

# Chapter 15

## Public Support of the Arts



**Abstract** The supply of art deviates in several respects from the ideal of a well-functioning market. Deficits continually increase. On the demand side, problems are caused by merit goods, external benefits in production and consumption, and public goods. People value the options, existence, bequest, education, and prestige connected to the arts. These failures seem to speak in favour of government stepping in. However, government intervention is also liable to failure. Decisions taken in the political process may deviate systematically from the preferences of the population. Nonetheless, citizens are quite willing to support the arts with substantial funds if asked to in popular initiatives and referenda.

**Keywords** Well-functioning market · Market failure · Declining cost · Productivity lag · Income distribution · Merit goods · External benefits · External cost · Public goods · Non-use values · Existence value · Bequest value · Education value · Prestige value · Government intervention · Government support · Art expenditures · Tax expenditures · Donations · Preferences · Constitution · Democracy · Popular initiatives · Popular referenda

### 15.1 Government Support of the Arts

Governments have been closely involved in the arts throughout history. The church, kings and queens, other aristocrats, and city councils were the main supporters of the arts up to the 20th century. Some private patrons and educational establishments financed libraries, archives, and museums. Nevertheless, some artists used the private market to earn income. Painters sold their works to private collectors. In the 18th and early 19th centuries, composers such as Wolfgang Amadeus Mozart and Ludwig van Beethoven charged an admission price for their public concerts. In the last century, democratic governments increasingly engaged in patronage roles. They created institutions such as arts councils and ministries of culture, mainly supporting painting and sculpture, theatres and opera houses, and classical music.

### ***15.1.1 Direct Government Expenditures***

The extent of direct subsidies to the arts and culture between countries is difficult to measure. What counts as “art expenditure” or “expenditures for culture” and what falls in the domain of “government” differs considerably between countries. It very much depends on the definitions used. Therefore, no reliable comparisons are available. However, it is known that countries spend widely differing amounts of money on direct public expenditures for the arts. The United States spend much less, and Finland and Germany substantially more, than other countries. The source of public support also differs widely. Thus, for example, in Ireland nearly 90% comes from the central government, while in Germany it is less than 10%, the bulk coming from the Länder and cities.

### ***15.1.2 Indirect Public Support of the Arts***

A substantial proportion of the aid given to the art is organized in an indirect way: people donating money to the arts can deduct it from their tax bill. Firms supporting cultural activities and items do not have to pay any revenue or profit tax on such expenditures. The higher the applicable marginal tax rate, the less costly it is to give to the arts. The extent of tax deductibility for the arts varies greatly between countries and depends on many different conditions. In many countries, such as the United States, this form of aid is substantial and is often larger than direct expenditures.

## **15.2 Arguments for the Public Support of the Arts**

An economic analysis of support for the arts and culture focuses on the question of whether the private market misallocates resources in this domain, and in particular why too little art is provided if left to the market system.

It is useful to distinguish between the supply and demand sides.

### ***15.2.1 Market Failure on the Supply Side***

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

- *Imperfect competition.* Quasi-monopolistic actors characterize the market for many cultural goods and services. They offer smaller quantities at higher prices above marginal costs than competitive suppliers would. The government might correct this market failure by supporting additional supply. However, not all art

- supply is subject to imperfect competition. Auctions of art objects are an example of an almost perfectly competitive market.
- *Declining cost.* The production of art may be subject to increasing returns to scale. Additional quantities may be produced at lower average cost, in which case marginal cost is lower than average cost. However, 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 suppliers by covering the difference between marginal and average cost.
  - *Productivity lag.* Suppliers in the live performing arts may be subject to the cost disease. They find it difficult, if not impossible, to increase labour productivity but have to increase pay in accordance with the rest of the economy. As a result, deficits continually increase. If these conditions hold in the long run, the performing arts can only exist if the government subsidizes the difference between lagging labour productivity and general wage increases.
  - *Income distribution.* Artists are, on average, less well off than other members of society. Egalitarian arguments may constitute a reason for government to support individuals active in the cultural sector.

