

A Consumption Base Theory of Development:
An Application to the Rural Cultural Economy

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Abstract

Export base theory—that overall growth is a function of external sales—dominates economic development practice. But the consumption base can also serve as a growth driver. Communities can make investments that will induce residents to divert expenditures into local purchases, attract new and footloose residents and tourists, and revitalize aging town centers. I present the analytics for a consumption base theory and demonstrate how cultural investments prompt growth. Elements of rural cultural strategy are reviewed, emphasizing the role of artists as leaders and arts councils as community facilitators.

I. Intro and Summary

Regional economists have long embraced an export base theory of growth and development, positing that the size of a local economy is constrained by the size of its economic base, or its ability to export output to other regions. The theory has been used for regions of all sorts, from large metropolitan areas to small towns and agricultural communities. In this paper, I argue that the consumption base—that portion of local economic activity that is sold to local residents—can also serve as a growth sector. I critique export base theory conceptually and empirically, showing that many quantitative studies do not confirm a causal relationship between export base expansion and overall growth. I explain why adding local consumption-serving economic activity might create more jobs and tax capacity. For rural communities, where economic survival is particularly tough and spending on industrial recruitment has often had disappointing results, incentives for consumption activities such as health care clinics, retirement communities, casinos, and cultural centers offer an alternative path for growth and stability.

For rural areas, cultural facilities and programming provide a particularly vibrant form of locally oriented growth potential, for several reasons. First, residents may divert expenditures they would have spent on other forms of consumption elsewhere into local purchases that in turn support other local incomes. Second, they may attract relatively footloose artists who bring their own export sales (or grant-getting abilities) with them in relocating to the community and who may bring new ideas and creativity to the region. Third, if successful in the local market, they may begin to attract tourists to the locality.

Fourth, if located in historic downtowns, they may revitalize main street and spur other retail investments and arts-unrelated visits.

Through a set of case studies of small towns and rural areas in Minnesota, I show how three types of investment in physical capital—artists' centers, artists' live/work buildings, and performing arts centers—have increased local spending, attracted artists as residents, and eventually drawn in consumers, mainly from surrounding areas. Actions that rural areas can take to develop a cultural strategy are reviewed, emphasizing the role of artists as leaders and arts councils as community facilitators.

II. Theory: Turning Export Base on its Head

The prominence of export base theory unduly restricts strategies for regional economic development for both urban and rural cases. In this section, I argue that economic base theory is neither theoretically nor empirically as powerful as practitioners generally believe. I offer a consumption base alternative theory, laying out the rationale for increments in locally-oriented consumption activities as growth drivers. I demonstrate the mechanics of the model with a hypothetical example.

A. The Debatable Primacy of Export Base Growth Theory

In economic development, economists and practitioners have long treated the export base as the engine of development, for spatial units as large as national economies and as small as tiny rural towns. Ever since Douglas North's (1955) elegant statement of it, indebted to Harold Innis' (1930) staples theory, the export base argument goes more or less as follows. In a trade-integrated world, regions outside of one's own are superior

producers of many goods and services locally consumed, and in order to be able to pay for these imports, the region must specialize in certain exportable goods and services. In the mid-20th century world, with its sophisticated globe-transcending transportation systems that reached far into little hamlet everywhere, the power of this theory was manifest, especially in rural areas. Mining towns became ghost towns once their singular export was tapped out. Farm communities, despite exporting ever more quantities of agricultural produce, could not find jobs for residents made redundant by huge gains in productivity. Economists codified the theory into the economic base model, ubiquitously used even today in multiplier analysis.

Nevertheless, from the beginning, the theory had its critics. In his famous debate with North, Charles Tiebout (1956) pointed out an obvious logical flaw in the theory: the world economy as a whole does not export. In addition, a regional economy's ability to provide for itself increases as its income from exports grows, resulting in import substitution. Tiebout also argued that people have different consumption patterns in different regions, complicating the model's application. But more importantly, Tiebout argued for an endogenous theory. Harkening back to Adam Smith, he posited that an elaborating internal division of labor could spur regional growth without export growth. His theory was brilliantly applied by Diane Lindstrom (1978) in her famous book on the early Philadelphia region, where she showed that a relatively autarchic region grew robustly from growing synergies between diversified farming and more urban manufacturing industries.

Subsequently, practitioners of economic development vigorously debated and experimented with import substitution and export-based strategies for regional and

national development, especially in the developing world. Many industrialized countries, among them the US and Japan, nurtured their early industrial economies behind large tariff barriers and succeeded in important substitution on a massive scale. In the 1970s and 1980s, Latin American countries in particular tried to follow this path. Import-substitution strategies have been recommended for rural US areas as well (Rasker, 1995; Lindahl, 1994). But the apparent failure of import substitution in the postwar period in Latin America brought an emphasis on export base strategies back into fashion.

