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THE MAKING OF CULTURAL POLICY: A EUROPEAN PERSPECTIVE

FREDERICK VAN DER PLOEG

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THE MAKING OF CULTURAL POLICY: A EUROPEAN PERSPECTIVE

'If it is art, it is not for everybody and if it is for everybody, it is not art', Arnold Schönberg, 1945

Abstract

No good comparable data on sizes of cultural sectors of the countries of Europe exist. Still, local and national governments of Europe spend substantial resources on culture and cultural sectors contribute significantly to employment and national income. After briefly describing special features of cultural goods and clarifying some misconceptions about the value of culture, valid and invalid arguments for subsidising culture are discussed. Although it is easy to justify government support for preservation of heritage, this is more difficult for the performing arts. Due to changing technologies and advent of E-culture classic public-good arguments for government intervention in broadcasting and other cultural activities become less relevant. Different institutions varying from selection by arts councils, bureaucrats or politicians to less directed tax incentives lead to different cultural landscapes. Theories of delegation suggest delegating the judgement on artistic qualities and execution of cultural policy to an independent Arts Fund. The Minister of Culture should concentrate on formulating a mission for cultural policy and make sure it is implemented properly. The insights of the theories of local public goods and federalism are applied to the making of cultural policy in Europe. Different approaches to international cultural policy in Europe are discussed. The overview concludes with lessons for the making of cultural policy in Europe.

JEL Code: H2, H4, P51, Z11.

Keywords: cultural policy, heritage, performing arts, museums, quality, participation, vouchers, tax incentives, quality, politicians, bureaucrats, delegation.

Frederick van der Ploeg
Robert Schuman Centre, European University Institute
Badia Fiesolana, Via dei Roccettini 9
50016 San Domenico di Fiesole
Italy
rick.vanderPloeg@iue.it

Former State Secretary for Education, Culture and Sciences of the Netherlands (1998-2002). Some of the arguments come from my main White Paper - van der Ploeg (1999) - and van der Ploeg (2003). See OCW (2003) for the making of cultural policy in the Netherlands. I thank Vladimír Bína for advice on data for the sizes of cultural sectors in Europe and Jan Honout for helpful discussions. I am also grateful to the participants and the discussant Françoise Benhamou of the conference on 'The Economics of Art and Culture', Princeton University, 10-12 September 2004 and to Sir Alan Peacock and David Throsby for their helpful comments.

1. Introduction

In Europe the market and the arts are often unhappy bedfellows. Many music lovers believe that only subsidised symphony orchestras and classical music ensembles perform good music. Commercial symphony orchestras and musical ensembles may accompany musicals, operettas and the popular operas of Verdi, Puccini, Rossini and Wagner or play classical music for the millions. However, they will not accompany difficult or contemporary operas or stage difficult, more esoteric pieces of classical music for fear of frightening away the public. If they do, they will loose money. Similarly, many argue that only subsidised theatre will stage the more difficult and artistically valuable theatre repertoire. Commercial theatre will concentrate on the lighter stuff such as comedy, cabaret or Christmas pantomimes. Commercial theatre in the West End of London can survive due to millions of tourists that grasp the English language, but this is unlikely elsewhere in Europe. The big London museums such as the Tate, the Tate Modern and the British Museum can also survive with less subsidy than in other European towns. Still, top museums in the European capitals thrive on one old master, for example the 'superstars' Velasquez in Madrid's Prado, the Mona Lisa in the Louvre or Rembrandt's Night Watch in the Rijksmuseum of Amsterdam. Of course, a museum that strives to show and maintain a large and varied collection and undertake research needs a larger subsidy. Exposition centres (e.g., the Kunsthal-concept) may be able to thrive commercially or on little government subsidy.

Culture in the Low Countries moved from the Renaissance onwards to satisfy demands of ordinary people. In contrast, Italy cherished following Vasari the judgement of independent taste critics. In a similar vain John Stuart Mill said `the uncultivated cannot be competent judges of cultivation. Those who most need to be made wiser and better, usually desire it least, and, if they desire it, would be incapable of finding the way to by their own lights' - see Blokland (1997, p. 89). Today much of the cultural elite of Europe finds commercial culture suspect and argues that subsidies for high culture are essential. Even though national, regional and local governments of Europe hand out sizeable cultural subsidies, the belief in the contradiction between market and quality looses strength. Some countries now require cultural organisations to get a minimum amount of box office receipts and sponsor income.

Still, commercial culture offers many marvels throughout Europe. In the past this was true as well. William Shakespeare wrote his best work for the people's theatre and managed to pull in the crowds in a fierce competitive environment – witness Baz Luhrmann's film on Shakespeare's Romeo and Juliet and Elizabethan times with Leonardo DiCaprio and Claire Danes in the lead roles. Contemporary Europe has excellent museums that flourish without any subsidy at all. There are commercial theatre productions whose quality of performances are at least as good from a high-culture point of view as those of subsidised theatre groups. There are a growing number of cultural entrepreneurs who reject subsidies in the same way as the market was condemned before. They cherish their autonomy and succeed without

the bother and humiliation of going through awkward committees to get subsidy. Still, much of subsidised culture does not (want to) realise that they will loose significance unless they reach out to new and more diverse audiences and make use of modern marketing techniques. The subsidised arts cater largely for white, higher educated audiences and not to the huge influx of immigrants in many parts of Europe. In addition, technological advances change the character of many cultural goods and question the rationale of government support for the arts. Why (if at all) and how should the government subsidise production and showing of contemporary arts? Why and how should it finance the collection, upkeep and display of cultural treasures? How does the political process influence public support for the arts?

Culture pessimists criticise the `market', because it encourages a money-oriented and culturally impoverished way in which people live together. They fear a world where people, artists and cultural organisations are merely treated as buyers or sellers of goods and services. The market demands purchasing power, not background, education or culture. Who pays, joins in. Market forces dumb down expressions of high culture in order to get mass attention. Culture thus becomes part of the entertainment industry. These critics prefer culture to be expressed in ivory towers for refined elite audiences that make an effort to understand what it is all about. Using economics to understand cultural policy is considered philistine. Ministers of culture are treated with contempt unless they bring more cash and no opinions on culture or cultural policy are offered. Cultural pessimists share with medics the zealous emphasis on professional autonomy. Professionals, not politicians must decide which artistic expressions are worthy. Professional autonomy is valuable until it is abused to defend or boost government subsidies. Economists tend to count the blessings of the market. The market mechanism often works better and generates higher welfare than central planning (as often is the case for allocation of arts subsidies). Cowen (1998) argues that the market produces a great variety and quality of culture, not just homogeneous pulp. It produces plenty of low culture, but that is what many people want and the market does produce high culture niches for the elite. Globalisation and Internet allow economies of scale and enable the market to produce diversity and variety. Robbins (1963) and Peacock (1969) derive the case for cultural policy from concern with the public interest and the need to correct markets that fail to deliver Pareto-optimal outcomes. Public goods, externalities, natural monopolies, information asymmetries and frictions thus need to be considered. One also needs to consider equity, and non-economic issues such as distinction, connectivity, security and internal motivation.

Some shy away from government interference as this may conflict with creativity or, worse, artistic freedom. `State Art' has connotations with the Third Reich, some dictatorships today and even present-day Italy. Culture may be better served by socially responsible entrepreneurs and civic responsibility, which has a long tradition in the US and Europe. Grampp (1989) rejects even this. He claims that the public interest is not served by cultural policy at all, since subsidies only serve the self-

centred interests of members of a passionate minority. Regardless of whether he is right, we must reckon with market *and* government failures in the making of cultural policy.

Europe has different systems of cultural policy, each with their own merits and distortions. We distinguish the state-driven, bureaucratic systems in, say, France or Italy and the arms-length approach of the UK, Netherlands and Scandinavia. We differentiate between the UK with an independent Arts Council and no ministerial responsibility and countries such as the Netherlands with an independent Arts Council and ministerial responsibility. In the latter case the Arts Council recommends, but the Minister of Culture decides and is held responsible by the parliament. Finally, Germany has almost no federal cultural policy and delegates most of the making of cultural policy to the Länder. In assessing the various systems we adopt a political-economy perspective and make use of the theories of delegation and of local public goods, clubs and federalism. Before that can be done, we must understand the nature of cultural goods and point out valid and invalid arguments for subsidising cultural activities. We also examine the costs and benefits of different kinds of government intervention varying from government handouts to tax incentives and special regulations for cultural exceptions.

Sector 2 presents indicators of the different sizes of cultural sectors in Europe. Section 3 discusses the nature and value of cultural goods. Section 4 considers how technical innovation and Baumol's cost disease affect the case for cultural subsidies. Section 5 shows how the way of allocating cultural subsidies affects quality, diversity and popularity of culture in Europe. Instruments vary from privileged positions and tax incentives to direct grants for cultural activities. Section 6 discusses subsidy allocation by grant-giving arts councils, advisory arts councils and bureaucrats. Lobbying and rent seeking are considered. The crucial questions are which powers should be delegated to bureaucrats or the Arts Council, and what mission, guidelines and criteria the Minister should give bureaucrats or the Arts Council. Section 7 discusses the principle of subsidiarity and applies the theory of local public goods, clubs and federalism to cultural policy making in Europe. This explains cultural competition between regional governments and sheds light on federalist systems as Germany. Section 8 discusses approaches to international cultural policy in Europe. Section 9 concludes.

2. Indicators of cultural sectors in Europe: size and participation

2.1 Cultural employment in Europe

Table 1 presents estimates employment in cultural enterprises including non-cultural occupations and groups them according to the NACE-classification. Cultural activities amounted in 2002 to about 3.9 million working persons in Europe (excluding Poland and Malta); 3.5 million in the EU-15. This reflects 2.1 per cent of the working population. Employment in cultural enterprises is relatively high in Denmark (2.6 per cent), Sweden (2.7 per cent), Finland (2.9 per cent), the Netherlands (2.5 per cent), Ireland (2.4

per cent) and the UK (2.8 per cent). It is relatively low in southern Europe; e.g., Italy (1.4 per cent), Spain (1.7 per cent) and Portugal (1.2 per cent). More than half of people employed in the cultural sector has an artistic or cultural activity.

Table 1: Shares of employment in cultural enterprises in Europe in 2002

Percentage	EU-15	EFTA	New members	Total
Publishing	26	31	17	26
Artistic and cultural Activities	56	51	65	56
Retail of books, Newspapers and Stationary	7	7	7	7
Architecture	11	11	11	11
Total	100	100	100	100

Source: Definition and Production of Harmonized Statistics on Culture in Europe, Chapter 2: Employment in cultural activities (2002), Eurostat, February 2004.

Table 2 uses the ISCO-classification and looks at cultural occupations only. There are about 2.9 million people working in cultural occupations in Europe, 2.5 million in the EU-15, 0.1 million in the EFTA and 0.3 million in the new EU countries. This represents 1.5 per cent of the employed working population of Europe, albeit slightly less in new EU countries. The share of cultural occupations in total employment is particularly high in Sweden (2.3 per cent), Finland (2.1 per cent), Denmark and the UK (1.9 per cent), the Netherlands (2.0 per cent), and Spain (2.2 per cent). The shares in France (1.2 per cent), Belgium and Austria (1.3 per cent), Luxemburg (1.0 per cent), Germany (1.5 per cent), Greece (1.4 per cent) and Portugal (0.7 per cent) are lower than the EU-average. These figures refer to both commercial and subsidised cultural employment.

