestras commented that no board of directors wants to stop operations when there is a deficit, for the members of the board might then feel morally obligated to dig into their own pockets in order to pay off creditors. They find it easier to pay off obligations from endowment funds or from advance ticket sales for the following season.[11] By such means it is possible, with the aid of an occasional emergency fund drive, to stay alive indefinitely. This staving-off procedure is particularly well suited to orchestras, which characteristically sell tickets by advance subscription, and it no doubt accounts, at least in part, for the amazing survival record of the major orchestras.

However, manipulation of funds is not the whole of the story. It is hard to believe that when an organization is in financial difficulties the quality and scale of its operations can long remain unaffected. Eventually it must begin to cut corners, and that cannot fail to change the product in ways which are not desired either by the organization itself or by the audience.

The total income gap of the nation's independent professional non-profit performing organizations is small by current economic

[10] National Repertory Theater, *Crossroads*, 1964, p. 3.

[11] A board of directors may well reason that it is better to employ the available funds than to pay 6 per cent on a loan. Strictly speaking, it is illegal to use future subscription money in the current season. Some organizations put such money in a savings account, to accumulate interest, and take out a bank loan to cover current deficits, thereby paying only a small differential interest rate.

standards. But for the individual performing group an income gap can mean the difference between life and death or, at the very least, between satisfactory and unacceptable standards of performance.

Here, then, is the financial problem of the performing organizations: the pressure that is imposed by the nearly universal financial gap, and the threat to quality which hangs over a group that incurs a significant and protracted deficit. In Part II we will undertake an analysis of the sources of these financial problems. The following chapter provides the analytic apparatus which will be utilized for this purpose.