Yet the evidence on the relationship between output growth and export growth is far from established. In recent decades, economists working in international development have begun to question the lead role of exports in explaining GDP growth for both developing and developed countries. As early as the 1960s, Ball (1962) argued that export expansion could retard domestic development by siphoning off investment. Others have argued that exports may be a consequence rather than a cause of economic growth. In a number of carefully constructed empirical tests, scholars find mixed evidence on both the existence of a relationship and the direction of causality. Jung and Marshall (1985) find that for 37 developing countries, evidence on the period 1950-81 supports the export promotion thesis in only four cases; five countries reduced exports with growth, while four countries experienced export growth with output reduction. Ghartey (1993) finds that export-driven development appears to explain growth in Taiwan but not Japan or the US. In a five-country study, Sharma, Norris and Wai-Wah-Cheung (1991) find that Japan and Germany experienced export led growth from 1960 to 1987 but in the US and the UK, output growth appears to have induced export growth. There is thus room to explore alternative theories of regional growth, including the possibility that changes in consumption patterns can drive employment expansion.

B. Elements of a Consumption Base Growth Theory

Small rural areas have been constrained in their development strategies by the heavy hand of export base theory. Incentives have been focused principally on wooing manufacturing plants, inducing further local processing of resource-based commodities, and attracting tourists. In some places, these efforts have borne fruit, but many others have little to show for them. Unwarranted focus on exports produces lopsided strategies that fail to consider other sources of growth. In this section, I lay out the argument for the local consumption base as a source of income and growth, working through recent tourism and retiree contributions to make a more general argument about the potential for re-shaping consumption practices of existing residents and using the case of the cultural sector as an example.

The export base theory is a highly stylized formulation. Before tourism became acknowledged as an important source of income and employment, the theory conceptualized exports as consisting principally of raw materials and manufactured products physically sold to producers and consumers in other regions. In the 1980s, as resource exhaustion, tremendous gains in agricultural productivity and industrial restructuring revealed the limits to such strategies, economic developers began extending the economic base conception to include services, especially tourism. The spectacular growth of Las Vegas in the 1980s, still in the 1990s the fastest growing US metro, suggested that visitors coming to consume services locally, bringing their dollars from elsewhere, could be considered a type of economic base activity. But it could just have easily been conceptualized as local consumption—indeed, tourism scholarship stresses

the joint consumption of local entertainment (gambling, music, theater, sports, and other attractions) by visitors and locals alike (Fainstein and Gladstone, (1999). Tourism has received attention in rural areas as well (English, Marcoullier, and Cordell, 2000).

The export base formulation has been further stretched by its application to retirement migration. The Social Security legislation of the 1930s de-linked retiree support from family structures and communities wherein retirees had earned their incomes. Since then, many cities and smaller rural towns have grown dramatically by attracting retirees, drawn by environmental features and lower costs of living (Nelson, 1997; Vias, 1999). A rural economic base model created by Nelson and Beyers (1998) includes non-earned income and assumes that it is exogenously derived. In one recent master's thesis, the retiree sector is modeled explicitly as a portion of the economic base (Nesse, 2006). Nesse points out that unearned income--rents, dividends, transfer payments (including social security and medicare-- , i.e. non-wage and salary income) now comprises 60% of non-metropolitan income in the US, compared with 49% in metro areas (Nesse, 2006, p. 2). In Nesse's formulation, rather than conceptualizing retirees' incomes as imported into the community, employment attributable to retirees' local consumption is seen as exported to savings accounts and government coffers elsewhere. From a policy point of view, the significance of investments in the quality of locally consumed goods and services (health care, housing, amenities, culture) is more clear if retirees are anticipated to be drawn to such features rather than treated as asset- and entitlement-rich individuals to be recruited without regard to local quality of life.

Very few theorists have treated local consumption sectors as a source of longer term growth and diversification, although Jane Jacobs' (1984) vision of early urban

development contains the seeds of such a view. A recent study by Cortright (2002) makes the case for distinctive local consumption as a source of growth, probing the case of specialty breweries in Portland as an example. Cortright's causal argument involves the innovative potential of such activities. In his brewing example, Cortright argues that micro-breweries' experiments for the local Portland market (flush with avid beer-drinkers) eventually created quality brews that found an export market. Yet once again, local consumption is here important only for its facilitative contribution to new products for the export base.

But suppose that local consumption patterns change in favor of locally-produced goods and services, causing an increase in local employment without any augmentation in the economic base? Import substitution theorists always assumed that consumption tastes and preferences were fixed; the strategy sought to replace imports with similar goods and services produced locally. In the cultural sphere, import substitution could be conceptualized as meeting latent demand for new types of goods and services—demand that would be effective if the opportunity to participate were offered.

But it is quite plausible that consumption patterns may change to favor locally produced output, and such changes might be susceptible to policy influence. In recent work on changing employment patterns in large US metro areas, Markusen and Schrock (2006b) found that local consumption-related occupations increased their share of total metro employment across the board, quite dramatically, in the 1990s (Table 1). If import penetration is relentlessly increasing, as globalization advocates suggests, then export base of a relatively open regional economy, especially for smaller towns, should be forced to specialize more than ever before, increasing the share of jobs attributed to

exports. Markusen and Schrock attribute this contrary finding to several factors: changing family and work patterns that increase demand for previously self-provided family goods and services; the aging of the population and new medical techniques, which have dramatically increased the demand for health care and home care; increasing and job-displacing productivity gains in export-based sectors; and low pay and low productivity in many local consumption sectors, creating more jobs per sales than in the more competitive, traded sectors.

