



# PUBLIC PROMOTION OF THE ARTS: A SURVEY OF MEANS

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The first question that presents itself to the economist is whether it is at all appropriate for him (or her) to deal with questions of art and culture, an area so far removed from the usual topics of economics. Many politicians, journalists and artists, and a large part of the general public, regard art as something outside economic reasoning and calculation. They express reservations regarding an economic analysis of artistic and cultural creation, or call for the economic consideration at least to be based on an aesthetic analysis of supply of and demand for art (1). But art - like beauty, freedom or justice - is an abstract concept and therefore cannot be grasped directly. If the product cannot be accurately described, how is the economist then able to say something leading to a better understanding of art and culture, and, on that basis, about the way of financing them?

To this point of view Boulding (1977) has objected that a precise distinction between goods and services, and also between firms that produce goods and those that provide services, is often not possible at all. Therefore, an economic analysis of art (as of education, health or sport) raises no greater problem of definition than the analysis of most other goods and services in an economy. It may be that the number of factors influencing artistic creation and artistic consumption is particularly large, and that the relationships among them are essentially more complex than in the case of, for instance, the production and consumption of bread. But art and culture are in principle subject to scarcity, i.e. they are not free goods. They provide benefits to the individual who demands them, and resources are necessary for their creation. As soon as there are observable expressions of preferences by individuals, a willingness to pay for a theatre ticket, to produce a painting for sale or even to play the piano for one's own pleasure, it becomes possible for the economist to analyze the behavior of suppliers and demanders of art and culture. Then it also becomes possible

for him to investigate the popular question how the government can promote art the best way.

This last question is not, however, necessarily the most important one for the economist. As discussed in the first section, this question sometimes does not arise at all, since the market in particular areas of art is thoroughly effective. The next part of the paper describes areas of art and culture where the market functions less well, though it is not easy to justify government promotion and financing through public funds on this basis. In the third section, we raise the question of the approaches and instruments available to government altogether - if art and culture are (for whatever reason) to be publicly supported.

Our procedure is deliberately based on such customary categories as performing art (theatre, concerts, ballet) and visual art (art museums, galleries), since it is the common features and not the peculiarities of the individual areas that are stressed. The effect of official subsidies on artistic creation is similar, whether they are for opera, ballet or concerts, visual arts or cinema and literature. Similarly, the problem of creators' rights arises in the areas of the visual, literary and performing arts, given the possibilities of inexpensive reproduction.

The last section contains our views of the main conclusions that the economist have reached with respect to the promotion of art and culture.

### **Art Support Via The Market**

In discussions of art and culture, art produced for the market is often pooh-poohed as "commercial". Poor taste is allegedly unavoidable with this form of supply. The conclusion is drawn that government must intervene in order to guarantee the dignity and quality of the art.

In many areas of art, however, the market is quite capable of producing art graded by experts as high quality. Mention should be made here above all of industrial art (for instance the products of Citroen or Ghia) (2), including advertising and poster art. More subject to popular taste are department store art, popular theatre performances and cinema, and also cabaret and circus. It is indisputable that much of this is considered art of high quality: jazz or films of Fellini or Bergman are good examples.

Private galleries constitute a market for the visual arts characterized in part by very high quality and by provision for *avant garde* artists. New unconventional art quite often makes its way via this market, with "cultural entrepreneurs" in Joseph Schumpeter's sense supporting progressive developments - in the expectation of demand rising in the future. A familiar example is art dealer Kahnweiler. Among other artists he took Picasso under contract, who soon became extremely successful (3). Pecuniary participation in the proceeds from the successful artists allows this kind of policy of risk to spread, which on the whole brings new, creative impulses into art. The hope that a hitherto unknown artist will make the grade, and the price for his work rises, represents a major reason for the (speculative) demand for paintings. In particular, it results in an economic interest in the discovery and the promotion of unknown painters and sculptors.

