

Rent-seeking in arts policy

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'Not art for art's sake, but not art for the people's sake either. Art for my sake.'

D.H. Lawrence

The argument of my paper is that rent-seeking is an important reason why governments assist the arts. While I cannot offer it as a settled conclusion, I do put it forward as more than a hypothesis.

In making my argument, I shall try to establish its necessary conditions: (1) that the economic structure of the arts lends itself to rent-seeking, (2) that the arts not only receive assistance but solicit it, and (3) that the assistance clearly benefits those who solicit it while others benefit less or not at all even though they are said to. What I shall not try to do is to make the argument conclusive, simply because by its nature it cannot be, not even if people in the arts came forward and declared, 'Nostro culpa, we are rent-seekers.' I would believe it, but not because they said it.

(1) The economic structure of the arts is more favorable than not to rent-seeking. The demand for the performing arts is income-elastic. By one estimate it is unitary in the U.S. (Moore, 1968: 90).¹ For the visual arts, it appears to be one or more also as indicated by the continual increase in museum attendance, by the increase in the real price of admission, and by the increase in expenditure for art objects. The demand for the performing arts is not so income-elastic as to offset entirely the increase in their cost that comes from their being labor intensive.

Since the arts are a superior good, any decrease in supply will raise their price more, hence the income of the suppliers more, than the decrease would do if the demand were stationary or decreasing. Actually, governments today more often assist the arts by increasing the demand for them than by decreasing the supply (which the French Academy once did by limiting entry to the market for painting). Even so, the income elasticity of demand operates in favor of the arts because in order to obtain a given increase in demand they need to make less effort. That reduces the cost of rent-seeking which (one would expect) increases the amount of it.

The cross elasticities are not as favorable as income elasticity. For some of the arts it is positive; for others it is uncertain. There are substitutes for art in the form of things that are not art to anyone but are income-elastic (travel, good food); there are substitutes which the world of art does not call art but other worlds do (popular entertainment); and there are substitutes that resemble art without being the real thing (records, reproductions, and films). The last group could be complementary as well as competing goods, hence could increase the demand for the original. They are indispensable to anyone whose demand for art includes the desire to understand it. On the other hand, they can compete with the original because they cost less in money and time. You need not go to Rome to study the details of the ceiling of the Sistine Chapel; the photographs are informative, actually more informative than viewing it.

On the supply side there is inelasticity in some kinds of art activity and not in others, hence conditions are favorable to rent-seeking for some and not for others. The world is willing to pay a high price to hear Pavarotti and must do so because there are few like him. A subsidy that increases the demand for tenors increases his rent also, though not from zero because even in a world of unsubsidized tenors he would receive more from singing than from doing something else. At the other end of the supply-elasticity scale, a subsidy that increases demand will increase employment rather than income. The city of Chicago offers free art lessons, hence may increase the employment of art teachers. Their aggregate income is also increased if they prefer that kind of teaching to doing something else as they obviously must since they do it; but that is less than the effect on employment.

The arts are favored by the high opinion which the public says it holds of them. It has said this repeatedly in polls that ask such questions as, Are museums important for America, or are symphony orchestras good for Australia? Irrespective of whether people believe what they profess (and there is evidence they do not), it signifies at the very least that the public is not inclined to disparage the arts and is even respectful of them. It would not express the same opinion of, say, sugar beets, and if asked if they contribute to the Americanness of American culture would think the question odd. On the other hand, art subsidies are said to give people a sense of national identity. People in the arts then have this edge over sugar-beet growers.

A noticeable feature of people in the arts is the high value they place on what they do when they put it before the public. Among themselves, they can war to the knife but to the world at large they present themselves as essential to its civilized existence. In that outer world, those who question their claim on other people's resources are put down as Philistines or Vandals. Moreover, the arts, acting on the principle of artistic freedom, resist any control of the way those resources are used.

