

50 Public support

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When cultural economists look at the public support for the arts, they distinguish between two aspects: the *positive* issue where one analyses the extent of support by the government, and the *normative* issue whether or not the arts should be publicly supported and, if so, to what extent. In the second case, the cultural economist desires to inform the public about an appropriate policy, a welfare-enhancing public policy towards the arts.

How does government support the arts?

Throughout history, governments have been heavily involved in the arts. Table 1 provides an overview of direct public spending on the arts in various countries in 1994. The table should be interpreted with great care

Table 1 Government support for the arts in ten countries, 1994 (direct spending in dollars per capita)

Australia	24	Ireland	9
Canada	44	Netherlands	48
Finland	112	Sweden	65
France	57	United Kingdom	26
Germany	90	United States	6

Source: Arts Council of England, 'International Data on Public Spending on the Arts', March 1998, reproduced in Hellbrun and Gray (2001, Table 12.1, excerpt).

because what counts as 'arts expenditure', and what falls in the domain of 'government', differs considerably between the countries listed. Nevertheless, the table is able to show widely different amounts of direct public expenditures for the arts. The United States and Ireland spend much less, and Finland and Germany substantially more, than the other countries shown in the table. The source of public support also differs widely. Thus, for example, in Ireland nearly 90 per cent comes from the central government, while in Germany it is less than 10 per cent, the bulk coming from the Länder and cities.

It is important to realize that a substantial part of the public support for the arts is given in an indirect way, by so-called 'tax deductions'.

Individuals' and firms' gifts to the arts may be exempt from tax. Hence, the higher the applicable (marginal) tax rate, the less costly it is to give to the arts. It has indeed been observed that a reduction in tax rates led to lower donations to the arts. The extent of tax expenditure for the arts varies greatly between countries, and often depends on a great many conditions. It is therefore impossible to indicate its size, but most cultural economists assume that it is quite substantial, and often larger (for example for the United States) than direct expenditures.

There is a basic difference between the two types of support. In the case of direct expenditure, the decision about its size and the recipients is taken in the political sector, often by government bureaucracy. In the case of tax expenditures, the support decision is delegated to individuals or firms. This may lead to a different size and type of art being supported.

Many developed economies have constitutional provisions for supporting the arts. By necessity, such rules have to be general. The effect on the arts depends to a great extent on how the political actors and the public officials apply them. There is considerable evidence that they prefer to support well established cultural institutions providing generally accepted art, such as, for instance, opera houses performing popular classical pieces by Verdi, Mozart, Puccini or Rossini. In contrast, more controversial and experimental art has difficulty in getting public support, because the public decision makers who depend on public opinion and re-election shun scandals, which are more likely to be provoked by this kind of art. Indirect and via tax expenditures is less subject to such pressures and may bring about the support of a broader range of artistic activities.

Should government support the arts?

Cultural economics has paid much attention to the question of what the rationale for the support of the arts could be. The analysis is based on welfare theory, which focuses on the question of whether the private market misallocates the resources in the domain of the arts, and in particular why too little art is provided for if it is left to the price system. It is useful to distinguish between the demand and the supply side.

Market failures on the demand side

According to welfare economics, too little art is supplied if the markets do not reflect all the preferences of individuals for enjoying art. The following types of demand are not fully, or only partially, reflected on markets:

1. *External benefits in production and consumption.* The provision of artistic activities may yield benefits, or positive external effects, to individuals and firms not involved in the production process. They reap a

benefit for which they do not pay, and which the art producer in a market therefore does not take into account. Similarly, part of the benefits of artistic production may go to individuals and firms which do not pay for such consumption, and which therefore do not influence the production decisions on art markets. In both cases, production is too small compared to what is socially optimal.

2. *Non-market demand.* People may value the option of visiting an artistic production through, in fact, they never spend any money to actually attend themselves. People may even know beforehand that they will never themselves attend an artistic production but they value the existence of a respective activity. Some people may not themselves value art, but consider it a *bequest* for future generations. In many cases, artistic production is closely identified with *national identity*, *prestige* and *social cohesion*. Examples are famous opera houses, theatres, orchestras and museums. Artistic production may also contribute to a *liberal* and *broad education* and lead to *social improvements* among the participants. The experimental nature of (some) artistic endeavours may foster innovation and risk taking in quite different parts of society. In all these cases, the producers of art are not (fully) compensated in monetary terms for the benefits created. As a result, they are sometimes not able to provide the respective cultural activity at all, or only on a smaller scale than would be socially optimal.

