Economies of scope in artists' incubator projects

Amy Whitaker¹

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Abstract

Although economies of scale are relatively well studied in the arts, economies of scope have received less attention. Yet recent trends toward freelancing and technological connectivity make scope economies especially timely in addressing structural challenges to artist-led incubators. This paper offers a conceptual framework for cooperative strategies that employ economies of scope both in the economic sense of joint production and in the financial sense of risk pooling. This framework distinguishes franchise, federation, and resource-sharing organizational structures as developed through case studies of two US-based organizations: ArtBuilt and REC (Resources for Every Creator), placed in a larger context of cooperative organizational strategy in the USA and Europe. The proposed strategies of cooperative networks (quasi-franchises, federations, or resource-sharing networks) also draw on a literature of spatial agglomeration in creative industries. The framework leads to more speculative ideas of “balance-sheet philanthropy” through credit backstopping by foundations, and of novel investment trusts that can be piloted across a range organizations including foundations, grant-makers, artist residency programs, and even for-profit companies engaged in reinsurance. The paper contributes managerial tools and strategies for the creative engagement of capacity building in arts organizations.

Keywords Entrepreneurship · Social innovation · Real estate services · Cultural economics · Creative industries · Property rights (P14) · Economics of art and literature (Z11) · Property and intellectual capital (O34)

One day I woke up and realized that everything I love about New York City was possibly endangered....No one would give me money [to fix it] and then I lost my temper and did it myself....We realized they didn't have a clear understanding of the value of arts as an actual business enterprise

– Esther Robinson

✉ Amy Whitaker
amy.whitaker@nyu.edu

¹ Department of Art and Art Professions, Visual Arts Administration, Steinhardt School, New York University, 34 Stuyvesant Street, New York, NY 10003, USA

1 Introduction

Although studies of economies of scale in the arts are relatively longstanding (Baumol and Bowen 1966), economies of scope have received less attention. Yet recent trends in the arts workforce toward freelancing (Woronkiewicz and Noonan 2019) make economies of scope particularly timely as a strategy in the creative industries (Caves 2000). This paper analyzes applications of economies of scope to artist-led incubators and co-working spaces. These spaces exist in a wide variety of forms (Essig 2014) but are generally scale-limited in order to protect their sense of community. Because, as Essig finds, these incubators show a wide variety of funding and governance models, this paper's contribution is to assist managers, increase capacity and best use of funds, and inform the academic literature on incubators, co-working spaces, and by extension creative industries. As this paper argues, without economies of scale, these incubators and co-working spaces can benefit strongly from economies of scope in both the economic sense of joint production (Chandler 1994) and the financial sense of risk pooling (Markowitz 1952).

This paper proposes a conceptual framework for cooperative strategies that employ economies of scope. The framework is developed through case studies of two US organizations—ArtBuilt and REC (Resources for Every Creator). ArtBuilt is an artists' studio space in the Brooklyn Army Terminal, New York. REC is a co-working space whose current location is in the Fashion District mall in Philadelphia, Pennsylvania. This paper argues that these venues can benefit from franchise and cooperative organizational structures both operationally and financially. These strategies achieve via scope and risk pooling what cannot in the arts be achieved via scale.

These strategies offer a timely contribution given the continued precarity of artistic labor and the increase in the number of artists who are freelancing. With regard to precarity, relatively recent studies by both Creative Independent (2018) and Arts Council England (2018) show low levels of earnings and high uncertainty around sustainable support for artistic practice. Artists also are freelancers or self-employed at much higher rates than for other occupations, at approximately 35% of artists as compared to 15% of other professions (Woronkiewicz and Noonan 2019, at 657).

Although not well studied in the academic literature in the arts, economies of scope and risk pooling in the arts can be placed within organizational architectures of franchise and federation. The Tate in London has a federation structure, analogous to the states that comprise the USA, whereas the Guggenheim had a franchise structure. After the opening of the Guggenheim Bilbao in 1997, the Solomon R. Guggenheim Foundation was approached to create the "Bilbao Effect" in other locations and accepted the offer to brand what were effectively franchise locations worldwide (Whitaker 2021). In contrast, after the opening of the Tate Modern in 2000, Tate was approached to create that effect in other areas of the UK. Instead of creating many Tate Moderns, the organization instead started a federation of the existing local arts organizations and shared resources across a network, occasionally lending reputational endorsement from Tate's central

Fig. 1 Diagram of franchise, federation, and resource-sharing network

leadership visiting local events around the UK. The ensuing program, called Plus Tate (Collier and Serota 2015), continued this initiative as a membership body, reinforcing its federation approach. A key differentiation between franchise and federation as governance models is the centralization of decision rights, which are dispersed substantially more in a federated structure.

Other organizations have taken this knowledge-sharing or, more broadly, resource-sharing approach across a network of organizations. Springboard for the Arts, based in St. Paul, Minnesota, USA, has focused on replicating programs in communities, sharing resources out to a network of other organizations in such a way that those other organizations can customize them for their own purposes (author interview, Laura Zabel, Springboard for the Arts, December 7, 2020). This focus on resource-sharing combines some aspects of scale with scope and builds infrastructure to share templates that can then be customized. Gener8tor, a Milwaukee, Wisconsin-based accelerator with a dedicated arts program, has built a distributed model of replicable structures rolled out across other cities (author interview, Maureen Ragalie, Gener8tor, November 20, 2020). (See Fig. 1 for a diagrammatic overview of franchise, federation, and resource-sharing networks.)