Local leaders can increase employment in their rural economies by providing better consumption opportunities locally that will then alter the consumption patterns of residents and result in a form of import substitution. Others have argued for a focus on the local consumption base in rural areas, but chiefly by emphasizing import substitute in retail and services. For example, encouraging the construction of a local nursing home or senior apartments can stem the out-migration of the aging to other communities. Fostering local health care clinics can achieve the same result, raising demand for related retail such as pharmacies (Wenzl, 2003). My argument regarding culture goes further than this. It poses the possibility of policy-induced changes in the consumption basket mix. Providing better local cultural and entertainment opportunities for people can divert the consumer dollar from expenditures for travel elsewhere or trips to large shopping malls to buy imported goods in favor of local expenditures.

The insight that changes in local consumption patterns can dramatically spur small town development has come to me over the years in observing a Native American casino near my family home in northern Minnesota. Originally built on an interstate freeway between the Twin Cities and Duluth, and aimed at tourists, the Fond Du Lac

casino chiefly attracts non-Indian people from the surrounding counties who enjoy the activity, sociability, and good food available, an alternative to the sour-smelling bars and greasy spoon restaurants in their communities. People who would otherwise drive farther, to Duluth for instance, to spend their discretionary incomes on purchases of durable goods like TVs, new cars, and other household items, are instead deferring consumption of such imports to spend time at the casino multiple times a week. They may not spend much per visit, but it adds up. With their profits, the Fond du Lac Ojibwe tribe has built a beautiful community college (that serves both Indians and whites), a K-12 school, and a community center; is diversifying into gas stations; and is buying up land the reservation lost in former decades to questionable land deals. The casino, a labor-intensive activity, has provided jobs for many people, Indian and white.

A final point about the consumption base as a source of employment and income growth concerns the size of the associated multiplier, or what I call the labor intensity corollary. Export base theory assumes that the same multiplier applies to all basic activity, regardless of sector. But many locally-consumed services such as health care, home care and live entertainment (less so, new housing construction) are very labor intensive. A large portion of the consumer dollar spent on these activities goes directly into local wallets. Compared to expenditures at a shopping mall or for a new home, which must cover large increments of imported goods and services, some locally-provided consumption activities employ more people and possess a larger multiplier effect. A crucial assumption is that the shift toward arts and cultural consumption locally does not come at the expense of other local purchases (the opposite of assumptions made

in analyses of sports stadia in metropolitan areas by economist critics (e.g. Noll and Zimbalist, 1997).

This insight is an analogue to a hypothesis consistent with an anomaly found in the literature on employment effects of minimal wage hikes (Markusen, Ebert and Cameron, 2004a, 2004b): despite the predictions of microeconomic models that a higher minimum wage will result in lower employment, in every case of either national or state increases over the past two decades, economists have not observed a decline in employment, all other things accounted for. The market model fails to take into account the specific consumption behavior of low wage workers, who spend most of their wage increments quickly and locally, creating new demand that makes up for the slight negative movement back up the conceptual demand curve. Kendall and Pigozzi (1994) found that rural residents have a high propensity to spend non-employment income locally, though they do not address the labor-intensity of the local activities where spent.

C. The Mechanics of the Argument

These arguments turn the economic base model on its head. In conventional export base model, local consumption-related employment is assumed to have a fixed relationship to total employment and thus to export employment as well, generally (though not theoretically necessary) conceptualized as a linear relationship:

Simple Export Base Model

$$E = E_X + E_C$$

where E_X : export-related employment

E_C : local consumption-related employment

E : total employment

and

$E_C = f(E) = \alpha E$ where α is an estimated parameter

and combining:

$$E_X = (1-\alpha)E$$

$$1/(1-\alpha)E_X = E$$

Multiplier: $1/(1-\alpha)$

Estimated total employment growth given export growth anticipated:

$$\partial E = 1/(1-\alpha) (\partial E_X)$$

If the second equation in this two-equation model is discarded, i.e. if local consumption-related employment is not a function of total employment, but a variable given local investments in infrastructure and migration subsidies, the reduction to a simple export-based multiplier is impossible. In this case, an increase (or decrease) in employment could result from either endogenous changes in tastes and preferences for locally-produced versions of imported goods and services or changes in the demand for exports. An increase in export-based employment could still cause additional local consumption-related employment, but total employment growth is no longer reliant on exports alone:

$$\partial E = 1/(1-\alpha) (\partial E_X + \partial E_C)$$

and the size of the multiplier will increase over time.

A cultural example that anticipates the argument in the following section of the paper will demonstrate. Suppose that in a rural county with 5,000 employed, the economic base is estimated conventionally to consist of 2,500 jobs, yielding a multiplier of 2.0 (Table 2). A very small arts and entertainment sector might employ 50 people—church music directors, commercial artists, website designers, dance and piano teachers, piano tuners and self-employed visual artists and

writers. The sector is assumed to be local-serving because its location quotient is low (as we shall see), although this is not a reliable general rule, since extraordinarily high numbers of artists are self-employed. A five-year increase in export employment of 250 would presumably create 250 jobs, 5 of them in the local-serving arts and entertainment sector.

