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BUSINESS REVIEW

S.R.O. and S O S: The Performing Arts Paradox
Bank Profits in the Wake of Recession



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BUSINESS REVIEW

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S.R.O. AND S O S: THE PERFORMING ARTS PARADOX



A bald Romeo and a fat Juliet in a neighborhood playhouse.

The latest soprano sensation at the Met. A banker who plays oboe in an amateur symphony.

A Broadway star.

The Secretary of Labor.

This unlikely cast is playing a leading part in the present boom in the performing arts.¹ It's a broad-based thing, this boom. It includes professionals and amateurs, people from all walks of life, all social classes, and all income levels. And even the Government is getting in the act.

The boom has considerable economic significance. Spending for admissions to the performing arts now amounts to about \$400 million a year—double the figure of a decade ago. But it's an unusual sort of boom.

The present wide popularity of the performing arts is unprecedented in America. Until recently, many forms of the arts were the property of an

elite few. The average man long considered opera, ballet, and serious music to be "sissy stuff." He was satisfied with an occasional minstrel or vaudeville show.

This is one boom that seems to be creating as many problems as it is solving, however. In spite of the great increases in public interest and enthusiasm, in spite of S.R.O. (Standing Room Only) crowds, the performing arts are in trouble. That's why the S O S for Government aid has never been louder.

In many ways the performing arts industry is unique. Yet, in other ways its problems are those of all industries. Perhaps the solution other industries have used when faced by similar problems may be applicable to the performing arts.

THE TWO MASKS

The theatre is often represented by two masks—one smiling, one sad. These masks might portray the present situation in the entire performing arts industry for there is a bright side and a sad side.

Statistics on the performing arts are, for the most part, fragmentary and based on estimates.

¹ The term "performing arts" is a general one. Conceivably it could include anything from an Indian rain dance to a Hill Billy Band to a how-to-reduce TV program. In order to make the subject manageable, we have had to make an arbitrary definition. In this article, we limit our discussion of the performing arts to live performances, both professional and amateur, of the theatre, opera, ballet, and serious music.



We use them here to give a rough idea of the dimensions of the boom.

Spending for admissions to live performances of the arts humped after the war, then ran fairly level until 1952. After that "it got wings." This recent growth was considerably faster than the increases in personal income, total expenditures for recreation, spending for admissions to sporting events, and movie receipts. In other words, the performing arts did better than their direct competition.

There are now some 5,000 community theatres—more than all radio and television stations. In addition, an estimated 5,000 college groups, 15,000 club and church groups, and untold high schools put on theatrical productions. In New York, the number of off-Broadway theatres has grown to 32 from a mere handful a few years ago.

The number of community symphony orchestras has doubled since 1952. At present, there are about 1,200 orchestras which collectively give an average of 20 concerts a day. Last year, about 11 million people attended symphony concerts.

In 1950 there were about 200 opera-producing groups. Today the number has swelled to almost 800. In the 1960–1961 season, the Metropolitan Opera played to 96 per cent of capacity. Philadelphia's Lyric and Grand Operas also enjoyed full houses, and the story was repeated in many other cities.

Tent theatres and summer stock companies also are doing very well. There are now 26 music tents, most of which first spread their canvas during the last ten years.

Today, 125 regional ballet groups are in operation compared with only 70 as recently as 1958. Chamber music is so popular that one agency specializing in booking just these small groups

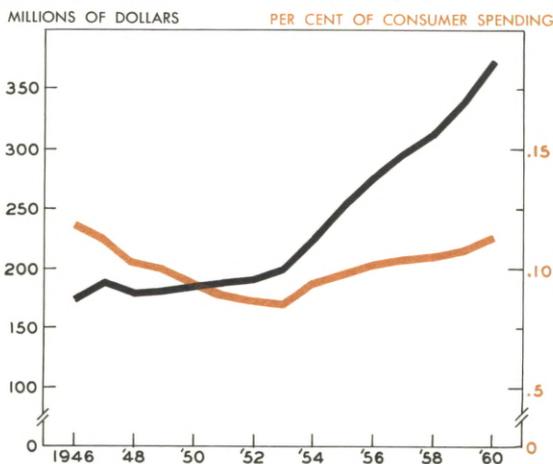
grosses a reported \$100,000 a year.

This new interest in the arts has many causes. The great postwar increases in income and leisure are important. So is the growth in college enrollment and, lately, the trend away from specialization in education.

Students are getting more exposure to the performing arts in public and private schools. The number of courses and clubs has expanded. In addition, certain organizations are helping to bring culture into the schools. Young Audiences Incorporated, for example, presented chamber

THE BOOM BEHIND THE FOOTLIGHTS

Spending for admissions to the Performing Arts.



music concerts for 100,000 Philadelphia area school children in 1961.

Hi-fi and stereo have helped cultivate tastes for serious music and have created the desire to hear live performances. This is similar to the effect that television had on pro football. Television creates many new fans who soon begin coming out to stadiums.