In other areas of art and culture too, "production and financing" through the market cannot be *a priori* ruled out. In the case of theatres or art museums on the "free market", ticket receipts exclusively cover the costs, performance is - in line with the fundamental premise of economics - evaluated by those who attend. If an institution doesn't attract customers it can close its doors. At least in one respect, the prerequisites for meeting with a response from potential demanders are not bad for a business enterprise. The enterprise is flexible, since it is subject to few administrative constraints, and there are no governmental adjudicators or bureaucratic bodies making evaluations of the art's content.

Of course, the market also considerably narrows the room for manoeuvre of the suppliers of art and may - though need not - be an obstacle for innovation. This seems to be the case, for instance, with the big, privately administered American opera houses (like the New York Metropolitan Opera House or the Chicago Lyric Opera). They can survive only if performances are nearly sold out (the Met, for instance, budgets for seat occupancy of 96 percent). Therefore, risky and modern pieces are excluded, and the repertoire concentrates on works by Verdi, Puccini, Rossini and Wagner (4).

However it is interesting that precisely the same case applies to the highly government-subsidized opera houses in the Federal Republic of Germany. Of the almost 300 different compositions performed on German stages in the post-war period, 200 were written in this century. But these 200 works together account for a bare 18,000

out of a total of 200,000 performance evenings, i.e. not even one tenth of all performances (Table 1).

The operas of the "iron six" composers listed in Table 1 - along with other individual "classics" such as *Carmen*, *The Barber of Seville*, *The Freischütz*, *Fidelio* and *The Bartered Bride* have dominated the programs of the government-subsidized opera houses over the recent decades, as they were in fact already doing before the end of the German empire. Modernity, even moderate modernity, has not been able to break through (5). Modern operas have no chance as far as numbers of performances or spectators are concerned. As a consequence they are shunted off to studio theatres in many places (among them Zurich). The question then arises whether performances of the standard repertoire ought to be publicly subsidized at all and not rather - as is the case in the United States - financed largely through the market. As various studies have shown (6), the price elasticity of demand seems to be low enough for this type of opera performance. Would it not be sufficient to support only studio theatres from public funds, allowing the creation of *avant garde* plays that can be put on stage in major houses when they become accepted by a large number of opera visitors (such as Alban Berg is today)?

### Why Government Support For Art?

The market solution does, to be sure, also have some serious drawbacks, which on the whole would tend to favor (government) support in the area of art and culture. The economic literature has dealt exhaustively with the various reasons for "market failure" in the area of art (7). The essential point against purely market-financed art is that - due to the public-good component of parts of their "product" - the suppliers of art cannot get the whole profit via the market. As a consequence, the provision of art can be lower than the social optimum. Such public-good components, or positive external effects, consist in the following:(8)

- The individual may already draw considerable benefit from the existence of a cultural supply, even though at present he or she may not make use of it. Since this *option value* does not take the form of effective demand it cannot be expressed on the market (9).
- The same is true for the positive *existence value* of artistic goods. This should be particularly true for historic build-

**Table 1. The Leading Opera Composers in Germany  
(by numbers of performances)**

Composer	Number of performances	
	1947-75a	1901-10
Verdi	30,059 (21)	6,798
Mozart	24,490 (18)	5,129
Puccini	17,997 (9)	2,981
Wagner	12,997 (13)	17,365
Lortzing	12,317 (6)	6,714
Strauss	6,036 (15)	n.a.

Figures in brackets are numbers of different operas performed.

Source: Honolka (1986); n.a. = not available.

**Table 2. Wages of Administrative Staff of the Salzburg Festival  
and of the Vienna Bundestheater (with functionally  
equivalent duties); 1981-82, in Austrian Schillings.**

Administrative area	Salzburg	Bundestheater
Ticket sales	814,000	314,000
Buildings	821,000	467,000
Press Office	775,000	434,000
Technical section	797,000	679,000

Note: The Salzburg Festival lasts five weeks while the Bundestheater plays for ten months. The wages indicated have not been adjusted accordingly.

Source: O.R.H. (1984), 1.31.1.

ings, which - once destroyed - could hardly be rebuilt in the original state on pure market considerations.

- Likewise, a positive *bequest value* may be assigned to conservation of art for posterity. Future generations are not in a position to express their preferences via today's markets. Valuable traditions of artistic creation may be irretrievably lost if those arts are not practiced and passed on to the next generation.