If, however, the county attracted fifteen artists to take up residence, by offering artist/live work space cheaply (as Paducah, Kentucky and Fergus Falls, Minnesota have), and if the creation of local arts facilities and events created the equivalent of ten additional jobs for local artists and related workers, an additional 25 jobs would be added to the local-serving sector. (Even though the in-migrating artists may wholly export their work elsewhere and should be considered increments to the export base, their numbers will not be able to compensate for a relatively low location quotient that continues to allocate this sector to the local-serving category). In turn, these twenty-five new arts and entertainment jobs will generate additional demand for local consumption goods and services. By applying the initial multiplier to these additional 25 jobs, we add another 25 jobs on the consumption side, for a total increase of 300 local-serving jobs, or 50 more than expected. In the latter year, this results in a tiny increase in the size of the multiplier as well.

III. Application to the Rural Cultural Sector

Acknowledging that non-wage income matters, that amenities help to attract retirees as well as tourists, and that tastes and preferences can be shaped by community culture and offerings, opens the possibilities for new local consumption-based types of economic development activity beyond the attempt to attract businesses that export goods

and services elsewhere. The rural landscape is littered with costly public investment in business and industrial parks that remain underutilized or vacant. Rural development vision is continually constrained by looking only through the export base lens. Wenzl (2003) compiles a devastating case against the types of export base subsidies that have been used in rural Washington for the past two decades. The movement for reform of export base subsidy competition is growing in the US, as results are disappointing and the logic of such subsidies increasingly questioned (Markusen, 2006b).

Shoring up and expanding local consumption activities, whether for-profit or not-for-profit, can be a viable economic development strategy for rural areas. Investments in local health care facilities, including clinics and nursing homes, and senior housing can help to retain residents, attract new ones and ensure the health care and housing expenditures are partly recycled locally. Supporting local stores that emphasize local produce (e.g. organic meat and vegetables from nearby farms and farm-produced honey, jelly, wines) increases the multiplier of local consumer spending. Casinos capture resident consumer dollars that would otherwise likely be spent outside the region. Fighting for the retention of a rural school and creating day care, pre-school and after school programs can keep local property tax dollars going to local teacher and caretaker salaries.

A. Why Culture?

Cultural activities can add to this consumption base. Performances of theater and live music, shows of locally-created visual art, and readings of poetry and creative writing can generate modest revenues to generate increments to local income. Many rural

communities have under-utilized physical assets, such as shuttered theaters, closed schools and churches, and abandoned commercial buildings that can at very little cost be revitalized as artist housing or studio space and as community performance and gallery spaces. They bring people into older downtowns and generate street use and patronage of neighboring businesses. Such cultural spaces and programming contribute to community welfare in many non-economic ways as well—broadening horizons, addressing difficult community issues through artistic expression, offering the artistically inclined an outlet for their talents and desires, integrating newcomers with existing community members, and adding humor and camaraderie to community life.

Many rural communities, some showcased below, have invested in new cultural spaces as a way of revitalizing small town centers and inducing local consumption activities that draw people together and make the community a more attractive place to live and do business. Eventually, some succeed in modest tourist attraction, although generally not until local residents have embraced the new activities and patronize them continually. Even then, many "tourists" are residents of surrounding counties within an hours' drive. Nevertheless, they succeed in capturing consumption dollars that otherwise would have drained out of the region.

B. The Key Role of Artists

As with the general bias towards capital investments rather than human capital, cultural investments can mistakenly be viewed as simply a bricks and mortar affair. But my review of successful rural cultural developments in the state of Minnesota suggests that artists, as the key occupational group in the cultural sphere, are key to the success of

rural cultural development strategies. Artists are important as rural residents, exporters of their work to other regions (thereby bringing income into the community that is spent in part locally), and catalysts for community arts activities.

Artists are an unusual occupational group in that they have very high rates of self-employment. Nationally, 39% of musicians, 50% of visual artists and 68% of writers are self-employed, compared with 8% of all Americans in the labor force (Table 3). In rural areas, the rate is even higher. Because of this, artists are relatively footloose and can choose where they wish to live and work. Writers and visual artists, because they tend to work by themselves, are more likely to live in rural areas than performing artists and musicians. Of course, artists disproportionately choose to live in larger cities, especially at young ages. However, a study of 1995-2000 Census net migration patterns comparing rural Minnesota and the Minneapolis/St. Paul metro area (Twin Cities) showed a remarkable life cycle pattern of movement back and forth from rural to urban and back again (Markusen and Johnson, 2006). In age cohorts 16 to 34, artists were net leavers of greater Minnesota, while the Twin Cities made net gains. Between the ages of 35 to 44, however, and again for those 65 and over, greater Minnesota had large net gains while the Twin Cities lost ground (Figure 1). Thus artists in mid-career and retirement stages of their lives are attracted to rural settings. Indeed, artistic densities in some rural regions of Minnesota were higher than in large swaths of suburbia around the Twin Cities (Markusen and Johnson, 2006: Figure 2). This suggests that efforts to attract artists back to rural areas and small towns may work, especially if targeted to those who have already completed their training and achieved visibility.

Why might artists favor small town and rural areas as places to live and work? Elsewhere, we hypothesize why artists might favor larger cities (Markusen and Schrock, 2006a). There are countervailing pulls on artists, however. For one, land and studio space is much more affordable. For another, rural areas often have vintage architecture – old farmhouses, older industrial buildings or warehouses, sometimes on rivers, aging commercial buildings and empty churches – that appeals aesthetically to artists. Some artists seek the isolation of rural areas, as a place to think, write poetry, paint, or compose music. Some are drawn to the sense of community that they believe is more accessible in rural areas. Some are attracted by active efforts of town leaders to welcome and provide space for them, as in Paducah, Kentucky's successful offer of artist live/work buildings to artists who would move there. Finally, small communities are the home of artists who already live there—people who have always created art work as an avocation, or have taken up art forms in the course of their lives.