These models exemplify different governance structures of franchise in the case of the Guggenheim, of federation in the case of Tate Plus, and of resource-sharing for mass customization in the case of Springboard for the Arts and Gener8tor. These approaches form the basis of the case study analysis of ArtBuilt and REC as projects that consider cooperative and collaborative models that invoke economies of scope in the arts. The method of analysis draws on author interviews with the leaders of these organizations and application of theories described in this literature review section.¹ Because these strategies are relatively new, this paper approaches managerial strategy as an emergent discipline using methods of strategic foresight (MacKay

¹ These interviews include site visits, structured questions, and unstructured follow-up conversations, as well as ideation sessions regarding the needs of the organizations. The interview process also included formal talks by the founders within a graduate course in “hybrid practice.”

and Costanzo 2009) and case study analysis as both “linear” and “iterative” as a process (Yin 2009).

Section 1 provides a literature review of relevant theories in finance and economics, followed by an overview of methodology. Section 2 provides in-depth descriptions of the cases in application to issues of scope and risk. Section 3 offers analysis of the implications. Section 4 concludes by laying out a structure for future empirical investigation.

2 Background and methodology

As defined by Alfred Chandler, an economy of scale describes the lowering of per unit cost with the rise in overall level of production (Chandler 1994, at 17). Chandler considers scale in production and distribution as part of the Industrial Revolution and the rise of managerial capitalism. Chandler also describes economies of scope, those advantages that come about from joint production and distribution (Chandler 1994, at 17). Art organizations commonly lack access to economies of scale. They suffer from Baumol and Bowen’s “cost disease” because they do not produce uniform goods in quantity and their production costs generally do not decline over time (1966).² Many arts organizations are not Coasean firms in the sense that they are not organized by a competitive profit motive, but they can still be understood through a Coasean logic in their need to operate where internal transaction costs are reasonable (Coase 1937).

2.1 Economies of scope and joint production

Economies of scope receive relatively little attention in the literature in arts management and cultural economics. When they do receive attention it is typically in reference to theatre, music, or performing arts. In a standard library database (EBSCO) search of articles published in this journal, only ten articles have included the phrase “economies of scope.” (Usage of the phrase in the singular does not add results.) Of these ten articles, one concerns visual art but applies to international art trade not to incubators (Schulze 1999). Two study television (Doyle 2000; van der Wurff 2005), one studies recorded music (Montoro-Pons and Cuadrado-García 2018), one focuses on libraries (Locher 2005), one covers video games (Engelstätter and Ward 2018), and four focus on theatres, symphonies, and other performing arts venues

² Baumol and Bowen’s “cost disease” has been studied contextually given its formative impact on the study of arts administration (e.g., Besharov 2005; Towse 1997). The theory has also been investigated critically, notably in a 1996 plenary of the marking the 30th anniversary of Baumol and Bowen’s work, which took place as part of the Ninth Annual Conference on Cultural Economics and which was memorialized in a special issue of the *Journal of Cultural Economics* (Blaug 1996). For critical responses to “cost disease,” see in particular Cohen (1996), Peacock (1996), and Throsby (1996). Throsby in particular considers the economic circumstance of the performing artist finding benefits and working conditions to have improved but pay still to be low, as in the Creative Independent (2018) and Arts Council England et al. (2018) studies of visual artists.

(Lange and Luksetich 1993; Fazioli and Filippini 1997; Last and Wetzel 2010; Fernández-Blanco et al. 2019). This last paper by Fernández-Blanco et al. considers marginal cost efficiencies in Warsaw's municipal theaters. Although the authors' central finding, that productions could be 7% less expensive without artistic loss (Fernández-Blanco et al. 2019, at 113), does not pertain here, their related empirical observations do. They found that mounting new productions cost 3.33 times that of presenting works that the theater had already originated (Fernández-Blanco et al. 2019 at 114). Their findings underscore the research and development (R&D) problem that creative work is much more expensive in its formation than its presentation or repetition, creating the central challenge that arts rely on discovery not only efficiency (Whitaker and Grannemann 2019).

Scholars have in fact addressed economies of scope in the creative industries more broadly. The EBSCO library database shows 157 academic articles citing both of these terms. While many of these articles do not pertain to this study of incubators—most still largely focused on performing arts—two further studies bear mention here. Florida et al. (2012) offer a study “geographies of scope,” specifically the co-location of organizations in the entertainment industry. Mellander et al. (2018) have mapped geography of music preferences in this journal, but it is the prior (2012) study of geographies of scope that most pertains.