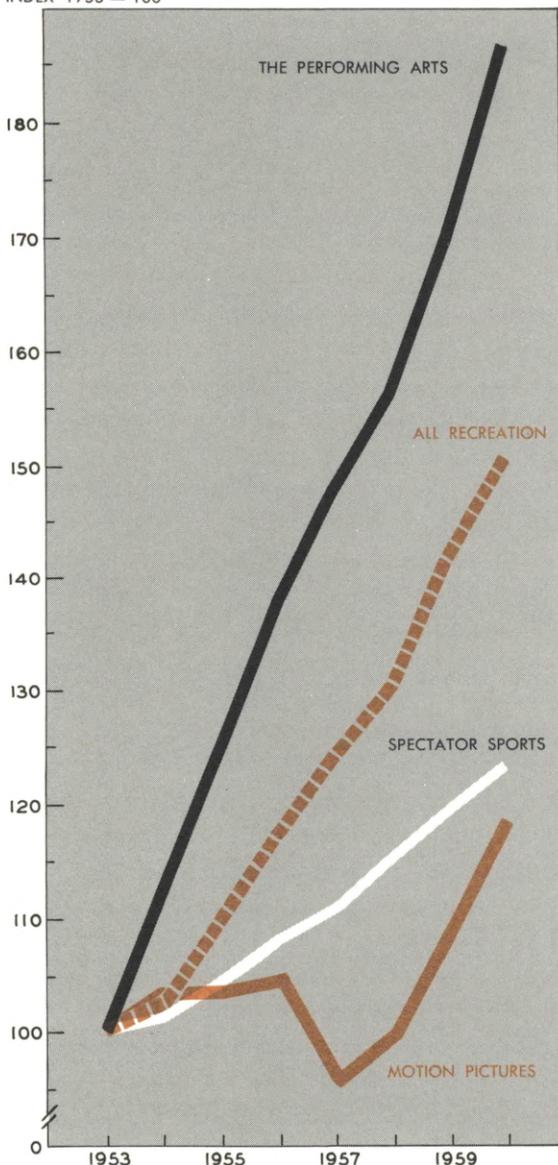
Widespread travel abroad, starting with the GIs during World War II, and continuing to the present day, has introduced many to the performing arts. No doubt some people attend per-

performances as something of a status symbol. Perhaps they have taken to quietly boasting “we saw ‘Swan Lake’ last night,” now that they have rid themselves of their my-car-is-bigger-than-

BEATING THE COMPETITION

Consumer spending for various amusements.

INDEX 1953 = 100



yours psychosis. In short, the boom in the arts is woven deep into the fabric of mid-century American life.

But all is not well in the performing arts industry. Its silver cloud seems to have a leaden lining. Performances begin with P and that rhymes with T and that stands for trouble, as the song from “The Music Man” might go. For example: three-quarters of all Broadway productions were flops between 1954 and 1960. Add up all the profits and all the losses during that period and Broadway was in the hole for about \$500,000.



The number of Broadway productions declined from 70 in the 1949 season to 59 in 1959. And there hasn't been a new theatre built on the Great White Way in 30 years. Road performances of Broadway shows are down about 30 per cent since 1949.

The Metropolitan Opera had a deficit of \$840,000 last year. Ticket sales of all symphony orchestras cover only about half of their total expenses of \$30 million. The Philadelphia Orchestra had \$65,000 to make up in 1961. Our domestic ballet also is chronically in the red.

PROFITLESS PROSPERITY

How can an industry be doing so well on the one hand and so poorly on the other? Some of the answer becomes evident when you separate the performing arts into their amateur and professional segments. The part-time players, the week-end Walküres have accounted for much of the industry's growth—and for much of its increase in receipts.

Not that the amateur productions don't have their financial troubles. They do. But the real problems in the industry are in the professional sector.

This has great significance, for the professional sector is the “creative core” of the performing arts. Amateurs draw on the professionals for material, inspiration, and guidance. The people who pay to see amateur plays don’t want experiments, so the community theatre groups usually rely on tried-and-true Broadway scripts. Much the same could be said for the other performing arts.

Since the professional core is the creative fountainhead and since that’s where much of the financial trouble is located, we shall focus our analysis there.

The costs of raising a curtain

The financial problem of the professional performing arts is not primarily lack of attendance. The real problem is costs. Production costs have skyrocketed to the point where even full houses sometimes don’t bring in enough to meet expenses.

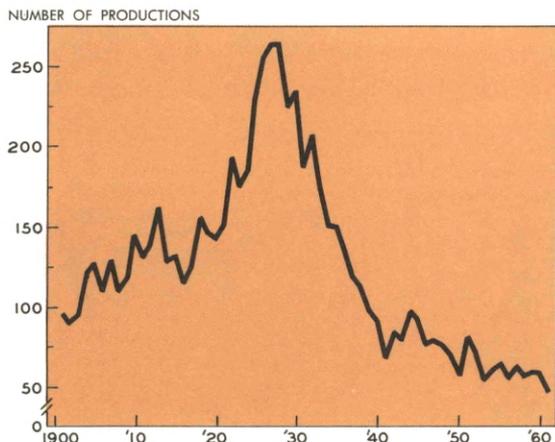
COSTS ON BROADWAY

YEAR	SHOW	CAPITALIZATION
Dramas		
1939	Life With Father	\$ 25,000
1943	Voice of the Turtle	20,000
1948	Mr. Roberts	100,000
1959	Miracle Worker	125,000
1960	Advise and Consent	150,000
Musicals		
1949	South Pacific	225,000
1950	Gentlemen Prefer Blondes	160,000
1956	My Fair Lady	400,000
1959	The Sound of Music	485,000
1960	Camelot	600,000

Most professional theatres are located in high-rent areas and reflect the general increase in center-city rents. This saddles a production with considerable overhead from the start.