Sugar-beet growers are not given to claiming that what they contribute to American civilization requires the domestic price of sugar to be as much as four

times the world price. On the other hand, when there was a proposal in 1981 to reduce by 50 percent the appropriation of the National Endowment for the Arts, the arts marshalled their forces and told the nation its culture was in jeopardy. There were telegrams, letters, and other solicitation. Celebrities appeared before Congressional committees, and before one Leontyne Price broke into song, 'Save the performing arts' to the tune of 'God Bless America.' The most interesting episode was a conference call in which five oil company executives importuned President Reagan. Oil companies make grants to art groups for advertising purposes, and the audience of that advertising is greater if the groups also get money from the government. When the smoke cleared, the NEA (1986: 240–243) appropriation for fiscal 1982, instead of 50, was 10 percent less (15 in real terms).¹

When the public is asked to contribute voluntarily to the arts, it reveals it holds them in less esteem than when it simply is asked its opinion of them. The arts know this to be so and prefer being wards of the state to being the favored of philanthropy. The preference is obvious in Britain where they have relied on extensive government assistance since Keynes promoted the Arts Council. An example is the art museums there. They do not, most of them, wish to charge admission. They are at present exercised by another proposal: that they be permitted to sell works they do not care to exhibit. If the arts in America were as well supported by government they probably would act no differently. In Oregon, on the state income tax form, there is a line where tax-payers can indicate they want a part of their refund to be given to the state Arts Commission. Among the arts organizations, 'there is concern' that the legislature will reduce the appropriation of the Arts Commission *pro tanto*. The museums of Britain believe that to whatever extent they can support themselves, the government will support them that much less.

The arts in America do not get much in direct or tax expenditure from the government when measured by the amount obtained from each family. It was about \$12 in 1973. Total expenditure was about \$650 million, according to Alan L. Feld and his co-authors (1983: 24). Two-thirds was tax expenditure, hence the apposite title of their book, *Patrons Despite Themselves*. It suggests people did not willingly provide the assistance, and the suggestion is reinforced by a thought experiment: If families were permitted to deduct \$12 from their personal income tax and knew that much less would go to the arts, how many would deduct it? And how many who did could justly be called free-riders?

The arts are favored in their rent-seeking by the small amount of federal expenditure and the large number of people who make it. I assume they do so unwillingly if not unknowingly. Objecting to it is scarcely worth \$12. On the other side of the rent-roll, the circumstances are favorable. The beneficiaries are relatively few, they receive more than \$12 per family, and they can combine for effective action at a lower cost.

Still another favorable circumstance is that in the private sector in America

there are few firms which believe they lose income because the government subsidizes the arts. In this the arts differ from other groups that importune the government. Environmentalists encounter opposition from business interests as do others who want the government to do this, that, or the other thing that private firms would prefer the government not do. Arts organizations would encounter opposition if they asked for the proceeds of a tax on phonograph records or if the arts were fostered in a way that reduced television audiences (as would occur if people were paid to go to the theater as, Smith (1963: 145) told his students, they once were in Athens). At present in America the main opposition an arts group encounters is other groups that want more from the government.

(2) About the second necessary condition – that the arts must be shown to solicit and receive assistance – everyone will grant the latter half. The last reported appropriation for the NEA was \$165 million. It is the most prominent of the programs but only one of 250 or so by which the federal government does its bit. They extend from travel grants for the Metropolitan Opera to measures for improving the appearance of government printing. In addition, there is assistance from state and local governments.

The assistance does not – when taken altogether or in pieces – spring from the brow of Jovian legislators or are they driven to provide it by a mass demand for art or do they initiate it after studying the arguments economists have made on behalf of subsidies. The arts themselves usually initiate it. (Or it is initiated by people in government whose incomes are increased by the subsidies they dispense – an aspect of rent-seeking that is not my topic here.) There are numerous examples of solicitation by the arts. I have alluded to three: that of the NEA beneficiaries in 1981, of the museums in Britain, and the arts organizations in Oregon, and will offer three more. I ask the reader to believe that each is representative of the information I have gathered about this and other countries (but am quite prepared to offer more if he cannot).

I do not claim there are no counter-examples – there are to almost any argument. In the great world there must be an arts organization that solicits assistance and uses it in a way that is of no advantage to itself or to the people who comprise its audience; there may even be some that use it, intentionally, to reduce their nominal income. In the history of art there must also be a painter who was indifferent to money, and the fact that I have not come across him among the scores I have read about does not prove he never existed. What that does prove is that he is not typical, just as the self-denying arts organizations are not typical.