- Similarly, artistic and cultural institutions may have a positive *prestige value* attributed to them by non-users, and in individual cases, like the Paris Opera and La Scala in Milan, even by people not interested in art at all. The reason is that these institutions preserve and promote the feeling of regional/national identity.

- In a quite similar direction is the consideration that the practice of the arts makes an essential contribution to the development of *creative thinking* in a society, to improvement in the capacity for critical evaluation and to the creation of aesthetic standards that ultimately affect almost all individuals positively. To be sure, these flows of benefits can only be partly internalized via the market (10).

If these at first sight purely "qualitative" arguments for market failure are accepted - they seem to be by most economists as far as art and culture are concerned - it still says little about the extent and nature of any possible government intervention (11). Instead it should also be shown "quantitatively" that sufficient positive external effects arise that cannot be internalized in any other way, and that the benefit of government intervention in favor of art exceeds the costs arising therefrom.

The empirical evidence hitherto available is still fragmentary. Admittedly survey results show that the majority of those questioned are in favor of government support to art and culture (12). But it is hard to take these as evidence of the thesis of market failure, since it is quite possible that a large part of those questioned, at any rate the suppliers of art and its demanders, would advocate increased government support to art and culture for strategic reasons based on self-interest and not because of the alleged positive external effects (13). There are now some initial studies that seek to pick out and quantify some of the above-mentioned positive external effects. Thus Bohm (1979, 1984)

has developed a special method of questioning individuals without giving them significant inducement to act strategically. Throsby and Withers (1983, 1986), applied this procedure to a representative sample of Australian taxpayers and found out that 70 percent of those surveyed are for higher public expenditure for art and culture, and that 80 percent of them would prefer a reduction in other government expenditure to a tax increase. Morrison and West (1986) carried out a still more refined survey in Canada. They asked those who defined themselves as non-frequenters of artistic events and cultural institutions but nevertheless were in favor of financing existing state support to art from taxation about the kind of benefit they received in return for their tax payments. The main answers were: feeling of national pride, possibility of future use, welfare of future generations and so on. The findings suggested on the whole that the existing extent of official support to the arts should be maintained. The positive marginal external effects seem in other words to correspond to the marginal costs (in the form of tax burden), while the inframarginal benefit units evidently exceed the marginal costs.

Another approach of measuring the public good aspects (access to; option and bequest demand) of cultural amenities consists in using actual behavior (as opposed to stated behavior in a hypothetical situation). Therefore, Clark and Kahn (1988) applied an hedonic wage approach to derive the private and public good benefits from improvement of a number of cultural amenities (museum, ballet, opera, theatre, symphony orchestra) in U.S. metropolitan areas. The empirical estimates of willingness to pay - in form of a, *ceteris paribus*, lower wage rate - suggest significant marginal benefits for a representative city, ranging from nearly one million \$ for an additional theatre to 31 million \$ in the case of an additional symphony orchestra.

Finally, an econometric analysis of a referendum in the Swiss canton of Basel City on the purchase of two Picasso paintings from tax funds (Frey and Pommerehne 1989, ch. 10) showed that the acceptance rate of 54 percent yes votes is hard to explain (in the statistical sense) if exclusively narrowly defined motives of self-interest are taken as a basis. It was instead necessary to consider aspects as bequest and (regional) prestige values in order to provide satisfactory explanation.

### **How Can The Government Provide Support?**

If the public - including the majority of those who are not effective demanders of art - to a significant extent experiences positive external

effects, this can be seen as necessary prerequisites for government intervention and support measures. But what is the most efficient way to support art and culture, taking into account the numerous conceivable approaches and detailed measures on the one hand and the extremely vague concept of "artistic output" on the other hand? It is perhaps more important to clear up the question whether the "most efficient" support measure - however defined - is still to be preferred when the self-interests of the institutions and individuals that provide or receive the support are taken into account. Ultimately, by analogy with market failure, there is also "failure of politics".

### Approaches Of Government Support To Art And Culture

There are many approaches and measures calling for differing amounts of financial resources from the government and requiring differing levels and degrees of examination and assessment of "artistic production".