Florida et al. draw on a 1977 paper by Baumol and Bowen to describe this economy of scope experienced across firms. While Baumol and Braunstein (1977) were writing primarily about economies of scale, they approached economies of scope through what they termed “production complementarity.” They write, “Economies of scope refers to the efficiency gains and/or cost savings obtained through simultaneous production of many different products by one diversified firm instead of several smaller, more specialized firms.” But then they go on to add, “Economies of scope are not limited by the boundaries of the firm, they also extend across space. Geographic economies of scope are different than simple economic diversity” (Florida et al. 2012, at 184). These studies point to network complexities of scope in creative industry ecosystems (Caves 2000). In Florida et al.'s framework, New York City is a “superstar city” for the entertainment industry, drawing a concentration of firms. This work informs the way in which these incubators become part of city infrastructure, with forms of value that may be captured by the organizations or that may remain externalities to their business models (Cheung 1973).

2.2 Agglomeration and positive externalities of co-location

In a related literature on agglomeration—which is to say, spatial advantages or positive externalities of co-location—researchers have found positive effects for creative industries. Borowiecki (2015) studies classical music composers in Europe over the time period 1750 to 1899, a period of great entrepreneurial independence for composers as artists (Borowiecki 2015, at 444). The study finds a U-shaped distribution in which composers benefit from co-location to an extent and then begin to crowd a market and to compete away benefits. Borowiecki's

study describes a type of creative interaction akin to Brandenburger and Nalebuff's (1997, 2020) theory of co-opetition, or the simultaneous dynamic of co-operation and competition.

In Borowiecki's study, which measured distance from a musician's birthplace as an endogenous variable, composers were 10% more productive when one additional prominent musician lived in the same city. This effect continued until the concentration of composers was 66% above average and then decreased (Borowiecki 2015, at 445). Borowiecki interprets some benefits from positive externalities of cultural goods to the city overall (at 448) and some to critical mass of arts community to build and share in the use of—but not over-crowd—fixed-cost resources such as concert halls or opera houses (at 446). His argument concerning agglomeration benefits paints a picture of shared reliance on fixed-cost resources, positive externality to the city, and benefit to creators individually from the overall community.

In separate studies of agglomeration, Coll-Martínez (2019) finds that in Barcelona, firms in the creative service industries experience benefits from co-location, especially in industries with “symbolic” knowledge formation—including visual arts—and that these firms in the arts benefit from similarity of firm activity, including within co-working spaces (Coll-Martínez 2019, at 384). In Coll-Martínez et al. (2019), the authors also study agglomeration in Barcelona using distance-based as well as proximity-based measures (at 411) and studying creative industry as well as other organizations (CIs and non-CIs). They find strong agglomeration at very short distances and strong co-agglomeration effects for small firms, i.e., those with fewer than ten employees (Coll-Martínez et al. 2019). This stronger effect for smaller forms and shorter distance, with rapid decay over distance, indicates a likely generalizability of these agglomeration effects in co-working spaces. Overall, these studies reinforce Florida's (2002, 2014) idea of “creative clusters,” which Borowiecki and Dahl also study in US artists from 1850 to 2010, finding a migration of clusters from the northeastern USA to broader areas, with some parallel concentration on the west coast (Borowiecki and Dahl 2021).

In contrast to scope, scale is difficult to achieve in arts incubators without growing larger than the size that can support a sense of community. This issue of scale appears to affect all types of artists' incubators in Essig's taxonomy (2014) and to be common across creative industries (Caves 2000). Baumol and Bowen argued that the arts do not scale but instead fall prey to cost disease (1966). Economics often leads to standardization—the uniform number 2 pencil of Leonard Read and Milton Friedman's allegories of the miracle of the pricing system (Read 1958; Friedman 1980). But in the arts, standardization can indicate stagnation even if, as Fernández-Blanco et al. (2019) show, the repetition of performances already in a theater's repertoire is so much more cost effective. Economies of scale require monoculture—the production of a uniform good at scale—to an extent anathema to a diversity of artistic ideas. As Patton Hindle, head of the arts program at Kickstarter, cites the in-house rallying cry, “f*ck the monoculture” (author interview 2020). In contrast, economies of scope can allow for diversity or heterogeneity of practice or output.

2.3 Diversification of investment and risk pooling

While the literature review above pertains to the discipline of economics, a further literature review in finance complements these effects. This literature is addressed here for two reasons, first, because managers of co-working spaces are required to essentially work interdisciplinarily across economics and finance, or in the language of managerial practice, across operating and capital expense. Second, financial methods of institutional collaboration and individual cooperative investment trusts form a unique contribution of this paper and necessarily follow from financial theories of diversification.

While scope is an economic concept applying to the ongoing economic operation of the firm, scope also has this counterpart in the financial management of the organization specifically in the application to risk pooling. Economically and operationally, firms benefit from cost savings via scope. Financially and in an investment sense, firms benefit from risk pooling and diversification. As Markowitz (1952) famously showed, an investor could receive a higher risk-adjusted return by investing in the entire market basket because the internal lack of correlation of returns across instruments provided a kind of internal insurance. In the case of arts organizations, they do not have the scale of investment or capital within which to pool these activities. They often have highly concentrated investment in their own single organization and physical plant. By Markowitz's logic, a group of incubators could arguably receive lower lending rates than a single entity. Thus, operating across a network or constellation of like-sized organizations could give incubators better access to favorable lending rates, through the scope-like assembly of larger portfolios of organizations.

