

92-018

DISCUSSION DOCUMENT



INTRODUCTION

Within this folder is a discussion document produced as part of the process of putting together a national strategy for the arts and media. It does not form part of the strategy. Neither does it express any sort of 'official' view. It was written in order to focus discussion and stimulate ideas.

WHY?

The arts and media in Britain are in renaissance. Over the last decade, they have shown a confidence and diversity never seen before. In quality of work and audience demand, the arts and media have never looked healthier or more central to people's lives. More than ever before, the arts are a source of civic pride as well as personal enrichment.

The arts and media in Britain are in crisis. Scarcely a day goes by without press stories of theatres facing closure, grants being cut or audiences declining; of a lack of good innovative work in all art forms; of the absence of a sense of direction, purpose and adventure.

These views may not be incompatible, and each has some truth. What is beyond doubt is that ideas of what is art have expanded; that demand has rightly grown for access to the arts, film and broadcasting to be the right of all rather than the privilege of the few; and that resources, both public and private, have struggled to keep up. Growth in the variety of the arts contains its own problems. So how can the strategic injection of public money, and the growth of partnership with the private sector, encourage new developments? What should the priorities be? How do we make sure that the opportunity to enjoy the arts is spread ever more widely throughout society?

This is where the national arts and media strategy comes in. In 1990, the Minister for the Arts asked the arts and media funding bodies (the Arts Council of Great Britain, the British Film Institute, the Crafts Council and the Regional Arts Associations/ Regional Arts Boards) to prepare a national strategy. One of its purposes is to provide the basic framework for their work. The Scottish and Welsh Arts Councils are conducting parallel exercises; and the local authorities and museums funding bodies are also associated with the strategy.

A further purpose is to consider whether the public money spent on the arts and media has been used to best effect, and how those responsible can do better in the future. It is important that all those with experience of and a passion for the arts and media provide support, assistance and advice to get the strategy right. Most important, it must be seen as a strategy for the arts and media, not for the bureaucrats.

HOW?

The paper in this folder is part of this process. It is one of a series of discussion documents; each is available free on request. Responses to them will be collated by the National Arts and Media Strategy Unit. Arising from this, a draft of the strategy will be prepared by Spring 1992. This too will be available for comment. The final version of the national arts and media strategy will be completed by Summer 1992. The hope is that the resulting document will be slim, challenging and readable - and that it will provide a mission statement for the arts and media over the next decade, as well as setting out clear goals and targets.

The national arts and media strategy will not write a single novel, put on a single play or make a single film. What it can help bring about, if the funding bodies receive the help of those who care about the arts and media, is the maximum opportunity for such creativity to flourish and for it to enrich the lives of ever more people. Your contribution to this process will be valuable and valued. Please send your views on this discussion document to the address below, to arrive by 30 November 1991.

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4

THE SOCIO-ECONOMIC EFFECTS OF THE ARTS

Sir Alan Peacock/Dr Samuel Cameron

Sir Alan Peacock: Economics, cultural values and cultural policies **Page 1**

**Dr Samuel Cameron: Review of literature and research on
the socio-economic effects of the arts** **Page 17**

NATIONAL ARTS AND MEDIA STRATEGY: DISCUSSION DOCUMENT ON THE SOCIO-ECONOMIC EFFECTS OF THE ARTS

These two papers are personal views of the socio-economic effects of the arts, intended to generate discussion and debate. They are not a chapter of the national arts and media strategy or a definitive statement.

We should welcome your views on any of the issues in this vital area of arts and cultural policy, and in particular on the following questions.

1. Do the papers raise and deal adequately with the key issues? If not, where and how could they do better?
2. The title of this document deliberately reads 'socio-economic effects' - rather than 'purposes' - of the arts. Do you see the economic impact of the arts - broadly defined - as part of their purpose, or more a by-product, however important?
3. What in your view are the key arguments for or against public funding of the arts and media?
4. Do you believe that the economic impact of the arts and media is a major reason for providing public funding for them? If so, what does this suggest about the amount of funding provided and the sorts of work or organisations to be funded?
5. Do you support the case sketched out by Sir Alan Peacock for 'consumer sovereignty' in the arts - in effect, that public funding **might** be better directed to removing financial barriers for potential audience members (readers, viewers etc) than to funding producers directly? What would be the effects of this?
6. Some have pointed to what they see as a key policy dilemma in public funding of the arts. On the one hand, if you do not adequately fund existing arts producers, then their scope for adventure and innovation and ultimately their existence are threatened; on the other hand, if you do fund them adequately, then you set up barriers against the entry of new unfunded producers. If this is a fair statement of the dilemma, how might it be resolved?

NATIONAL ARTS AND MEDIA STRATEGY UNIT
OCTOBER 1991

NATIONAL ARTS AND MEDIA STRATEGY

DISCUSSION DOCUMENT ON THE SOCIO-ECONOMIC EFFECTS OF THE ARTS

ECONOMICS, CULTURAL VALUES AND CULTURAL POLICIES

SIR ALAN PEACOCK

I. Introduction

It is a truism that before we can decide whether or not a set of cultural policies has a consistent pattern, it is necessary to specify the policy objectives. In order to specify the objectives, we have to go back a stage and identify the set of values which enable these objectives to be identified. Then we encounter further difficulties. Values differ from individual to individual, from group to group, from political party to political party. To seek a consensus of values is as elusive as **The Hunting of the Snark** in Lewis Carroll's famous poem. The leader of that ill-fated expedition - the Bellman -

*"bought a large map representing the sea,
without the least vestige of land:
and the crew were much pleased when
they found it to be
a map they could all understand.*

.....

*"Other maps are such shapes, with
their islands and capes!
But we've got our brave Captain to thank"
(so the crew would protest) "that
he's bought us the best ----
A perfect and absolute blank!"*

Even if we can find a clear mapping of values which seem important, if only because they appear to be coherent and influential, it may be far from easy to translate them into precise policy objectives and then into institutional structures which fulfil them.

Economists have tried to circumvent these problems by a simple subterfuge. We do not need to specify a set of values at all. All we need is a set of mechanisms by which individual members of society can express their preferences for cultural

goods, and we shall soon find out the extent to which it seems necessary for them to take combined action in order to give effect to their desires. In short, if it can be initially accepted - and this must be a value judgement - that the individual is the best judge of his/her welfare, then the problem looks solvable without having to embark on a hazardous expedition through the difficult terrain of aesthetics.

I could hardly argue against this position, particularly as I have in the past tried to work out in some detail how 'welfare economics'¹ might be translated into policy prescriptions concerning the arts. Indeed, we have now reached the stage where there is wide agreement amongst economists concerning the arguments for state support for the arts which can be directly derived from the postulate of consumer sovereignty². Less well established in the economics discussion is how we are to derive the extent and manner of state support which follow from these arguments. When we do, we run up against the awkward fact that the cultural policies derived from welfare economics seem to be very much out of line with both the principles, such as they are, and the practice of state funding of the arts.

I see the purpose of this paper as that of identifying and explaining some of the factors which impede acceptance of the economist's position. I shall begin by a statement of the economist's conventional wisdom, adding some idiosyncratic touches of my own. I shall then attempt to analyse the nature of resistance to the economist's view.

