

Baumol's Disease, the Covid-19 Pandemic, and the Theatre in America

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- This is a comparative presentation – USA and Russia.
- Dr. Ekaterina L. Shekova will present the situation in Russia.
- I will present the situation in the USA

In the USA, as of October 10th, there have been 45,198,005 cases of Covid-19 and 733,272 people have died of the disease.

The overall level of community transmission in the U.S. is high, but Covid-19 cases are now decreasing. The 7-day average of daily new cases is 95,448, a 11.6% decrease from the previous week.

This has, of course had serious impact on the performing arts.

With this in mind, we are reviewing Baumol's Law and the current state of the Theatre.

The Covid-19 Pandemic

What is Baumol's Disease?

The dynamic of slowly increasing productivity and rapidly increasing costs has created what Baumol and Bowen called the "income gap" and later "cost disease."

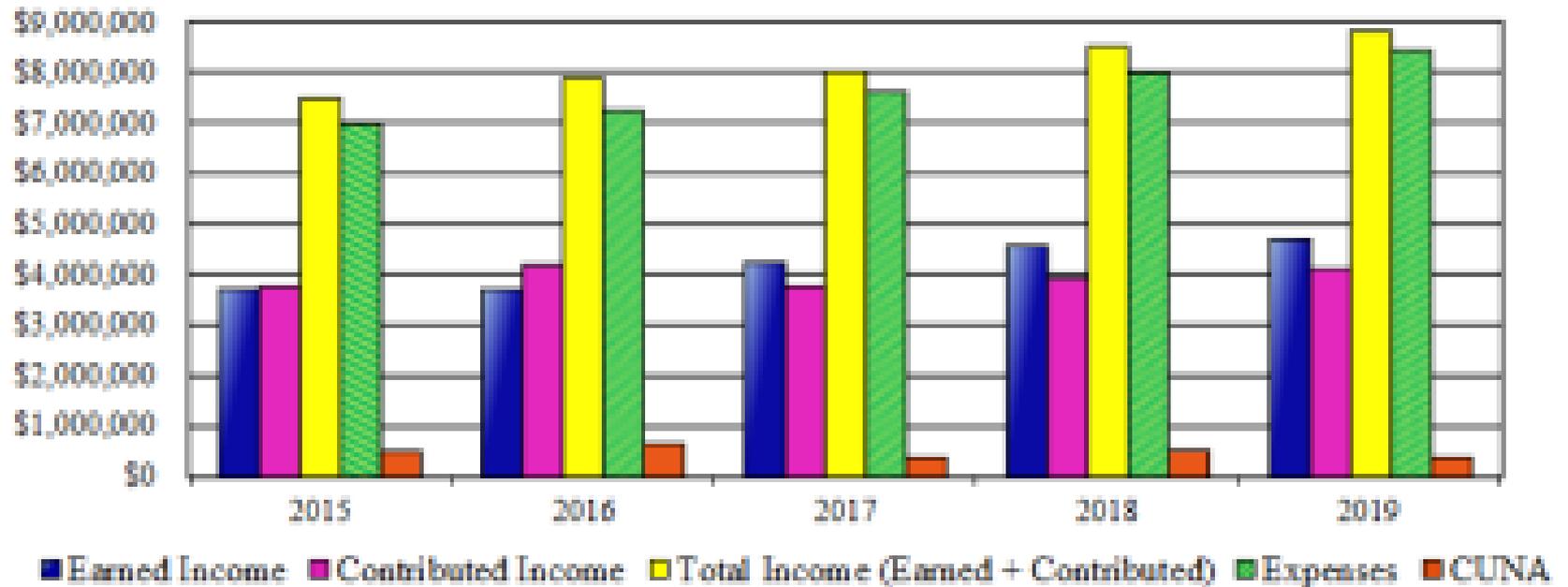
William J. Baumol and William G. Bowen:
Performing Arts – the Economic Dilemma
(1966 and new version 2012)

Further, these economists have suggested that “these financial pressures are here to stay, and there are fundamental reasons for expecting the income gap to widen steadily with the passage of time.”

The state of non-profit theater in the USA suggests that Baumol and Bowen were right when they wrote their book and are still right today.