(a) The American Association of Museums has a Legislative Program, its euphemism for lobby. By its own account, in 1982 it ‘was once again successful in defeating the Reagan administration’s efforts to rescind the Institute of Museum Services’ budget, thereby enabling the IMS to award grants to more than 430 museums. The program also successfully lobbied for adequate funding for the National Endowment for the Humanities (*Museum News*, 1983: 69,

72). That its success increased the income or employment of people in the museums and the utility of people who visited them (or kept these things from falling more) is a critical part of my argument; and I shall come to it in a moment.

(b) The Art Institute of Chicago in 1977 found that the cost of enlarging its school would be about \$15 million more than expected and as things stood could be met only by drawing on its endowment fund. The Board then learned there was a state law which made bonds issued for educational purposes tax-exempt but required the issuer to secure them by a mortgage on its land or buildings. The Institute could not provide the mortgage because its land and buildings are the property of the Chicago Park District. Thereupon the Board prevailed on the State Assembly to change the law, and bonds were issued at 5.75 instead of nine percent. The saving was \$487,000 annually. 'A nice piece of change,' it was called by the banker who advised the Institute. It was reported in *Museum News* and described as an 'innovative' effort. To the people of Illinois and other states it meant higher taxes or fewer public services – only a fraction of a cent per person per year, to be sure, not enough to pick up from the sidewalk, let alone a nice piece of change, certainly not enough to bother objecting to. But quite enough for the few who benefitted to make the effort to secure it.

(c) The arts have at their command a number of advocacy organizations. The largest is the American Arts Alliance which represents the professional non-profit theater, opera, dance, symphony orchestras, and art museums, each of which also has its own organization (such as the American Association of Museums). In addition, there is the American Arts Council, the National Assembly of State Arts Agencies, and the National Assembly of Local Arts Agencies. For major undertakings, they come together as they did in 1981 and formed the National Coalition for the Arts to defend the NEA. In the government there is the Congressional Arts Caucus. The leader in the House is Sidney Yates of Chicago in whose biennial campaigns he is materially assisted by arts organizations that receive money from the NEA.

(3) The final and critical portion of my argument is that the assistance which the arts get from the government is principally to the benefit of those who solicit it and is of little or no benefit to others. I say this because: (a) the claim that there are external benefits from the arts is unproven, (b) there is no evidence that when governments provide assistance they do so because they have demonstrated there are external benefits from doing so; (c) an examination of particular forms of assistance discloses that the principal beneficiaries are the organizations and their audiences, and (d) the part of the public that favors assistance to the arts is in the main that part which comprises the audience of the arts.

(a) Some of the external benefits imputed to the arts are only pecuniary (e.g., theaters increase the income of nearby restaurants). The income gain will not

be permanent because it will be recapitalized. It will not even be momentary if there is competitive and concurrent subsidizing, e.g., London and Vienna can both subsidize the opera to the net benefit of the tourist trade in neither but to the net loss of the public in both and to the gain of the people in the opera but not the audiences. About the real externalities there either (i) is no proof that they justify a subsidy even if one accepts, what is arguable, that they are present at all or (ii) they are too improbable to be taken seriously or (iii) they are stated in a way that defies proof, viz., (i) Is the pride the Austrians take in their State Opera worth the cost of the subsidy and, if so, equal to the satisfaction they would get from subsidizing a championship soccer team? (ii) Are we to listen (even though Plato said it and it is repeated today) when we are told the arts make people more law-abiding? As much or more law-abiding than an equal expenditure on prisons? (iii) And what are we to make of the claim that providing for the arts is as essential to welfare as providing for public hygiene? (Plato did not say that; Lord Robbins did [1983: 58].)

There are other objections to the arguments economists have put forward on behalf of subsidizing the arts. As I have made them elsewhere (1984) I shall say no more than to observe that while art has been said to yield positive externalities it also has been said to yield negative externalities. Plato, as we know, would have censored poets. Veronese was called before the Inquisition for an irreverent painting; Abstract Expressionism along with the Museum of Modern Art were said to be American weapons in the Cold War (Cockcroft, 1985). Nearer to home (and the truth) is that the Picasso sculpture in front of the city hall in Chicago is not a thing of beauty and joy to all who see it.

(b) Among the reasons which governments have given when they have assisted the arts, the provision of public goods or positive externalities while claimed is never substantiated. Governments have said that excellence in the arts will redound to the nation's benefit, as Congress did when it instituted the NEA and Colbert did when he nationalized the Gobelins factory, but neither said nor have any others in just what way this is done. The fostering of creative activity is named and so is the diffusion of culture and the celebration of its achievements and the protection of the country's heritage and the eliciting of national or provincial or municipal pride. Claiming that there are such benefits does not bring them into being or does the claim inform us how much assistance the arts should be given and how it should be divided among them. Or who shall get how much, for which, and why?