II. Consumer sovereignty and the general case for state support

Consumer sovereignty accepts it as axiomatic that the individual is the best judge of his/her own welfare. This leads to three propositions:

- a) The individual should be free to buy whatever goods and services he wants. He should not be forced or persuaded to pay more or less than the competitive market price for such goods and services, which implies no direct subsidies to producers of them.
- b) The individual is the best judge of his own interests in making these purchases. This view implicitly rejects any notion that there is a hierarchy of tastes and preferences however this could be decided. It explicitly rejects the idea that the creative artist, the performing artist, or the informed aesthete can perform

¹ Welfare economics endeavours to introduce ethical considerations into economic analysis. Because its arguments are based on value judgements they are not susceptible to scientific analysis.

² For a recent statement coupled with comprehensive bibliography, see Frey and Pommerehne (1989). My own position is to be found in Peacock (1969).

these services or have any special status in the community when it comes to the allocation of resources to the arts.

- c) Even if the individual may not be a good judge of his own interest and may recognise this fact, this is not to say that anyone else is a better judge of them. Peer group assessment by creative and performing artists may be helpful in forming those judgments, coupled with opportunities for developing tastes and preferences through experience of listening and watching performance. But the individual has to make up his own mind in the end.

The fulfilment of what is clearly some ideal requires that individuals exercise their right to choose between alternatives, that full information of relevant alternatives is available in an unbiased form, and that there is freedom of entry into the business of providing new and/or "improved" alternatives. This normally presupposes that there is a fully developed competitive market in which producers profit from paying the closest attention to consumers' wishes. I deal later with the question as to whether all those wishes can be fulfilled by the market alone, and I accept in advance that even if the market is an efficient mechanism this does not mean that it is necessarily some sort of spontaneous creation. Misconceptions about this position are bound to arise, which I shall now attempt to dispel.

It is wrong to suppose that choices exercised through the market promote materialism or philistinism. People can choose in very different ways depending on how their choices are formed and how they are developed. It is also an error to suppose that an individualist position excludes concern for others. What it does imply is that any concern for the cultivation of the tastes of others should be expressed wherever possible in some form of voluntary action.

The creative and performing artist is neither entitled to nor requires any special form of public protection from market forces. Artists can, if they wish, claim like Schönberg that "*audiences are merely a means for improving the acoustics in the concert hall*", or, like Milton Babbitt, the US composer, that composers have no obligation to the public ("*the composer will do himself and his music eventual service by total, resolute and voluntary withdrawal from this public world to one of private performance*"). However, they must not complain if this self indulgence requires them to rely on their private means, other activities such as teaching or performance, or on support from others. In any case, there is a good deal of empirical evidence to suggest that composers, playwrights and authors are rather clever at devising means to protect their interests.

I have probably given the impression that the doctrine of consumer sovereignty would preclude any form of state funding of the arts. That this need not be so can be demonstrated by considering some of the problems left unresolved, while still

confining our attention solely to consumer choices exercised through the normal market process.

The emphasis on freedom of choice by individuals leaves on one side the question of the distribution of opportunities for choosing available to individuals. The first part of this problem concerns the quantity of choice, as reflected in differences in wealth and income. Supporters of consumer sovereignty differ about the extent to which the distribution of income should be a simple reflection of market forces. Many would support government intervention to correct extremes of income and wealth. There is wide agreement that any such intervention, wherever possible, should take the form of cash transfers rather than goods, leaving individuals still free to choose how they would wish to allocate such income.

A trickier problem is presented by the question of the quality of choices. The actual choices of individuals, whatever their income or wealth, depend on how tastes and preferences are formed and how they change. The doctrine of consumer sovereignty tells us nothing about this process, and usually avoids its implications by considering only the case where tastes and preferences are already given. The economist's attempt to avoid discussion of the question of identifying cultural values is therefore misplaced.

The formation of the pattern of individual choice clearly depends on the education system in the widest sense. There are libertarians who would maintain that taste formation is entirely a family responsibility, which is at least an admission that there must be some paternalist element in taste formation. I have met few who would not assume that, if this were so, encouragement of an interest in the arts should form part of education. Equally the view is well established that there is a collective interest in education beyond the purely vocational, and therefore a prima facie case for state encouragement, as distinct from production or control, of cultural education. As put by Blaug, *"there is certainly nothing in economic theory which tells us that a competitive market will bring about an optimal level of investment in the formation of tastes."*¹ At the same time, there is no technical method enabling us to decide what the optimum is likely to be. It must rest on a further value judgment. It can be argued, of course, that 'state encouragement' does not necessarily mean 'state subsidy'. It could simply mean that educational establishments would be obliged to devote part of their resources to cultural education.

An interesting area of disagreement concerns the 'under provision' of arts supply resulting from the expression of choices through the market - let us call it the

¹ See Blaug (1976) p.17 and for the development of the same argument in Scitovsky, reprinted in the same volume.

'uncovenanted benefit' argument. A famous statement of the principle is by Lionel Robbins (1971):.... *"the positive effects of fostering the arts and learning and the preservation of culture are not restricted to those immediately prepared to pay cash but diffuse themselves to the benefit of much wider sections of the community in much the same way as the benefits of the apparatus of public hygiene or of a well planned urban landscape."* I may derive some measure of satisfaction from the external appearance of public buildings even though I never venture inside them. I may likewise derive satisfaction from the international prestige of national ballet and theatre companies, but may not particularly like watching them. As previously suggested, if my welfare is affected by the welfare of others, I may derive satisfaction from their enjoyment of the arts. I could enjoy these additions to my welfare without having to pay for them, **provided** others were willing to do so. However, if there is escape for one, there is escape for all.

Organising a whip round covering the whole nation to provide continuous support for the arts is too costly a procedure. We may prefer to be taxed, rather than risk 'under-provision' of the arts, even though what we individually pay in taxes relative to others may not accord with the benefits we receive relative to others. However, if extra resources are diverted to the arts, other than those resulting from market forces, we have to consider alternative uses. For example, using the international prestige argument, is our collective satisfaction increased or diminished if we divert resources from government support for scientific research in order to prevent the demise of opera? Reasonable people can disagree about such choices. The most that they can be expected to agree about is the **method** by which decisions concerning the allocation of public expenditure is reached.

A variant of the argument concerns the interest of those who are affected by decisions taken now about spending on the arts, but who have no part in the decision making process. Thus if some particular art-form were to die out because present generations are not willing to pay for it, what about the interests of future generations? (There is an obvious analogy with the 'green' arguments used to support conservation of natural resources, and similar difficulties about determining the amount and form of support arise.) However, even if one excludes concern for others in the calculus of one's own welfare, may one not feel uncomfortable at the prospect that future generations might curse us for letting some particular art form die? Yet for others this argument seems entirely suspect, for it pre-supposes that an art form, once falling out of fashion, cannot be recreated. What is more if future generations, as is likely, are to be materially better off than present generations, what duty do we have to make provision for their benefit when they are in a better position to look after themselves?