Labor, however, is the principal cost item in the performing arts. This is true in many industries, but labor costs are particularly important to the arts for two reasons.

LEAN YEARS ON BROADWAY



First, unlike many other industries, the performing arts can’t automate to offset rising wages. You wouldn’t pay to watch a computer sing an aria or recite Shakespeare. There have been a few mechanical improvements backstage but they have had a negligible effect.

Second, labor in the professional performing arts industry is highly organized. Almost everybody, from actors to janitors, from musicians to curtain pullers, belongs to a union or guild.

Partly because of this, wages per performance have been raised to a high level. It’s understandable that they should be, for employment is usually intermittent.

Another cost inflator is the fact that performers and stage hands must be paid for rehearsal time when they are producing no revenue. And we have heard that the performing arts have their share of featherbedding and make-work practices.

How performances are financed

Economists tell us that private capital is attracted to the most profitable uses. If so, how do the performing arts raise the money necessary to produce shows and concerts? No sector of these

arts has managed to show a profit over the past decade as a whole.

The answer is that productions are motivated by other things besides monetary reward. At the risk of oversimplification, one could arrange these motives on a scale: at one end would be pure profit; at the other pure public service, the desire to promulgate culture.

The professional theatre would fall on the profit side of center. People invest in the theatre for the excitement and the personal associations, to be sure, but the primary reason usually is to make money. There is always the chance of finding a big hit and getting back several times one's original investment.

Theatrical productions are usually financed on a limited-partnership basis.² The producer endeavors to induce investors to put up the sum necessary to produce the show. If and when profits start coming in, they all go to the investors until their original investment is paid back. Thereafter, the investors split profits 50-50 with the producer. The odds against an investor breaking even are about 4 to 1.

Opera, ballet, and serious music would be nearer the public service end of the scale. They would be delighted to make a profit but in most cases they don't really expect one. Ticket sales very rarely cover total costs.

As a result, opera, ballet, and serious music must rely on donations and contributions to make ends meet. This money comes from several sources. Individuals are most important—people, rich and not-so-rich, who have a special interest in a particular art form and want to see it continue. This traditional source of support is dry-

ing up, some say. Certainly, it doesn't seem sufficient to maintain the arts on a scale large enough to meet the present expanded demand.

Corporations are donating increasing sums to the performing arts and so are foundations. The Ford Foundation, among others, has been particularly generous in this respect.

Certain state and local governments also have become patrons of the performing arts. The City of Philadelphia, for example, finances in part a series of free summer concerts in Robin Hood Dell, a vast outdoor amphitheatre in Fairmount Park.

WHY NOT RAISE TICKET PRICES?

When the cost of producing any product rises, one common solution is to raise the price of that product. So why don't they raise the price of admission to the performing arts—raise it enough to cover costs?

The answer depends in some measure on what ticket buyers would do. In other words, it depends on the nature of demand. Higher prices probably would discourage some potential purchasers, but that's not the real point. One has to look at total revenue.

Suppose a theatre is selling 1,000 tickets at \$5 apiece. Total revenue = \$5,000. Now let's say it raises prices to \$7. If this discouraged 200 people from attending, total revenue would actually be higher ($800 \times \$7 = \$5,600$). If 300 customers were lost, however, total revenue would be less than before ($700 \times \$7 = \$4,900$).

Put another way, how much prices can be raised, if at all, depends on how sensitive demand is to price. This can be determined to some extent by market research and other means. As far as we know, the necessary surveys have not yet been made. Some speculation on the subject, however, might be illuminating.

² There are exceptions. Sometimes one backer will finance a whole show as the Columbia Broadcasting System did with "My Fair Lady." Tent or repertory theatres make other financial arrangements. For example, Music Fair, the outfit with several tents in the Philadelphia suburbs and elsewhere, has just sold stock to the public.

Certain authorities say that higher ticket prices would not choke off a significant amount of demand. They point to the great increases in interest in the performing arts. Many productions are selling out at present prices. The practice of "scalping" tickets also seems to indicate a reservoir of demand at higher prices. For example, tickets to the hit, "How to Succeed in Business Without Really Trying," have brought many times their box office price on the black market.

Businesses buy large numbers of theatre tickets. The idea is to entertain customers and visiting firemen. Since such purchases are a tax-deductible expense, it is not likely that this demand would be seriously reduced in the face of moderately rising prices.

Attending the performing arts is an occasion for most people. It is often planned well in advance; it's not a "what'll we do tonight?" kind of thing. As a result, price may not always be the dominant factor in the demand for tickets.

Add the great postwar rise in discretionary income to the above-mentioned factors and many experts are led to believe that over-all demand is strong enough so that ticket prices generally could be raised without reducing total revenue.