Whitaker and Grannemann (2019) have applied ideas of risk pooling to the arts, proposing that artists pool their resale royalties and that performing artists pool their equity shares in order to hold diversified exposure to the proceeds of their work. Whitaker and Kräussl (2020) have proposed fractional equity in art empirically, demonstrating that artists would benefit by holding shares in the art over time. This combined approach of diversified investment and retained equity leads to newer forms of individual investment practice for artists.

2.4 Competing definitions of value

This discussion of risk and financial investment steers close to complex and ever-green debates over questions of value and measurement in the arts. Bourdieu described multiple forms of capital (1993) which Throsby adapts to the arts (1999). Klammer described cultural and social value not only economic (1996). Others including Hutter and Throsby (2008) and Towse and Hernández (2020) have interrogated the overlaps of cultural and economic value. Grampp argued that all value can be converted to economic value (Grampp 1989). Noneconomic forms of value are difficult to measure in any comparable way. A problem shared with contingent valuation methodologies (Noonan 2003, 2013; Sanz et al. 2003), this analysis of value also

lacks an available counterfactual. It is difficult to measure the impact of ArtBuilt or REC because we may be measuring them against a baseline that their existence helped to preserve. Even if nothing changed in either organization's environment, they could still have had a strong impact in preserving cultural vibrancy and in slowing a drive toward homogenization. The value of cities depends on creativity and cultural structurally but not in ways that are easily understood or valued economically (Noonan 2003; Johnson and Thomas 1998). The methods of this paper apply these theoretical concerns to a set of interviews with these organizations' founders, to generate hypothetical strategies based on economies of scope.

3 Summary of the case studies

The case studies in this paper are artists' incubators in the broad sense described by Linda Essig (2014). ArtBuilt is a nonprofit organization that is legally structured as a "501(c)3" organization, as named after the corresponding section of the US tax code describing the exemption for charitable purposes. REC is venture-backed and for-profit, and intends to expand beyond its current location. Neither organization is legally a hybrid organization in the sense Michael Rushton (2014) describes. That is, they are not "public benefit corporations" or other newer legal forms that combine aspects of for-profit fiduciary duty and nonprofit drive toward mission. Yet both organizations could be said to have hybrid purpose managerially, if not legally, with both financially and socially engaged structures. The intended beneficiaries are not only the direct members of the organizations but the larger communities as well.

ArtBuilt is a 50,000-square-foot nonprofit (501(c)3) artists' studio space started by Esther Robinson and Guy Buckles and opened in the Brooklyn Army Terminal in 2018.³ It is the largest artists' studio space to open in New York City in the past twenty years, and the largest studio space before that, the Elizabeth Foundation for the Arts, was co-founded by Buckles. The impetus for ArtBuilt was seeing friends kicked out of artists' studio buildings by developers hoping to make money in redevelopment only to leave the buildings sitting empty for years. Owing to well-meaning city initiatives that were intended to support affordable housing, buildings that would have otherwise been used for artists' studios were now out of price range. The key goal of the organization was not just to provide studio space but to create stability.

ArtBuilt is home to approximately 120 members who share 65 studios ranging from 250 to 2500 square feet (Hamilton 2019). The studios offer 10-year lease terms with a 5-year extension. These are the terms offered to ArtBuilt via the building owner, the New York City Economic Development Corporation (NYC EDC). Per

³ The Brooklyn Army Terminal is a four-million-square-foot building in Sunset Park, Brooklyn, NY. It was designed by Cass Gilbert, the architect of Manhattan's Woolworth Building, and completed in 1919. Its most famous use was as a supply depot for the army. During World War II, it was the departure point for three million troops (including Elvis Presley) and 37 million tons of supplies.

NYC EDC Mission, the rent is below market rate. Tenants pay \$13–24 per square foot compared to \$28–36 per square foot in comparable commercial buildings.

ArtBuilt is financed by a loan via LISC (the Local Initiatives Support Corporation), the community lender, through a collaboration between Robinson, Buckles, and Anisha Steephen, then the founding director of LISC's economic development lending and policy practice area.⁴ Steephen, Robinson, and Buckles structured a deal at a 7% rate.⁵ The structure was later replicated in the NYC Inclusive Creative Economy Fund, a partnership between LISC and Upstart Co-Lab (LISC NYC 2018).

REC (Resources for Every Creator) is a music and arts incubator started by Will Toms and David Silver. Having moved its earlier incarnation in an old window factory in north Philadelphia, REC (this location sometimes called REC Philly) opened a 10,000-square-foot space in Fashion District mall in Center City, Philadelphia in 2019. Structured like a gym membership for creatives, REC takes in monthly dues from members who can then use the facilities which include fourteen different technological and maker studios ranging including podcast recording studios, music recording sound rooms, and editing equipment.