Finally those in favour of a market solution have to face up to a particular problem which is an additional source of disagreement. Those who believe that the distribution of income should reflect the judgment of the competitive market adopt

the position that creative and performing artists need only be paid what is necessary to provide the level of output required by market forces. If they are relatively ill-paid, this is compensated by the psychic benefits derived from their work (cf. Withers (1985) for further discussion). However, this argument avoids the question of the initial distribution of property rights in the creation and performance of works of art. Before the market operates as a method of exchanging property rights, some rule must be devised as to how they are to be acquired in the first place. Music, plays and pictures might still be produced if these could be played or reproduced without fee, but this does not remove the necessity for some prior judgment about rights in the creation and exploitation of intellectual property (cf. Stewart (1990)). On this matter, there is not likely to be an agreed solution.

III. The pundit's perception of the role of the economist

This rather long-winded attempt to derive an argument for state support for the arts without recourse to a set of aesthetic principles is in strong contrast to the methods used by those individuals and organisations who claim an expertise in the delineation of cultural values and its expression in cultural policies. It is not always easy to identify who these individuals or groups are and what they want, but I must attempt to do so before addressing the question of their perception of the economist's role in their 'battle for culture'.

Perhaps the best way of categorising them is as suppliers of cultural goods in one form or another. They readily combine into groups that have a genuine interest in the education and training of writers, composers, artists and actors and suchlike and have a concern for professional standards; but this is not to say that they do not have, though they frequently deny it, the same character of professional and commercial associations who seek privileges which protect their real income in one form or another¹.

They claim, as other associations do, that support of their interests is synonymous with the general interest of society. The strategy used by cultural associations can readily be predicted by economists. First, identify 'culture' with 'civilization' (as in the famous TV series by Lord Clark). This immediately implies a 'hierarchy' of tastes, with cultural goods at the top of the list. Second, identify any opposition to this idea as 'philistine', though what the Philistines did to deserve their association

¹ National companies in the UK attach considerable importance to supplicating for the prefix 'Royal'. This does not confer the monopoly privileges comparable with those obtained for music printing by William Byrd from Elizabeth I in the 16th Century, but it may gain them influential allies.

with the 'uncultured' is not clear¹. So far, then, the strategy is akin to both persuasive advertising (Culture (like Guinness) is good for you') and 'percussive' advertising (Avoid worthless substitutes'). Third, seek to convince governments and voters that suppliers of cultural goods are better placed than others to devise and even to direct cultural policies.

The contrast with the economist's approach could not be more marked. Governments are to be convinced not by logic but by rhetoric. Given the cultural bodies' perceptions, this is a wholly rational strategy. Their members are highly articulate and masters at the craft of playing upon our emotions². To argue in this way, even though the economist's intention is not to pass judgment on this strategy, is to risk being condemned as a 'philistine' without trial. To suggest that the end result may be a set of pronouncements on cultural values and policies which is purely subjective and not subject to any form of empirical verification - as economists would admit is true of the 'consumer sovereignty' principle - is likely to earn the reply that those who dispute these pronouncements are dangerous deviants. This is the strategy recommended by Freud to his disciples: "*(my) inclination is to treat those colleagues who offer resistance exactly as we treat patients in the same situation*"³

The nineteenth century counter-attack on the Classical economists by such important influences on cultural ideas as Ruskin and Carlyle was to brand economists as 'pig-philosophers' who extolled materialism. The widespread association of economics with 'material welfare' has lasted until the present day despite notable attempts to dispel this impression. It led Lionel Robbins - a passionate devotee of the arts - to develop a famous refutation of these critics. While admitting that economists may be preoccupied with particular motives and with particular kinds of productive activity, if only because of their relative importance as users of resources, he demonstrated, in a famous passage, that there

¹ Richard Mason (1987) comments: "Like the Vandals, the Philistines had a sad history. No different from other minor mediterranean peoples, they made the mistake of falling out with the Israelites. From that inauspicious beginning there was no turning back. Following fatal riots in 1689, the students of Jena applied the Old Testament condemnations to the townspeople. Other German students followed suit and, subsequently, Matthew Arnold introduced the insult to Britain, particularly in his book, 'Culture and Anarchy'." Mason might have added that the Philistines seem to have had a gift for ceramic design.

² For characteristic examples, see the Arts Council of Great Britain magazine, *The Insider*, published in *Arts Management*, Winter 1990. I particularly like the speech delivered on National Arts Advocacy Day 1989 by Richard Eyre, Director of the National Theatre, who states: "the spectre of market forces is constantly evoked to frighten we feckless children"! Sir Roy Strong's bitter attack (1990) on "the new Thatcherite Toryism....peopled by the uncultured" introduces a new historical butt by his diatribe against Mrs. Thatcher who "may well take her place in....cultural history....as another Queen of the Goths". But see the spirited reply by Peter Palumbo, Chairman of the Arts Council of Great Britain.

³ See the letter from Sigmund Freud to C.G. Jung, 1 January 1907 in McGuire (Editor) (1974)

is an economic aspect - in the sense that resources have alternative uses - in the attainment of any set of ends, whether labelled material or non-material¹.

The growth of economics knowledge may have done something to dispel the impression that economics is merely a tool to promote material welfare. The reactions of cultural pundits have been various. There are those who have continued to act in an ostrich-like manner and have preferred to harbour the illusion that the arts can and ought to be protected from the principle of opportunity cost² in the use of resources. A prime example of this attitude is to be found in the strong opposition to the operation of any form of market, through which consumer choice might be exercised, in the field of broadcasting - a European rather than a US phenomenon. The Committee on Financing the BBC (1986) had the temerity to question the 'principles of public service broadcasting' which prominent broadcasters themselves had drawn up without reference at all to consumer choice, and were castigated for their pains, despite their acceptance of the need for some form of public subsidy justified by arguments which I have already outlined.

There is, however, another reaction by 'cultural persuaders'. Instead of keeping economics out of the debate about cultural policies, the persuaders have sought to enlist the 'pig philosophy' to support their case. The economist, so it is argued, might become a useful hired gun for the cultural establishment. I give three examples from UK experience.

The first comprehensive attempt to calculate the economic contribution of the arts in Britain by John Myerscough et al (1988) was hailed by the cultural establishment as clear evidence that the arts sector 'can be seen as a huge industry' (to quote the blurb) and therefore (why?) clear justification for government policies to support it. (The study was commissioned by the Gulbenkian Foundation and the Office of Arts

¹ "Suppose, for instance, a community of sybarites, their pleasures gross and sensual, their intellectual activities preoccupied with the 'purely material'. It is clear enough that economic analysis can provide categories for describing the relationships between these ends and the means which are available for achieving them. But it is not true, as Ruskin and Carlyle and suchlike critics have asserted, that it is limited to this sort of thing. Let us suppose this reprehensible community to be visited by a Savonarola. Their former ends become revolting to them. The pleasures of the senses are banished. The sybarites become ascetics. Surely economic analysis is still applicable. There is no need to change the categories of explanation. All that has happened is that the demand schedules have changed. Some things have become relatively scarce, others more so. The rent of vineyards falls. The rent of quarries for ecclesiastical masonry rises. That is all. The distribution of time between prayer and good works has its economic aspect equally with the distribution of time between orgies and lumber. The 'pig-philosophy', to use Carlyle's contemptuous epithet - turns out to be all-embracing" Robbins (1932).