Table 3 gives the shares of the various types of cultural occupations in Europe. The largest category is writers and creative or performing artists (45 per cent). The second largest group in the EU-15 and EFTA is artistic and entertainment associate professionals (25 and 34 per cent, respectively), but in new EU countries the second largest group is information professionals including archivists and librarians (21 per cent). Shares of various cultural occupations do not vary much across countries of Europe. A large fraction of cultural occupations is in the commercial sector.

Table 2: Employment in cultural occupations in Europe in 2002

Thousands	BE	DK	GE	GR	SP	FR	IR	IT	LU	NL	AU	PO	FI	SW	UK
Information	6.0	6	39	1	17	44	2	26	0.3	7	2	2	6	12	36
Creation and performance	26	21	243	19	61	144	14	183	0.5	94	29	17	29	57	176
Image and sound	5	5	52	6	30	27	2	31	0.3	13	4	6	3	11	51
Art and entertainment	4	15	114	16	53	37	7	41	0.4	42	12	5	8	14	241
Architects	10	6	104	14	27	27	2	67	0.4	5	3	5	4	5	31
Total	50	53	55	57	187	280	28	348	1.9	161	50	35	50	98	536
Percentage	1.3	1.9	1.5	1.4	2.2	1.2	1.6	1.6	1.0	2.0	1.3	0.7	2.1	2.3	1.9

Key: Percentage of employed working population

Table 3: Shares of various cultural occupations in Europe

Percentage	EU-15	EFTA	New EU	Total
Information	8	10	21	10
Creation and Performance	45	40	47	45
Image and sound	10	6	10	10
Art and Entertainment	25	34	15	24
Architects	12	9	7	11
Total	100	100	100	100

Key: Information consists of archivists, librarians and related information professionals (ISCO 243). Creation and performance are writers and creative or performing artists (ISCO 245). Image and sound

correspond to photographers and image and sound recording equipment operators (ISCO 3131). Art and entertainment are decorators and commercial designers (ISCO 3471), radio, television and other announcers (ISCO 3472), street, nightclub and related musicians, singers and dancers (ISCO 3473), and clowns, magicians, acrobats and related associate professionals (ISCO 3474).

EFTA includes Iceland, Norway and Switzerland. New EU are the new countries joining EU in 2004: Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia, Slovakia and Bulgaria.

Source: Definition and Production of Harmonized Statistics on Culture in Europe, Chapter 1: Employment in cultural occupations (2002), Eurostat, February 2004.

Benhamou (2000) empirically explains growth in employment in the audiovisual and performing arts for France and Great Britain during 1981-92. The two main explanatory factors are a growing number of people with cultural occupations working in cultural industries and structural changes in the labour market (more flexibility, fragmentation of work opportunities). The Enterprise Allowance Scheme contributed to higher self-employment in Britain while the specific social security benefits for artists led to higher temporary employment in France. As more comparative data become available from Eurostat, more research on shifts in cultural employment in Europe will be possible.

2.2 Public cultural expenditures in Europe

Throsby (1994) suggests that public cultural expenditures varied from 0.02 per cent of GDP for the US to 0.14 per cent for the UK and 0.21 per cent for Germany. Little reliable data for Europe exist, however, on a comparable basis. Preliminary indicators on total gross public cultural expenditures have been published for Austria, Finland, France, Germany, Italy, the Netherlands and Spain. Per capita public cultural expenditures are highest in France (180 euro), Austria (179 euro) and the Netherlands (174 euro). For most EU countries it is hard to distinguish between *gross* and *net* cultural expenditures and between *current* and *capital* expenditures. It is difficult to single out receipts earmarked for cultural sectors and to avoid double counting transfers to lower levels of government. The reliability of figures on cultural expenditures at municipal and local levels is further hampered by classification problems. Table 4 presents national, regional and local public cultural spending for three European countries, namely Finland, the Netherlands and Spain. The data are not comparable and there are considerable data gaps and badly covered areas. Finnish data excludes subsidies for public broadcasting, but Dutch data includes these subsidies. The data exclude cultural subsidies from other ministries than the ministry of culture and media, contributions from government regulated sponsors such as national lotteries, and tax subsidies for maintenance of monumental buildings, encouragement of risk capital for film ventures, purchase of

works by living visual artists, etcetera.

Table 4: National, regional and local public cultural spending

	Finland 2000			Netherlands, 1999			
Million euros	Central	Local	Total	State	Provinces	Towns	Total
Heritage	73.0	41.9	114.9	167.4	50.8	221.0	439.2
Archives	14.5	-	14.5	2.9	0.5	52.2	55.6
Libraries	182.6	128.6	311.2	23.5	28.1	343.1	394.7
Books & press	20.4	-	20.4	18.8	-	-	18.8
Visual arts	9.4	-	9.4	58.0	19.1	42.2	119.3
Architecture	1.7	-	1.7	7.6	-	-	7.6
Performing arts	82.1	73.8	155.9	167.0	12.7	64.9	244.6
Audio/visual/multi-media	13.5	-	13.5	904.7	70.3	5.9	980.9
Interdisciplinary	90.0	97.6	187.5	34.7	10.4	443.3	488.5
Total	482.5	341.4	823.9	1384.5	191.9	1172.6	2749.0

Spain

Million euros	Central 1999	Regional 1999	Local 1996
Heritage	215.7	301.9	65.0
Archives&libraries	67.2	123.5	-
Reading&publications	8.3	-	-
Music, theatre, cinema	127.5	-	-
Promotion-dissemination	73.8	316.1	512.3
Cooperation-promotion abroad	49.2	-	-
Administration&services	19.9	117.2	-
Total	561.6	858.8	577.3

Key: Finnish data only refer to current expenditures, but Dutch and Spanish data do include capital cultural expenditures.

Source: Task Force on Cultural Expenditure and Finance, Eurostat, October 2002.

Data collection also suffers from organisational problems, lack of a systematic framework and changes in accounting conventions. Still, the data suggest that it is wrong to focus attention on cultural spending by national governments alone. In Finland, the Netherlands and Spain they make up only 58.6 per cent, 50.4 per cent (only 32.3 per cent if the public broadcasting bill of 732.5 euro is excluded) and less than 28 percent, respectively of total public cultural spending. Cultural spending by the regions/provinces and the municipalities is thus very important. In Germany with almost no federal cultural budget this is even more the case.

Bille, Hjorth-Andersen and Gregersen (2003) describe the efforts of the Nordic Contact Group for Cultural Policy Research to arrive at a joint Nordic common standard. They stress the difficulties in defining what is exactly meant by cultural policy. Is it only high subsidised culture? Does it include teaching of literature or drawing in primary schools, preservation of heritage or valued added of the pop music industry? Apart from libraries and newspapers the Group did not arrive at a common standard for data classification. The Group includes public spending on the creative arts, theatre, music & dance, film & media, libraries, museum, archives, etc., but excludes public spending on cultural education, radio & TV and capital items. With these definitions culture's share of gross domestic product during the last quarter of a century has remained practically the same in Denmark, Finland, Norway and Sweden, namely 0.5-0.6 per cent. Economic growth thus leads to expansion of cultural budgets.

Little has been done to explain public cultural expenditures from a macroeconomic or political economy perspective as done for general government spending by, for example, Alesina and Perotti (1995). Previous studies do explain spending on particular forms of culture. For example, Krebs and Pommerehne (1995) empirically study political and other determinants of public support for the performing arts. Schulze and Rose (1998) study funding of the ‘Kulturorchester’ in the various regions of Germany. Orchestras are heavily funded in Germany: 94.6 per cent of public subsidy comes from local communities or municipalities and more than eighty per cent of orchestra funding (compared to 4 per cent for the US and 20 per cent for Japan) comes from direct public subsidies. Germany has a very high density of orchestras (1 for every 0.6 million citizens) compared with Great Britain (one for every 4 million citizens) and the US (one for every 1.6 million citizens). Local politicians and local circumstances play a key role and decentralisation of culture is even anchored in the German constitution. Schulze and Rose find that regional public funding of orchestras in Germany increases with the size of the population in the Länder. Larger towns also have bigger orchestras, but a bigger fraction of higher educated people surprisingly had no effect on German funding of orchestras. The level of orchestra support depends positively on the size of the overall and the cultural budget and negatively on the level of public debt. Schulze and Rose also find that conservative and liberal politicians tend to support classical orchestras more than Social Democratic and Green politicians do.

Getzner (2002) econometrically analyse determinants of total public cultural spending in Austria during 1967-1998. He finds that cultural spending, gross domestic product and the relative price indices of gross domestic product and government spending are co-integrated. The ratio of cultural spending to gross domestic product may vary in the short run, but rises steadily with gross domestic product. Cultural goods seem to have income elasticities greater than one, which lends support for Wagner's law of 'the growth of state activities' as described in Peacock and Scott (2000) and Frey (2000). Public cultural spending also rises with the price index of government spending (which is evidence for Baumol's cost disease). The relative importance of cultural spending thus grows over time as the national income grows. In contrast to Schulze and Rose (1998), cultural spending in Austria thus seems relatively unaffected by the ideology of the ruling political parties or by 'wars of attrition' between political parties described by Alesina and Drazen (1991). As new comparative data becomes available, comparative econometric studies into the determinants of cultural spending in Europe become feasible.

Table 5: Cultural subsidies per visit and box office receipts in the Netherlands

Performing arts and museums (number of institutions)	Subsidy per visit (average 1994-1997)	Proportion box office receipts to subsidy in 1997
Dance (12)	48 euro	18:82
Symphony orchestra's (10)	41 euro	24:76
Baroque orchestra's (4)	3 euro	82:18
Musical ensembles (17)	16 euro	36:64
Opera (3)	120 euro	22:78
Operette (1)	40 euro	22:78
Theatre (27)	49 euro	14:86
Youth theatre (13)	25 euro	18:82
Mime (6)	41 euro	14:86
Puppet theatre (4)	12 euro	37:63
Scientific musea (4)	56 euro	3:97
Arts musea (4)	7 euro	30:70
Culture historical musea (15)	13 euro	19:81

Source: van der Ploeg (1999).

Public spending on culture contrasts with income from box office and sponsors. For example, Table 5 relates art subsidies in the Netherlands to box office receipts. The state subsidises every opera seat (not counting contributions to costs of concert hall and orchestra) on average by 120 euro. Dance needs less, 48 euro. Theatre seats receive an average subsidy of 49 euro; seats in concert halls receive 41 euro. Each museum visit is subsidised to the tune of 11 euro, a lot less. More accessible forms of culture need fewer subsidies than more elitist cultural expressions. Orchestras that play popular music of the 18^{tt} century, Baroque orchestras and operettas thus need less support than opera or symphony orchestras. Paintings of Van Gogh are loved throughout the world, so the Van Gogh Museum needs fewer subsidies per visit than other museums. Each cultural organisation must obtain at least 15 per cent of revenues from box office or sponsors. This is considered a tough requirement by many in the cultural sector. It is important to compare subsidies per visit and percentage box office receipts on a thorough basis for the different regions and countries of Europe and for the different types of cultural activities. Unfortunately, this awaits systematic data collection on a comparable basis.