An emphasis on artists as key actors and catalysts in rural areas reflects a new emphasis on occupational targeting in economic development practice. For decades, economists and planners have envisioned regional economies as consisting of firms and physical plants, organized into industries. In recent years, researchers have emphasized human capital as a complement to physical capital in economic development (Mather, 1999; Markusen, 2006a) and have argued for conceptualizing and measuring regional employment occupationally as well as industrially (Thompson and Thompson, 1985; Feser, 2003; Markusen, 2004).

C. Rural Artistic/Cultural Space Investments

As examples of the types of investments in artists and cultural space that have paid off for small towns and rural areas, I here summarize the experience of several among dozens of rural communities in Minnesota that have created artists' centers, artist live/work buildings, and performing and visual arts spaces. The examples are drawn from several state-wide qualitative studies (Markusen and Johnson, 2006; Cuesto, Gillespie, and Lillis, 2005) and a study of Lanesboro, Minnesota (Borrupt, 2006). In passing, other recent case studies of rural arts activities as catalysts are noted.

1. Artists' Centers

An artists' center is a dedicated space where artists can periodically convene to find training, space and equipment to work, feedback from peers and mentors, and opportunities to present their work and interact with audiences (Markusen and Johnson, 2006). Artists' centers may be exclusive, with either ability to pay or expertise used as gatekeepers, but many artists' centers are by definition open to all comers without screening requirements and at very modest membership fees. In larger cities, such centers may be dedicated to particular artistic media, such as the Twin Cities' Loft Literary Center, Playwrights' Center, Textile Center, Northern Clay Center, Minnesota Center for Photography, and Highpoint Center for Printmaking. But in smaller towns, artists' centers tend to serve all disciplines and to enable more intimate encounters between artists and art lovers. They may also serve as performance or visual arts centers for the community.

The New York Mills Regional Cultural Center is an outstanding example of such a center in a very small, remote town (Markusen and Johnson, 2006: 91-94; Cuesta, Gillespie and Lillis, 2005: 36-40). In the late 1980s, visual artist John Davis moved to an abandoned farmhouse outside of New York Mills, a declining Finnish farming community three-and-a-half hours northwest of the Twin Cities. He started an artist's retreat, believing that visiting artists would bring creative ideas into the region while the idyllic rural atmosphere would enhance their work. Davis then sought out "the artist in every person in the county" in a campaign to convince community leaders, the city council, and a local landowner to renovate an 1885 brick building on Main Street as the New York Mills Regional Cultural Center that opened in 1992.

Today, the center hosts six to eight gallery exhibitions a year, some showcasing emerging local artists or historic community photos, and many performances. Visiting and area poets, authors, and storytellers share their work through readings and workshops. Traveling theater, music, and dance groups perform in the gallery. The center helps artists overcome the disadvantages of being far from a major city. A monthly forum brings together area artists to network and critique each other's work. In addition, the center works with other organizations to educate artists about the business side of the arts. Visiting artists offer such events as jazz improvisation workshops, build public sculptures with community members, and interact with community youth. People travel from miles around to attend events and participate in workshops, spending money locally.

The New York Mills Cultural Center now acts as a community and tourist hub. A tractor emblazoned on the New York Mills water tower heralds "cultivating the arts." By 2000, the tiny town's population had grown to 1,200, twice its pre-center size. Between

1992 and 1997, 17 new businesses opened and employment increased by 40%. The downtown landscape has changed dramatically, with a new medical clinic and renovated storefronts replacing the abandoned buildings.

2. Artists' Live/Work Buildings

Artists have special housing needs. Self-employed, many of them work at home and require spacious areas to perform or build structures, special rooms for storing materials, dark rooms, or sound-proofing for musical practice. And, such spaces need to be affordable. Over the years, many older industrial buildings in major cities have been converted into artist live-work spaces, but very few have been developed in rural areas.

Fergus Falls, Minnesota, a town of 13,000 180 miles northwest of the Twin Cities, opened a ten-unit mixed income artist live/work building in 2004. The building, the mainstreet Hotel Kaddatz, built in 1915 and operated until 1970, was renovated by Artspace, a Twin Cities' non-profit arts developer, after a local theater artist and now Director of the town's Center for the Arts, Rebecca Peterson, convinced city political and business leaders that such developments could reverse their declining city center as businesses moved to frontage roads along the Interstate. Peterson faced skepticism. The head of the Chamber of Commerce claimed that people in Fergus Falls were not interested in the arts-- "they're interested in hunting and fishing." Although he told her he wasn't interested in the arts himself, she pointed out that he sang in a barbershop chorus and his church choir. Peterson concluded, "People do support the arts...they just don't know it" (Cuesta, Gillespie and Lillis, 2005). The renovation, at \$2.4 million, generated an estimated \$2 million in revenues for local businesses. On its completion, ten artists

who are new to the community moved in, and their basement floor gallery will complement the Center for the Arts that operates out of a renovated movie theater (Cuesta, Gillespie and Lillis, 2005: 32-33).