² An accountant defines the cost of something as the total money expenditure necessary to achieve it. Economists adopt a more sophisticated approach looking at the value of other uses of the money: the opportunity cost. Put in terms of public funding for the arts, the opportunity cost of the subsidy to an arts organisation is measured against alternative uses of that money e.g. help in the start up costs of a small business in another sector of the economy (which might rapidly become profitable).

and Libraries, and received funding from a number of government appointed bodies - the Museums and Galleries Commission, the Arts Council of Great Britain and the Crafts Council.) The report has much to commend it, for it contains a mass of useful data, but these data have been blatantly misused by cultural pundits. For example, the most quoted global estimate of arts expenditure is £10bn in 1984 which represented 2.5% of total final expenditure in the UK national accounts - comparable to total sales of vehicles or sales of fuel and power. Myerscough makes it clear that this figure represents an extremely wide definition of arts expenditure and includes a particularly controversial item. Less than 10% of the total is represented by expenditure on museums and galleries, theatre and concerts (£846mns), whereas mechanical performance - broadcasting, film, video production and cinemas - represents over one quarter (£2824mns), and 'cultural products' - books, art trade, record industry and crafts - represented 36% (£3674mns) of the total. The remainder representing 27% (£2621mns) of the total was a calculation of so-called 'arts specific' spending on refreshments, hotels, etc incurred in connexion with attending artistic events and attractions. This last item clearly assumes that in overall national terms, no such spending would otherwise take place!

I am less concerned in this example with the way in which the definition of 'the arts' can be distorted in any way convenient to the persuader than with the refusal to recognize and to define the 'counterfactual' position. This brings me to the second example, which illustrates this point very well. In July 1987, the Arts Council of Great Britain circulated a report entitled 'The Net Exchequer Costs of Supporting the Arts Council of Great Britain' prepared by Dieter Helm of Lady Margaret Hall, Oxford. The Council clearly believed that if it could prove that there were 'substantial economic pay-backs' from government expenditure on the arts, then this would strengthen its case for more government funding. Thus income and employment generated from government funded arts organisations would bring a return in terms of the savings in government expenditure on unemployment benefit, the direct tax paid by artists and value added tax generated from ticket sales, and the implicit subsidy from the arts to education. The Council were clearly disappointed, though the report itself made one or two assumptions, notably in respect of the extent to which tourism was dependent on state-financed arts organisations and the extent to which the education sector received uncovenanted benefits, which favoured their case. The reason lay in the clear recognition in the report of the need to lay the estimates alongside the alternative of removing all subsidies by the Council to the arts. Here was a case where even a sympathetic adviser did not produce the desired goods, because of an honest recognition of the need to identify a counterfactual position.

My third example goes back in time but is not only one in which I was closely involved, but also is concerned with the manipulation of one of the most famous

economic propositions concerning the arts - the 'Baumol Effect'¹. I am not concerned here with the particular ways in which this effect is normally identified and measured, nor with possible qualifications of the Baumol argument². As we all know the effect was seized on by interested parties as a strong argument for basing public funding on cost increases incurred by arts companies. In the UK the argument was deployed by no less a luminary than Sir Claus Moser in arguing the case for a major improvement in public funding of Covent Garden Opera. Eddie Shoesmith and I, aided by Geoffrey Milner, were asked to measure cost increases suffered by arts organisations and compare these with cost increases generally (as shown, for instance by the Retail Price Index), it being assumed by the Arts Council management of the day that cost increases in the arts would be shown to be significantly higher³. However the Baumol thesis is not about costs but about the inability of arts organisations to improve productivity in line with organisations in other sectors of the economy. The cost disease in Baumolian terms would still be present even if costs of inputs rose at the same rate in the arts as in all sectors. As it happened, our estimates of cost trends in the performed arts, did not bear out the supposition that, in a period of rapid inflation such as occurred in the UK in the 1970s and early 80s, the arts would be relatively adversely affected. I am told that the Council of the day were very upset. When the cost of the study itself was revealed, consternation was the order of the day and one member of it is alleged to have said that the study would have been cheap at the price if it had come to the 'right' conclusion!

Nothing in what I have said so far is meant to convey the impression that economists should distance themselves from government bodies responsible for arts policy. They should, however, examine their terms of reference very carefully.

¹ In their book *Performing Arts: The Economic Dilemma* Baumol and Bowen developed the argument that the performed arts, in common with other "industries" e.g. education, offer very limited scope for improvements in productivity. In certain clearly defined circumstances this can lead to their real costs rising relative to those elsewhere in the economy. Briefly, technological progress results in improved productivity - most notably in the manufacturing and production sectors. This is reflected in increases in real earnings for employees in those sectors. Employees in the performed arts also negotiate real wage increases but without the productivity improvements to pay for them. Hence real costs per unit of output in the performed arts rise relative to those elsewhere in the economy.

Over most of the period covered in detail in Baumol and Bowen's study there were substantial productivity increases in labour productivity in the economy as a whole and the mechanism did appear to operate. There were other periods, however, when the conditions required for the "Baumol disease" were not present and the tendency vanished or even reversed. The Peacock study in Britain in the 1970's showed the arts suffering the cost disease to a relatively mild extent if at all.

² For a short account of these, see Peacock (1985). This was a comment on a strong defence of the Baumol position in Baumol and Bowen (1985).

³ See Peacock, Shoesmith and Milner (1982) for evidence.

IV. Some thoughts on the financing of cultural policies

Over the years, the Association of Cultural Economics has offered the occasion for research reports which demonstrate that individual demand for artistic services finds expression in support for public funding. Of course there are major difficulties in discerning in such contributions a clear perception of how much funding, and it is asking too much, perhaps, to expect enlightenment on public perceptions of the form that funding should take¹.

If we return to look for policy guidance from the doctrine of consumer sovereignty, there is a clear prescription to use public funding in ways which encourage consumers to widen their experience of cultural activities and which promote freedom of entry into the 'culture market' so that cultural innovators can challenge well established cultural institutions. I have argued, as others have, that the funding systems most compatible with this position entail the channelling of public support through the consumer, either by voucher schemes or by some form of tax relief, rather than through direct subsidisation of arts organisations. The long term aim of such schemes would be to encourage individuals to learn more about their capabilities for cultural enjoyment and about their tastes and preferences in the hope that, eventually, state funding would become unnecessary! Much has been written on funding the consumer in recent years², and I do not propose to go over old ground. The relevant point concerning funding in practice is that subsidy to producers, rather than to consumers, is deeply entrenched and is widely supported by those who claim to know which cultural activities should be financed by the public.

Direct funding to producers suits both the bureaucrat and the client. The bureaucrat has to deal with relatively few companies, becomes fully familiar with their modus operandi and, in the light of experience, can discern which companies are likely to act so that the arts administration can use a light touch and therefore can avoid being accused of interfering with artistic decisions. With continuous funding, the performing arts organisation can have 'peace to plan', is able to load off a fair proportion of the risks onto the arts administration when it moves ahead of audience experience and understanding of modern works, and is saved the necessity of devoting time and effort primarily to improving box-office receipts.

However, like all cosy relationships between business partners who have sought and obtained immunity from market forces, the interests of those that they are meant to serve may become neglected. Much attention has been devoted recently to the difficulties governments encounter in making selective aid programmes for

¹ For a useful summary of measurement issues, see West (1985).