No financial resources, or only minor ones, are required by a number of what can be called market facilitating measures, which at the same time have the advantage that there is no need for government bodies to undertake an assessment of the artistic "output". They are aimed at improving production and sales conditions for artistic creators, and at facilitating access by demanders of art. Among these are copyrights, which have to be specified and protected, taking care to avoid excessive (too long-lasting) "incomes". The same is true of publication rights, which should inter alia protect against piracy, but not guarantee permanent protection (14). Generally, the government may provide institutional assistance in the creation and assertion of property rights that make the internalization of external effects possible. Educational institutions like theatre, television, radio or even record firms, which are places for both experiment and for new ideas and presentations, must be enabled to obtain payments from the recipients of beneficial externalities, where necessary under threat of exclusion.

Also, many regulations and requirements promulgated by public authorities (whatever the reason may be in the individual cases) for artistic and cultural institutions should be examined in the light of the overall goal being pursued, and where necessary amended. In particular, such regulations ought not to be imposed on private cultural institutions and suppliers of art. For instance, in many museums inflexible and in part dubious regulations can be found: starting with the often inconvenient (to potential visitors) opening times, the frequently

unfortunate mode of presentation (including total lack of consideration for user comfort) up to, conversely, the absence of recommendations for a more flexible price policy for such things as theatre, concerts and ballet (price differentiation between premieres, non-premieres, weekdays/weekends, on and off season, different artistic genres, for star performers, etc.). As far as existing public cultural institutions (at least in Europe) are concerned, differentiated price policy and more attractiveness and flexibility in offerings and timings could even lead to additional income from the box office (though cultural institutions will not aim at this if government subsidies are reduced by the same extent).

Particularly in the case of museums government subsidies are justified by the argument of positive external effects on education and training (organized information for the young and for citizens in general) (15). However, education and culture policy advocates should seriously take into account a suggestion made by Banfield (1984). He asks whether well-produced copies for purely informational purposes should not be preferred to expensive originals that have to be carefully displayed, conserved and guarded (16). Or would it injure the sense of national prestige if copies were used? Additionally, many exhibits are gifts or long-term loans by private donors, not infrequently given on particular conditions (for instance gifts, which also includes secondary works, must be exhibited as a whole), which may severely constrain museum policy. But even when there are no such restrictions and gifts go into stock and not on display, considerable overheads arise for storage and conservation. Montias (1973) has therefore questioned whether the regulation that publicly-owned museums are not allowed to sell works of art is rational in terms of efficient performance of the essential tasks of a museum director. It leads to opportunity costs which, though not directly visible, are nevertheless of considerable economic importance (17). They could be reduced and used to finance "visitor-oriented" presentations.

There are also many indirect means of government contributions. Tax rebates to private individuals and firms in return for contributions and gifts to non-profit institutions (in the United States, besides churches and charities, cultural institutions also count among them) are more oriented towards active expansion of the range of possibilities open to suppliers of art and culture. They are likewise hard to measure, but in the case of the United States this indirect government financial assistance - up to 50 percent deductibility from gross income for individuals, up to 10 percent of taxable earnings for firms - constitutes

a quite significant support (18). With this type of support through "uncollected" taxes, also called "tax expenditure", the recipient has little incentive to make profits and therefore pursue a differentiated price policy. It would then lose the status of non-profit undertaking (and therefore its own tax privileges), with the consequence that gifts to it would not (any longer) be tax deductible. But that does not necessarily mean that "potential" surpluses are made to disappear in the form of pushed up costs, for the recipient has to show (potential) givers that the gift will be used "efficiently", i.e. that "first-class" theatre performances with well-known actors and opera stars will be produced, or that "outstanding" museum purchases will be made and "exceptional" exhibitions put on. Obviously, with this type of art support, gifts may be associated with conditions that lead to restrictions on the decision-making power of the directors of cultural institutions. However, in the United States the existing competition among (numerous) donors seems to work against it. Nevertheless, Feld, O'Hare and Schuster (1983) advocate for these reasons exclusively monetary contributions, and, in the case of gifts in kind, for the abolition of restrictions by donors of an artistic work, or at least a limitation on their duration.