2.3 Size of creative sectors in Europe

DCMS (2001) suggests that the share of creative industries in the UK gross domestic product is about 5 per cent, while employing 1.3 million people. García, Fernández and Zofío (2003) present statistics of the contribution of creative cultural and leisure industries to employment and national income for the centre, sectors and regions of Spain. They find that they contribute about 4.5 per cent of the gross national product and give work to 7.8 per cent of Spanish employees of which only a tiny fraction relates to publicly financed culture. About 70 per cent of value added is taken up by the performing, musical and audiovisual arts and publishing and printing. Most of it is concentrated in Madrid and Catalonia. Collection of employment and income data on the creative industries at a European, national and regional level on a systematic basis deserves high priority. In contrast to many other sectors of economic importance, no such systematic base of comparable data exists. It is thus difficult to conduct comparative research on the effects of the cultural sectors on the creative industries of Europe.

2.4 Cultural participation in Europe

The Euro-barometer surveys 'Europeans' Participation in Cultural Activities in 2001' (EU15) and 'New Europeans and Culture in 2003' (2004 EU members plus Bulgaria, Romania and Turkey) give a rough comparison of cultural participation in Europe. The Nordic countries and the Netherlands seem to be ahead in use of PC's and Internet, while southern and East-European countries lag behind. The people of Nordic and Baltic countries, the Czech Republic and the Netherlands read more books and newspapers than the EU-average. Reading in Mediterranean and Eastern-European countries is below the EU-

average. A similar picture emerges for visits to cultural institutions and artistic activities. It will be interesting to study the influence of variables such as education level, age and gender on participation once Eurostat makes these data available. In the mean time SCP (2001) offers a partial comparison of participation in various cultural activities based on national surveys in nine European countries – see Table 6 and Bína (2003). In all countries the less educated show less interest in traditional forms of culture *and* popular culture (e.g., pop concerts). Culture interest does not depend so much on whether it is high or low culture, but on whether the participant is better educated or not. This suggests that cultural education at young ages may overcome some of the inequality gap in cultural interest and cultural participation. The decline of interest for traditional culture particularly affects young people in the Netherlands, even though the rise in educational levels is similar to elsewhere in Europe. We need Eurostat comparative data on cultural participation before such judgements can be made more firmly.

Table 6: Cultural participation in eight European countries

	Classical concert			Pop concert			Museum			Theatre		
	All	young	LE	all	Young	LE	all	young	LE	all	Young	LE
Netherlands	16	8	9	25	38	12	31	26	17	27	25	15
Belgium	31	46	14	27	59	19	48	50	33	49	50	32
France	9	6	5	16	..	..	32	39	24	39	35	31
GB	13	7	9	18	46	15	32	32	25	39	35	31
Denmark	16	..	..	..	..	..	55	..	..	26	..	..
Finland	11	10	3	12	37	8	43	49	34	38	36	30
Italy	10	10	5	19	39	12	29	35	18	18	20	8
Spain	7	8	..	10	17	7	28	41	..	14	18	6

Key: Percentages of those 15-75 years of age that visited a classical concert, pop concert, museum or theatre during the past twelve months with differentiation for young people in the age group 15-24 and the less educated in the bottom tertile (LE) in the 1990's.

Source: Bína (2003).

2.5 Museum data for Europe

The European Group on Museum Statistics (EGMUS) collects available data on museums in Europe. Since national museum surveys are conducted in very different manners, present data are not comparable. To guarantee comparability at the European level, EGMUS has designed a common core of questions to be inserted in or extracted from national surveys. Some partial comparisons can be deduced from the data presented in Table 7. For example, Norway and Sweden have a large number of visits per 1,000 inhabitants, followed by the Netherlands, the UK Germany, France and Spain. Citizens of Italy, Portugal, Luxemburg, Latvia and Romania visit museums rather less than elsewhere. Museums throughout Europe often have free admissions and entry fees make up only a relatively small fraction of total museum income. Most countries have many public and private museums varying from art, archaeology, history, ethnology and science & technology museums. The Nordic countries, Norway, Sweden and Finland, Latvia and the UK have a relatively high percentage of the population that has visited a museum while museum participation is below average in France, Spain, Italy and Portugal.

Table 7: Museum statistics for Europe 2003

	Number	#visits	%free	Income	Entry fees	Staff	Participation
FI	201	91	37	19.6	8.7	1,590	37
FR		111					23
GE	2,729	121					33
IT	384	52	47	81.0			28
LA		62				1,735	59
LU	26	43	24	6.0		223	32
NL	541	130	30	414.4	56.9	8,935	32
NO	146	183	46	236.9	18.9		45
PR	218	59				2,648	16
RO	519	7					
SL	102	72	23	17.1	2.1	2,292	
SP	878	106	56			10,951	22
SW	184	185	43	327.6	30.7		52
UK	1,102	127		491.0		16,777	42

Key: Number (of museums opened at least 200 days a year), #visits (visits per 1,000 inhabitants), %free (percentage of free admissions of total visits), income and entry fees (millions euro), and participation (percentage of population of 14 years and older have visited a museum in 1994. #visits for Germany is excluding free entries and for the UK is based on visits to 1,182 out of 1,850 responding museums.
Data available for Finland (FI), France (FR), Germany (GE), Italy (IT), Latvia (LA), Luxemburg (LU), Netherlands (NL), Norway (NO), Portugal (PR), Romania (RO), Slovak Republic (SL), Spain (SP), Sweden (SW) and UK.
Source: EGMUS, Museum Statistics 2003, Eurostat; participation data from Eurobarometer 2001.

3. Cultural activities and goods

3.1. Special features

Cultural experiences can be aesthetic, touching, memorable and mind baffling. They may even make people think differently about themselves, life or the world. In contrast, instant entertainment may be fun but the touching and baffling effects fade away quickly. Cultural experiences are also normal economic goods with substitutes (sport, family dinners) and complements (newspapers, magazines, transport, etc.). Some cultural goods such as pay-TV and visits to the performing arts or museums are rival goods. One can then internalise all benefits, so prices reflect true costs and the market functions. If congestion costs are large, non-rival may turn into rival cultural goods. For example, noisy, uninterested people attending an open-air concert destroy enjoyment of interested art lovers. Classic examples where the marginal cost of adding one more consumer is zero are bridges and lighthouses, but broadcasts of radio or TV and monumental buildings can also be non-rival. Though jamming can exclude people from broadcasts, it does not make economic sense. Non-rival goods thus lead to free riders as nobody wants to pay. This may justify subsidies for open-channel radio and television and maintaining heritage.

Maddison and Foster (2003) argue that free admissions for the British Museum are harmful due to congestion, especially as exhibits are unique and not reproducible. Using valuation data before realisation of the Great Court by Norman Foster, they estimate that the congestion cost imposed by the marginal visitor to the British Museum is eight pounds. This seems high, since as one should also add other marginal costs of admission (security, maintenance, cleaning, etc.). The pure public good case for museums is thus hard to make. Some rival goods suffer from non-excludability, since it is not feasible to exclude those who do not pay. Think of restoration of a monumental building or a splendid architectural design, witness the Guggenheim museum in Bilbao designed by Frank Gehry or the Centre Beaubourg designed by Renzo Piano and Richard Rogers and its impact on the depressed Les Halles area of Paris. Clearly, passers-by cannot be asked a fee. Due to free-rider behaviour, the market tends to under-provide cultural goods that are non-rival and/or non-excludable. Still, a flourishing cultural climate may pull in tourism, scarce knowledge workers and new business. The key challenge is to empirically measure these external effects. For example, the City of Birmingham Symphony Orchestra and relocation of part of the Royal Ballet to Birmingham have boosted the economic impact of building the largest trade fair of Britain. De Swaan (2001) argues that language is a public good. More people that read, write and understand the same language imply larger benefits of learning that language for any person. The public-good character of language may justify support for drama, literature and film, which would otherwise be considered excludable, private goods.

Rapid technological changes change the nature of cultural goods. In the past one could record fine classical music on a cassette from radio or a record, but quality was not perfect. Today one gets their

favourite music from Napster-like sites. The quality is very good. CD's are rapidly changing from rival (private) to non-rival (public) goods. Music companies find it tougher to make profits and may invest less in CD's. Extra income from concerts, books, interviews, merchandise and other related activities will become more important. Technological advances but also the Internet, globalisation of the arts market and Baumol's cost disease all contribute to a shift from unique, autographic art to reproductive, allographic art. The trend towards specialisation and division of labour implies that artists make designs and others produce, reproduce and distribute the art object to the public at large. Examples are books, CD's, records, lithographs, posters, photographs, DVD's, CD-ROMS and pay-per-view TV. This shift has lowered prices and increased accessibility of classical and contemporary art for large sections of society. This even true for expositions of unique art objects (think of the international Vermeer and Van Gogh expositions). Similarly, there has been a shift from physical cultural experiences to the Internet, witness the growing number of websites of libraries, museums, archives and performing arts companies. The latter can be reproduced at any time and any place in the world at almost no cost. Just like the extra demand for DVD's has not undermined demand for cinema, and free virtual cultural expressions on Internet do not seem to erode demand for seeing physical displays of culture. Finally, there has been a shift from autonomous, more subsidised to applied, more commercial arts such as fashion or design. Applied artists typically prefer empowerment to income support, so credit for tools or risk capital.

Some culture is produced under increasing returns to scale and winner-takes-all markets. Harris and Vickers (1985) show that there is over-investment in new technologies if different firms race to be the first to get the patent. This happens if firms race to set a common standard. For example, Phillips lost the race for a new DVD standard. If patent markets work badly, there is under-production of cultural goods. In the Internet age it is harder to protect property rights on creative expressions and this may discourage artists to produce. Rengers and Plug (2001) build on Throsby (1996) and estimate a joint model of the choice of visual artists to opt for subsidies (43 per cent) or market funding (57 per cent of total market value) and the related earnings. They show that subsidising the visual arts through grants and commissions enhances the winner-takes-all tendency for the market at large. They find that financial success on private *and* public markets depends more on personal characteristics, government recognition and (unobserved) talents than human capital. The winner-takes-all feature implies that subsidies reinforce market preferences, so some artists do well in both public and private markets.