² For a strong defence of consumer subsidies, see again West (1985) Chapter 7.

industry work in the interest of the community at large, and we should expect these difficulties to be even more pronounced in a situation in which more or less permanent state funding is in operation, as seems to be the normal expectation of our large performing arts organisations and even of those who take the decisions to fund them.

The first problem is determining the level of funding. Presumably, what one is after is agreement between the funding authorities and the individual about the level of subsidy per unit of output (say a week of six performances) up to some agreed maximum number of weeks. In principle, this entails the provision of data about production plans, and the average and marginal costs of fulfilling them¹. Once an agreed level of subsidy is decided, it entails some monitoring system in order for the company to demonstrate that it has carried out its 'contract' with the subsidising authorities, or can offer acceptable explanations for any divergence between plans and attempts to fulfil them. In short, it does not seem unreasonable for a subsidising authority, if only in very broad terms, to agree in advance what the subsidy is to be used for, and to receive some account of how the subsidy has actually been used. After all, this should not impose major additional costs on firms who should already be making plans and monitoring their activities if they want to remain in business.

Judging from my own experience, I wish that I could say that this reasonable procedure is closely followed and accepted by major companies with continuing subsidies. There is often strong opposition to the presentation of plans even in broad outline, and costings of programmes are often of the crudest kind. Despite warnings that deficits will not be underwritten, companies are known to take a chance on this, and there are instances where they have got away with it. What is more, they have not found the subsidising authority when once bitten, was necessarily twice shy.

Why is this so? A little economics helps here, particularly the economics of bargaining. A general preliminary point concerns the bargaining environment. For example, the Arts Council of Great Britain has prided itself on its refusal to turn itself into a cultural dictator. The 'arm's length' principle requires that it responds to the artistic initiative of clients and does not dictate to them what they should produce. Furthermore, clients must be assured that justice will be done to their applications for funding, within the means available, and this entails judgement by peers, with a fairly rapid turnround of membership of the peer group assessors. Poachers become gamekeepers and then poachers again, with each side aware that

¹ Say that a company provided twenty weeks of performances at a total cost of £400,000. This would represent an average cost of £20,000 per week. It might be that, because the company's fixed costs would not be affected if they performed for an additional week the cost of that extra week would be only £15,000 - this would be the marginal cost.

how they behave in one role might affect their position in the other. There is therefore a built-in bias introduced against too strict an interpretation of the rules of budgeting and monitoring. Constant continuous enquiry into the affairs of an individual company can so easily be construed as 'dictatorship' and makes it all too easy to lose friends who may eventually replace one as advisers on subsidy policy. In addition, if a company is the only one of its kind, as with some national companies, it is very difficult if not impossible to obtain a cross-check on costings by comparison with other companies and no incentive for the company to help in the process. The price of zeal in examining the budgetary process must be measured in terms of the scarce administrative resources, including time, which have alternative uses.

Apart from the difficulties of cost control there are further disadvantages, from the consumer's point of view, in perpetuating a system of direct subsidies. Officials for understandable reasons wish to develop congenial relations with a few established clients. However, the consumer interest may be better served in the long run by reducing the 'cost of entry' of new and innovative concerns into the arts business. Clearly such entry is inhibited by the 'unfair competition' resulting from subsidies to established companies. Furthermore, a subsidy to production does not enable the subsidising authority to allocate its benefits to 'targeted' groups such as the young and the disadvantaged. Yet if subsidy for the arts is to be justified by our concern for the welfare of others it is such groups which should benefit from the subsidy.

I doubt whether anyone who has been so closely concerned as I have with the practicalities of funding will disagree with my analysis, but few will want to take a leap in the dark towards a complete system of consumer subsidies which, one must admit, has difficulties of its own. A possible compromise is to abolish the 'perceived right' of 'national' or 'regional' companies to perpetual funding. The interest in public support for the arts is primarily an interest in specific art forms and not in particular monopoly suppliers - e.g. individual theatres - and the 'demand-mix' is bound to change through time. That being so, the system of direct subsidy must be flexible between one form and another. This suggests that there should be more open competition for funding to meet policy requirements. Companies should bid for franchises awarded for a limited period of years at the end of which the franchise holder would have to bid against possible new entrants. The system implies that national or regional governments should privatise state arts companies, while still being responsible for direct state funding of companies meeting the franchise criteria. (A tentative move in the direction of more flexible funding arrangements is to be found in the incentive funding scheme which was until this year in operation by the Arts Council of Great Britain, and which provided matching funds to those generated from non-governmental sources, e.g. box office income and sponsorship¹.)

¹ For a first hand account of the operation of this scheme, see Webber and Allen (1990).

V. Concluding remark

Martin Shubik tells a lovely story in a mammoth work (Shubik 1984), at the point where he proceeds to link his comprehensive analysis of the theory of games to policy matters:

"The owl was the wisest of animals. A centipede with 99 sore feet came to him seeking advice. 'Walk for two weeks one inch above the ground; the air under your feet and the lack of pressure will cure you', said the owl. 'How am I to do that?' asked the centipede. 'I have solved your conceptual problem, do not bother me with trivia concerning implementation', replied the owl."

I have tried to convey my general view that attempts to link the principles to the practice of cultural policy, while beset with many difficulties, are a proper subject for economic analysis. I know several economists whom I respect who think otherwise, and who believe that the economist's only function is to devise aims and not the path to be trodden in achieving them - they would side with the owl. However, if economists are not going to apply their minds to some of the problems that I have revealed on this journey towards the meeting point of cultural values and economics, then they have only themselves to blame if the cognoscenti of the world of culture are tempted to invent the economics for themselves.

NOTE: The author is Chairman of the Scottish Arts Council and a member of the Arts Council of Great Britain but this paper represents his own views entirely. This paper is a revised and extended version of his 1987 Esmee Fairbairn Lecture delivered at the University of Lancaster issued by that University in mimeographed form under the title 'Cultural Economics and The Finance of the Arts'.

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NATIONAL ARTS & MEDIA STRATEGY

DISCUSSION DOCUMENT ON THE SOCIO-ECONOMIC EFFECTS OF THE ARTS

REVIEW OF LITERATURE AND RESEARCH ON THE SOCIO-ECONOMIC EFFECTS OF THE ARTS

DR SAMUEL CAMERON

- 1. OVERVIEW**
- 2. DEMAND FOR THE ARTS**
- 3. COSTS OF PRODUCTION**
- 4. ARTISTIC LABOUR**
- 5. THE MAGNETISM OF THE ARTS**
- 6. MEASURING TOTAL IMPACT**
- 7. ATTITUDES TO SUBSIDY**
- 8. CONCLUSIONS**

INTRODUCTION

This paper is in eight sections. The first provides a general background to the methods used to evaluate the impact of the arts. Sections two to four elaborate some of the distinctive economic features of arts. Sections five to seven examine critically the conclusions that have been drawn from the results of evaluative studies.