(c) Those questions can be answered when one looks at particular forms of assistance. Consider two examples.

Before Colbert intervened on their behalf, the French painters who were not members of the guild were in competition with those who were and as outsiders had difficulty in entering the market. Colbert created a market for them and by various means excluded the guild painters from it. The Academy (a cartel

that limited the number of painters but not the number of their paintings) dominated the market until the last half of the nineteenth century at which time the number of painters and pictures had so increased and the relative price of pictures had so fallen that non-Academy work became a close substitute for the work of members of the Academy. Its power was broken by the market, and the market was assisted by Napoleon III when he provided exhibition space for the painters excluded from the Academy salons. In the history of the Academy what is clear is the effort of some painters to use the state to increase their income at the expense of others and the effort of others to prevent them and to use the state themselves.

The second example is the policy today of the governments of Britain, France, and Italy to limit the export of paintings and other objects of art. They are not the only governments which do this and they do not all do it in the same way or with the same effectiveness. Each has a substantial amount of the painting that has been done in the last 700 years and that has been conserved; two want to keep as much as they can, and Britain wants more. The stated reason of each is the protection of its national heritage. The effect is to reduce the demand in each national market for art that may not be exported or exported only with difficulty, legally or illegally, hence to reduce the price of art. That is to the interest of collectors who buy and never sell or sell less than they buy. There are numerous and important collectors of this kind, and most are not individuals or dealers. They are museums, and the limiting of exports is to their interest.

One is not surprised that they are in favor of the policy. One would be surprised if they were not. Moreover, one would expect them to have solicited the policy. They have. Of course it reduces the accounting value of their collection just as it does that of an individual's collection whether he sells it or not. But museums, unlike individuals and dealers, treat capital as a free good which in a nominal sense much of their collection is because it has been given to them by individuals or the state. The policy does not have even an accounting cost. Moreover, it need not produce a loss of esteem because the paintings that lose value can be put into storage where in some museums half or more of the collection now is. That may be another reason why they do not care to sell what they do not exhibit. (In passing, one may note that unhung paintings are unused capital and are the predictable consequence of under-stating its cost.)

My third example is another measure museums have solicited. It is to allow works of art to be used to pay taxes. They can be in France, to pay estate taxes; in Britain, estate and capital transfer taxes; and in Italy, estate and income taxes. Where the treasury is permitted to sell the art so used, the price is reduced by the restrictions on exports and reduced also by paintings coming to market that otherwise would be held in collections. The advantage again is to buyers who rarely sell.

(d) About the support for government assistance coming from people in the audience of the arts, I report this information from a poll of 1973: 38 percent of all who were asked said they favored government subsidies to cultural organizations of all kinds, 34 percent said they did not, and among people described as 'frequent attenders' of cultural events 77 percent favored subsidies (*Americans and the Arts*, 1975: 106). Actually I am as skeptical of polls that substantiate economic theory as of those that do not. Nevertheless, *Se non e vero, e ben trovato*.

There are substantial grounds for believing that (in addition to artists and performers) the people who are most in favor of subsidizing the arts are the people in their audiences. Professors Throsby and Withers (1979: 164) estimated the demand for assistance to the performing arts in Australia and concluded subsidies 'may have more to do with private gains accruing to the median voter group than with a desire to demand a median quantity of a good for its public good attributes.' They note that their finding was consistent with two empirical studies made in America about individual demand for public goods.

In conclusion, let me restate my argument briefly. Government assistance to the arts is an involuntary transfer of resources from the public to arts organizations and their audiences. The transfer is not resisted because the cost to those who lose is small and they are numerous while the recipients are few and they benefit substantially. There are other conditions that also favor rent-seeking. That rents are, in fact, sought and obtained is evident in the behavior of arts organizations. That they and their audiences are the main beneficiaries is evident by examining the form in which the assistance is given.

Note

1. The 'Art Appropriation' figure, not the 'Arts Authorization,' was divided by the CPI for urban areas. The campaign on behalf of the NEA is decribed in detail by Barron (1987).

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