The 900 members of REC receive vouchers they can use to book space according to their membership level. Membership levels range from \$49 (8 credits) to \$149 per month (24 credits). Of note, within the REC community, use of resources functions on this barter or credit system, without direct translation to money rents. The mall-front space of REC operates as a store selling goods made by members on consignment. REC to expand to other cities. Their larger aim is to create the conditions that support sustainable economic livelihoods for freelance creatives. They measure their success in members having the financial stability to quit their day jobs. They also aim to be part of a larger social movement for freelance creatives to be able to thrive and be in community. As Toms says, "We've always believed that the role of the artist is to push society forward" (REC, n.d.).

The case studies share that they are founded by creative entrepreneurs—part artist, part community-builder, part activist—that they are sited in physical space, and that they intend to support artists and other creatives in ways that are essentially agnostic to quality. Neither ArtBuilt nor REC curates applicants. Instead, they benefit by word of mouth and reputational awareness.

The sample philanthropic organization is imagined as an artist's foundation such as Joan Mitchell Foundation, Rauschenberg Foundation, or the Andy Warhol Foundation that specifically supports artists' programming and direct grants, or foundations such as Mellon Foundation or Ford Foundation that support larger programmatic initiatives in the arts. Because the artists' foundations typically still own substantial collections of artworks that they sell in a controlled fashion, the foundation has a proportionately larger, illiquid balance sheet but could put that more illiquid capital to work in this way with relatively low risk, given that the amount of backstopped debt constitutes a very small proportion of their assets and, in the case of a theoretical default, the funding

⁴ LISC is a nonprofit community development financial institution (CDFI) founded in 1979 by managers from the Ford Foundation.

⁵ Where not stated otherwise, information on ArtBuilt and REC Philly comes from author interviews.

would generally fall into the scope of the kind of funds that the foundation more typically granted. They have a mission and exemplary track record of supporting individual artists. They are also financially fortunate, through stewardship, discipline, and endowment with the artist's works, to have a strong balance sheet which gives them a stronger loan profile than an artist-run incubator space.⁶ They are in a position to take on risk, should they so desire. Grantmaking organizations, such as Springboard for the Arts, Minnesota, and Center for Cultural Innovation, California, could also partner with financial firms to regrant this credit-wrapper as an in-kind donation, given similarities of this work to reinsurance, a common investment of hedge funds. These ideas are speculative, as tax donation policy would theoretically need to recognize and place a valuation on this activity.

4 Analyzing applications of economies of scope

We analyze the key challenges these organizations face from lack of scale and then propose ways of addressing them via operational scope and risk pooling.

4.1 Operational scope

Scope economies in the arts are more common for back-office functions than organizational mission. For example, the firm Artspool allows nonprofit organizations to outsource their bookkeeping. Staff expertise in nonprofit accounting can create cost savings through joint production of bookkeeping across nonstandard organizations. Artspool also has comparative advantage that would not be found in small-scale arts nonprofit organizations (Bernhofen and Brown 2018; Ricardo 1817). They specialize in bookkeeping but because the tasks vary across organization, we would model this as a scope rather than scale economy. The combined managerial skills of the founders in charisma, industry knowledge, and disciplined yet inventive financial modeling are themselves transferrable across distinct yet related projects in a way that constitutes an application of scope.

4.2 Scope risk and the Coasean firm

REC also makes an intervention into risk but in the separate realm of the risk that firms have outsourced onto freelance laborers. Like Uber drivers, freelancers bear the burden of self-investment and do not benefit from the risk management functions of the firm. Yet what REC does is in fact to recreate some benefits of the Coasean firm for a constellation of freelancers. REC has the capacity to serve as a brand umbrella for freelancers. For instance, those looking to hire contract labor might go to REC as a trusted intermediary. Over time, being a REC member could lessen the risk of freelancing by

⁶ According to the 2017 Form 990, the most recent available on Guidestar, the Joan Mitchell Foundation holds \$130.8 million in net assets. Those figures list art holdings at book value; at fair market value, the foundation's assets are \$363.8 million (Joan Mitchell 2017, at 2 and 43). The difference between book and market value of the art collection is from \$26.4 million to \$257.4 million (Statement 14, p. 43).

creating these network benefits to members. REC also creates economies of scope in the use of its resources for creators. No one could use a podcast studio 24 hours a day, making it an ideal kind of shared resource. Equally, if REC is able to expand, directly or by franchise, to other cities then it starts to benefit from the same economies of scope that are proposed above for ArtBuilt but with a franchise rather than federation model. Both would be operating as part of a cooperative group of artists' incubator spaces with varying degrees of standardization and coordination across them.

4.3 Institutionally backed risk pooling

A key challenge for ArtBuilt was access to capital and the analysis that funders did of ArtBuilt's risk. The founders raised \$1.3 million in order to secure a lease and then replaced an investor with the LISC loan, ultimately borrowing 600,000 for the 1.3 million project. Concurrent to ArtBuilt's founding, a one-million-square-foot development in comparable building received a much lower rate, on the order of 3.5%. The higher cost of capital for ArtBuilt stems both from its scale and from its risk profile. ArtBuilt does not have a large balance sheet. If it could access one, via philanthropic guaranteeing by a foundation or in-kind donation from a financial institution or its nonprofit arm, ArtBuilt could access these lower rates.