### 15.2.2 *Market Failures on the Demand Side*

Too little art is supplied if markets do not reflect all the preferences of individuals for enjoying art. The following types of demand are not fully, or only partially, reflected by markets:

- *Merit goods.* From the point of view of society as a whole, it may be considered desirable to provide larger quantities of cultural goods and services than the individual consumers would wish to purchase on the market. If that is so, consumer preferences are not accepted. The political decision-makers have to decide according to “inherent” worth or to what the majority of the population wants. The idea of merit goods clashes with the basic proposition in economics that the consumers know best what suits them. In many cases, merit wants are brought forward by suppliers of cultural services not for intrinsic reasons but to gain public support.
- *External benefits in production and consumption.* The provision of artistic activities may yield benefits to individuals and firms not integrated in the production process. They reap benefits for which they do not pay, and which art producers in a market therefore disregard. Similarly, part of the benefits of artistic production may go to individuals and firms that do not pay for such consumption, and which therefore do not influence the production decisions in art markets. In both cases, production is too small compared to what is socially optimal.
- *Non-market demand.* People may value the option of visiting an artistic production though, in fact, they never spend any money on actually attending one. People may also value the existence of an 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. Artistic production may also contribute to a broad liberal education among the participants. The experimental nature of some artistic endeavours may foster innovation and risk taking in parts of society. The producers of art are not fully compensated in monetary terms for these benefits created. As a result, they are sometimes not able to provide the cultural activity at all, or only on a smaller scale than would be socially optimal.

- *Art as a public good.* Art may be of a collective nature; nobody can be excluded from enjoying it, including those not paying. Moreover, the consumption of one person does not reduce the consumption of others. The suppliers are incompletely compensated for their efforts, so supply is lower than socially optimal. In contrast, the cultural consumption provided by, say, theatres, opera houses, or museums, is not a public good, because people not paying may be excluded. There is also rivalry in consumption. Customers taking a seat occupy a space that is no longer available to others.
- *Insufficient information.* Consumers are often poorly informed about the supply of art. This argument has often been used to support government intervention. The question is on what basis politicians, public officials, and experts can claim that they know better what a specific item of art is worth. Often, such people merely defend their own interest; due to their backgrounds, they are able to construct seemingly convincing arguments for public support. For instance, the directors of theatres are rarely, if ever, observed arguing that some of their funds should instead be devoted to, say, a museum.
- *Irrationality.* Individuals may be subject to behavioural anomalies when they act in the area of culture, because the arts elude easy and clear definitions and categorizations. Individuals may underrate the utility provided by culture. The government should therefore support the arts to compensate the lack in demand.
- *Income distribution.* It can well be argued that the consumption of cultural goods should be open to all members 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 those who are not able to spend much money consuming them.

### 15.2.3 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 liable to failure. The economics of politics (Public Choice) discusses many reasons why decisions taken in the political process may deviate systematically from the preferences of the population. Most importantly, politicians are motivated by the need to be re-elected rather than by any direct incentive to provide welfare-maximizing cultural policies. As elections take place only every fourth or fifth year, voters can only insufficiently control them.

Politicians tend to develop into a class of their own, and to a considerable extent decide according to their own tastes to what extent, and how, culture is to be supported. Political failures are also introduced by the behaviour of public officials, who due to their informational advantages have large discretionary power to implement a cultural policy of their liking. In general, they prefer to promote well-established cultural institutions providing classical art, such as opera houses performing pieces by Verdi, Mozart, Puccini, and Rossini. In contrast, more controversial and experimental art finds it more difficult to gain public support. Politicians, who depend on public opinion and re-election, are afraid of scandals, which are more likely to be provoked by outsiders in art.

Indirect aid via tax expenditures is less subject to such pressures and may result in more diversified support of artistic activities. At the same time, both politicians and public officials are exposed to the influence of pressure groups. As a result, they tend to favour well-organized cultural suppliers. In most cases this results in concentrating 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 attract much public aid, which tends to hamper creativity in the arts.

To get a balanced view, it is necessary to compare the extent of market and political failures in cultural issues.

### **15.3 Constitutional Issues For and Against the Public Support of the Arts**

The notion of market failure seems to favour government support for the arts. But the world is always imperfect. Compared to an ideal situation, the idea of failure is of little relevance, because the whole economy and society is dominated by failures. It does not make much sense to identify the extent to which the cultural sector deviates from ideal market conditions or ideal political ones, as all sectors in society do so to some extent.