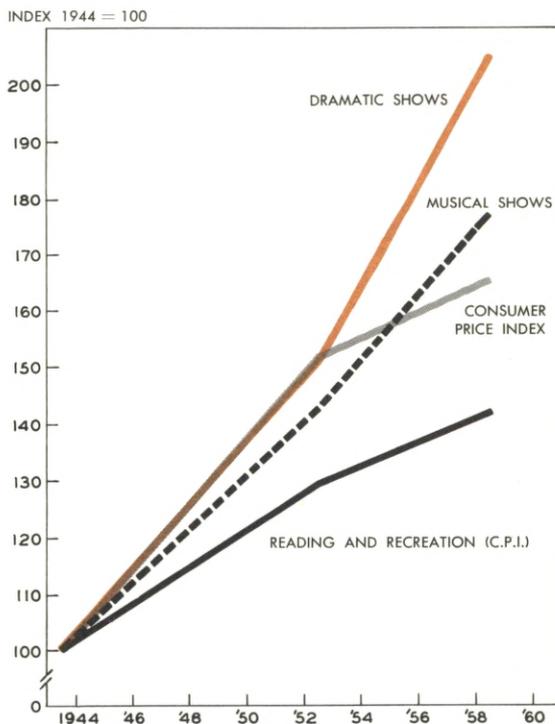
But there are definite limits. Ticket prices are already high. Prime prices on Broadway have risen faster than the cost-of-living index in recent years. Consider also that attending a performance is a luxury—you don't have to do it.

One also must remember that many productions are motivated in part by the desire to make culture available to the largest number of people. If higher ticket prices discouraged any demand at all, it would be contrary to this important goal.

At any rate, it is highly improbable that prices could be raised enough to cover costs completely. Higher ticket prices might ameliorate but won't

INFLATION DOWN FRONT

Average top ticket prices on Broadway compared to the Consumer Price Index.



solve the financial problem of the professional performing arts.

Is assistance from the Federal Government the only answer? Perhaps a bit of history will shed light on the question.

FROM COTTON MATHER TO RUDOLPH BING

The performing arts were virtually nonexistent in early Colonial America. The settlers were scattered on small farms hewn out of the forest primeval. Life was hard and people worked the sun around and tumbled into bed.

Puritanism was strong in the Northern colonies and its leaders considered all entertainment to be sinful. "Brown bread and the gospel" was their sustenance.

As cities began to grow and a leisure class developed, a few scattered theatrical companies were formed. One of the first was in Philadelphia in 1749. A play called "Cato" was put on and the actors were promptly arrested and admonished to give up the undertaking. They moved to New York and found the climate more hospitable. This may have been how the tradition of trying out plays in Philadelphia prior to Broadway was first established.

By the beginning of the 19th century, the American theatre was still in rudimentary form. There were, at that time, about 10 theatres and 100 professional actors in the entire country.

The history of serious music in America does not even begin until the 19th century. The first grand opera was presented in 1825; the first permanent symphony orchestra was established in 1842.

Only after the Civil War did the performing arts begin to flower. The country was rapidly becoming industrialized. The smoking factories and railroads spawned a new American aristocracy—the captains of commerce, the "moguls," as Steward Holbrook calls them. The moguls had vast fortunes and plenty of leisure.

Perhaps in an attempt to emulate the noblemen of Europe, the new American aristocracy—or their wives—developed appetites for the arts. But the legitimate theatre and good music were virtually unavailable in America.

When a country wants something it doesn't produce, it generally imports and so European performers were brought over to entertain the American moneyed class. But when a country relies on imports, there is often little opportunity for domestic production to develop. As the salons of Newport and New York acquired a fetish for foreigners, native Americans found little encouragement to become serious performers. This

further reduced the availability of the arts to the general public. The average American who knew nothing of good theatre and serious music now became suspicious of them. Such entertainment was considered "longhair" stuff put on for rich women by hand-kissing foreigners.

But the average American rapidly was gaining more income and more leisure. Crowded in a city, he needed something to do. He patronized minstrel shows and melodramas, for the most part.

In the 1890's, two new forms of entertainment gained wide popularity—vaudeville and burlesque. During the next 25 years, hundreds of companies toured the country bringing entertainment to audiences starved for the sight of "anything that didn't moo or cluck."

Vaudeville hit its peak in the period just before World War I. The Palace with headliners like George M. Cohan was selling out at \$2 a ticket. On Broadway, the operettas of Victor Herbert were popular.

After the turn of the century some signs of a widening popular interest in serious music appeared. The development of the Victrola was a contributing factor. The Philadelphia Orchestra was founded in 1900 and enjoyed considerable acclaim. Opera stars such as Enrico Caruso and John McCormack drew large audiences on American tours. But serious music still was pretty much the province of the upper crust.

In the 1920's, musicals such as Jerome Kern's "Showboat" became the rage of Broadway. People began taking a real interest in the amateur theatre for the first time. The movies hurt vaudeville and many theatres combined both live and film productions. Burlesque "invented" the strip tease in 1925 and enjoyed considerable success during the remainder of the decade.