The financial parallel to economies of scope is risk pooling in access to capital. This paper proposes a kind of balance sheet philanthropy—one that Robinson herself investigated in opening ArtBuilt. A foundation with substantial assets could guarantee the loan, bringing ArtBuilt or a peer institution a lower lending rate. There are two different but related mechanisms at work. First, the consortium of ArtBuilt-like spaces could apply for funding together. In this way, they form a portfolio. Although they do share common risk characteristics, they theoretically benefit from diversification across geographic area and management teams. Their idiosyncratic risk benefits from diversification while their industry-specific risk still exists.

Second, ArtBuilt alone or the entire consortium could receive a third-party guarantee from a foundation. A foundation agrees to repay the loan if ArtBuilt defaults. The foundation becomes the bank that can reclaim assets of the organization, while the bank becomes a cash-flow lender who would, in the event of default, be repaid by the foundation. The bank insures its risk in two ways. First, the foundation has now backstopped the loan. Second, the bank has more information on the loan recipients because the foundation, which is arguably more expert in the field than the bank is, has vetted and vouched for them.⁷

In addition to a foundation backstopping debt as a form of philanthropic support, other financial actors could do the same. The foundation arms of large banks could donate, or the banks themselves could adapt reinsurance structure for hedge funds.

⁷ In this specific case, Esther Robinson and Guy Buckles have reputations that precede them. In addition to Buckles' role in founding the Elizabeth Foundation for the Arts, Robinson was a member of the early team at Creative Capital and founder of ArtHome, an advocacy organization for artists' home ownership. She is also a filmmaker by background, a training that helped her with the risk profile of the fundraising ask, given how risky film financing generally is.

The investment firm is putting money to work by assigning to their reserves this reinsurance allocation. If this in-kind donation were credited to the investment firm as a philanthropic contribution, they would have incentive to provide it. There might need to be legislation to give tax credits for this in-kind donation, but many other forms of philanthropy would benefit from this development of in-kind insurance products as part of philanthropy.

Insurance is a generally under-explored area of philanthropy. For example, marathon runners who accept charity slots of large races are often asked to provide a credit card guaranteeing a certain minimum fundraising amount should they be unable to run, including for reasons of injury. Similarly, there is an advantageous match-up of a large insurance provider—or financial entity—and the ability to guarantee relatively low value amounts that have relatively low systemic risk of default. As long as the USA continues to support a tax credit for charitable contributions, it makes sense for there to be an equivalency that helping an organization seek lower lending rates has a charitable benefit that can be quantified.

Critics might say that these proposals replicate the credit wrappers offered inadvisably by ratings agencies precipitating the 2008 financial crisis. What is critical here is the alignment of interest between the funder and the beneficiary. It is not in the interest of a foundation to risk its capital unless it believes in the underlying venture. While the abrupt catastrophe of coronavirus circumstance makes any back-stopping of debt look too risky, if we imagine a more typical risk environment, this approach can allow a foundation to support creative ventures without cash outlay.

4.4 Ground up risk pooling and collaborative investment trusts

In addition to risk arbitrage through financial partnership, the artists' incubators may also wish to pool risk from the ground up by taking a financial interest in artists' work or facilitating artists to build risk-sharing investment trusts across their work (Whitaker and Grannemann 2019). The sharing of upside can be formalized and made collective. The logic stems from resale royalties for art, the percentage shared back to the artist when an artwork is resold in the secondary market. Some have proposed fractional equity in art that is managed by contract not, as resale royalties are, by legislation (Whitaker 2018; Whitaker and Kräussl 2020). Here, we can imagine fractional equity in concert with pooled investment trusts for the fellows within organization (Whitaker and Grannemann 2019). Theories of agglomeration may inform the networks within which creative-industry practitioners have enough affinity—or benefits of co-location but differing activities—such that joint investment trusts may share risk collectively in interesting ways.

For a residential incubator, fractional equity could be used in two broad ways: (1) with the incubator as the minority equity holder or (2) with the incubator as a collector of art and a majority holder of equity, with artists retaining minority shares. In the first case, incubator would claim or purchase 10% (for example) shares in the work artists made while fellows there. When that work was sold and resold into markets, the incubator would receive a share. In the second case, the incubator would collect work, paying artists in the residency in order to purchase their work. (The

governance and pricing around these purchases would require careful attention.) Here, the incubator would be able to either keep the collection indefinitely or to sell into markets to raise funds for the incubator's projects. These sales would also benefit the artists as minority shareholder. If the incubator chose to keep the artworks indefinitely, it could also hypothetically secure capital by taking art loans against them.

In the case of incubators with a mission, including a mission to revitalize a local community, the institution may share part of the fractional equity with the local community, with a larger group of artists, or with a charitable cause. For example, the retained equity could go 80% to the artist, 10% to the incubator and 10% to the community. This structure—of not just creating value but capturing it—is essentially flexible and generative. It allows artists, organizations, and causes to benefit in lockstep. Each group of residents could buy into a larger investment trust or there could be separate investment trusts for each cohort of an incubator, or a combination of the two, with successive classes buying in at a net asset value (NAV). The fractional equity split could include streams for charity, social justice causes, community development, or anything else the organization and its members decided. Kadist Foundation has created a private resale royalties contract that models this specific aspect of giving a portion of a royalty—here, a proportion of fractional equity—to a charitable cause (del Pesco 2020, Kadist 2019). The values of supporting artists and the community can be inculcated in a fund structure and reinforced with governance design as to who decides the equity split and recipients.