In principle, the requirements for examining the detailed effects of support measures become essentially larger when it comes to direct government financial aid, the third form of aid we discuss. Government subsidies may take various forms and have very diverse effects on the extent and quality of the results secured, on price and other receipts policies, on internal organization and on the chosen "production technique" of the artistic and cultural institutions (19).

The provision of a fixed subsidy per person attending (irrespective of entrance fee charged) or of a public subsidy on total ticket revenue (in a particular proportion) is rarely practiced. The opposite case, purchase tax on entrance tickets, is more frequent.

However, economists advocate a specific form of subsidization by a number of visitors (20): potential demanders should receive a voucher, i.e. a coupon that entitles them to reduced entrance tickets at competing cultural suppliers. The main idea in this user-controlled system of subsidy payments lies in introducing an element of competition with, as a consequence, a comparatively stronger orientation of artistic and cultural supply to the wishes of those who demand and finance it. Above all, this allows firstly a considerable reduction in the enormous demands on the government bodies that otherwise have to distribute the subsidies, and secondly a reduction of the danger of

bureaucratic assessors arriving at discriminatory decisions that cannot be implemented. Baumol (1979, p.50) argues in favor of the experimental experience with the voucher system applied for the New York off-Broadway theatres:

"The main conclusion to be drawn from the evidence of the voucher program ... is that it works. It has brought support to a large and diverse group of organizations and seems to have contributed somewhat to the influence of audiences upon the performing groups. The evidence indicates most strongly that it has made life easy for the dispensing organization whose administrative costs have been kept low and which has been spared the distasteful job of arriving at aesthetic judgments it does not care to make and, worse still, of translating those judgments into specific pecuniary figures."

It should be added that the authorities broke off this experiment as well as another one in Canada (West 1985), without providing any convincing rationale.

In contrast, lump sum subsidies, linked only with the existence and not with the output, input or prices, are very much more common in reality. They allow (at least in the short run) the survival of artistic creators and cultural institutions that would otherwise have to terminate their activities for commercial reasons. Especially for newly formed theatre groups with younger artists, they make it easier to overcome initial financial difficulties. If they are granted for longer periods and accompanied by a repayment clause (should a surplus be achieved) they may cause considerable undesired incentives. Since profits mean additional cost in the form of a reduction in government support, they are avoided as far as possible. The consequence is a pursuit of an exclusively art centered policy that might aim in the case of a theatre at a quality that by far exceeds the level desired by demanders (performance excellence), but also at the payment of rents to actors and other employees (see also Grampp 1989).

European artistic and cultural institutions are to a considerable extent a part of the general public administration. Accordingly, they need to recover only a part of the costs from their own activities; the rest, the deficit, is covered by government subsidies. As part of the general administration, public museums, theatres, etc. are subject to the budget principles applied to these institutions, including the prin-

principle of non-earmarking, which means that surpluses cannot be retained by the institution concerned and used at it likes, but must be paid back to the general public budget. Therefore, there is little incentive to produce surpluses. The government subsidies are not "given", but are set on the basis of a "projected" deficit and then are the result of a bargaining process between the individual cultural institution and the responsible cultural bureaucrats. The negotiating process takes place in a context of asymmetrical information; the institution asking for the subsidy in general has an information monopoly: it can easily document cost increases, while the cultural bureaucracy is scarcely in a position to prove that the projected deficit might be kept smaller (public bureaucrats are not accepted as competent judges on artistic quality by the cultural institutions). Again, there is little incentive on the part of cultural bureaucrats for genuine intervention. They prefer having a friendly relationship with the artistic and cultural institutions which in turn introduce them into the "world of art".

In view of the existing asymmetrical information and the incentives provided, negotiating rules are set up in order to facilitate the decision-making process. Deficits and subsidies of the past are taken as a starting point for forecasts of future deficits. Foreseeable cost increases are added. One direct consequence of this kind of linkage between current subsidies and former deficits is that the directors of a cultural institution have a twofold incentive to avoid reducing the deficit. If a surplus or deficit reduction is achieved, the benefits will not affect the institution concerned: in other words the implicit tax is 100 percent. Moreover, subsidies for the future are reduced.