In the 1930's, all the performing arts were

crippled by the Depression and by talking movies. Nevertheless, a number of important Broadway shows appeared—notably the Gershwin musicals. At the peak of its short life, the WPA Theatre Project employed 10,000 performers. It was a potent force in bringing culture to towns

THE INTERNATIONAL BALANCE OF IDEAS

In the 19th century and the first part of the 20th, America was an importer of culture. We relied on foreigners for much of our music, drama, and art.

During the same period, America was a net exporter of technology. Many of the world's great inventions originated here. According to the *Encyclopedia Americana* the airplane, cotton gin, gasoline engine, steamboat, reaper, harvester and thresher, sewing machine, submarine, telephone, telegraph, phonograph, electric locomotive, tractor, typewriter, vulcanized rubber, motion pictures, and linotype all were invented in the United States prior to 1910.

Then, after World War I, the flow of ideas seemed to change. It became more of an interchange, a two-way thing. Our scientists continued to make important discoveries but many recent inventions were made abroad and brought to America for refinement and development. Insulin came from Canada, atomic fission from Austria and Germany, jet propulsion from England and Germany. Sulfa drugs were first discovered in Germany; radar in England, color photography in France, sonar in England, modern plastics in England and Germany, television in England, modern rockets in Germany, earth satellites in Russia, and penicillin in England.

On the other hand, we lately have been exporting culture as well as importing it. American movies are popular all over the world. American tunes lead the hit parades of Europe. Foreigners have eagerly adopted our jazz, our swing, our rock 'n roll, our dance crazes, and even our strip tease. Our own musicians and singers such as Leontyne Price, Van Cliburn, Louis Armstrong, and Leonard Bernstein are welcomed all over the world. Even Russia has accorded ovations to American performers.

of modest size that previously had enjoyed nothing more than vaudeville. The Project sowed some of the seeds of the present nationwide boom in the performing arts.

As war clouds gathered in Europe, many talented performers migrated permanently to the United States. They helped to raise the quality of serious music and opera, and to make it available to wider audiences.

The performing arts sagged a bit during World War II as audiences and performers alike found more important things to do. One of the most successful musicals of all time—"Oklahoma!"—was staged in 1943, however.

After hostilities ended, a new interest in the arts was evident. So began the broad postwar boom the contours of which we already have sketched.

The principal purpose of this excursion into history is to show how the performing arts developed as privately sponsored institutions in America. We had no kings, no noblemen, no imperial courts, no dominant Catholic Church to patronize the arts and establish the tradition of central support. But we did have Puritan inhibitions and the rigors of frontier life. As a result, the higher forms of the performing arts were molasses-slow to develop in America. When they finally did emerge, they were supported by a relatively few rich individuals for their own personal pleasure. Such a situation denied many of the arts to the general public and, in fact, made the public a bit hostile to the arts.

Since our Government is guided by the vote of the majority, this hostility helped to rule out Federal Government support for many years. But today the attitude of the public has changed. The arts belong to everyone. The political climate is now more favorable for Federal Government support on a permanent basis than ever before.

THE "ANGEL" IN WASHINGTON

Last fall Secretary of Labor Goldberg brought to a head the question of federal aid to the arts. While publishing his findings on the Metropolitan Opera wage dispute, he issued a general statement on the status of the performing arts.

Secretary Goldberg said that the "American artistic scene today is alive and vibrant." He continued, "At the same time some of the foremost institutions of American culture are in grave difficulty... The individual benefactors and patrons just aren't there as they once were."

The Secretary made a number of suggestions. Prominent among them was the recommendation of federal grants to the arts. He proposed appropriations to the states, which would put up similar amounts.

The Secretary is not alone in recommending Federal Government assistance to the arts. About 20 bills providing aid of one sort or another have been introduced in Congress. Many prominent private citizens also have gone on record in favor of assistance.

The principal proposals now being discussed could be arranged into three general groups.

1. *Tax changes.* For example, the following has been recommended: Elimination of the 10 per cent tax on theatre admissions; increased income tax deductions for private contributions to the arts; special tax advantages for artists themselves.
2. *Advisory Council.* Such a group would be created to study the problems of the arts and to advise Congress and the Administration on ways to promote the arts.
3. *Grants.* Federal money could be given to the states which would match the amount and use the total "to encourage and stimulate" the arts. Another suggestion is a direct federal subsidy to promote live per-

formances where they are not now available.

Arguments for the affirmative

Those who favor federal aid to the performing arts point to the financial need. They mention the high costs and the fact that ticket revenues often do not cover expenses.

The arts cannot continue to rely on individual benefactors, the advocates of aid maintain. "As we become more and more a cultural democracy," Secretary Goldberg says, "it becomes less and less appropriate for our major cultural institutions to depend more and more on the generosity of a very few of the very wealthy."

Once the need for aid has been established, the advocates often go on to explain the importance of the arts themselves. The performing arts are a fundamental part of a nation and its culture. They are a gauge of civilization, a vital means of self-expression. They promote better understanding of life, past and present.

The necessity to make performances pay and to woo private patrons reduces creativity and innovation, it is maintained. When a producer has to appeal to the widest possible audience, he often must sacrifice quality for quantity.