High culture differs from instant entertainment. First, culture is an acquired taste. To understand and appreciate Oedipus Rex by Stravinsky requires musical knowledge and experience of more traditional symphony music and opera's. Surveys suggest that young persons who go to opera are more receptive to radical or modern performances of Peter Sellars, Pierre Audi or José María Cano than older audiences. Still, Heilbrun (1993) suggests that programming of operas is more conservative than of

symphony concerts. Furthermore, innovation in composition of serious music has not been attractive and exciting enough to maintain audiences. Preferences for cultural preferences are not given, but shaped by education and experience. Rather than saturation described by Gossen's second law of diminishing marginal utility, cultural goods show *over time* increasing marginal utility. The hundredth literary book one reads gives more satisfaction than any of the previous books, since the frame of reference will be bigger. The latest concert of Bach music impresses more than previous ones, since one gradually discovers the unifying themes in Bach's oeuvre. Second, culture is a memorable experience. Experiencing a Hamlet at a young age can lead to lifelong memories.

Bourdieau (1979) argues that high culture has snob appeal. When the rest starts appreciating some high culture, the elite looses interest and moves on to other forms of high culture. It is akin to the theory of clubs where the utility of culture falls if more people enjoy them. Baumol and Bowen (1966) noted that audiences for the performing arts in the US and UK consist mainly of middle-aged people, professionals, managers and white-collar workers with high education and high incomes. Throsby and Whithers (1979) find similar profiles for US and Australian audiences. SCP (2000) finds for the Netherlands a diminishing interest for classical art of people between 16 and 40 years and growing interest among older people. Ethnic minorities with the exception of people from the Dutch Indies participate less than average in the arts. Prieto-Rodríquez and Fernández-Blanco (2000) use the Spanish Structure, Conscience and Class Biography 1991 Survey to estimate a bivariate probit model to characterise the average profile of audiences for classical and popular music. Half were popular music followers and only a quarter were classical music fans. Interestingly, the hypothesis that classical and popular music fans belong to independent groups is rejected. Controlling for effects of socioeconomic characteristics (sex, marital status, number of children, household responsibilities, education and whether one is student, pensioner, unemployed, housewife or employee), both groups seem to have an 'innate' taste for music. This suggests that music lovers are 'omnivores' who enjoy classical *and* popular music. No effects of gender or marital status were detected, but age has a negative, nonlinear effect on listening to popular music. Classical music listening has a significant positive effect only for young adults (30-45 years). Education, cultural backgrounds of parents and occupational status have strong positive effects on classical music listening, but not on popular music listening. Controlling for all other factors, pensioners and housewives listen on average more to classical music, perhaps because their opportunity cost of time is less. Finally, listening to popular or classical music is an urban phenomenon, more in Madrid and Barcelona than in Andalucia or Galicia. Sintas and Álvarez (2002) analyse social consumption of culture by Spanish people using both Bourdieu's 'distinction hypothesis' and Lancaster's (1966) theory of characteristics of products. They conclude that culture in Spain has symbolic value associated with social class and allows people to express and distinguish themselves. Still, the rising education level since the

Civil War has not increased consumption of high culture proportionally. Of course, high culture may be a luxury good. If this effect is strong enough, high culture is a Giffen good so higher prices induce higher demand – e.g., Urratiaguer (2002).

Even if a minority values high culture, the government may wish to stimulate that the majority has an interest in it. Such paternalism overrules consumer sovereignty. However, Bille (1997) shows that the Danish public is willing to pay at least as much as the Royal Theatre in Copenhagen receives in public subsidies, even though the visitors comprise only 7 per cent of the population and are richer and better educated. The willingness to pay of non-users of the Royal Theatre comprises the biggest part of total willingness to pay, namely 82 per cent. She estimates total consumer surplus for visits at the theatre to be only 15 per cent of public grants to the theatre, so government subsidies must be justified on basis of non-market benefits of the Royal Theatre. Many people are happy to support the arts even if they do not visit themselves. There is no need for paternalism, since people attach option or other values to performing arts, like to read critical reviews or watch recordings of performances, value the derived benefits for television, the film industry, cultural education, cultural heritage and traditions, and cherish the international prestige. See also Frey and Pommerehne (1989).

People have many demands on their time, so it is difficult to fit in theatre, opera, concerts or museums. The full cost thus corresponds to the cost of entrance plus travel costs and foregone after-tax wage income. High-wage earners face a higher cost of cultural events than low-wage earners. Hence, higher wages may induce lower demand even if high culture is a luxury good. Since the entrance fee is only part of total cost, the elasticity of demand with respect to the entrance fee will be lower especially for higher incomes. This offers scope for price discrimination.

3.2. Value of culture

Throsby (2001) explains the aesthetic, decorative, spiritual, social identity, historical, symbolic and authenticity value of art. Art also has use, exchange, store, status, option or bequest value. Defenders of culture accuse economists of equating the value of arts to the price, but apart from the marginal consumer people pay less than they are willing to pay. The difference added over all consumers is the consumer surplus value. Similarly, all producers except the marginal one are willing to supply below the market price and the difference is the producer surplus. Under perfect competition profits are zero and welfare consumer plus producer surplus. Monopolies raise prices above marginal costs (especially is demand is not very elastic) and restrict the volume of trade. If profits are distributed to households, the loss in welfare corresponds to the familiar welfare loss triangles. The welfare costs are high if demand and supply are inelastic with respect to prices. The chances of a cultural product being put into market are higher under monopoly than under perfect competition, since profits are then more likely to cover fixed

costs. Tullock (1980) argues that profits are not handed back to consumers, and should be added to the social costs of monopoly. Producers lobby to get and maintain a monopoly. They continue with wasteful rent seeking until they have dissipated all monopoly profits. True cost of the monopoly is then the welfare loss triangles plus wasted profits.

Some argue that the value of arts is (like human life) infinite. Rembrandt's Night Watch is priceless, but people have tried to vandalise it. By paying for security one reduces the chance of attack by vandals. From that one can infer a value of the Night Watch. Noonan (2003) offers an instructive meta-analysis of many empirical contingent valuation studies of willingness to pay for cultural goods as local TV, opera and UNESCO World Heritage Sites. On the latter Maddison and Mourato (2001) study willingness to pay for Stonehenge and Carson et al. (2002) do the same for the Fés Medina.

Arts Councils are often asked to use `quality' as the prime criteria. But who decides what `quality' is? Is it artists themselves, expert members of an arts council, art critics or the public? Is culture the Western canon of established high culture or the culture offered by newcomers and other civilisations? Is `quality' high culture or dumbed-down culture? Does quality only become meaningful in the confrontation with a public? Obviously, one must safeguard established arts, but also support innovative art forms and art for the masses. High culture for selected audiences is valuable, but also low culture for mass audiences. The optimal level of quality requires the marginal cost to equal marginal benefit of quality. Maximum quality occurs where government ensures zero marginal cost of extra quality, but that is not necessarily socially optimal. Critics argue that productions should be executed at the highest possible level, particularly if it is paid for by the tax payer.

Stocks of cultural goods need an intertemporal approach to value. A crude estimate by directors of Dutch museums of the market value of their collections was - depending on the current prices of Van Gogh paintings - 20 billion euro. Roughly 5 per cent of museum assets is on display. The rest is in storage. Nevertheless, museums strive for bigger collections and buildings. Bookkeeping of museums ignores the opportunity cost of their collections in their accounts. Museums act as if their collection, their most important production factor, is almost free. Hotelling's arbitrage principle for exhaustible resources suggests that one is indifferent between selling the assets and investing the proceeds and keeping and displaying, loaning or storing the collection:

expected net gains in the value of the collection *plus*
net gains from exhibiting the collection on a permanent or temporary basis *plus*
returns from loaning the collection to other museums, companies or the public *plus*
gifts from sponsors, donors and friends to help with purchase of new items and exposition *minus*
cost of storage *minus*

rate of depreciation and wear and tear of the collection *EQUALS*
opportunity rate of return (the market rate of interest) *minus*
subsidies for the collection from local or national governments.

If there is an interested and fee-paying public, it may pay to exhibit items. Otherwise, it may be better to store them. Since curators have a strong incentive to use funds on storage and research, Frey (2000, Chapter 3) argues for increasing incentives for collection mobility (nice for regional museums with lesser collections), regulated sales of objects and exhibitions. The opportunity costs, roughly 1 billion euro at a 5 per cent interest rate, are much larger than the subsidies museums receive, yet they do not feature in the cost-benefit analysis of museums, so there is little incentive to make use of valuable collections. Making these costs transparent improves the management of museums. This highlights a potential conflict of interest between curators who want to study and protect, *and* exposition managers and the public who want the collections to be on display. Grammp (1989) notes that the public prefers to see less pictures on a given wall area and enjoys smaller museums relatively more.

4. Valid and invalid arguments for subsidising culture

4.1 Convincing arguments

First, there is a strong case to invest in cultural awareness and cultural education of children, especially for developing a taste for cultural experience goods that leave a lasting impression rather than instant entertainment. It is important not to force high culture upon school children, but let them have a say in what they want to enjoy and discuss. One possibility is to give vouchers, so children can go each year four to six times a year to a museum, film, theatre play, dance performance, concert or opera. National and local governments in Europe give cultural organisations special subsidies for developing special activities for young people. For many children cultural education is their only chance to develop an awareness of and taste for high culture. The main rationale for subsidising cultural education is that culture is an acquired taste and an investment in the future social stock of cultural capital.

Second, as subsidised high culture is primarily enjoyed by an older, greying, white, higher educated part of the population, there is a case for bringing high culture to the people. By bringing high culture to public parks, pop temples, libraries, community halls, shopping precincts, etc., one can reach out to new and more diverse audiences. The action plans of central and local governments of the UK and the Netherlands allow for interesting experiences in the twilight zone between high and low culture. Think of serious theatre and ballet at pop festivals, school children rapping with symphony orchestras, pop artists from immigrant countries backed up by symphony orchestras, staging Wagner's Ring in central parks, poetry on billboards, break-dancers working with professional dancers, etc. These action

plans force the arts to make their output more of a non-rival, non-excludable good and less of a luxury good, so there may be a case for government subsidy.

Third, there often is a case for stimulating demand rather than supply of cultural goods. For example, the Netherlands has shifted from income support for artists to interest subsidies for buyers of contemporary visual art. Artistic Programming Funds may encourage provincial venues to program more adventurous avant-garde culture. It takes time to cultivate an audience. Also, it is worthwhile to have a longer run for successful productions. Giving a `bums on seats' premium to the performing arts gives better incentives for drawing bigger audiences and generating income from the market.

Fourth, non-rival and/or non-excludable cultural goods are public goods. The market fails to deliver the socially optimal level of these cultural public goods. Hence, government should step in to ensure that these cultural goods are delivered through the use of subsidies, tax incentives, regulation or public sector provision. Samuelson's well known principle of optimal provision corresponds to setting the sum of the marginal benefits of the cultural goods across the population equal to the marginal cost. A related argument is that cultural goods generate social cultural capital and positive externalities, so they benefit society at large and not only the few who consume them. Hence, the government needs to subsidise these cultural goods according to the rule of Atkinson and Stern (1974):

sum of marginal benefits of culture to all people in society *equals*
relative price of cultural goods *times*
marginal cost of public funds *minus*
effects of cultural goods on the tax base.