This Minnesota case is a smaller-scale version of an initiative in Paducah, Kentucky, a city of 27,000, where nearly 40 artists have moved in to transform a beat-up area of Lowertown homes into a blossoming art colony. Paducah literally gave away many of the tax delinquent or abandoned properties and also offered artists relocation incentives, including bonuses for landscaping and architect fees, generous fixed-rate loans from the local bank, discounts on building materials and friendly zoning changes. City officials estimated that the relocation program pumped an extra \$12 to \$15 million into the local economy in 2003 alone, much of it to local contractors and trades-people (Conklin, 2004).

3. Performing Arts Spaces

Many smaller towns have refurbished old theaters, churches or schools as performing arts (and sometimes visual arts) centers. A pioneering example is the tiny town of Lanesboro, Minnesota, population 788, two hours south of the Twin Cities. A farming and agricultural processing town (flour mills, canning factories), Lanesboro's population peaked around 1920 at 1,500 and reached a low of 600 after World War II and remained in that range for a half century. In the 1980s, citizens formed a Lanesboro Art Council and bought an old theater space, the St. Mane, on the virtually abandoned main street for \$5,000, at first producing community events on a voluntary basis. They then convinced a native artist, Eric Bunge, away at graduate school in Denver, to return and

start a theater company. The professional, non-profit Commonweal Theatre Company opened in 1989 with an eleven-week summer season. By 2004, it operated an eleven-month season with full-time staff and eight hundred subscribers, more than the town's population. One third of its audience is local, another third within a sixty-mile radius, and the final third from cities two and three hours away (Borrup, 2006).

As the theater began to draw from a larger catchment area, the Council added new arts facilities to the mix. In 1994, it opened the non-profit Cornucopia Art Center on Main Street, hosting exhibits and gallery sales of local artists. It won funding for a national Artist in Residency Program, bringing four to six artists to town annually to make new work and engagement the community. Currently, the community supports a music festival and an art-in-the-parks program and is advertising for visual and performing artists, musicians and writers, and other self-employed people to move to the town. By 2005, sales at the gallery were generating \$12,000 a month, and the theater company's revenues were \$200,000 a year. Thirty-eight of forty downtown storefronts were in full use by 2004—in the mid-1980s, thirty-eight were vacant.

A more recent performing arts center, the Jon Hassler Theater, hosting a professional theater company of that name, was added in the later half of the 1990s as a centerpiece in the effort to revitalize downtown Plainview, Minnesota, a southeastern town of 3,300. The complex houses the Theater, a Rural America Writers' Center and the Plainview Area History Center in two adjacent buildings that were once an International Harvester implement showroom and an old church. The Hassler Theater has sponsored a summer playwriting workshop for teenagers, and in early 2005, a community theater group used the Hassler as a performance venue for the first time (Shifferd, 2005).

Performing arts facilities elsewhere have played a similar catalytic role for smaller towns and communities. In Blue Lake, California, a town of 1,200, the Dell-Arte Company has built a School of Physical theater that runs an MFA program and summer workshops, the Mad River Festival, an Education through Art program. It includes a 114-seat theater and shop space, studio space and library space that can be rented out to others in the community, and partners with local schools and colleges, credit unions, food coops and Native American and Latino centers (Leonard and Kilkelly, 2006). The professional ensemble Roadside Theater in Whitesburg, Kentucky, population 1,600, is another unique performing arts center. Founded in 1975 to focus on work that expresses the history and culture of Appalachia, it nurtures new work, offers workshops, tours plays, provides performing artist residencies, publishes books and supports community-developed plays (Leonard and Kilkelly, 2006). Both these performing arts centers have brought economic and cultural benefits to their communities.

These examples have much in common. Each was spearheaded by an artist, and most of these artists were newcomers to the region or returnees attracted back. Local citizens creating arts organizations or councils were often important sources of moral and economic support, and helped to bring city and business leaders around to making financial commitments. The cases all demonstrate the blurred boundary between export and local production. Although some of these communities characterize their cultural earnings as "tourism" and thus economic base activities, most patronage and expenditure actually comes from quite close by. These cultural facilities and programming have played a catalytic role on older downtowns in all cases. Regrettably, none of the authors of the case studies do a careful accounting of the size of investments and the rates of

return over time—evidence of success is inferred from population growth, downtown revitalization, revenue growth of the presenting organizations, and the in-migration of artists.

IV. Implications for Economic Development Policy and Practice

The consumption base potential for stimulating longer term growth is considerable for communities of all sizes – large urban areas, small towns and rural places. I have theorized how investments in consumption base increments can help to recycle more existing income locally, creating jobs and tax capacity. Often, such investments have longer term payoffs because they attract new types of residents to town – both those who produce the activity and those who prefer to consume it. In this paper, I have used local cultural activities, reliant above all on local patronage, as a case study. Cultural activities, unlike some of the other types of consumer services such as health care clinics and nursing homes, have the potential to draw tourists also. And to the extent that footloose artists are attracted to the community as a residence, they bring in export income from their sales on the web, through national and international marketing, and by traveling to perform or sell at art fairs elsewhere.