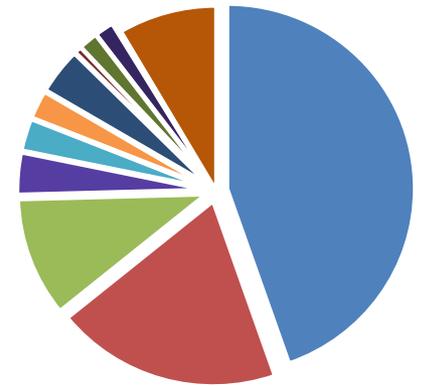
The Income Gap

TCG Trend Theatre Average Earned Income, Contributed Income, Total Income, Expenses, and Change in Unrestricted Net Assets (CUNA)



Income as a Percentage of Expenses with Earned Income Detail

- Contributed Income 52.7%
- Single Tickets 23%
- Subscriptions 12.3%
- Educational Outreach 4.3%
- Other 3.3%
- Endowment Earnings 2.9%
- Presenter Fees, Booked-In Events, Royalties, Advertising 4.7%
- Rentals 0.7%
- Production Enhancement 1.9%
- Concessions 1.9%
- Interest and Dividends 0.3%
- Capital Gains 0.1%



Earned Income and the Income Gap

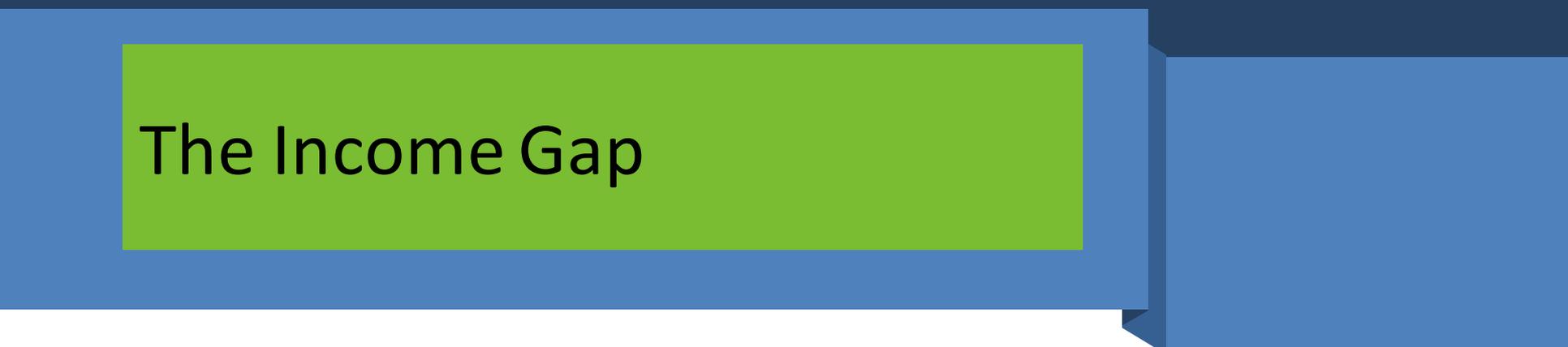
In the U.S., a distressing trend is the movement towards single ticket sales, rather than season ticket sales, as the largest source of earned income.

Still, despite an increased income gap, the overall income picture suggests that the theater in the USA continues to be healthy. (*Theater Facts, 2019*)

So, one reason why the “cost disease” is rarely life threatening to performing arts institutions in the USA is because these organizations have managed, to some extent, to control costs.

Moreover, if we look at the income gap over time, it appears to fluctuate – sometimes increasing and sometimes decreasing, but never going away.

But the Covid 19 pandemic changes the picture



The Income Gap

The Pandemic and Its Effect

Arts, entertainment, and recreation jobs in the USA dropped from 2.5 million to 1.2 million between February and April of 2020 (-53%). By January 2021, jobs rebounded to 1.7 million, and despite the appearance of the Covid-19 Delta Variant, jobs rebounded to 2.2 million as of August of 2021.

Still, Johns Hopkins University reported job losses of non-profit arts organizations remain 4 times worse than the average of all NGO's.

And, the U.S. Census Bureau reports that business in this sector will very likely take 6 months longer to recover from the pandemic than other non-profit businesses. (Americans for the Arts)

What does this mean for arts funding? As of July 2021, financial losses to the nation's nonprofit arts and culture organizations were an estimated **\$17.97 billion**.

99% of producing and presenting organizations cancelled events during the pandemic—a **loss of 557 million ticketed admissions** impacting both arts organizations and audiences.

Many Theatres have not yet reopened, and almost all now require proof of vaccination for admission.

What Does This Mean for Arts Funding?

And, just as it seemed that theatre attendance would return to normal, the extremely contagious Delta Variant of Covid-19 appeared, and the situation became worse. As of July 2021, 39% of organizations with in-person programming remained closed to the public.