The well-known Samuelson rule states that the sum of the marginal benefits of cultural goods converted into resource units must equal the relative price of cultural goods. This is modified in two ways. On the one hand, the cost of these public goods is raised as they have to be financed by distortionary taxes. This extra cost is particularly high if the wage elasticity of labour supply is high and pre-existing tax distortions (e.g., the tax rate on labour) are high. On the other hand, making cultural goods more widely available may make people enjoy them more and work less hard and pay fewer taxes. This erosion of the tax base raises the cost of public goods. More likely is that more cultural goods attracts more high-skilled workers, businesses and tourists and thus raises tax revenues. Obviously, this lowers the marginal cost of public goods. In sum, the demand for public cultural goods relative to private goods is large if the costs of cultural goods is low (e.g., due to supply subsidies or tax facilities), the marginal cost of public funds is low (i.e., if labour supply is inelastic and the tax rate on labour is low), and cultural goods have a positive impact on economic activity.

In some European countries the government relies on the advice of the experts of the Arts Council when allocating subsidies. A danger is that there is a bias in favour of the established cultural organisations, hence it is important to ask the Arts Council or the Arts Fund to make room for new cultural initiatives and to support applications that appeal to broader audiences and, if possible, new and more diverse audiences. An extra requirement is that the performing arts should obtain at least a certain percentage of their income from the box office. For example, in the Netherlands cultural organisations must obtain at least 15 per cent from outside income. Table 4 shows that this is easily satisfied for the well loved classics played by the baroque orchestra's and to a lesser extent by the symphony orchestra's, musical ensembles, opera and puppet theatres, but dance, theatre and mime may have difficulty in satisfying this requirement. The public pays only a small part of the true cost of the performing arts. People may find an opera ticket of 34 euro expensive, but rarely realise that the full cost is 154 euro. Similarly, people might pay 8 euro for a theatre ticket without realising that that there is 49 euro subsidy on that same ticket. This seems hard to justify, since performing arts are neither non-rival nor non-excludable and thus do not qualify as public goods unless one relies on the social cultural capital argument. In particular, the social value of theatre may derive from keeping the language alive.

Fifth, there is a strong case for government subsidy for cultural goods with existence, option or intergenerational value, especially if they contribute to the social stock of cultural capital and are shown to the public. This applies to subsidising restoration and maintenance of monumental churches, farms, castles, bridges, locks and landscape values. It also applies to other heritage such as archives of history, photographs, films and performing arts, libraries, museums and archaeological treasures, particularly if they are on display to the public. Each of these adds to the social stock of cultural capital and, if they deteriorate, harm is done to the welfare of future generations. The option value argument says that, even if one never visits certain parts of the country, one does not want the heritage in those parts to go to the dogs. Some argue that the opera provides option value and adds to the social stock of capital as well. Obviously, this is also true for funding experiment and research & development, especially as fundamental innovations in the arts are very difficult to protect and to make money on through patents and/or author rights - see the Schumpeterian arguments in Wijnberg (1994, 1995). There is also a strong case for government support for architecture, spatial planning and arts objects in public spaces, because these clearly add to the social stock of cultural capital and often to civic pride as well.

Sixth, failures on the supply side may merit government intervention. Cultural goods industries may have difficulties in being set up, so there may be a case for temporary subsidy. This is the infant-industry argument. Since many poor countries often have a rich and unique cultural tradition in both visual and performing arts, there is a case for temporary cultural aid in economic development programmes. This may boost tourism, yield foreign currency and act as a lever for sustainable growth -

see the World Culture Report, 1998, UNESCO. Tibetan horn players, Balinese dancers and Cape Verdian singers have unique selling points, which can be popularised through the global media, modern reproduction methods such as CD's and DVD's and life performances. These artists can help brand their own country, like the Beatles and Abba did, and thus boost their economies.

Finally, the market tends to avoid risk unless high profits are expected. Avant-garde cultural activities face bigger credit market constraints than more profitable, run-of-the-mill cultural activities (musicals, cabaret, bestsellers, etc.). The government should thus stimulate the provision of risk-bearing capital for risky, valuable cultural activities. Government-funded participation companies may help getting risk-bearing capital from the market, especially if combined with fiscal incentives. Governments can also stimulate cultural investment by granting interest rate incentives for cultural projects. Friends of a particular museum or theatre may then be willing to lend money in the form of soft loans.

4.2 Fallacious demand-side arguments for cultural subsidies

One fallacious argument is that demand for cultural goods depends on their supply and that the government should thus subsidise supply. Otherwise, people will never know the value of the supply of cultural goods that may never materialise. Without subsidies for the opera, people will never know that, say, Gluck's work existed and thus demand will not occur. Still, this does not justify subsidising supply of high culture unconditionally. It does suggest a boost to the demand for high culture through cultural education, vouchers for parts of the population that normally do not go to expressions of high culture, action programmes reaching out to new and more diverse audiences and programming subsidies.

Another fallacious argument is that cultural goods should be for equity and efficiency reasons affordable to everyone and not only to rich art lovers. The sensible response seems to enforce price discrimination (e.g., asking season ticket holders to pay more per seat than those who buy last-minute individual tickets). However, the cultural lobby typically argues that one should lower the price for everybody by subsidising these cultural goods. This way one reduces the price for everybody, but higher incomes profit much more from these subsidies than lower incomes. The dead-weight burden of lump-sum subsidies for the supply of cultural goods may be very high. It is much more efficient to boost demand among lower incomes or children through education, vouchers, action programmes or other means. This is an effective way to ensure that people can choose themselves which culture they want to experience. If one is concerned about a tendency for middle of the road taste at the expense of avant-garde culture and niches of high culture, teachers and programmers of venues might try to gently cultivate a taste for experience goods. Supply subsidies allocated by committees of experts typically stimulate high culture for the elite. Although this seems in line with the moral theological ideas of Thomas Aquinas that the prominence of someone's position in the community should imply a larger

share of the common goods, this medieval view is hardly endorsed anymore.

Yet another fallacious demand-side argument is that price increases lead to even bigger falls in demand and thus to fall in revenues, hence supply subsidies must be given. This is unconvincing, since demand for cultural products is often inelastic so raising prices does raise revenues. If this means that concert halls, theatres etc. are not fully utilised, there is a better case for boosting demand rather than supply for concerts, theatre etc. Finally, a popular argument for granting government subsidy is that cultural goods are merit goods. If society demands an insufficient amount of these goods even though it can afford them, the government should subsidise them. Although this paternalistic argument may justify subsidising cultural education, it does not convince for across-the-board cultural subsidies.

4.3 Unconvincing supply-side arguments

Some argue that cultural goods are produced under decreasing average costs, so subsidy is needed to ensure full utilisation of concert halls, theatres, museums etc. and ensure that operations are profitable. This argument is pretty unconvincing. If these venues do not pull in audiences, they can experiment with cheap last-minute tickets and spend more time and effort on marketing. This phenomenon provides a case for stimulating demand through education, vouchers, action plans and programming subsidies, not for extra supply subsidies. Another unconvincing argument is that culture contributes to employment. In an economy with a tight labour market, this is a fake argument and has nothing to do with market failure. The freedom to educate oneself as an artist does not oblige the government to provide for enough orchestra's, theatre companies, etc. in order to employ all art graduates. The employment argument may be valid for certain professions (e.g., restoration) if one fears that otherwise valuable skills will be lost for future generations. The fact that many artists are poor is not a valid argument either, because it makes more sense to subsidise all people that are poor regardless of their occupation.

The most cited and at the same time least understood economic insight by the cultural sector is undoubtedly Baumol’s cost disease. It is argued that the performing arts and other cultural goods are labour intensive and thus suffer from Baumol's cost disease. Performing Hamlet or Don Giovanni or making a sculpture take just as much hours of work as in the time of Shakespeare, Mozart or Rodin. Compare that with the huge technological progress during the last few centuries in services and manufacturing. Since productivity growth lags behind, the cost and price of these cultural goods rise over time unless wages in the arts lag behind wages in the rest of the economy. To make sure demand and the provision of these cultural goods do not fall, many argue that government subsidy is required. This is unconvincing, since the increase in productivity elsewhere gives rise to huge increases in purchasing power. If people value this labour-intensive culture, they will use their new riches to pay for it. With Cobb-Douglas preferences, the ratio of output of cultural to other output dwindles away and prices of

cultural goods rise at the rate of technical progress in the rest of the economy, but absolute levels of employment and output in the cultural sector remain constant. Jobs in the cultural sector are not destroyed, since technological progress elsewhere boosts purchasing power just enough to maintain spending on culture despite rising prices of culture. There are two unrealistic assumptions in this discussion of Baumol's cost disease. First, Cobb-Douglas preferences are homothetic and yield linear Engel curves and unit income elasticities. However, food, drink, shelter and health may be necessary goods while culture is a luxury good. With Stone-Geary preferences the budget share of the arts rises over time, since people give priority to basic needs if they are poor and spend more on culture, as they grow richer. Second, the elasticity of substitution between culture and other consumption goods is probably less than unity. A CES utility function with an elasticity of substitution less than unity generates a budget share of culture that rises over time as well. If demand is inelastic, culture thus generates sufficient revenues to compensate for rising costs. Hence, despite rising relative prices of the arts, there are good reasons to believe that the budget share of culture rises over time and that arts will flourish. In any case, Baumol's cost disease leads to offsetting trends.

The rise in the relative price of labour-intensive cultural expressions causes a shift towards less labour-intensive culture. A vocal artist may not be accompanied by a symphony orchestra, but by a chamber orchestra or even a musical computer whiz kid. Technology may induce new economies of scale and substitution in consumption, think of the popularity of the CD, video, DVD and poster as a substitute for the concert, film or theatre play and the painting. Opera and theatre producers experience more difficulties in keeping up and adjusting than the musical sector. In addition, rising prices induce a shift from small-scale to large-scale productions and from unique to reproducible art. The possibilities for an artist of operating on a world market have grown enormously with the advent of globalisation and the Internet. These developments have led to super incomes for only a few stars - see Rosen (1981) and Frey (2000, chapter 4). This applies, for example, to the trio of super-tenors (Pavarotti, Domingo, Carreras). It also applies to the museums with the world's most famous paintings on display. Think of the Van Gogh Museum in Amsterdam, the Rijksmuseum Amsterdam with Rembrandt's Nightwatch, the Louvre with its Mona Lisa or the Prado in Madrid showing the magnificent work of Vélasquez. These museums sometimes also enjoy world famous architecture. Think of Frank Lloyd Wright's Guggenheim Museum in New York, Frank Gehry's Guggenheim Museum in Bilbao or Richard Meier's Centre in Los Angeles. The economics of superstars suggests that the big stars can raise their incomes substantially, while many others loose out. Baumol's cost disease causes a shift from art for the elite to art for the masses. This may induce dumbing down at the expense of diversity and experiment. If so, there may be a case for subsidising innovation, experiment and diversity in the arts.