3. *Art as a public good.* Art may be of a collective nature, in the sense that nobody (including those not paying) can be excluded from enjoying it, and that the consumption of one person does not reduce the consumption of other persons. This condition may apply to culture as a whole, or only some parts of it (for example, the beauty of a cultural city may be enjoyed by many people without their having to pay specifically for such a benefit). In contrast, the cultural consumption provided by, say, opera houses or museums, is not a public good, because people not paying may be, and generally are, excluded. Moreover, in these cases there is rivalry in consumption; those who occupy a seat, or those who visit a museum, occupy space which is then no longer available to others. But insofar as culture is a public good, the suppliers are incompletely compensated for their efforts, and supply is lower than socially optimal.

Not all spillovers to other sectors induced by the arts constitute market failure. This holds in particular for the multiplier effects generated by expenditures for the arts. They increase the demand for other economic activities, such as hotels, restaurants or travel services, and thus work through the price system. No misallocation of resources is thereby created.

The many studies of the so-called 'impact effects' of cultural activities (such as, for example, musical festivals or special exhibitions), which measure the additional economic activity induced, can therefore not be taken as a rationale for government support of the arts. Such studies, moreover, are often misplaced, as they indicate the additional turnover created instead of the added value. They also tend to disregard the alternatives available, that is, whether, say, a sports event, rather than the cultural activity considered, would not generate even more economic activity.

On the demand side, further arguments for government support of the arts relating to aspects beyond efficiency may be proposed. Particularly important ones are the following:

1. *Merit goods.* Some cultural activities have, from the point of view of society, been described as being desirable to provide larger quantities than the individual consumers would wish to purchase in the market. According to this view, consumer preferences are not to be accepted, but rather the political decision makers have to decide according to 'inherent' worth or to what the majority of the population wants. Obviously, the idea of merit goods clashes with the basic idea in economics that the consumers know best what suits them. In many cases, 'merit wants' has just been used as another term for externalities and public goods connected with the arts.
2. *Lack of information.* The fact that consumers are often badly informed about the supply of art has often been used to argue for government intervention. While the fact can hardly be disputed, it is necessary to face the question of whether consumers' limited information is a rational consequence of their being little interested in the arts.
3. *Irrationality.* Individuals may be particularly subject to behavioural anomalies and paradoxes when they act in the area of culture, because the area eludes easy and clear definitions or categorizations. It may be argued that the individuals therefore underrate the utility provided by culture. The government should therefore support the arts to make up for the lack in demand.
4. *Income distribution.* The consumption of cultural goods should be open to all classes of society and should not be reserved for the rich. Consequently, the government should support the arts in order to make its consumption available to persons who are not able to pay much money for consuming them.

Market failure on the supply side

The supply of art may deviate in four major respects from the ideals of a well-functioning market:

1. *Imperfect competition.* The market for many cultural goods and services is characterized by monopolistic actors who offer smaller quantities at prices higher above marginal costs than competitive suppliers would. The government might correct this market failure by supporting additional supply. However, this argument does not apply to all areas of the arts. Thus auctions of art objects are an example of an almost perfectly competitive market.
2. *Declining cost.* Art supply may be subject to increasing returns to scale, which means that additional quantities may be produced at lower average cost. In that case, marginal cost is lower than average cost. The condition of efficient pricing, namely that price equals marginal cost, produces a loss. If the government wants to impose marginal cost pricing, it must support the suppliers by covering the difference between marginal and average cost.
3. *Productivity lag.* Suppliers in the live performing arts are subject to continuous cost pressure. They find it difficult, if not impossible, to increase labour productivity, but they have to pay similar wage increases to those in the rest of the economy. As a result, there is a tendency towards continually increasing deficits. In the long run, the performing arts can only supply if the government makes up for these deficits.
4. *Income distribution.* Artists tend to be, on average, poorer than other members of society. Egalitarian arguments may therefore constitute a reason for government to support persons active in the cultural sector.

