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Symphony Orchestra Economics: The Fundamental Challenge

by

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Various "economic" issues—costs, accumulated deficits, indebtedness, surpluses, earned and contributed income, fund raising, community wealth, government support—pervade discussions about symphony orchestra organizations. Indeed, the very "work" of symphony orchestra organizations—clearly an economic notion—is changing as each responds to the needs of its community. The economic implications of how a symphony orchestra operates and how it is integrated into an overall support organization has been a central concern of the Institute since its inception.

Thirty years ago, William J. Baumol and William G. Bowen, then professors at Princeton University, coauthored Performing Arts: The Economic Dilemma *(1966). The book provided a comprehensive, historical review of the economics of various performing arts institutions, including symphony organizations. Since little statistical information was publicly available at the time, the task of data collection and analysis was monumental. In his foreword, the study's publisher, August Hecksher, Director of the Twentieth Century Fund, noted the study's "somber" implications. For students of symphony orchestra economics, "Baumol and Bowen" is a basic text.*

Professor Baumol's interest in cultural economics has continued through the years and he kindly consented to address a series of questions about the basic economics of symphony orchestra organizations and specifically "Baumol's cost disease." Below is a transcript of those questions and answers. –Editor

Institute: Your and Bill Bowen's insights 30 years ago into the economic dilemma facing performing arts organizations are often referred to as "seminal." You coined the phrase "income gap," and the notion behind this phrase was later referred to as "Baumol's cost disease." Do you have mixed emotions about being noted for a disease?

William J. Baumol: I am happy to have my name affixed to a disease, particularly since I believe it can be made benign once its nature is widely understood.

Institute: To have all our readers on the same page, how would you today describe the basic economic insight referred to by "Baumol's cost disease"?

WJB: The "cost disease" is named after its symptom. Any economic activity affected by it will tend to rise in cost persistently and at a rate faster than the economy's rate of inflation, obviously leading to financial pressures for anyone who supplies the product. Orchestral music is a prime example. The reason the problem arises is that orchestras experience little or no labor-saving innovation—no growth in productivity. A Haydn symphony written to be performed by 30 musicians and lasting one-half an hour will require 15 person-hours of human labor for an "authentic" performance, no less than it did a the end of the 18th century. But elsewhere in the economy it takes less and less labor every year to produce a product. The amount of labor needed to produce an automobile declines more than three percent each year, on the average. This means that if wages rise at more or less the same rate in car production and in orchestras, then clearly, the cost per performance must rise faster than the cost per car, because in car production rising wages are offset by the reduced use of labor per car, while in orchestras there are few such offsets. Thus, orchestra costs are condemned to rise every year, cumulatively, at a rate faster than the average of the economy's prices; in other words, faster than the rate of inflation.

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Institute: I think many of us can see how the "cost disease" phenomenon relates to the economics of string quartets, or even 30 musicians regularly performing a 30-minute Haydn symphony. But does it apply equally to a larger scale, modern symphony orchestra organizations of, say, 150 employees—including 100 musicians—plus 75 active volunteers, with all the varied non-concert work that takes place? If so, how, and how not?

WJB: All the evidence I have seen indicates that the cost disease continues its course and that it affects orchestras every bit as much as it does string quartets. Indeed, the data that provided the first empirical evidence of the disease were figures on orchestral costs that were gathered and analyzed by Bill Bowen. The only way an orchestra can avoid it in the long run is by substituting amateurs for professional musicians, or simply by cutting down steadily on the number of musicians—but there is a clear down side and an ultimate limit to that.

Institute: Some have suggested that a society in which "cost diseased" performing arts organizations operate will adjust through such countervailing forces as rising standards of living, economics of scale, and the development of mass media. What is your perception of how, if at all, such adjustments have taken place and are likely to take place in the future?

WJB: As for mass media—their help is temporary. Available data indicate that TV costs and costs of cinema attendance are growing at the same rate as those of live performance. My own mass media analysis indicates the same thing.

Institute: Is it possible, in your judgment, that a modern symphony orchestra organization can find and sustain above average productivity and value creation through more careful human resource allocation and more committed and engaged organizational effort, sufficient to offset the "zero productivity" fundamentally inherent in concert performances?

WJB: Of course, modern symphony orchestra organizations can find ways to increase productivity. But they are severely limited and so long as they fall behind the productivity growth rate of activities such as telecommunications and computer manufacture, they will continue to be infected by cost disease.

Institute: To what degree can and do nonprofit performing arts organizations in America—with no or little tax-based financial support from government—remedy (offset) their "cost-disease-based productivity lag" by relatively high growth rates in ticket prices and in annual and endowed charitable support? Is this perhaps a strategy which has kept many symphony orchestra organizations alive? Is this perhaps a central issue in many communities and one which raises a question about the viability of many local orchestra organizations? In a free market economy, is organizational death the natural ultimate theoretical result of "cost disease," or not?

WJB: This is something I cannot answer because it involves foretelling the future. However, current trends in support of the arts and prospects for tax laws and other incentives for giving are not encouraging. I hope that will change, but I can claim no expertise on the subject.

Institute: Thank you, Professor Baumol. Your responses are very sobering and indicate clearly that symphony orchestra organizations have quite a challenge in fighting your disease!

William J. Baumol is a professor of economics and Director of the C. V. Starr Center for Applied Economics, New York University. He was a professor of economics at Princeton University from 1949-1992. He holds a B.S.S. degree from the College of the City of New York and a Ph.D. from the University of London.

Reference

Baumol, William J., and William G. Bowen. 1966. *Performing Arts: The Economic Dilemma*. New York: The Twentieth Century Fund.