5. Quality versus popularity

5.1 Different ways of funding culture in Europe

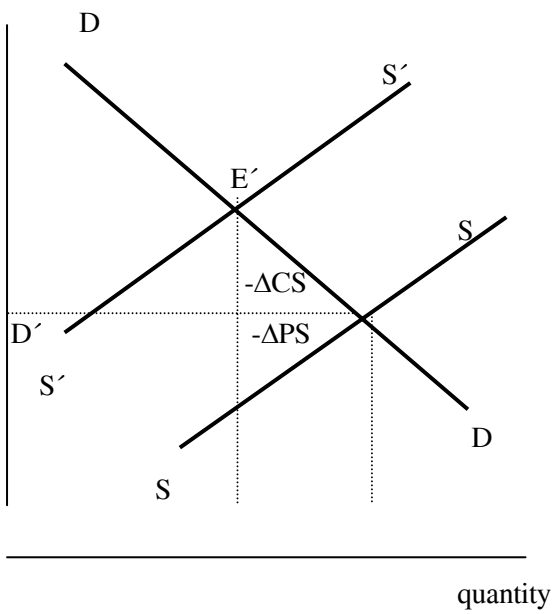
There are different systems of supporting the arts, varying from tax incentives, supply subsidies, demand subsidies and granting privileged positions possibly in exchange for satisfying certain requirements from the government. First, one can grant privileged positions. Public broadcasting organisations in Europe get first right when allocating air space for TV and radio on top of a hefty subsidy. In return they offer a broad mix of programmes for all and program minimal amounts of information, education, arts and culture. Commercial broadcasters in Europe have more freedom. They have more advertising time and can interrupt programmes for advertisements. Another example is the fixed book price, where booksellers are granted monopoly power for each book that is published - see van der Ploeg (1994). Figure 1a show the costs of a granting a privileged position such as the fixed book price agreement: higher prices and lower sales. The loss in welfare can be approximated by the sum of the consumer and producer surplus triangles. Critics argue that the fixed book price is bad for low incomes and hurts the democracy of culture. Others counter by arguing that books are heterogeneous goods, which are produced and sold under monopolistic competition. They argue that the agreement allows for cross-subsidies from bestsellers towards less popular books and a more diverse supply of book titles and bookshops. This cross-subsidy argument is unlikely if bestsellers are highly price elastic and thus permit little monopoly power while less popular books are price inelastic and allow a lot of monopoly power. The agreement then induces substantial welfare costs. This may happen if bestsellers are easily digestible, require little time to read and have higher price elasticities while, say, poetry readings demand a lot of time and thus have lower price elasticities. Many granted privileges and other monopoly positions will be undermined by technical changes. For example, the fixed book price may be undermined if people order books on the Internet through amazon.com and other virtual book suppliers. Hjorth-Andersen (2000) documents how the advent of new printing technology and new media have cut costs and led to an avalanche of new book titles in the Danish book market. Although it is much easier to get a book published for an author, turn-round of books has increased enormously and it is much more difficult to attract large groups of readers. Digital camera's and recording & editing equipment make low budget radio and TV possible. Internet and digital frequencies will abolish ether scarcity. Also, the monopoly of public and commercial broadcasters is challenged by the arrival of narrowcasters.

Second, the tax system can be used to grant demand or supply subsidies. Figure 1b shows that boosting demand through lower VAT, interest-free loans for buying visual arts or tax deductions for restoring monuments raises prices of and volume of cultural goods. The volume of cultural goods rises a lot if demand and supply are highly elastic. If the demand elasticity is large and the supply elasticity is small, there is not much of a change in consumer prices while producer prices fall a lot. Since consumers

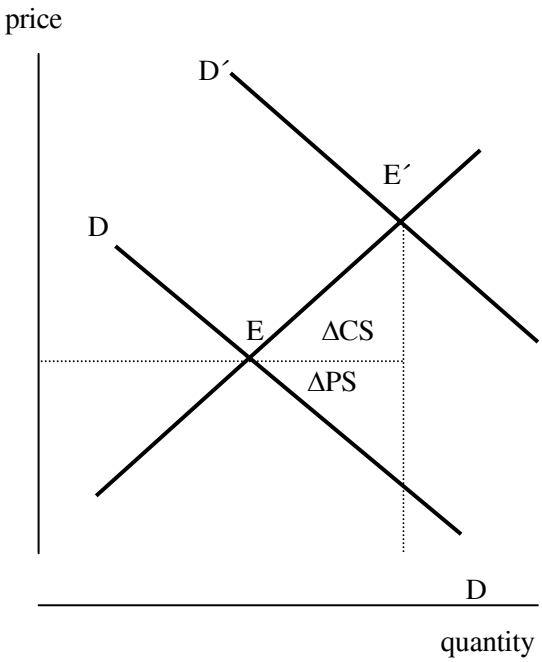
are weak and producers strong, the benefit of the demand price subsidies are shifted from consumers to cultural producers.

Figure 1: Incidence of different types of government intervention in the cultural sector

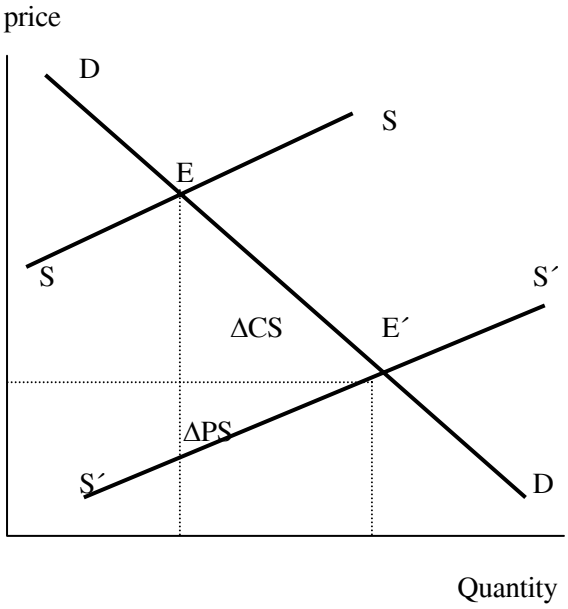
(a) Granting monopoly power



(b) Cutting demand taxes or granting demand subsidies



(c) Cutting supply taxes or giving tax incentives for supply



Key: ΔCS and ΔPS refer to the change in the consumer surplus and producer surplus, respectively.

If culture takes up a lot of time of the consumer and producers have received volume subsidies to stage a certain number of productions, both the price elasticity of market demand and supply are likely to be low. As a result, welfare costs are high. Welfare gains from the demand price subsidy, measured by consumer and producer surpluses, must be balanced against the welfare costs of raising tax revenues. Figure 1c indicates that boosting supply through, for example, tax incentives for producing films lowers prices and raises volume. In principle, there is no difference in using demand or supply price subsidies in competitive environments. If demand is very inelastic and supply very elastic, most of the benefit of the supply price subsidy is shifted to consumers while demand is not boosted very much. In that case, there is not much point in supply price subsidies. Although most cultural tax incentives apply across the board, it makes sense to avoid dead-weight losses by trying to target these instruments at the most needy projects. For example, interest-free loans only apply to living visual artists; film incentives require films to have substantial European contents; and deductions for monuments can only be obtained if the property is indeed a valuable, historic monument.

Third, a subsidy to boost the volume of supply yields lower prices and bigger volume. The positive effect on volume is partially offset by the negative effect of lower prices on supply, particularly if the demand elasticity is small and the supply elasticity is large.

5.2 Dead-weight losses and substitution

When giving subsidies, efficiency requires one to avoid dead-weight losses and substitution. This means that ideally one subsidises only the marginal buyer or seller but in practice one has to subsidise all other buyers and sellers as well (unless one can target the subsidy to the most needy). For example, if one wants to help low incomes with cheap opera tickets, one also gives unnecessary subsidies to those pundits who can afford the true cost of opera. The welfare losses from these unnecessary subsidies (measured by the consumer and producer surplus triangles) are higher if demand and supply are more inelastic. One should avoid substitution, so cultural producers should not receive subsidies for activities they would have done anyway without subsidy.

Demand price and supply price subsidies are equivalent. They are across the board subsidies and suffer from dead-weight losses. Supply volume subsidies can be much better targeted at particular needy cultural activities and thus cause less dead-weight losses. However, supply volume subsidies are allocated by civil servants, committees of experts or others, which cause inefficiencies associated with lobbying and rent seeking. The use of committees of experts may also induce a bias for arts for artists and arts for the elite, but the extremes of the cultural spectre may benefit. Some therefore have a preference for demand subsidies or generic rules that lean with the market. This allows the government to change from participant to setting the rules and conditions of the game and ensuring a level playing field among

cultural producers. This leads to the danger of median voter outcomes, where middle of the road culture is reinforced. For example, Urratiaguer (2002), building on Throsby (1990) and Abbé-Decarroux (1994), finds that quality as judged by experts or drama critics or indicated by the artistic reputation of manager-directors are poor explanatory variables of the demand for subsidised theatre in France (and finds a positive price elasticity). In effect, there is a negative effect of artistic quality on attendances. The main factor explaining demand seems to be the reputation of the theatre company. This empirical work for France suggests that middle-of-the-road programming and bigger audiences may follow after a shift from supply grants to demand incentives.

5.3 Programming diversity and funding of TV

To formally analyse the effects of financing modes on programming diversity and welfare, a framework of monopolistic competition is used. Most of this research has concerned TV. The pioneering contribution of Spence and Owen (1977) shows that any private system of finance biases against programmes with a low own-price elasticity of demand ('minority taste programmes') and that are expensive to produce. The price fails to fully reflect the average intensity of preferences for certain programmes and, given, fixed costs, such programmes are not produced. This bias occurs with pay-TV, but is worse if programmes are financed by advertising revenues. The latter produces fewer programmes and leads to a less diverse menu of programmes than pay-TV. As the cross-elasticity of substitution among programmes increases, advertising is more likely to approach a second-best structure than pay-TV. Many countries of Europe have cable-TV. It is important to permit advertising on pay-TV, make sure the cable operator allows entry of other suppliers of programmes, and ensure open entry with elastic supply of channels. Doyle (1998) extends the analysis and considers various regulatory instruments (e.g., direct instructions and a tax on profits) that can be used. Chae and Flores (1998) argue that certain characteristics of TV programmes, e.g., the degree of extensiveness of the market, makes them more likely to be broadcast than shown on pay-TV. Bourreau (2003) analyses the trade-off between mimicking and counter-programming. He shows that profile differentiation is higher under pay-TV than under advertising support where competition on price is infeasible. He also shows that programme quality is higher under advertiser support than under pay-TV. These studies ask the right questions and they also apply to other areas of culture. Of course, in contrast to the US, Europe finances a lot of public broadcasting. These studies justify governments doing this if they make possible the production and broadcasting of more expensive TV-programmes that cater for special niche audiences. That is something the market can only deliver in the form of narrowcasting. To ensure the diversity of programmes of public broadcasts, Germany relies on representative viewers' committees, the UK on detailed programme requirements, and the Netherlands on diverse broadcasting corporations corresponding to liberal,

catholic, protestant, social-democratic, libertarian, or evangelical pillars. The UK limits the entry of commercial broadcasters and forbids the BBC from advertising. In return for monopolistic advertising profits Channel 4 and ITV face extensive programming requirements.