Deficit coverage from the public purse has considerable effects on the management of publicly-owned artistic and cultural institutions. There is no incentive for any orientation towards market efficiency. On the contrary, other goals may be pursued, such as reputation within the world of art, the production of top quality, increase in personal monetary income (21) and the creation of a good atmosphere (above the efficient level), in order to have contented, loyal workers.

### **Policy Failure**

As the arguments so far have shown, government support of art and culture is not without problems. The more levels and institutions of government are involved, the more difficulties arise. A good example is the Salzburg Festival. There the total deficit is jointly covered by the Austrian government, the Salzburg province and the city of Salzburg. The budget restrictions on the Salzburg Festival fund (with four direc-

tors and a president) are therefore extremely weak. Effective restrictions on deficit coverage only could arise if the financing possibilities of all the bodies subsidizing the festival were no longer adequate, and the law was correspondingly amended.

As a consequence of these extremely favorable conditions for the festival fund, its directorate pursues a remarkable distribution policy through use of the festival (22). The Austrian taxpayer is burdened with financing the subsidies, while the benefits are divided among the directorate, the employees, the artists and a selected group of visitors. The wide discretionary room that the directors have is reflected in the typical rent-seeking activities of the festival: entrance tickets are sold at prices lying substantially below the equilibrium price, with the consequence that demand constantly exceeds supply (23). In this way the directorate can claim to be charging "socially appropriate" prices (the costs of which are borne by the anonymous taxpayer), which in turn is good for their prestige. The directorate is moreover able to hand out in a discriminatory fashion tickets which are otherwise hard to obtain for interested demanders. The main recipients of these tickets are festival administration workers, pressmen and also other individuals from whom political support to the festival may be expected. The emergence of a black market in tickets is a further indicator of influence for the organizers, since it provides a fair-sized group (including hotel employees) with a chance to make money.

With the almost automatic coverage of deficits, artists and administration workers can be paid considerably higher wages than would be necessary; i.e. pure rents are paid. This is evident from Table 2 which gives a comparison of wages for identically qualified administrative staff of the Salzburg Festival and the also national Bundestheater in Vienna. The rents are not only paid in the form of excessively high current monetary incomes, but also in form of additional retirement pension entitlements and a number of fringe benefits (gifts, subsidized travel, etc.). (Table 2)

As the example in Table 2 makes clear, there may be spectacular failures of subsidization policy. But this does not mean that less important cases such as the support to the individual artist should be neglected. The danger is that mainly those artists receive government support who meet the requirements and conceptions of the competent public bodies. In such cases the cultural bureaucracy will not refrain from evaluating the content of art, since that means it can exercise power and influence. As a consequence, artistic creation can and

should be oriented neither to the taste of the "average" population nor to the conceptions of the rulers of the day.

However, the danger of "benevolent elitist" decisions also exists with private organizations given funds by the government for distribution as they see fit to individual artists and art institutions (selection, and therefore the setting up of incentives, must after all take place). With this variant art is given some freedom vis-a-vis government patronage. However, the public money can be given only to "official" private organizations - otherwise any association whatsoever could claim it - so that government assessment is simply replaced by an elite assessment of an art association. In art, private groups of this kind have not infrequently sought to obstruct innovation (24). This is quite understandable since as recipients of government money they have an interest in preventing competition from upcoming artists and art institutions, in particular since in the case of success (keeping the new artists out) they will not have to share the financial resources with them.

### **What Can The Economist Say About Support To Art?**

First of all, the economist cannot say anything about what art and culture is or is not. He may, however, contribute to a better understanding of how individuals and institutions (in which ultimately it is always individuals that decide) deal with art, whether as creators, mediators or demanders of art. He can show that artists, art and cultural institutions and (public/private) cultural bureaucracies each pursue goals of their own within the set of possibilities open to them. And these possibilities differ strongly according to the particular instruments of government support used. As a consequence, expected and actual modes of behavior also differ.

The approaches and instruments of support available to the government have been discussed, but not what is the best possible government support and financing scheme. On the contrary, it has instead been made clear how the government should not provide support - at least as long as individual preferences are to constitute the essential reference for collective action. But a selection of negative points may often provide useful insights and valuable suggestions. Though negative, what follows seems useful.

