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Late last month, New York Mayor Rudolph W. Giuliani proposed that the city spend a record $1.2 billion over the next 10 years to either renovate or expand the Lincoln Center for the Performing Arts, the Metropolitan Museum of Art, the Solomon R. Guggenheim Museum, and several similar institutions. The plan would usher in the city's largest program of cultural building in more than a century. During the past 30 years, New York has shown the way for cities from Houston to London to diversify their economic bases from manufacturing industries to banking, law, consulting, and information technology. Now, the Big Apple sees cultural institutions as new engines of economic development. Is this a wise course for the city and for the arts themselves?

There's no doubt that culture is good business. Museums, nonprofit art galleries, and theaters together have been one of the fastest growing job categories in New York. Studies by the N.Y./N.J. Port Authority and others describe some $10 billion in annual revenues that such institutions generate when you include hotels, restaurants, and transportation services.

To cite just one example, McKinsey & Co. estimates that the new Guggenheim museum proposed for lower Manhattan would attract 2.5 million visitors annually, earn $570 million in revenues for the city, generate from 4,300 to 5,500 permanent new jobs, and produce $26 million per year in tax revenues. This doesn't include construction of the 40-story building, nor the beneficial impact on surrounding real estate.

TOO COMMERCIAL? A flourishing cultural environment has also become an advantage for urban centers competing globally. Lifestyle enhancements are a key way to attract and retain skilled people essential to the workforce and tax base. No wonder cultural projects are thriving from Boston to Seattle, and major expansions have recently occurred in such museums as the Louvre, the Hermitage, and the Tate Gallery. Even Tung Chee Hwa, the beleaguered governor of Hong Kong, told me that one of his major preoccupations is to enhance local cultural attractions for competitive reasons. One of the best examples of the power of culture to generate new economic activity is the Frank Gehry-designed Guggenheim museum in Bilbao, Spain, which has revived the old Basque industrial city.

Museums themselves are becoming global businesses. Nowhere is this clearer than at the Guggenheim, where director Thomas Krens is creating a network of museums--some stand-alone, some partnerships-- stretching from Manhattan to Bilbao, Berlin, Venice, and St. Petersburg. Mirroring the behavior of international tech-savvy corporate CEOs, Krens is also teaming up with GE Capital and Japan's Softbank Corp. to create a powerful cultural portal on the Internet that will bring artistic exhibitions from around the world directly into a person's living room.

This thickening nexus of economic development and culture does, however, raise potential problems. It's important to ensure that public funds not be used to subsidize the relatively well-off, while explosive urban problems go unattended. So far, New York gets high grades; its investment in cultural institutions amounts to only 2% of the city's 10-year capital budget. But its current $2 billion budget surplus is a fleeting luxury, and painful trade-offs loom as Wall Street's business and related tax payments slow, and spending pressures mount for education, hospitals, mass transit, and affordable housing.

New York must also be sure to get the right quid pro quo for the use of public money. Right now the leverage looks good, as planned public investments of $1.2 billion are designed to attract at least twice that in private donations. Another positive trend: Institutions like the American Museum of Natural History and the Museum of Modern Art are mounting educational programs, which, combined with new information technology, reach an increasingly broad range of people. As Peter F. Vallone, speaker of the City Council, says: "We are making an investment, and the city needs a very tangible return."

Cultural institutions themselves need to worry about overly commercializing their programs in order to compete for economic development funds. The Guggenheim's Krens, who has been criticized for such popular exhibitions as a recent show on motorcycles, fires back: "It is facile to think that you can't make the museum experience fun, surprising, and intellectually stimulating, while also protecting the integrity of the art itself." Says Ellen Futter, president of the American Museum of Natural History: "You have to be authentic and true to your specific mission, or else you will lose your value to attract visitors. We are not in the business of economic development. That is a fortunate by-product."

As the economy slows and there's more demand on shrinking public funds, there are sure to be tough choices ahead for the city and the arts community. But for now, most everyone in these overlapping government and culture circles seems to be doing the right thing. Hats off to New York.

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