The vast majority, however, expect to return to in-person activities in 2021 and despite the Delta Variant, many now have done so. 35% of arts attendees are already attending in-person programs (up from 17% in April) with an additional 33% expecting to do so by January 2022.

([AMS Audience Outlook Monitor](#))

What Does This Mean for Arts Funding?

As reported last year by Rich and Shekova, theatres have responded to the pandemic by rethinking their methods of presentation and offering outdoor and a variety of digital performances.

Currently, according to the current *AMS Audience Outlook Monitor*,

77% of organizations are currently delivering virtual content/programming.

Looking ahead, 29% indicate an intention to improve their online content, post-pandemic, while 18% expect to hold steady; 45% plan to reduce their virtual presence and 8% intend to discontinue it altogether.

What Does This Mean for Arts Funding?

What Does This Mean for Arts Funding?

One of the realities of the performing arts in the United States has always been the diversity of funding sources with strong dependence upon volunteer individual donors.

Closing the income gap through the generosity of *multiple* funders reduces the concentration of government power and the power of any single funder over the practices of a particular arts institution.

In the USA, the diversity of funding sources has continued during the Covid-19 pandemic. *Giving USA 2021* reports that in 2020 **Americans gave \$471.44 billion to charity, a 5.1% increase over 2019.**

What Does This Mean for Arts Funding?

However, giving to the arts and culture decreased 7.5%. This has put increased pressure on existing donors and on other sources of income to assure the financial well-being of the theatre and other art forms.

It has also put pressure upon government funding sources to assure the survival of theatre in the USA.

Government Funding for the Theatre

On March 11 of this year, President Biden signed the American Rescue Plan which includes funding for the National Endowment for the Arts to support organizations and jobs in the arts sector that have been impacted by the pandemic.

The \$135 million allocated for the Arts Endowment in this historic legislation represents a significant commitment to the arts and a recognition of the value of the arts and culture sector to the nation's economy and recovery.

Additionally, per the Arts Endowment's legislation, 40 percent of the \$135 million will be directed to regional arts organizations and state arts agencies to be distributed through their funding programs.

These funds and the 60 percent awarded directly by the Arts Endowment will not require cost share/matching funds from grantees. In addition to this, state and local arts agencies are also providing rescue funding.

Several lessons arise out of the data reported here. First, and most obvious, managers must pay increased attention to controlling costs and maximizing both earned and contributed income.

Both public funders and private donors pay close attention of the way in which arts institutions are managed, and the appearance of inappropriate spending can have serious consequences.

Further, managers in both the USA and Russia must seek to maximize income from donors and sponsors. Historically, the performing arts have had an advantage over other public sector agencies because of public support. Hopefully, as the Pandemic wanes, this strong position will return.

In Conclusion

Thank You Very Much
большое спасибо

Questions at the end of Professor
Shekova's presentation



Baumol's Disease and the Covid-19 Pandemic in Russia

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Baumol's Disease

- The rise of salaries in jobs that have experienced no or low increase of labour productivity, in response to rising salaries in other jobs that have experienced higher labour productivity growth.

(William J. Baumol and William G. Bowen published *Performing Arts – the Economic Dilemma*, 1966.)

The objective of the research

- To explore how the Baumol's Disease is applied in the performing arts during the Covid-19 Pandemic on the example of Russia.
- The basis of the research are theaters of different sizes.

The hypothesis of the research

- The Baumol's Disease works out differently according to the size of the performing art organizations.

The methodology of the research

- is based on the financial statistics analysis available in the public sources and theatre financial reports in Russia.

The theoretical framework

Cost disease for personal services (Baumol, 2012), price elasticity (Rubinstein, 1990), low productivity rates in the performing arts (Dymnikova, 2000), higher subsidies for the arts (Abbing, 2005), etc.

Covid-19 Pandemic and Theaters in Russia

- Revenue challenges
- Decrease of Income
- Development of new activities
- Digitalization of the arts product
 - New sources of funding