Increased government support to art and culture is not necessarily identical with additional public money. Examination and loosening up

of restrictive regulations, and the removal of bureaucratic restrictions may provide an incentive for more effective support for art and culture.

Private markets should not be underestimated. Especially as far as innovation is concerned, the market represents the relatively best decision-making system. By creating property rights and making them usable for the general public, government may contribute to a strengthening of that decision-making system.

It should be considered whether (especially in Europe) more indirect government financial aid in the form of tax expenditure ought to be introduced. On the whole, the compulsion on the private donor for a corresponding benefit induces a stronger orientation of artistic and cultural institutions to the preferences of a large proportion of demanders of art. And the transaction costs can be kept relatively low, especially if tax deductibility is restricted to monetary gifts. Finally, one may expect that this decentralized support instrument will contribute to a better regional provision in the supply of art and culture (though this depends on risk-spreading by donors).

Direct government financial aid in the form of vouchers to (potential) demanders brings a broader population stratum into touch with art and culture. This instrument may also be rationally applied to promote the regional spread of art and culture.

Direct government financial aid which is not linked to performance is in general the least advantageous support instrument, especially if it is given as a deficit guarantee to big and regionally concentrated (e.g. Paris and Vienna) cultural institutions. The opportunity costs with striving for performance excellence and obstruction of better provision to other regions, as well as support to other types of art, are likely to be considerable.

To promote upcoming artistic talent, direct financial aid may however be the right thing. Nevertheless, it should not be paid *a'fonds perdu* over a long period, but linked to performance and examined at periodic intervals. This does, admittedly, in turn raise the irksome problem of assessing artistic output and the ticklish one of distributing support effectively.

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## Footnotes

1. Sometimes even economists assert that "to properly study the market for artistic goods, it is necessary to deal with the aesthetic nature of the art" (Shanahan, 1978, p.13).
2. The New York Museum of Modern Art's department of architecture and design displays a 1945 Bell-47 DL helicopter.
3. Cf. Moulin (1967, p.109 ff). A more recent example is New York gallery owner Leo Castelli, who promoted the work of Robert Rauschenberg, the later internationally leading pre-pop-artist, against the then prevailing taste and against massive opposition by the artistic profession (see Pommerhne and Schneider 1983).
4. In the 1971-2 season about 53 percent (1974/5 as much as 62 percent) of the productions at the Metropolitan Opera House were of these four composers. In several seasons no works of contemporary composers at all were performed at the Met; cf. Martorella (1977).
5. On the contrary, the weight has clearly shifted in favor of the tried and true: while in 1907 the average "age" of the performed opera pieces was still 42 years, today it is more than a hundred years.
6. Thus e.g. Touchstone (1980) calculated values around -0.11 for the long-term price elasticity of demand for opera performances in the United States. According to her simulations, an abrogation of all (private and state) subsidies would imply raising entry prices by 125 percent, which would however lead to a decline in attendance of only 14 percent.
7. See the already "classical" treatments in Baumol and Bowen (1966, chapter 16) and Peacock (1969), also Netzer (1978, part 2), Wahl-Zieger (1978, part 4), Cwi (1979), Throsby and Withers (1979, chapter 10), Leroy (1980, chapter 4), Austen-Smith (1980), Withers (1981), Horlacher (1984, part 1), Sagot-Duvaurox (1985, part 4) and Grampp (1983, 1986-7).
8. Arguments often adduced but hard to reconcile with economic reasoning are for instance (i) the arts have a stimulating effect on the economy, (ii) they encourage tourism and thereby induce desired effects on the regional economy (so-called spillover effects) or even (iii) only government support of the arts can allow artists to remain in their usual occupation. Firstly, these and

similar arguments, brought forward for instance by Myerscough (1988) and Hummel and Berger (1988), could be analogously adduced for many other areas. Secondly, it has to be shown that interventions in favor of the arts are more suited than other instruments to achieve the goals desired (i.e. stimulating the economy, promoting the regional economy, guaranteeing employment), and that these goals also constitute important economic policy goals (see also Hughes 1989). The same requirements should of course be made the basis for assessing other categories of government intervention, such as government subsidies to the agriculture and shipbuilding sectors.