The arts are an important natural resource, people say. It is just as important for the Government to take steps to conserve the arts as it is to conserve any other natural resource.

Along the same lines, it is often pointed out that the principle of federal subsidy is well established. Many other industries get special treatment of one sort or another. Oil, airlines, shipping, electric power, and farming are but a few examples.

In almost all other highly developed countries the State contributes to the support of the arts. It happens in England, Germany, France, Italy,

Austria, Russia and many more. Why can't it happen here?

A country is judged abroad by the quality of its arts. Thus, the maintenance of high quality performing arts could be an asset in the cold war. Do we want the uncommitted nations to judge us entirely by our crooners and the Twist?

Another argument that is often advanced in favor of support is the fact that our Government is already subsidizing performing arts in other countries. The State Department frequently sponsors tours of foreign countries by American artists ranging from a "Porgy and Bess" company to Dizzy Gillespie and his BeBop Band. In addition, foreign aid funds have been used to help build and support theatres and opera houses abroad.

Finally, it is pointed out that federal assistance of the arts would not be costly. Elimination of the theatre tax, for example, would reduce total federal revenue by only .0007 per cent. Grants to individual states would be measured in thousands of dollars. The program to bring the arts to outlying sections of the country is estimated to cost about \$10 million a year—half the cost of a jet bomber.

In fact, the grants need not cost the Government a penny. It has been suggested that they be financed by a new tax, say on television. The justification is that TV relies on performers that have been developed on the live stage.

For the negative

Opponents of federal aid to the arts also can marshal important arguments. Perhaps the most mentioned point is that Government dollars often have strings attached. When the Government doles out money, it naturally wants some influence over how that money is spent. Such influence could range anywhere from mere

"Philistine kibitzing" to outright control. In any case, it could well impinge on creative freedom.

It is argued that Government aid would not go to those with the greatest need but to those with the most political power. For instance, the major symphony orchestras might get a lion's share of aid although their need is not so great as that of the minor symphony orchestras. The average salary of a musician in the Philadelphia Orchestra is about \$8,000 a year; in the New Orleans Symphony it is about \$2,000. Musicians' incomes, of course, are often supplemented by teaching and other means.

Another fear is that Government aid would support a great number of marginal talents—people who, without federal largesse, would be butchers, bakers, and candlestick makers. These marginal "hangers on" would reduce the quality of the American arts.

An increasing number of people oppose the extension of Federal Government activities on general principles. The arts are a local matter, they say, and if Government support is necessary it should come from the states and municipalities.

"Let the free enterprise system rule the arts," others say. In a democracy, the people themselves should decide the type of performance they will get. Those enterprises that can cover their costs—by ticket sales and private gifts—will survive and those that can't will disappear. It isn't fair to take money from all the people and use it to support an art form that only a relatively few are interested in.

This argument goes on to question the right of any individual or group to determine what American culture will be. Certainly, no Government official should say that we should have operas, ballets, and symphonies when the people

aren't willing to pay enough to cover the costs of production. Besides, it is argued, operas, ballets, and symphonies are essentially old-fashioned, European art forms.

We in America have developed our own original art forms which are more suited to American tastes and which are self-supporting. In the musical play (comedy is no longer the applicable word), we have taken opera, ballet, and drama and modernized them into a unique and popular form of entertainment. Dixieland jazz is another native American art form, which has survived the test of the market place. The same could be said for our folk songs, modern jazz, and many forms of the drama.

If enough people want grand opera and are willing to pay for it, we'll have grand opera, anti-aid groups point out. Otherwise we won't. If people would rather have Benny Goodman or "West Side Story," that's what they will get. Who but the people who buy tickets should say one art form is more cultural or better for the nation than any other?

CONCLUSION

The performing arts differ in many ways from other industries—the strength of the profit motive is just one example. Nevertheless, all private enterprises, the arts included, must face up to the same hard facts of financial life. They must cover their costs in one way or another if they are to survive. It is possible that some of the things other industries have done about high and rising costs might be applicable to the performing arts.

Capital Spending. Many firms today are modernizing their plant and equipment. It is often expensive but it can pay off in increased efficiency which in turn may lead to lower unit costs.

Many theatres and concert halls are old and antiquated. Broadway is still using theatres built over 50 years ago. In addition, many theatres are small which severely limits potential income. Perhaps new and larger theatres would lessen the problem of rising costs. There are many new and revolutionary designs which might be successful.

A number of cities are planning and building new stadiums for sports and it now is feasible to cover them with a dome. Why not consider designing new stadia to accommodate concerts and other performances as well as football and baseball? The dome would permit year-round use and electronics might solve many acoustical problems.

Research and Development. American industry is spending huge sums on research to develop new products and processes. Perhaps the performing arts could promote innovation in some organized way. Maybe creative people could be encouraged and subsidized by the industry itself—through special schools, grants or other means.

Maybe the performing arts product could be changed to appeal to more people—operas in English, more concerts of semi-popular music, more action on the stage. Walter Kerr, the dramatic critic, says we have "consciously and deliberately created for ourselves an unpopular theatre." The theatre has recently been emphasizing characterization and social protest at the expense of plot, movement, and excitement. Perhaps a change in the Broadway bill of fare would attract more customers.