1. OVERVIEW

It must be made clear at the outset that it is very hard to lay hands on a study which can be said fully to answer the question, 'What is the socio-economic impact of the arts?'. There is a substantial literature on the economics of the arts but a large fraction of it rehashes the well rehearsed arguments for and against state subsidy. There are a number of works which touch on socio-economic effects, however tangentially, and these will be reviewed here. Criticisms of these will indicate what is needed for a more complete answer. Recent years have brought a large number of urban initiatives involving arts projects. Not surprisingly the

majority of these have not been evaluated. This cannot be remedied merely by commissioning a batch of studies tomorrow. An important element in the impact of the arts is the sustainability of any socio-economic change induced. Time has to pass before this can be detected. Even allowing for this, the methods employed in many existing studies do not appear well geared to the estimation of long run effects.

A little terminological nit-picking is unavoidable at this stage. All terms in our title need further examination. The term 'effects' is not the key usage in the literature. The dominant tag is 'economic impact' study. I shall concentrate on the work by Myerscough (1988), in which can be found references to other economic impact studies. Impact studies focus on job creation and income generation in the short run. They do not take into account the full range of effects arising from the arts. The impacts measured in an impact study are sometimes extrapolated by the authors into a notion of 'economic importance'. This is not a concept to be found in the literature of professional economics. More of this later.

Measuring effect in the widest sense would require the use of cost-benefit analysis. In times gone by this was called project analysis because it was used to decide whether or not to carry out a project. Suppose a project such as building a new road is being contemplated. This brings obvious benefits which are fairly easily measured. Business may increase and some people will find it easier to travel. There will be effects which are less easily registered, many of them on the cost side. Living near the road means suffering from aural, atmospheric and noise pollution. Ways can be found to measure this such as looking at the change in house prices. There is the added problem that various costs and benefits accrue at different times after the completion of the project. There are well established techniques for dealing with this. Once all the costs and benefits have been gathered in we simply take the sum of the costs away from the sum of benefits. If this gives us a positive number then the road is regarded as a good thing for society.

Although this type of sum is done in many fields such as health care, training, location of new airports etc, it does not seem to be applied in the arts despite pleas for its application fifteen years ago [Blaug (1976)]. Here we find only the economic impact study, which is really a cut price cost benefit analysis. It gives some of the information needed, but does not go all the way. Indeed there are cases where the sums in an impact study would be seen as erroneous in terms of cost benefit analysis.

Myerscough (1988,p.76) says that the arts "contribute to the quality of inner-city life and to the appreciation of property values. In this they are a potent force for environmental improvements". The increase in property values also has detrimental effects, such as putting some businesses out of action due to rates

increases. The impact study sometimes supplements income and job generation measurements by surveys of what people think about the project. This is interesting but does not provide any hard figures. Worst of all, it does not provide any monetary valuations which can be added to the monetary measures for jobs and income creation.

The economic effect of the arts will thus most appropriately be gauged by a cost-benefit analysis. Economic effect can be defined broadly to include social effects rendered into their monetary equivalents. Nevertheless some social effects may defy quantification. This is readily recognized in notions of what the arts are for, such as are found in texts on the philosophy of art. Langer (1953,p.28) says "An enlightened society usually has some means, public or private, to support its artists, because their work is regarded as a spiritual triumph and a claim to greatness for the whole tribe". No economist would deign to estimate the value of a spiritual triumph. On a more prosaic level, if an arts centred regeneration package transforms an inner city area this will bring gains that can not fully be captured in pounds and pence. Estimates could be made of effects on business, reduction in crime etc. But these do not tap the full flow of community pleasure at the improvement wrought.

Now we come to the most unanswerable of questions: 'What are the arts?'. Thankfully, there is no need to shed new light on this in a paper like the present. In economic terms, the arts are obviously part of a broader leisure industry. They are cultural in the sense that they are not immediately necessary to support existence, unlike food or drink and some uses of transportation. Some uses of food, drink and transportation go beyond what is biologically imperative and thus are culture in the widest sense. A line has to be drawn where the arts stop and 'other' culture begins. This line has been gradually shifting outwards both in Arts Council policy and in evaluative research. It would seem from Myerscough (1988) that circuses and pop music now qualify as part of the arts, given its new profile as a leisure industry rather than a protected species of human activity. Naturally, this widening of scope builds up its economic effect. An extreme example of the effect of broadening can be found in Table 2.1 (p.12) of Myerscough (1988). This suggests that the cultural leisure market takes up 5.4% of consumer expenditure. But this includes the learned ruminations of the Sun newspaper, the exploits of Tottenham Hotspur, the novels of Ms. Jackie Collins and much more besides. The author is too sagacious to go overboard on the figure conjured up from such a motley collection of culture but still finds it to be a 'useful guide' in providing a 'general context' in which to consider the 'arts market'. It is hard to see the basis for such claims. The only benefit of such a measure is that provides an upper limit. No attempt has been made to provide a lower limit.

The arts have different effects on different people. Obviously there are the artists themselves and the direct consumers of their works. Arts producers consume

resources which could have gone to other uses. It is thus important how efficiently they use these resources, as any waste in production deprives us of other arts or non-arts goods and services. It must be stressed that the non-arts sector will not be free from waste; one should not fall into the 'nirvana fallacy' of comparing an actual industry with a non-existent ideal world. There may be a relationship between efficiency and economic impact. A very inefficient organization will 'create' jobs readily if its inefficiency takes the form of hiring more labour than is needed to perform a task. There is thus a danger that impact studies might make inefficiency appear to be virtuous.

The acts of artistic production and consumption have secondary effects. Production requires the services of people like carpenters, electricians, administrators etc. They will spend their arts generated income on other goods and services which will initiate a sequence of induced spending and job creation. This is what economists refer to as a multiplier effect. It can be summed up in a figure - the multiplier - which is the ratio of income generated to the initial investment made. Estimates of arts multipliers can be found in Myerscough (1988). The multiplier may be enhanced by arts related spending from consumers. This has been particularly emphasized in the form of 'cultural tourism'. The cultural tourist may be drawn to a city by a cornucopia of museums and galleries. Whilst there they may spend money in hotels, cafes, pubs, shops and so on. Some care is needed in drawing conclusions from the value of the multiplier for the arts. At the local level it may be clear that cultural attractiveness has spawned a sequence of related spending. However, when we come to the national picture it may well be that much of the spending has simply been displaced from other less attractive locations, unless the tourists actually come from overseas specifically for the attractions being considered. Much of the effect of internal cultural tourism will thus be to redistribute income spatially within the country, rather than to increase the total.

There are two distinct sources of research on socio-economic aspects of the arts. The first comes from academic economists. They treat the arts like any other industry. The same tools are used and similar topics are the focus of attention. Fairly sophisticated statistical methods are used to identify relationships from an underlying theory. The end result of this is (apparently) precise quantification. For example, it might be predicted that a change in ticket price of 10% would bring a 3% change in sales. As we have indicated, economists could go on to do a cost-benefit analysis of the arts but they just don't seem to be interested. Inevitably much of the economic work is American. It is presented at the conferences of the Association of Cultural Economics (ACE) and published in their journal, the *Journal of Cultural Economics*.

The second source of research comes from those in the field of urban studies or geography, who also claim to treat the arts like any other industry. Some of this work can also be found in the conferences and publications of the ACE. Such work

usually considers local issues, such as the effect on a community of holding an opera festival or being made European City of Culture. The answers come in an economic impact study. Often such work is commissioned by interested bodies and is thus somewhat scattered.