9. It does, however, become visible in private donations and in the membership of supporting associations of private cultural institutions. But at the same time, the "free rider" problem arises. Therefore, one may at best interpret them as a lower boundary of positive evaluation. The option value may even be negative, e.g. when the intervention interferes with a more highly valued alternative of the same sphere (e.g. appearance as film actor instead of theatre actor).
10. To a lesser extent this is true also for external effects of production, e.g. when the media and other industries derive considerable profits from the arts without the artists' training being paid for through the market.
11. This is also true of an argument far more often adduced to justify government intervention: the meritorious nature of art and culture. A good or service has this characteristic if in the eye of the decision-maker - in this case the government - it ought to be used more than it would be used if the decision was left to consumers. From the economic viewpoint this concept is not convincing, since it is very hard to justify why in a world where consumer sovereignty is assumed such goods and services should exist at all; cf. Grampp (1983) for a critical discussion. If the argument of the meritorious good was to apply, then it would still be of slight analytical value. For then art and culture would by definition be worth just as much as politicians are prepared to spend of public money for their support.
12. As seen for example in the Federal Republic of Germany in various representative surveys on the theatre in the 1960's and 70's (cf. among others Marplan 1968, Biermann and Krenkler 1974).

13. This is supported by the evaluation of 250 American studies on attendance during the period 1960-77 by DiMaggio, Useem and Brown (1978). Active demanders of performing and visual arts constitute a very small part of the population with, among other things, above average incomes and in particular above average education. They are also those who particularly advocate art support by public funds. Other representative surveys for the United States [ACA (1980), Hendon, Costa and Rosenberg (1989)] arrive at the same finding, as do similar representative surveys for Australia (Throsby and Withers, 1979, p.116).
14. At present the German music publishing house of C.F. Peters is taking action against the American combine of Belwin Mills for publishing 137 titles which are all copies from Peters' originals, without participating in the considerable production costs incurred for the (copperplate) music sheets fifty years ago. According to Peters only a patent licensing scheme would enable them to bear the risk of publishing musical works by living composers too.
15. Cf. Smolensky (1986) for a detailed analysis of the reasons justifying government subsidies to museums.
16. Interestingly, some American towns have refused public support for purchases on the grounds that only connoisseurs need the original. Tax money would then be used only for the few who derive (correspondingly) high aesthetic enjoyment from an original; cf. again Smolensky (1986).
17. The reserve stocks of American museums amount to up to 50 percent of actual exhibits. This ratio is still higher in European museums; cf. Frey and Pommerehne (1980).
18. According to calculations by Feld, O'Hare and Schuster (1983), in 1973 these almost "invisible" contributions amounted to more than one third of all government expenditure on art and culture.
19. For a formal analysis of the effects of direct subsidies (and of the tax expenditure mentioned above) on extent and quality of artistic production and on social welfare (measured by consumer surplus) see Hansmann (1981) and Le Pen (1982). Dupuis (1983, 1985) and Austen-Smith and Jenkins (1985) further discuss the questions (raised here too) in how far direct subsidies (i) influence the target function of recipients, (ii) affect the nature of

their demand for support and (iii) affect the choice of further instruments (besides extent and quality) of artistic production.

20. See e.g. Peacock (1969), but the idea can be found earlier with respect to the American school system. For more recent discussions see Horlacher (1984), West (1986) and Peacock (1988).
21. For empirical evidence see the reports of the Bavarian Supreme Court of Auditors (B.O.R. 1984, p.52 ff) on such behavior by the public radio orchestras and of the Austrian Court of Auditors (RH 1988) for the national theatres in Vienna.
22. A detailed analysis of the Salzburg Festival can be found in Frey (1986). See also Gapinski (1984, 1988) for a study of the Shakespeare Festival in Britain.
23. In 1981/82, when the number of persons attending amounted to 175,000, a total of 35,000 requests for tickets had to be rejected (.R.H. 1984, 1.24).
24. E.g. when the first impressionists appeared.

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