Several types of initiatives can be taken by small and rural communities to nurture the cultural sector, even very tiny communities far from major population centers. First, investments can be made in refurbished or new cultural spaces that host artists and engage audiences. Older downtown or riverfront buildings are often ideal for this because they have almost no alternative use and are thus cheap, even considering the cost of refurbishing, and they often have historical and aesthetic value. Communities can identify

and inventory existing assets that might be used in this fashion, including schools, colleges, churches, vacant industrial or warehousing buildings with character and space, especially those with powerful desirable spillover effects on activity in the immediate neighborhood.

But buildings alone are not enough. Investments must be linked to cultural programming that is both unique and tied to the communities' interests. Identify, and recruit from elsewhere if necessary, artists and other art lovers to provide leadership individually and as an arts council. Develop a strategic plan that envisions a unique cultural identity, consonant with the character of potential space and the likely tastes and preferences of the community. Reach out to everyone in the community, as John Davis in New York Mills and Rebecca Peterson in Fergus Falls did, to find the artists and art lovers and counter skepticism. Welcome newcomers with new ideas and energy. Search state, regional and private sector sources for funding for residencies and rehab moneys. Encourage (require) artist interaction with community as a return on investments you make in them. Provide technical assistance and marketing support for artists, art entrepreneurs and ensembles hoping to achieve success.

A culturally-based economic development initiative should be tailored to build on existing commercial and industrial economies. A new arts center on the interstate frontage road may not be as good an investment as a downtown refurbished building that brings people into the heart of town and enlivens local cafes and retail businesses. Link a cultural initiative with the notion of arts as amenities, often in tandem with environmental amenities (Lanesboro and Plainview, for instance, are both on gorgeous and well-traveled

bike trails). Such amenities help local employers attract and retain good workers and draw artists and retirees to the area with their income streams.

Much more empirical work needs to be done to evaluate and compare industry-focused economic development initiatives with occupationally-based initiatives, and export base with consumption base strategies. Quasi-experimental methods could be used to compare longer-term trajectories of communities that invest in consumption base cultural strategies with those that do not and those that use their resources for alternative investments (Isserman and Beaumont, 1989). Until then, we are stuck with case studies and an apparent rapid rise in rural interest in culture as evidence of interest and effectiveness. Nevertheless, the proliferation of small communities that are pinning their hopes on new cultural investments for a largely local consumer base suggests that disappointing results with industrial recruitment are driving them to innovate in a surprising new direction.

In a recent study of the determinants of small and medium-sized city growth, the model includes the usual industrial structure variables, an education measure and four quality of life measures – temperature, precipitation, burglaries and larcenies, but no mention or measures of cultural activities (Erickcek and McKinney, 2004). That is not unusual for regional economic models. Perhaps a new generation of models will improve on this score.

Table 1. Occupational Localization, 50 Largest US Metros, 1980-2000

Occupational group	Index COL	% Change 1980-2000	E Growth 1980-2000	US Employment 2000
Economic base occupations (Index COL > 1.75)			10%	22,889,810
Farming, Fishing, and Forestry	3.26	23%	-37%	954,755
Life, Physical, and Social Science	2.36	20%	36%	1,203,513
Computer and Mathematical	2.35	20%	316%	3,162,637
Legal	2.01	-12%	112%	1,423,337
Arts, Design, Entertainment, Sports, Media	1.94	3%	61%	2,477,332
Craft and Assembly Production	1.85	20%	-17%	11,003,719
Engineering and Architecture	1.85	10%	15%	2,664,517
Non-basic/residential (Index COL < 1.75)			40%	106,826,838
Healthcare Support	1.55	41%	66%	2,579,656
Protective Service	1.54	2%	64%	2,553,136
Construction and Extraction	1.32	-28%	26%	7,150,604
Community and Social Services	1.14	-9%	81%	1,945,926
Installation, Maintenance, and Repair	0.93	1%	21%	5,110,115
Healthcare Practitioners and Technical	0.93	42%	69%	5,985,446
Food Preparation and Serving	0.92	-10%	33%	6,263,129
Business and Financial Operations	0.92	-2%	95%	5,551,438
Building and Grounds Cleaning and Maintenance	0.91	44%	25%	4,250,257
Transportation and Material Moving	0.89	4%	14%	7,959,078
Personal Care and Service	0.86	-11%	66%	3,630,598
Management	0.71	20%	69%	11,884,694
Education, Training, and Library	0.70	-5%	53%	7,331,579
Sales and Related	0.56	-29%	56%	14,604,836
Office and Administrative Support	0.42	-38%	13%	20,026,346
Total, all occupations			33%	129,716,648

Source: Ann Markusen and Greg Schrock, "The Distinctive City: Divergent Patterns in American Urban Growth, Hierarchy and Specialization." *Urban Studies*, Volume 43, No. 8, 2006. Authors' analysis of data from US Census Bureau, decennial Population Census Public Use Microdata Sample (PUMS) 5% file, accessed from Integrated Public Use Microdata Series, Minnesota Population Center, University of Minnesota.