5 Managerial implications

In the case of organizations such as ArtBuilt and REC, the economy of scope for the overall organization can be modeled as a franchise or federation. REC Philly anticipates expanding to other markets, operating as a franchise. ArtBuilt has no such plans but could join a federation or coop of other likeminded spaces, adapting to the challenge of maximum scale by federating with other organizations. This federation could be at a local, state, or national level so that transaction costs of managing regulatory and tax regimes are not onerously high as they might be if operating across national jurisdictions. If following a resource-sharing method exemplified by Springboard for the Arts or Gener8tor, these networks could operate internationally as well.⁸ Whether through formal legal alliance or collective advocacy, that consortium can find advantages of scope across a network of standalone art spaces.

The key outcome of economies of scope in the economic sense is capacity building. The key outcome in the risk-pooling sense is both capacity building—through advantageous interest rates, freeing up capital—and also forms of investment that are flexible to the ways in which value in the arts changes substantially

⁸ The artist-run, barter economy school Trade School open-sourced the software to set up a Trade School, taking a resource-sharing model that led to fifty chapters and over 22,000 students attending Trade Schools worldwide (Woolard 2020; Tradeschool.coop, n.d.).

over time. With the difficulty of pricing early-stage creative work, these artists' incubator ventures benefit from retaining equity so that their success grows financially alongside the success of their inhabitants. Their inhabitants can also benefit from this risk-pooling effect.

In addition, these financing arrangements offer incubators and co-working spaces novel means by which to measure their outputs. Along with REC and hypothetical financial structures, ArtBuilt has a structurally difficult time modeling its metrics because the change it aims to create is transformational rather than incremental. Community economic development more typically measures jobs per square foot. An incubator does not necessarily bring jobs per square foot because of the complexities of labor classification, for instance, of studio artists with separate full-time teaching positions. ArtBuilt brought a number of jobs per square foot that is comparable to some industrial spaces, but that was not necessarily commensurate with ArtBuilt's activities. A proverbial Bed, Bath, and Beyond store would bring 10× the jobs of ArtBuilt's tenants, the largest of which is an eight-person video collective called Meerkat, and many of which are solo practitioners, such as Matthew Rubendall, the last classical guitar maker in New York City.

Instead, the measure that ArtBuilt gave to tell its story of risk is that of occupancy. Because ArtBuilt has below-market rent, it is unlikely—outside acute natural disaster or pandemic circumstances—to have vacancies. Although it does not bring set value to the economy through jobs, it does bring value through savings to artists on the below-market rent. ArtBuilt also takes advantage of long-term contracts, which serve the organization and its tenants in minimizing ongoing negotiation and transaction risk. Its tenants reflect Woronkiewicz's and Noonan's findings that artists disproportionately freelance compared to other professions (2019) and build portfolio careers. These portfolio careers mirror the nature of the incubator as collaborative and pixelated, a constellation of actors not a monolithic firm. The full value of the organization is in its ability to support creative workers and to contribute to the heterogeneity and vibrancy of its neighborhood. This outcome is difficult to measure, even by contingent valuation (Noonan 2003).

Tools for describing the outputs of social ventures—notably David Grant's method of rubrics from the *Social Profit Handbook*—can be put to work (2015). To design these metrics once must go back to the reason these organizations were founded. In ArtBuilt's case, Robinson sees the organization as a socially engaged artwork itself, an intervention against extractive capitalism and a protection against reduction of the arts to a monoculture. Robinson says, "when I solve a problem the question becomes what medium is the best medium to solve that problem? And sometimes that medium is a film. Sometimes that medium is a non-profit organization.... For me it often feels like a performance art piece called, I'm the executive director of an institution."

Additionally, ArtBuilt aims to preserve New York City's cultural diversity. It is extremely hard to measure this outcome because—in the face of inertia toward a monocultural environment—the preservation of the status quo is a form of change. Robinson says, "As an individual I feel like most of the ills of my society are about strip-mining people and value and culture and place, and placing it in the hands of a group of a few set oligarchs and a system that does not return that value to a community more broadly." ArtBuilt's collaborator Steephon echoes these sentiments when

she says, “The purpose of my work is to..., in the absence of a revolution, drive money and resources to the place that doesn’t typically get it and to the people who don’t typically get it.”

The measure of these projects goes beyond their direct and indirect financial impact. Because their ultimate measure is in opportunity cost to culture of real-estate-driven homogenization, their outcomes may best be measured in stories. The economist Akerlof, in his essay “Sins of Omission and the Practice of Economics,” observes the tendency of economics as a field to value “hard” skills over “soft” ones, and to favor forms of analysis that can conform to the scientific method and rely on quantitative analysis (Akerlof 2020). Yet he observes that many important questions—from predicting the 2008 credit crisis to working meaningfully on global warming—are poorly addressed because of a lack of interdisciplinarity. Similarly, these incubator projects aim to deal with large, complex problems and to bring about transformational change. Their success proves their own case but in ways that are most visible in hindsight.