A little background on the way economists think may help dispel the air of mystery that surrounds them. The crux of market economics is the reduction of human behaviour to self interest as revealed in markets. Artistic activity is seen as product or output. A night at the opera takes its place alongside soap powder and cheese sandwiches in the menu of choices available to the consumer. The same ideas are applied to artistic performers themselves. If there were no subsidies and we found that works by Boulez or Birtwistle brought acres of empty seats there are some obvious policy options. The performers and producers can give up and sell insurance or give the people what they want; they could subsidize themselves by taking on more lucrative but less esteemed work in order to continue with more highly esteemed, less popular work.

Public subsidy can be justified in economic terms, if there is a large enough value of externalities associated with the loss making artistic activity. The concept of externalities involves things which impinge on people's lives, but which are not provided through a market. Externalities are of special significance in the case of artistic production. Some of the social benefits from the opening of a new theatre - such as the sort of community pride referred to above - will not be reflected in its revenues. People may receive benefits which they have not paid for from the theatre. On the other hand, it could be making people worse off. For example, people who live nearby might be disturbed by noise from departing theatre goers.

The presence of externalities can cause output of a product to differ from what is best for society. Economists refer to this as 'market failure'. A potent cause of market failure is lack of information. This applies to the arts more than to most activities. Consumption is restricted by uncertainty about the satisfaction that can be obtained. This makes consumption a risky activity. If everyone mistakenly thought that they did not like something then none of it would be produced.

If an activity gives rise to sufficient beneficial externalities, it may be in the public interest to support it from public funds. As indicated in the road example above the contentious part of cost benefit analysis is the placing of money values on externalities.

2. DEMAND FOR THE ARTS

It is a common belief that a rise in the price of something will lead to a fall in the demand for it. By and large economists accept this. They work with demand

functions, which look at how price and consumer incomes alter demand. Demand functions show that there is a crucial price at which the greatest possible revenue (price multiplied by quantity purchased) is made. Prices above or below this involve lower revenues. A subsidy allows the recipient to go for higher audiences through pulling down prices below those which maximize revenue. But it also appears that London's West End Theatres set prices below those which would maximize the revenue from overseas tourists [Gapinski (1988a)].

Goods are sometimes given names according to their type. 'Inferior' goods are those, such as baked beans and public transport, the demand for which falls when income rises. Not surprisingly, the arts do not fall into this category. Increased incomes are associated with increased arts purchases. A simple prediction from this is that economic growth will bring expansion in the arts. Some goods such as hi-fi equipment not only increase with income but at a greater rate. This is occasionally referred to as being a 'superior' good. Studies of individual arts have not found them to be superior in this sense, although work on total arts consumption [Throsby & Withers (1979)] has. At a wider level, participation in the consumption or production of cultural activity at an early age is an important factor in arts consumption [e.g. Morrison & West (1986)]. Thus the socio-economic effect of the arts will depend in part on the ability of the education system to promote arts and art appreciation skills.

3. COSTS OF PRODUCTION

The economic analysis of the arts requires arts producing bodies to be treated as firms. The basic difference in motivation from conventional firms is that most subsidized arts organizations are registered charities, for whom 'quality' and output are seen as taking over from profits as the motivators of suppliers. When profits cannot be made, success is to be judged by the quality of work and the number of people able to enjoy it.

Economists have tended to concentrate on building-based performing arts companies, where the major problem is high fixed costs. With high fixed costs, it can prove very difficult to set a price that will keep the venue open. Touring companies can operate with a lower percentage of fixed costs. Essential production items and performers can be hired by the performance. A performance space still has to be found. If this is a church hall or sports centre supplied at a low, or no, charge then the company is effectively being subsidized by the venue owners. In a full economic analysis this would have to be taken into account. Calculations would have to be made, of the value of alternative uses of the venue and the value of any loss of production quality due to the use of an unsuitable space.

One of the most interesting problems in economic analysis of the arts is the treatment of technical progress. It has long been argued that the performing arts, and service industries in general, cannot experience technical progress at the same rate as other industries [Baumol & Bowen (1966)]. This is due to the labour intensity of performance. Machines can replace people in ploughing fields, but not in live drama or music without fundamentally altering the nature of the product. Technology permits the reproduction of performances at a very low cost. A screen relay or a television broadcast of a performance can add a vast audience at little additional cost. But the quality of the electronically reproduced product is, of course, different. If one did not believe this there would be very little need for live performances, as video recordings would suffice.

A cost function relates the level of activity to its cost of production. We would normally expect that an increase in the amount of culture will add to costs. Economic interest centres on the rate of increase - whether it is faster or slower than the rise in output. Studies of cost functions in the arts have covered museums, symphony orchestras, dance and theatre [for example, Globerman & Book (1974), Throsby (1977), Gapinski (1984,1988), Lange et al. (1985), Blau & Schwartz (1986), Jackson (1988)]. The conclusion could be drawn from some of these studies that resources could be saved if the mix of sizes of organization could be altered; e.g in Jackson's study this would happen if some small museums were made larger and some of the larger museums made smaller.

Resources can also be saved if the management of a firm is prevented from making wasteful expenditures. This is the gist of an attack launched at the RSC by former actor Robert Whelan (1990). He brings to bear the same arguments used against the formerly nationalized industries. His basic premise is that the availability of subsidy cushions the RSC from the discipline exerted by market forces. Thus they can spend money on things which do not add to, or may even detract from, the enjoyment of the audience.

Whelan overlooks the fact that similar ideas are applied to private 'for profit' firms in the economics literature [Jackson (1982)]. As many firms are large complex monopolies they are not held in check by the stiff winds of competition. Rather, it is their shareholders who must act to ward off waste and incompetence. Often shareholders fail to discipline managers because they are too ill informed and there are too many of them to act in concert.

Whelan argues that the RSC abuses its position by deliberately putting on unpopular plays. He implies that this is one of the reasons it can not pay its way. But is this really what closed the Barbican? Perusal of Table 2.7 (p.35) of Feist & Hutchison (1990) shows that excepting a disastrous year at the Barbican attendances have generally been strong. It should be noted that the disastrous year (86/7) involved a downturn for most arts due to weak tourism caused by fears of

terrorism etc. As stated above, a fundamental proposition in the arts is that the prevalence of high fixed costs means that a profit oriented firm may have difficulty finding a price that will sustain business. The corollary to this is that privatizing arts companies totally may lead to their demise. To prevent this they might have to cut down the variety of their work or change its nature. For the RSC this would involve putting on only guaranteed successes (whatever they are) and/or holding huge performances with the use of video relay screens. This contradicts the mission of the RSC to provide a varied canon of work in a specific way.

In any case, juicy anecdotes about specific money wasting antics are not sufficient to prove that an organization is behaving inefficiently. Statistical studies are needed to show, over a long period, whether there is a significant excess of spending over the costs needed to deliver stipulated results.

James Gapinski (1984) analyzed the RSC, using advanced statistical methods. The results indicated that there had not been cost savings from technical progress, and that costs had increased faster than output. These findings were consistent with other studies of the performing arts. Subsidy influences costs via changes in the output level chosen by arts managers/directors. Patronage expands arts organizations "to a point that would be unprofitable under the usual accountancy" [Gapinski (1988,p.757)]. Gapinski's results also indicated that patronage tends to be spent more on labour than on capital. As intimated above, this would push up the figures found in an economic impact study of the arts.