Market Surveys. New products often are tested on a panel of "typical consumers" before being sold. It helps manufacturers screen out the "flops" before large marketing expenditures have been made. Is it possible to test new scripts and ideas on a selected panel of theatre-goers? It certainly would not be an infallible guide but

it might provide a hint of real audience reaction without the expenses of actual production.

Perhaps the performing arts could learn more about the general demand for their products in a scientific manner. Maybe the sensitivity of demand to price increases could be probed. Trade associations are suitable agencies to sponsor such work.

Following Customers. Several mainstream population movements have taken place in the past several decades. One is the “explosion” from city to suburb, another is the movement from the Northeast section of the country to the Southwest and West. Both are away from the professional cores of the performing arts.

Retailers and other businesses have profitably followed these movements. Perhaps the performing arts could, too. Possibly year-round theatres would be successful in the suburbs. The “tents”

have already proved the idea works for summer musicals. More road companies could tap the now nationwide demand for professional performances if expenses were controlled. Perhaps additional permanent companies could be successful in regional centers now that such areas are accounting for an increasing share of the nation’s business and commerce.

One of the most immediate needs in the performing arts is for better statistics—particularly financial statistics. At present, there is little information available to support thorough analysis. We are happy to report, however, that two important studies now are under way of the theatre, and for the theatre. They may yield information that will help add profit to the prosperity in the performing arts.

Curtain.

BANK PROFITS IN THE WAKE OF RECESSION

The year 1961 was one of economic recovery in the Third Federal Reserve District as well as in the nation. Profits at district banks—up over 1960 levels—appeared to share in the general economic advance.

Appearances, however, were somewhat misleading. Closer inspection reveals the increase in profits was directly traceable to the large reserve city banks; and these banks registered increases only because they took capital gains on securities. Both reserve city and country banks experienced declines in net current earnings as rising expenses wiped out increased returns on both loans and securities.

The year in review

Gross national product increased over 7 per cent from the first to the fourth quarter of 1961. But many district bankers—particularly at the large city banks—experienced a disappointing demand for loans. These bankers anticipated a substantial increase in demand for loans with economic recovery; it simply never materialized.

During the year, however, inflationary pressures were for the most part dormant. Federal Reserve policy could therefore focus on stimulating economic expansion. In line with a relatively easy money policy, interest rates did not advance rapidly through most of the year and

bank deposits and earning assets increased substantially.

For the district as a whole, earnings on both loans and securities increased; increased earnings on securities were more important at reserve city banks and increased earnings on loans were more important at country banks. But expenses increased rapidly at both classes of banks. Wages and salaries advanced considerably and so did interest payments on time deposits.

The entire increase in bank deposits in 1961 over 1960 levels—approximately \$424 million—took the form of time and savings deposits. Interest paid by district banks increased almost \$13 million.

Relatively stable interest rates during the year limited increased earnings for the most part to the additional assets banks acquired. But with rates remaining at levels considerably below those prevailing during the expansion in 1959 and early 1960, security prices were still very strong.

Reserve city banks took the opportunity to realize capital gains on securities; at the same time, they reduced the level of capital losses from that incurred the year before. As a result, they were able to increase their net profits despite a small drop in net operating earnings. Profits after taxes showed an increase of well over \$7 million.

Country banks, on the other hand, experienced a decline in net profits as well as net earnings. While they also took substantial gains on securi-

ties, these gains were lower than the amount taken last year. Profits after taxes declined about \$1 million.

So while the district's economy recovered considerably during the year, bank profits and earnings continued to reflect conditions characteristic of recession: relatively weak loan demand, relatively stable interest rates at levels below those prevailing in the previous expansion, and a large increase in the volume of time and savings deposits.

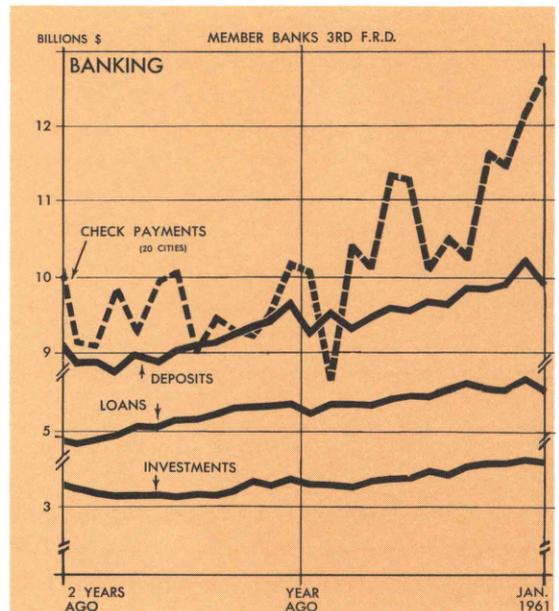
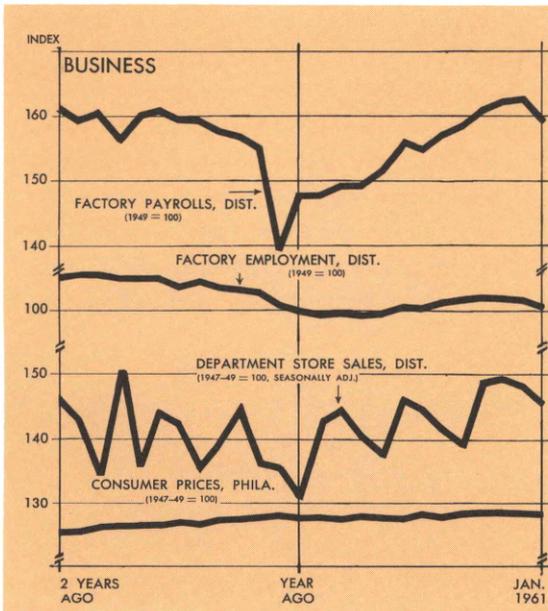
EARNINGS AND PROFITS
THIRD FEDERAL RESERVE DISTRICT MEMBER
BANKS