What ArtBuilt is trying to preserve and encourage cannot always be seen. It is too amorphous to translate into survey form, too reliant on imagined futures to model that way. It is architected as a nonprofit organization for this reason. We do not need to adjudicate its mission to say that efficient access to capital at its organic scale of operation serves the organization in furtherance of its mission. ArtBuilt’s value is in preserving cultural vibrancy in an environment which supports the proliferation of Bed, Bath, and Beyond over the independent guitar maker. Arguably, the best way to support this work is to use financial tools on the support side—in access to capital, in collective risk sharing, in designing for economies of scope—and to ignore financial measures on the delivery side. In the metaphor of soccer, finance gets the ball down the field but it is not the goal.

6 Conclusions

This paper has considered two case studies of ArtBuilt and REC in the context of franchise, federated, and resource-sharing network models of arts incubator. These models show strong cases for economies of scope in the capacity building for artists via organizational supports. Where some of the literature on freelancing or working as an artist has noted socioeconomic privilege (Woronkiewicz and Noonan 2019, at 657; Borowiecki and Dahl 2021, at 4), these models of joint production and risk pooling may allow more artists to freelance sustainably by helping them access resources and operating cooperatively both operationally and in their investment in their own works.

Three different experiments would help to test this conceptual framework empirically. First is a study of foundations that might back-stop credit. With a scan of foundation balance sheets and tax returns, one could identify specific potential foundations and attributes of attractive types of foundations. Financial service organizations, including banks, hedge funds, and other reinsurance practitioners, could be included. Survey and interview methods could complement financial statement analysis. Speculatively, researchers would survey existing tax policy for in-kind donation to charity and wrote model legislation.

Second, as REC expands, its data can also serve empirical analysis, alongside surveys of its members, inclusive of detailed study of REC's partnership with Live Nation, the concert organizing firm.

Third, the property rights investment trust can be explored through survey and ethnographic interview of incubator participants and then through design of pilot study. This study could either be based on an actual operating fund or run as a hypothetical portfolio as if works made in a residency program had been collected. Additional studies could apply speculative financial models in practice in contemporary incubators or use archival methods to reconstruct from artists' residencies and grant-making programs of older vintage (e.g., US- and New York-based programs such as Franklin Furnace or Creative Capital) and amass fictionalized investment funds made out of the works created by the residents in each year.

Thematically, this study of economies of scope is emblematic of stability and security—via increased capacity and decreased risk but also stability and reduced precarity and unpredictability for artists. One of the main benefits of ArtBuilt is the stability it brings artists. Robinson says, “If you ask individuals, ‘Will you be in New York fifteen years from now?,’ they say ‘yes.’ But if you ask them, ‘What are the structures that are in place in your life that insure you will be able to stay here?,’” they are unsure and start to say that they will leave the city at their next lease break. As Robinson notes, a city such as New York—one with creative cluster (Florida 2002, 2014) and agglomeration benefits (Coll-Martínez 2015)—also exerts exceptional real estate pressures both in level of rent and short term lease structure. As Robinson says, “[I]f somebody thinks that they are going to have to be displaced every three years the majority of their innovation is thinking about how not to be displaced.” If we measure the output of their work, we can estimate this drag of uncertainty. Or we can reduce this drag of uncertainty via lateral network and shared investment trust.

The solution may require a reversal of methods in arts philanthropy and reconsideration of the artistic pillar of curatorial selection based on perceived artistic merit. It may require becoming, in Robinson's phrasing, “agnostic about quality.” The grant-making industrial complex tries to choose and support the best work. But what if instead they chose and supported partners such as Robinson and Buckle in passive credit backstopping, and then let them support artists, no matter one individual's or one institution's ideas about quality? Robinson calls it a social justice issue: “the idea that quality is culturally determined and if we believe in a justice lens or we want to look at equity or imagine supporting culture more broadly in a place, like America or New York city, we have to ask ourselves to adjudicate: How do people get turned down? What are the biases implicit in those systems?” REC has such an agnostic system, a sense of community not of curated entry.

Of course, all of these ventures that have a real estate footprint have started a new world during the COVID pandemic. ArtBuilt has ways of approaching COVID, as a community centric “we” story with its tenants and in partnership with its larger community that encapsulates its potential role as a public good or positive externality. As these organizations build out digital presence, perhaps some of the digitally managed investment trusts are that step closer to entering the realm of possibility. At

the same time, perhaps some of the benefits of agglomeration will change as remote working habits learned during the pandemic alter working patterns afterwards.

If that value is hard to measure, it is easier to know over time if represented in property rights. Designing new measures for best use *for whom* allows for the kinds of transformational not only incremental change brought about through creative placemaking and artists' incubators. Perhaps, their value cannot be known through measures of capitalism but these tools allow that value to be established more efficiently, distributed more equitably, and known at least better.

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