6. The arms' length principle: institutions matter

Europe has three basic systems of allocating supply volume subsidies. The French and Italian systems are top-down and state-driven, so bureaucrats and politicians have a say in who gets subsidy. There are many disadvantages. It is not a very transparent system, there is lot of scope for lobbying and friends' politics, prestige projects stand a better chance, and state arts has many unpleasant connotations. At the other end there is the British system. The Secretary of State allocates a budget to the Arts Council and asks it to take responsibility for allocating it to the applicants for cultural subsidy. The UK Arts Council effectively operates an independent Art Fund out of reach of democratic checks and balances. It is then hard for the British government to set priorities and formulate criteria for allocating subsidies. The British system has clear advantages. There is less room for political lobbying and rent seeking and no danger of the state trying to impose its taste on the cultural sector. A disadvantage is that the government has little room for influencing the direction of cultural policy.

An intermediate system relies on an independent Arts Council, which gives experts' advice on artistic merit and on how budgets should be allocated. The main difference is that the Arts Council gives advice to the government, but it is the Minister of Culture and not the Arts Council that takes the final responsibility for the allocation of cultural subsidies. This is the case in, for example, the Netherlands. The government operates at arms' length and does not judge the artistic quality of different cultural activities and organisations, but relies on experts' advice of the Arts Council. There may be political and managerial reasons for deviating from the advice of the Arts Council. The government attempts to set the rules of the game including criteria and priorities for applicants for cultural subsidies and the Arts Council well in advance. This means that the government announces in a White Paper the framework (priorities, criteria and budgets) which the Arts Council needs to adopt. The main advantage of such a system is that the government can shape cultural policy without meddling in artistic judgements about individual cultural activities and organisations. However, in a system characterised by ministerial responsibility, there is maximum scope for political lobbying and rent seeking. Winners get on with making theatre, opera, dance or whatever, while losers find plenty of opportunity to make their case in the media. This is further reinforced by parliamentarians who want to distinguish themselves by associating themselves with the arts. The result is that it is easier to lobby for extra budget for the arts than for the sciences where the research councils allocate the subsidies and there is no ministerial responsibility. Delegation of cultural tasks to an Arts Fund or the Arts Council is known as the arms'

length principle. It is particularly relevant if it concerns judgements about artistic quality.

Incentives to sit on committees of the Arts Council are not big. Peers love you until you recommend lowering or scrapping subsidy. Subsidy addiction and the public shaming of committee members sustain the tyranny of the status quo. It takes much time and effort for committee members to do a proper job. Furthermore, it is not certain that one's advice convinces the rest of the committee and that the committee's recommendation is followed. If committees are large, one must listen to many opinions and it is tough to put a well-argued case. Hence, costs of sitting on committees are high and benefits small. Many experts find sitting on these committees a waste of time and effort, stressful and even humiliating. Tullock (1971) argues that there is a real danger that meetings are long and dull, suffer from comment pollution and members merely proffering personal opinions without attempting to get to grips with the issues concerned. To improve matters, it is important to keep committees not larger than six of seven members and give them well-specified tasks with clear criteria and priorities. In addition, the government should promise to follow the recommendations provided they satisfy the criteria and do justice to the priorities set in advance by the government.

The government should also follow these principles in order to avoid having to make individual tradeoffs between, say, the artistic merits of theatre group A versus those of theatre group B. The government should avoid the accusation of state art. Still, given that funds are scarce, the government must set clear criteria and priorities. The cultural sector and art critics often argue that the government should not do that: all art is valuable (and deserves subsidy) and the cherished autonomy of the arts is often used to keep and demand more subsidies. The government must be careful not to succumb to such lobbies, but refrain from making artistic value judgements about individual cultural expressions. The pressure from the cultural sector, art critics, the press, voters and parliamentarians to form a positive artistic judgement is particularly strong if the Arts Council recommends a subsidy cut. As a result, political debate concentrates on the victims and cultural policy tends to be incremental and catering for the status quo. Klamer (1996) argues that politicians will loose the rhetoric arguments, since the cultural sector including the critics are much better able to make their case. Many observers will support the lobby if only to show their cultural love in the spirit of Bourdieu. It is thus crucial that the government clearly lays down the rules of the game in advance of the applications for subsidy, because otherwise it will succumb to pressure to overthrow negative artistic judgements of the Arts Council. If an organisation gets subsidy despite a negative advice, a legal precedent is set and other cultural organisations that do not have their subsidies reinstated have a good case in court.

Each system for the allocation of cultural subsidies has different perversions. Stimulating demand across the board carries little danger of rent seeking and lobbying and avoids protection of the status quo, but suffers from dead-weight losses and bias towards middle of the road culture. The French or Italian

system suffers from top-down behaviour, lobbying, rent seeking, political and bureaucratic favouritism, and a bias towards prestige projects. The British system does not suffer too much from lobbying and rent seeking, since it avoids the taste of politicians and bureaucrats to influence individual decisions. Both the British and the Dutch system are transparent. The Dutch system allows more room for the government to shape cultural policy without trying to influence artistic judgements, but suffers from political lobbying and rent seeking. The Dutch government has made a determined effort to give more room for diversity and innovation and equal chances for newcomers and establishment. It also has given a clear mission to the Arts Council. In any system it is important to keep the cultural sector on the ball by ensuring a competitive field with free entry. This requires equal access to cultural subsidies for everybody, but may also be helped by vouchers, performance contracts and yard stick competition (benchmarking). It is important to stimulate cultural entrepreneurship by defining ends and yardsticks to measure results while allowing for the costs of targeting. The government should use the right sticks and carrots and avoid destroying intrinsic artistic motivation of artists. Attention should be paid to how to manage cultural institutions. Cultural governance is an issue, especially if supervisees of cultural organisations cherish the chance to mingle with artists rather than do a proper job. Unfortunately, supervisees are often older white men from the banking sector and big business. To be in touch with new and diverse audiences, one must look for more representative boards of supervisees. In addition, the guidelines for corporate governance can be adapted for the cultural sector and be applied.

Recent theories of delegation and control explain whether non-elected bureaucrats or art experts or elected politicians should take responsibility for shaping cultural policy and allocating funds to cultural organisations and activities. Hart, Schleifer and Vishny (1997) analyse whether public services such as prisons should be delegated to private business or under control of politicians. Dewatripont and Tirole (1999) discuss the use of advocates for policy makers. Dewatripont, Jewitt and Tirole (1999) are concerned with career concerns rather than explicit contracts as a motivation of government agencies. Maskin and Tirole (2001) study accountable agents with career concerns and non-accountable agents with intrinsic motivations. Alesina and Tabellini (2004) build on these contributions to explain whether tasks should be given to bureaucrats or politicians. They show that politicians are from a normative perspective better suited to particular tasks than bureaucrats if: (1) differences in performances are due to effort rather than to individual talent or technical ability; (2) preferences of the electorate and parliamentarians are unstable and uncertain, so flexibility is valuable and the task or mission of bureaucrats cannot be specified ex ante while politicians are accountable and can ex post be voted out of office; (3) time inconsistency is unlikely to apply; (4) politicians cannot strategically distort policy choices in favour of short-term objectives at the expense of long-term welfare; (5) the stakes of organised interest groups are small and the legal system is poorly designed, so corruption is widespread; and (6)

side payments to compensate the losers are desirable and relevant or bundling of policies is crucial to obtain majorities in parliament. Epstein and O'Halloran (1999) argue that the degree of delegation is chosen so as to maximise the benefit to politicians. Alesina and Tabellini argue that then politicians want to keep those tasks that generate substantial rents, campaign contributions and/or bribes and all kinds of redistributive tasks. However, Fiorina (1977) points out that politicians are happy to delegate tasks that have a high risk of policy failure so that bureaucrats can be blamed. Monetary policy requires sophisticated skills, has relatively few distributional effects and suffers from time inconsistency problems. Also, the electorate's preferences for low inflation are stable and not controversial and recessions can be blamed on central bankers. As in Rogoff (1985), there is a clear-cut case for delegating monetary policy to an independent central bank. Similar arguments apply to regulation of utilities. In contrast, foreign policy should not be delegated to bureaucrats as preferences change a lot and it is difficult to ex ante specify the goals. Redistributive policy should not be delegated either, since politicians may want to capture some of the associated rents.

How about delegation of cultural policy? Which tasks in the domain of cultural policy should be given to the Minister of Culture, parliamentarians, bureaucrats and art experts? Many of the insights of the theory of delegation apply. Politicians are motivated by being popular and winning elections in the short run. Bureaucrats at the Ministry of Culture are motivated by career concerns and have a longer-term perspective. Art experts are motivated by their standing and reputation with their peers in the cultural sector. They also want to be seen to be independent of political pressure. Cultural subsidies generate substantial rents. Many politicians like to be seen to be a patron of the arts and around election time are happy to call on 'friends' in the arts to lend their theatres and call on them for help during the campaign. Judging which theatre company deserves subsidy requires sophisticated knowledge and many visits in order to judge properly. Since there is also the danger of state art, politicians should stay away from judging the merits of individual artistic expressions. They are unsuited to decide on the exact allocation of funds. This is better done by bureaucrats who make use of the advice of expert judgement on artistic quality. Many politicians do not resist the temptation to interfere in the allocation of funds to please electoral lobbies and engage in redistribution from, say, the rich metropolis to culture-starved regions. This is particularly prevalent in a system with ministerial responsibility. There often is huge pressure from the parliament to focus at short-term benefits of cultural subsidies with no concern for the long run. Building a new theatre or opera house generates short-term prestige, but without making funds available for ambitious programming it is unclear whether it will contribute to a thriving cultural climate. The making of cultural policy suffers from very serious time inconsistency problems. This should not be mistaken for varying or unstable cultural preferences. The normative reasons (1), (2), (3), (4) and (5) described above thus strongly argue in favour of the arms' length principle in the making of cultural

policy: the allocation of the execution of cultural policy should be delegated to an independent Arts Fund. The Minister of Culture can package cultural policies and make side payments to obtain a majority (see (6)), but that can be done by the financial and cultural experts of the Arts Council as well.

Delegation of the execution of cultural policy to an independent Arts Fund does not deny a role for the Minister of Culture. It is crucial that he or she defines a clear, yet broadly-defined mission for the Arts Funds. In this White Paper the Minister should state its priorities and criteria and also the available budgets. The Minister of Culture should not be allowed to change the rules of the game halfway through the complicated process of granting subsidies or to decide on subsidies for individual cultural organisations. The Minister of Culture should safeguard that the Arts Fund acts according to the objectives stated in the mission and only interfere if the Arts Fund deviates from the mission. The mission could state, for example, that more funds should go to cultural education, vouchers, cultural diversity, the regions or international cultural policy, but not to which particular cultural organisations unless no judgement of artistic quality is involved. Carpenter (2001) argues that the rise of the regulatory state offers bureaucrats the chance to decide as well implement legislation. This also applies to Arts Councils and Arts Funds. They can count on generous space in the press and are able to obtain support for their case. In the absence of a strong and visionary Minister of Culture, there is a danger that the Minister of Culture simple rubberstamps the proposals of the Arts Council or Arts Fund. Granting cultural subsidies by an Arts Fund, bureaucrats or the Minister of Culture is not the only option. Another system is to allocate cultural subsidies by referendum as in Switzerland. Schulze and Ursprung (2000) analyse a public referendum for the Zurich Opera House, but governments of the European Union have not used referenda in cultural policy.