Gapinski's study is far from conclusive. An unpublished study by Rosemary Clarke, using the same data, fails to support his conclusions. In addition, there is considerable difficulty in defining and measuring output. Arts organizations are essentially multi-product firms. Most researchers choose attendance as the best approximation to output. If some other aspect of output, such as quality, is increased this will put costs up with measured output staying the same; hence the average cost would rise. It is even more difficult to measure technical progress. Gapinski does not even try. His method is based on the assumptions that it grows at a constant rate over time and that he has correctly measured every other influence on cost.

Costs can be influenced by the provision of membership of the organization. Blau & Schwartz (1986) and Jackson (1988) find that larger organizations can save on costs through their ability to attract volunteer labour. Volunteer labour will not be registered in economic impact studies as it leaves not a trace in financial terms. Nonetheless, it will be a beneficial impact of the arts; someone who is willing to do something for nothing must surely be benefiting from it.

4. ARTISTIC LABOUR

It is well documented, particularly for the acting profession [e.g. Cantor & Peters (1980)], that professional artistic activity involves prolonged periods of unemployment for the majority. It is also well known that earnings [see e.g. Towse (1991) on singers] are very unequally distributed. A small number of superstars receive very high incomes whilst the majority are modestly remunerated. The economic explanation for this [Rosen (1981)] is as follows. Thanks to advances in media technology the work of the most valued performers is no longer limited by time and space. A performance can be reproduced on tape, disc and video. Provided that copyright and royalties are in order this can open the way to a great fortune. In a conventional market the most desirable brand of a product could be undercut by cheaper alternatives e.g. supermarket own brands of food dent the earnings of the product originators. This kind of substitution is very limited in the arts. One Pavarotti performance at a huge ticket price may well still be seen as a better experience than 25 free performances by a perfectly competent unknown singer.

The arts seem to display a different linkage of wages and supply from what would normally be expected. Elementary economics suggest that the anticipation of low employability and wages would deter applicants. Available data on the arts suggest that the findings of Santos (1976), that people flock in despite the disadvantages, are still valid. Economists respond by calling the extra job satisfaction that overcomes the disadvantages 'psychic income' and claiming that this is what attracts people. It has been overlooked but it would be entirely logical to argue that a strong desire for risk taking is partly responsible for the large supply of performers.

5. THE MAGNETISM OF THE ARTS

A long run feature of the arts which has been much stressed is its magnetism to people and businesses. Two reasons spring to mind for industry location decisions being arts influenced. One is that being at the hub of culture enhances corporate image. There is no direct evidence on this. The second reason is that it is good for business because it is easier to recruit and retain high quality personnel. If this is so there should be evidence that cultural factors induce migration. General migration studies pay some attention to quality of life factors but do not allow arts and non-arts components to be distinguished. It is very hard to find research which directly tackles the question of arts induced migration. A recent Swedish paper [Rubenowitz & Rubenowitz (1990)] which does so finds the arts to be of little significance in attracting people or in dissuading them from departing. Of course one Swedish study can not prove that the arts lack magnetic qualities but, for the moment, this benefit of the arts is unproven. Commenting on an economic impact

study Myerscough (1988,p.136) is reduced to speculation on the subject. "Nobody could say for certain why firms chose Glasgow. Stated reasons were not always the real reasons and 'quality of life' was impossible to disentangle from other factors. But those responsible for selling the region as a business location believed that without a strong cultural infrastructure their task would be more difficult."

There is a strong incentive for people involved in job creation measures to believe that these measures work. Acceptance of the opposite belief would put pressure on their self-image. The psychological literature shows that, in such conditions, people tend to cling to unsubstantiated beliefs.

6. MEASURING TOTAL IMPACT

A striking thing about the Myerscough study is its intention to evaluate the economic impact of the arts as a whole.

If we do this we are asking the question, what would happen to society in economic terms if there were no arts? The answer appears to be that vital jobs and money would vanish. Myerscough says that "... the main conclusion is that the arts formed a significant sector in their own right with a turnover of £10 billion" (p.61).

The impression given by this study is that the figure of £10 billion proves that the arts are important in that they are "economically significant". The £10 billion is arrived at using a very generous definition of arts activity. Leaving that aside we still have a problem. The method used here seems to be: work out a number then look at and say that it is interestingly big. If the arts had a turnover of £2 billion would it then be not economically significant? We can't say. There is no definition in terms of turnover as to what makes a sector significant. Counting up the cash in this way leads us into dangerous waters. Are the arts less significant than industries with a turnover of £11 billion but more significant than those with a turnover of £9 billion? Is a very small highly efficient industry which provides vital sanitation input or basic foodstuffs economically insignificant because it generates little economic activity?

The approach is reminiscent of that found in the studies prepared in defence of the tobacco industry. These count up all the jobs and money that spring from the tobacco industry, including those of people involved in advertising cigarettes. In similar vein the Myerscough study includes spending on refreshments, hotels etc as being generated by the arts. But this approach is valid only if all such spending, which is undoubtedly associated with the arts, would simply cease if the arts were not there. There is little evidence for this, and it is reasonable to assume that most people would in that case find alternative uses for their money.

The study lays great emphasis on the job creation potential of the arts. A section on p.159 is entitled "Extra jobs in the arts are an extremely good buy". A strong contribution to job creation is only to be expected given what has been said for years about low salaries and production conditions in the arts. Cost function studies such as Gapinski (1984) indicate that subsidy tends to get spent on labour. One way of achieving high levels of job creation is to promote sectors which pay very low wages. This is the case with some jobs which are inputs to the arts but do not involve creative work. Individuals in such jobs may be glad of the work but their long term prospects might be better in some other industry.

The policy conclusions in Myerscough may also be prey to what is called the fallacy of composition. If we look at a museum or a theatre in isolation we may find that it is a considerable attraction to the public. But this does not mean that museums or new theatres can be built indefinitely with the same results. Myerscough claims (p.159) that "New facilities create new audiences and stimulate attendances in established attractions". At best this will be true only up to a point; and it is far from clear where that point is.

7. ATTITUDES TO SUBSIDY

The arts have made an impact on society through the use of state subsidy. A relevant question is, do the arts attract public support for subsidy? Increased levels of public funding are now sometimes justified, in impact studies, on the grounds that survey responses say so. It is best not to get too carried away with this. Studies of attitudes to public spending show that people do not make the link between more spending and more taxation of themselves. It is easy to say that there should be spending on any activity which sounds vaguely like a good thing when you know there will not be any direct comeback on the wishes expressed. Even if people say they would accept higher taxation to fund the subsidies this is still subject to the inherent defects of standard surveys.

8. CONCLUSION

This has been a critical review. It was not our intention to sift a definitive figure for socio-economic effects from the literature. Rather, we have concentrated on the methods used. It is clear that these suffer from a number of defects. Future evaluative work needs to be based on a consistent socio-economic accounting framework. A number of our comments concern over-estimation of beneficial effects. This should not be misconstrued as meaning that the arts are not important in economic terms. One of the main drawbacks of impact studies is their focus on measurement in terms of money without reference to value. The sums which have

been computed fail to put a value on many of the socio-economic effects of the arts which are not directly registered in the marketplace.

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