A more useful approach is to directly compare the sectors 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 welfare 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 small compared to other sectors, such as agriculture, education, transport, and 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. As such an evaluation is not possible in an empirically meaningful way, it is useful to move to a constitutional level of analysis. Public aid to a sector must be subject to a

generally accepted decision process. In a democracy, the citizens must approve such support. In a representative democratic system, the decisions taken by a duly elected parliament and government are taken as legitimate, even if they are not perfect. In a democracy in which the population exercises direct participation rights via popular referenda, such as various states of the USA, in Australia, and in Switzerland, the voters' response to specific propositions, and the corresponding level of support for the arts, is taken as decisive. Empirical research indicates that the citizens are quite willing to support the arts with substantial funds if asked to in referenda. The fear often raised that the population will reject supporting the arts by public means does not materialize at all. Whatever has been decided with respect to the support of the arts and other sectors in the democratic political process 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, public support for the arts (or for any other sector of the economy) does not reflect the wishes of the population. In that case, the art that is produced conforms to what the people in political power consider to be art. Only in the case of highly cultured rulers (an example is the Medici family in Renaissance Italy) will the art publicly supported be of lasting value. In the other cases, the activities that are promoted are those of artists who produce to the liking of the authoritarian rulers. An example is the socialist realism commanded by Stalin.

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

## 15.4 Conclusion

Cultural producers have to deal with the cost disease, but they have various options to overcome the problem. They can increase labour productivity by more capital-intensive production and rely more strongly on digitization.

Faced by high costs relative to revenue, cultural suppliers have several strategies to avoid running a loss. Important ones include raising revenue by ancillary activities, such as running a shop, cafeteria, and a 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 these ways. The opportunities to do so are, however, limited. Many art institutions have little scope to engage in such profit making. This is the case for many local and regional suppliers of culture, who nevertheless produce worthwhile art. Commercialization may threaten the quality of art. Cultural producers should not lose sight of what they stand for and try to become social entertainers. The profit-making potential of this strategy is also limited as the cultural suppliers may lose their non-profit status. This holds most obviously for museum shops run outside the museums' premises,

say in large shopping centres. If their non-profit status is lost, they become subject to additional taxes, and donations are no longer be deducted from taxable income. Both consequences would threaten the very existence of many, if not most, cultural suppliers and would therefore have counterproductive effects.

Relying solely on the market to provide goods and services in the cultural sector certainly does not lead to a beneficial situation. The art market in several respects does not function in a satisfactory way.

Turning to government to solve all the problems is, however, naïve. While it has many instruments available for directly and indirectly supporting the arts, decisions taken in the representative political process tend to systematically deviate from the preferences of the population. Politicians are motivated by the need for re-election rather than to provide welfare-maximizing cultural policies for society. Public officials are also motivated strongly by their own interests.

One option for at least partially overcoming these shortcomings of the decision process in representative democracies is to allow citizens to participate directly in the political process by popular initiatives and referenda. Empirical research indicates that the citizens are quite willing to support the arts with substantial funds if asked to decide in referenda.

## **Related Literature**

### **This chapter partly follows**

Frey BS (2003) Public support. In: Towse R (ed) *A handbook of cultural economics*. Edward Elgar, Cheltenham UK and Northampton, MA, pp 389–398

### **The market failure approach is developed in many textbooks and readers on cultural economics.**

### **Specific monographs dealing with the public support of the arts include, for example,**

Schuster JM (1998) Neither public nor private: the hybridization of museums. *J Cult Econ* 22(2–3):127–150

Towse R (ed) (1997) *Cultural economics: the arts, the heritage and the media industries*. Edward Elgar, Cheltenham UK and Lyme, US

West EG (1985) *Subsidizing the performing arts*. Ontario Economic Council, Toronto

## **Arguments against direct public support for the arts are advanced by**

Cowen T (1998) *In praise of commercial culture*. Harvard University Press, Cambridge, MA  
Grampp WD (1989) *Pricing the priceless. Art, artists and economics*. Basic Books, New York

## **That citizens are prepared to support the arts, even if they do not personally engage in them, is shown in**

Frey BS, Pommerehne WW (1995) Public expenditure on the arts and direct democracy: the use of referenda in Switzerland. *Cult Policy* 2(1):55–65  
Schulze GG, Ursprung HW (2000) La donna e mobile—or is She? Voter preferences and public support for the performing arts. *Public Choice* 102(1–2):129–147