Counter-arguments

Some cultural economists committed to free market ideas remain unconvinced that the market failures discussed on the demand and supply side really exist to any relevant extent. The *external effects* are claimed to be small, or even non-existent, or at least not larger than those generated in many other areas of the economy. There is some truth in this argument. It is indeed possible to identify some external effects in most economic activities. However, most cultural economists, on the basis of both theoretical and empirical considerations, are convinced that cultural activities produce more extensive and important positive externalities than elsewhere.

The *undesired distributional aspects of cultural demand* have also been thrown into doubt. It has been argued, and also in some instances empirically shown, that government support of the arts often achieves the opposite of what is intended. High-income recipients are the principal consumers of cultural services, so that they are also the main beneficiaries of government support. This has been illustrated by the example of highly subsidized European opera houses, which are mainly attended by persons

of above-average incomes, or younger persons (students) who will later in their lives enjoy above-average incomes (that is, people with above-average lifetime incomes). While this argument corresponds to the facts, its relevance should not be overestimated. The consumption of artistic goods and services is certainly not only undertaken by the rich, not least because much cultural consumption requires considerable time (for instance, an opera performance takes a whole evening) which, owing to the opportunity costs of time, is more expensive for high-income recipients. It is in general not the richest part of the population which benefits from publicly supported art but the (upper) middle class, which has sufficient time available for consumption.

As to the *undesired distributional effects on the cultural supply side*, it has been argued that the governmental support tends to favour the successful and therefore richer artists. This indeed applies to some forms of government support. In the case of opera houses, for example, the high subsidies given by governments help to raise the already high incomes of the most successful singers and maestros. But it is quite impossible to generalize this observation. A great part of government support goes to artists with low, and sometimes very low, lifetime income, and thus works in the desired direction.

With respect to *declining costs and the productivity lag of cultural supply*, it has been claimed that they exist in many other areas of the economy and that they can be overcome by suitable measures. In particular, revenue can be raised by introducing prices which capture the rents generated to the consumers by the cultural activity. Thus price differentiation enables the setting of high prices for inframarginal cultural consumers with a high consumer rent, while still setting prices equal to cost for the marginal consumers. Cultural suppliers subject to the 'cost disease' have various possibilities for productivity increases. Productivity can be raised, among others, by introducing more capital-intensive production, by seeking the substitution of actors by technological means, by choosing plays with a smaller number of actors, or by having actors play several roles. Clearly, the possibilities for a particular performing arts supplier to do so without lowering the quality of performance are severely limited. Nevertheless, empirical analyses suggest that they do exist. Moreover, productivity in the live performing arts may be on the increase owing to indirect effects. Thus, for example, owing to improved travelling conditions, an actor or a singer may perform at many more venues than was the case before, which increases his or her overall productivity. It should also be noted that the productivity lag only applies to the *live* performing arts and much less, if at all, to other forms of the performing arts via television, radio, video or film. Indeed, these other forms constitute an enormous productivity increase in the arts,

(because a given live performance can be extended at very little, and sometimes even zero, cost to large audiences, sometimes even being broadcast to millions of people).

Cultural producers, faced with high costs relative to revenue, have several possibilities for avoiding running at a loss. Important ones are to raise revenue by collateral activities, such as running a shop (within the cultural venue and outside), a cafeteria and restaurant, renting out the premises for other activities and seeking support from private and corporate sponsors. Many art organizations have demonstrated that a great deal of income can be generated in that way. But it should not be overlooked that the possibilities are severely limited, for several reasons. One is that many art institutions have little scope to engage profitably in such profit-making, most importantly because they are not glamorous enough to attract sufficient visitors and sponsors. This is the case for many local and regional suppliers, who nevertheless produce worthwhile art. Another reason is that such profit-oriented activities may threaten the content and quality of art. Cultural producers should not lose sight of what they stand for, and try to become 'entertainers', not least because they are likely to lose out against the established entertainment industry. This danger is real: some museums, for instance, have gone quite far in this direction by continually trying to feature 'blockbuster' exhibitions of doubtful artistic quality which, moreover, are in many cases also a failure from the commercial point of view. The profit-making potential is also limited because the cultural suppliers may thereby lose their non-profit status. This most obviously holds for the museum shops run outside their premises; say in large shopping centres. If this status were lost, they would be subject to many additional taxes, and donations would no longer be exempt from tax. Both consequences would threaten the very existence of many, if not most, cultural suppliers and would therefore have counterproductive effects. Clearly, if the 'private' opera houses and museums in the United States were no longer classified as 'non-profit-making', donations would fall drastically and they would hardly be able to survive.