Table 2. Hypothetical Employment Change with Arts and Culture Sector

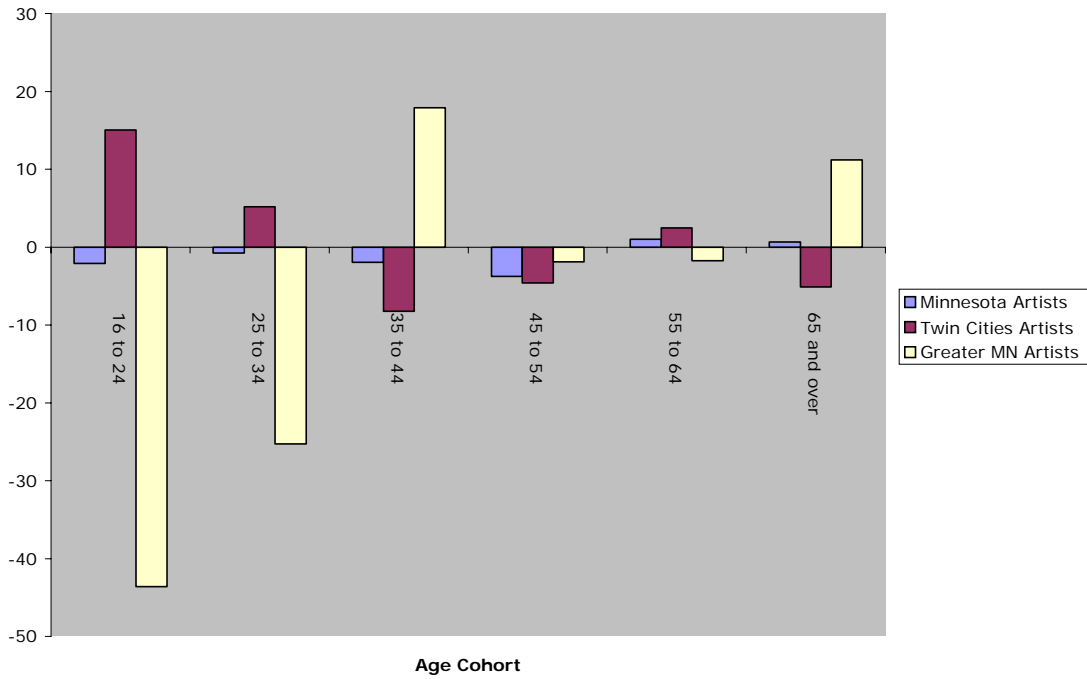
Industries	Year 1	Year 2 derived only	Change in employment	Year 2 migration, consumption shift	Change in Employment w migration, shifts
Export, all	2500	2750	250	2750	250
Local Consumption	2500	2750	250	2800	300
Arts, Entertainment	50	55	5	80	30
Derived demand			5		5
Net immigration					15
Consumption shift					10
Regional Employment	5000	5500	500	5550	550
Multiplier	2.00	2.00		2.02	

Table 3. Self-Employment, Artistic Occupations, United States, 2002

Occupational Title	Total Employment	Self-employed	% Self-employed	Primary job	Secondary job
Writers & authors	138,980	94,377	68%	80,509	13,868
Visual artists	307,254	155,159	50%	129,109	26,050
Artists and related workers	148,682	80,022	54%	70,731	9,291
Arts directors	50,664	27,139	54%	23,988	3,151
Fine artists: painters, sculptors, illustrators	23,192	12,866	55%	11,372	1,494
Multi-media artists & animators	74,826	40,017	53%	35,371	4,646
Photographers	130,442	68,432	52%	54,024	14,408
Camera operators, TV/Video/Motion picture	28,130	6,705	24%	4,354	2,351
Performing artists	176,463	42,724	24%	38,174	4,550
Actors	63,033	10,992	17%	9,754	1,238
Producers and directors	76,125	24,995	33%	21,683	3,312
Dancers & choreographers	37,305	6,737	18%	6,737	0
Dancers	19,992	3,854	19%	3,854	0
Choreographers	17,313	2,883	17%	2,883	0
Musicians, singers, composers	215,425	83,121	39%	56,770	26,351
Music directors & composers	54,271	21,354	39%	14,584	6,770
Musicians & singers	161,154	61,767	38%	42,186	19,581
Designers	531,921	168,806	32%	132,827	35,979
Commercial & industrial designers	51,823	16,088	31%	12,659	3,429
Fashion designers	14,844	4,353	29%	3,425	928
Floral designers	103,993	33,832	33%	26,621	7,211
Graphic designers	211,871	67,422	32%	53,052	14,370
Interior designers	60,050	19,325	32%	15,206	4,119
Merchandise displayers, window trimmers	77,221	23,881	31%	18,791	5,090
Set and exhibit designers	12,119	3,905	32%	3,073	832
Architects	136,378	29,678	22%	23,809	5,869
Architects, ex. landscape and naval	113,243	24,253	21%	19,457	4,796
Landscape architects	23,135	5,425	23%	4,352	1,073
Total, all artistic occupations	1,506,421	573,865	38%	461,198	112,667
Total, all occupations	144,013,600	11,451,600	8%	9,926,000	1,525,600

Source: Ann Markuen and Greg Schrock, "The Artistic Dividend: Urban Artistic Specialization and Economic Development Implications," *Urban Studies*, September, 2006, forthcoming. Data from Bureau of Labor Statistics, National Industry-Occupation Employment Matrix, <http://www.bls.gov/emp/empoids.htm>

Figure 1. Net Migration, Minnesota Artists By Region, Age Cohort



Source: Markusen, Ann and Amanda Johnson. 2006. *Artists' Centers: Evolution and Impact on Careers, Neighborhood, and Economies*. Minneapolis, MN: Project on Regional and Industrial Economics, University of Minnesota.

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