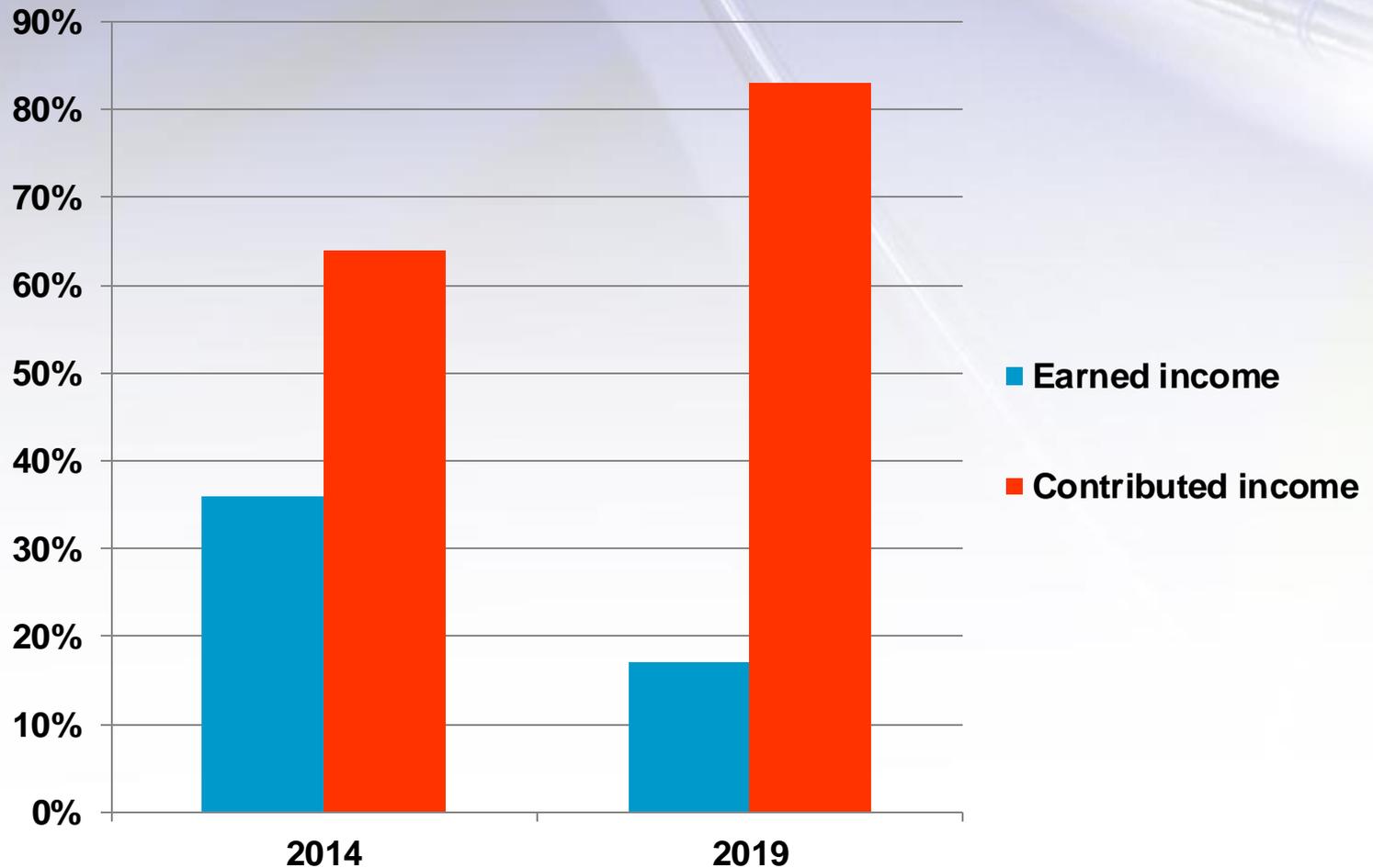
Digitalization of the arts products

- Online visits of theaters, virtual gallery tours.
- Zoom meetings and discussions with art directors, actors, musicians, dancers.
- Distance studies in the performing arts.
- Live stream events.
- Live virtual music concerts, internet theater performances, plays, dances.

Digitalization of the Arts Products and the Baumol's Disease

- Increase of the expenses of the theaters
- Difficulties in introducing the payment for digital arts products
- Raise of the income gap in the theaters.

Earned vs Contributed Income for Theatres in Russia



Salaries Rate in the Arts Compared to the Average in the Economy in Russia

1940	1960	1985	1990	2014	2019
92,7%	70%	69,1%	62%	60,6%	54,7%

This is an example of treating Baumol's disease at the expense of the artist.

Baumol's Disease and Pandemic

- Small and medium-sized theaters have an extreme income gap and low financial support.

Baumol's Disease and Pandemic

- Large theaters have more opportunities in developing new activities, applying the digitalization, e-commerce, virtual membership, and raising funds. As a result, less income gap.

Conclusion:

- During the pandemic the large theaters have a better financial position thanks to the successful digitalization practices and raising funds from the government and other sources.
- Small and medium-sized theaters have an extreme income gap and less opportunities in raising funds.

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- Thank you for your attention