Comparative view

Even if market failures have been theoretically and empirically identified for the arts, they constitute at best a *prima facie* argument for public support. It must be taken into account that government intervention is also subject to failure. The Economics of Politics (Public Choice) discusses many reasons why the decisions taken in the political process may systematically deviate from the preferences of the population. Most importantly, politicians are motivated by the need for re-election rather than by any direct incentive to provide welfare-maximizing cultural policies. As elections take place only

every fourth or fifth year, they are only insufficiently controlled by the voters. They tend to develop into a political class of their own and to a considerable extent decide according to their own taste to what extent, and how, culture is to be supported. Political failures are also introduced by the behaviour of the public bureaucracy which, because of its informational advantage, has large discretionary power to undertake a cultural policy of its liking. At the same time, both politicians and public officials are exposed to the influence of pressure groups. As a result, they tend to favour those cultural suppliers who are well organized, which in most cases boils down to concentrating the funds on a few large and well-established cultural suppliers (such as opera houses, national theatres and orchestras). In contrast, new, unorthodox and experimental art suppliers find it difficult to get much public aid, which tends to hamper creativity in the arts.

To gain a balanced view, it is necessary to compare the extent of market and political failure with respect to cultural issues.

Constitutional issues for and against the public support of the arts

The arguments so far presented in favour of or against publicly supporting the arts are informed by the notion of market and political failure, respectively. But it can be argued that the world is imperfect. The idea of failure compared to an ideal situation is then of little relevance, because the whole economy and society is dominated by failures. According to this view, it does not make sense to identify the extent to which the cultural sector deviates from ideal market, or political conditions, as (nearly) all sectors in society do so to a significant extent. A more useful approach is to compare the sectors directly with each other. The question then becomes whether the cultural sector receives more or less public support than other sectors, and whether such support improves the lot of the population. The first part of the question is easy to answer: the cultural sector does receive considerable support from the government but it is tiny compared to that of other sectors, such as agriculture, education, transport or defence. The second part of the question cannot be answered directly, at least as long as it is agreed that there is no such thing as a collective social welfare function, which would enable us to evaluate and compare the performance of the various sectors. While such an evaluation is not possible in an empirically relevant way, the issue can be successfully approached by moving to the constitutional level of analysis. The support of a sector by the public must be subjected to a generally accepted *decision process*. In a democracy, such support must be approved by the citizens. In a representative democracy, the decisions taken by a duly elected parliament and government are taken as legitimate, even if they are not perfect. In a democracy with direct participation rights of the population via popular referenda (as in various

states of the USA, in Australia and Switzerland), the voting outcome to specific propositions, and the corresponding level of support for the arts, is taken as legitimate.

Empirical research indicates that the citizens are very willing to support the arts with substantial funds if asked to decide in referenda. The fear sometimes raised that the population is not able to judge issues connected with culture, and will therefore reject the support of the arts by public means, finds no justification at all. In the case of both types of democracy, by implication, whatever has been decided in the political process, with respect to the support of the arts and other sectors, must be assumed to fulfil the wishes of the population. In contrast, when the democratic process is violated, or when the decision process is taken in an authoritarian or dictatorial way, the public support for the arts (or for any other sector for that matter) does not reflect the wishes of the population. In that case, the art supported conforms to what the people in political power consider to be 'art'. Only in the case of highly cultured rulers (an example are the Medici in Italy of the Renaissance) will the art publicly supported be of lasting value. In the other cases, the activities of 'artists' who produce for the benefit of the authoritarian rulers are promoted (an example is the socialist realism promoted by Stalin).

An important constitutional decision concerning the public support of art refers to whether decision making is centralized or takes place in a federal system of government. In the latter case, art suppliers do not solely depend on one public authority but can try out their ideas on several public donors. This raises the possibility and incentives for innovative art.

See also:

Chapter 2: Applied welfare economics; Chapter 48: Principal-agent analysis; Chapter 49: Public choice; Chapter 57: Tax concessions; Chapter 61: Welfare economics.

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