(Dollar amounts in millions)*

	1961	CHANGE IN	
		AMOUNT FROM 1960	PER CENT FROM 1960
All District Banks			
Net current earnings	153.9	- 3.3	- 2.1
Total recoveries and transfers from reserves	20.8	+ 5.6	+ 36.8
Total losses and transfers to reserves	32.0	- 8.1	- 20.2
Profits before taxes	142.8	+10.5	+ 7.9
Taxes on income	56.0	+ 3.9	+ 7.5
Net profits	86.8	+ 6.6	+ 8.2
Cash dividends	47.7	+ 3.0	+ 6.7
Reserve City Banks			
Net current earnings	76.6	- 0.4	- 0.5
Total recoveries and transfers from reserves	11.2	+ 7.1	+173.2
Total losses and transfers to reserves	14.9	- 6.7	- 31.0
Profits before taxes	73.0	+13.5	+ 22.7
Taxes on income	31.8	+ 5.9	+ 22.8
Net profits	41.2	+ 7.6	+ 22.6
Cash dividends	24.0	+ 1.9	+ 8.6
Country Banks			
Net current earnings	77.3	- 2.9	- 3.6
Total recoveries and transfers from reserves	9.6	- 1.5	- 13.5
Total losses and transfers to reserves	17.1	- 1.4	- 7.6
Profits before taxes	69.8	- 3.0	- 4.1
Taxes on income	24.2	- 2.0	- 7.6
Net profits	45.6	- 1.0	- 2.1
Cash dividends	23.7	+ 1.1	+ 4.9

* Detail may not add to totals due to rounding.

FOR THE RECORD...



SUMMARY

	Third Federal Reserve District		United States	
	Per cent change		Per cent change	
	Jan. 1962 from		Jan. 1962 from	
	mo. ago	year ago	mo. ago	year ago
MANUFACTURING				
Production.....	....	....	0	+12
Electric power consumed....	+3	+18	....	....
Man-hours, total*.....	-2	+4	....	....
Employment, total.....	-1	0	-1	+3
Wage income*.....	-2	+8	....	....
CONSTRUCTION**	-4	+29	-2	+7
COAL PRODUCTION	+3	+8	-1	+11
TRADE***				
Department store sales.....	-2	+10	-4	+5
Department store stocks.....	0	+7		
BANKING				
(All member banks)				
Deposits.....	-3	+7	-3	+8
Loans.....	-3	+5	-2	+7
Investments.....	0	+9	+1	+11
U.S. Govt. securities.....	0	+11	+1	+9
Other.....	-1	+4	0	+16
Check payments.....	+4†	+25†	+3	+14
PRICES				
Wholesale.....	0†	0†	0	0
Consumer.....	0†	0†	0	+1

*Production workers only.
 **Value of contracts.
 ***Adjusted for seasonal variation.

†20 Cities
 ‡Philadelphia

LOCAL CHANGES

	Factory*				Department Store†				Check Payments	
	Employment		Payrolls		Sales		Stocks		Check Payments	
	Per cent change Jan. 1962 from		Per cent change Jan. 1962 from		Per cent change Jan. 1962 from		Per cent change Jan. 1962 from		Per cent change Jan. 1962 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Lehigh Valley...	0	+6	-1	+16	....	....	....	....	+10	+23
Harrisburg.....	-3	+1	-2	+8	....	....	....	....	+10	+12
Lancaster.....	0	+2	-1	+15	-6	+6	-3	+3	+11	+19
Philadelphia....	-1	0	-1	+6	-1	+11	+1	+10	+3	+25
Reading.....	+1	+3	0	+14	-4	+12	+13	+5	+15	+21
Scranton.....	0	+2	+1	+10	0	+10	0	-4	+6	+4
Trenton.....	-3	-1	-4	+12	-6	+4	+14	+8	-3	+10
Wilkes-Barre...	+1	-1	-2	+6	-3	+6	-2	+1	+11	+16
Wilmington....	-7	-4	-9	0	-1	+15	+5	+12	+3	+51
York.....	-1	-1	0	+5	-11	+7	-8	+16	+7	+7

*Not restricted to corporate limits of cities but covers areas of one or more counties.
 †Adjusted for seasonal variation.