6.1. An analytical example of delegation of cultural policy

Output Y is given by the sum of unobservable talent or ability $A \sim N(A_M, \sigma^2)$, effort X, and noise $\varepsilon \sim N(0, \tau^2)$, that is $Y=A+X+\varepsilon$. Bureaucrats and experts want others to have a good perception of their ability, so their reward is $E[(E(A/Y)]=A_M + \beta\, E[A+\varepsilon+X-E(X)-A_M]$ where $\beta \equiv \sigma^2/(\sigma^2+\tau^2)<1$ is the signal-to-noise ratio. If costs are convex in effort, i.e., $C(X)$, $C'>0$, $C''>0$, the Arts Council chooses effort level $X=C'^{-1}(\beta)$ and puts in less effort if there is a lot of noise relative to the variance of talent. With imperfect monitoring, bureaucrats and art experts put in too little effort which causes a loss of welfare. A Minister of Culture is concerned with re-election, so his or her reward is $\text{Prob}[y>A_M+E(X)+\varepsilon]$. This implies rational voters, who assume that the alternative to the incumbent is a politician with average talent and who in equilibrium puts in the same effort as the incumbent. It follows that the Minister of Culture sets $C'^{-1}(X)=1/\sqrt{[2\pi(\sigma^2+\tau^2)]}$. Imperfect monitoring ($\tau>0$) reduces effort of both the Arts Council and the Minister of Culture. However, more uncertainty about talent boosts effort of the Arts Council and cuts effort of the

Minister of Culture. The Arts Council experts are motivated by career concerns and fully internalise benefits of higher expected ability. The Minister of Culture wishes to secure re-election. It follows that bureaucrats and art experts are better suited for tasks requiring special abilities or technical competence that not everyone (and a Minister of Culture definitely not) is likely to have. They are not more gifted than the Minister of Culture, but that they have stronger incentives to be gifted.

Assume now perfect monitoring and that cultural policy is concerned with two tasks: facilitating a diverse spectrum of cultural activities of high artistic quality (Q) and promoting participation of large and diverse audiences (P). The success of achieving these tasks is determined by effort X_i, $i=Q,P$ and ability A of the person who makes cultural policy, so $Q=A+X_Q$ and $P=A+X_P$. The costs of the efforts of the policy maker are additive and convex, $C(X_Q+X_P)$, $C'>0$, $C''>0$. Ex ante the electorate is uncertain about whether it prefers more artistic quality or more participation. It has utility $U[\delta Q+(1-\delta)P]$, where $\delta=1$ with probability p and $\delta=0$ with probability $1-p$. The Minister of Culture formulates in a White Paper the mission or task of the Arts Council, say $Y\equiv\lambda Q+(1-\lambda)P$ with $0<\lambda<1$, and defends this in parliament before asking the Arts Council to use it. The mission of the Arts Council is not contingent on the realisation of the preferences of the electorate δ (i.e., it is an incomplete contract) and thus does not follow the whims of the voters. The experts on the Arts Council are concerned with the perception of their ability, hence their reward is $E[(E(A/Y)] = E[A+\lambda X_Q+(1-\lambda)\ X_P\ -\lambda E(X_Q)-(1-\lambda)\ E(X_P)]$. If $p>1/2$, it is optimal to ask the Arts Council to focus completely at artistic quality Q (i.e., $\lambda=1$). The optimal strategy, as far as the Arts Council is concerned, is to set $X_P=0$ and $X_Q=C'^{-1}(1)$. By giving the Arts Council a fixed mission, society is stuck with the risk that they cannot respond if ex post cultural participation is important as well. The Minister of Culture can respond to changing preferences (i.e., the realisation of δ) and devotes effort only to the task ex post preferred by the electorate. This advantage is not so strong if voters are not too risk averse and relative certain about their ex-post preferences. In that case it is best to let the Minister of Culture set the mission of the Arts Council.

7. Subsidiarity, local cultural clubs and federalism

To determine the best level (local, regional, national of international) for the making of cultural policy, the well-known subsidiarity principle employed by the European Union is useful. This implies that it is best to conduct cultural policy at as low a level of government as possible. Politicians at the local level are better informed about preferences of their electorate and can be more readily rewarded and punished if they do not take account of them than politicians at a national or international level. However, culture thrives best in a competitive climate so it is better to allocate part of the subsidies at a national or international level. This ensures that the quality of, say, a local symphony orchestra is judged against symphony orchestra in other regions and requires cultural policy at a higher level of government.

Another reason for having cultural policy at a national or international level is that much of culture generates by its very nature positive cross-border externalities. There may also be substantial economies of scale. For example, small countries make do with one big opera house.

The theory of local public goods surveyed in Rubinfeld (1987) and Scotchmer (2002) point out the importance of migration between local jurisdictions and has obvious applications to the making of a cultural policy in Europe and, in particular, to the Länder of Germany. Tiebout (1956) argues that the provision of local public goods can be viewed as an efficient competitive market for private goods where people reveal their preferences for these public goods by 'voting with their feet'. Efficiency requires perfect information, costless migration, and no cross-border externalities. Efficiency also requires each jurisdiction to be large enough, so there are enough people to produce the local public good at minimum average cost. Free entry of people is a very strong assumption. However, one does see more skilled and educated people migrating to bigger cities (London, Barcelona, Paris, Berlin and Amsterdam) with a bigger supply of local cultural goods. Provincial towns get starved of their potential audiences and find it more difficult to support high culture. The optimal size of a jurisdiction is indeed small if preferences are homogenous for each region, cross-region spill-over effects are small and economies of scale are unimportant. The club model of local public good provision trades off economies of scale versus externalities arising from congestion. Groups of people with similar incomes and similar preferences arrange themselves in a club. The Tiebout model allows citizens to have different incomes and uses a local property tax to finance local public goods. Cultural public goods have an impact on land and property values. Building a theatre, opera house or museum makes neighbourhoods more attractive places to live and attract citizens who pay higher local taxes and push up land and house prices. An interesting direction of future research in cultural economics is to analyse the effects of local cultural infrastructure and activities on land and house prices and to estimate the demand for these goods in terms of local socio-economic characteristics and local and intergovernmental support. Such demand studies should focus on different attributes (e.g., international reputation versus popular appeal) of the local cultural goods. A crucial complication is how to aggregate preferences, since people differ very much in their taste for culture. Bergstrom and Goodman (1973) show that under certain strong conditions one can postulate a simple majority-rule political process by estimating demand for cultural goods based on a median-voter model. Rubinfeld (1987) discusses the empirical aspects of estimating such demand functions for local public goods and the Tiebout model in some detail. The use of micro data on cultural demand seems particularly promising.

An important issue for Europe is whether local governments should balance their budget, what local public goods should be provided locally, and whether and how revenues ought to be shared between levels of government. The literature on fiscal federalism and multiple layers of government attempts to

give answers to these questions. It is doubtful whether there are good economic reasons for conducting cultural policy at the level of the European Commission. A large part of the budget is devoted to prestige projects such as the Cultural Capital of Europe with little international spill-over effects and much of the cultural exchange that is supported is hampered by costly bureaucratic procedures. Since not all countries of Europe adhere to the arms' length principle, it is difficult to avoid political intervention. Topics that are of a European nature (e.g., competition policy, trade policy) are, typically, not the responsibility of Ministers of Culture. The European Councils of the Ministers of Culture have very tiny agendas and serve mainly the purpose of symbol politics.

8. International cultural policy: different approaches in Europe

Most countries of Europe make an effort to develop international cultural policy - e.g., Annalin (2003) and the website www.culturalpolicies.net. Typically, this is the responsibility of both the Ministry of Foreign Affairs and the Ministry of Culture (or Heritage for Hungary). In some cases the international positioning of culture is done with the departments responsible for media and sport (UK), education (Finland), sciences (Austria), sport and tourism (Ireland), or communication (France). In some countries cooperation between the two key ministries has resulted in a central institute for international cultural exchange (Denmark, the Netherlands) and in others these ministries work together on a continuing basis (France, Finland). In others the Ministry of Foreign Affairs takes the lead (Austria, UK, and Sweden) and may make use of cultural institutes abroad (such as the British Council and the French, Swedish or Finnish Institutes). Sometimes the Ministry of Culture is primarily responsible (Hungary) and elsewhere there discussions are going in that direction (Ireland, Sweden). In some cases international cultural policy is shaped in collaboration with the regions (UK). Most countries engage in bilateral and multilateral cultural treaties (in particular France with its many cultural specialists and Alliances Françaises) and join forces regionally (e.g., the Nordic Council, Finland with the Baltic countries). They also develop international cultural policy together with the Council of Europe, the EU and UNESCO.

Different definitions of international cultural policy formulation are used. Most countries use a very broad concept of culture (Denmark, Finland, France, Austria, UK and Sweden). Some of these countries tie international cultural policy closely with development policy (Sweden, Denmark, and Finland) or with efforts to stabilise regions such as the Balkan (France, Austria, UK). International cultural policy often pays considerable attention to education (Finland, France and UK) and boosting creative industries (Denmark, Finland, Sweden, UK and France). Other countries employ a narrower concept focusing at the arts, heritage and libraries (Ireland, Hungary).

In all countries one of the goals of international cultural policy is to help home cultural organisations to travel abroad. With a certain degree of national pride countries want to promote their

own culture abroad and gain mutual respect for each others' culture. These forms of cultural diplomacy may help to further other objectives of the Minister of Foreign Affairs, e.g., to help to win foreign contracts for home enterprises. The UK seems to have the biggest emphasis on economic interest. If this is the case, international cultural policy formulation is best seen as a side-kick of foreign affairs and has little to do with inducing a thriving international cultural exchange. From the point of view of the cultural sector it may be better to leave the initiative with the Minister of Culture. Then priority may be given to the highest artistic quality of culture offered abroad rather than popular expressions of culture geared towards other motives than the arts. It also seems more likely that priority will be given to fund and attract foreign expressions of culture that are not offered at home, e.g., Third World music, Berber culture, Bombay films, etc. (Denmark, France, Sweden, Netherlands). This added diversity has intrinsic value for the cultural climate of a country. Another reason is that it encourages more competition among home producers of culture, which also leads to a more thriving cultural climate. From this perspective some countries host the best foreign young visual artists, film directors, architects, musicians, etc. if they are judged to be of higher merit than home-grown talent. Not all countries agree (France).

It is important to measure the effects of international cultural policy. Although this has not been done on a systematic basis, promotion of Swedish and French music abroad seems to be successful. In France music sales abroad rose from 1.5 million items in 1992 to 39 million items in 2000, even though the French government probably judges this spectacular growth insufficient to counter the dominance of the Anglo-Saxon music industry. France also strives to promote their film, TV and radio abroad, again with some success. Denmark has with the films of its Dogma group shown considerable success abroad while Finland obtains similar results in music, design and dance. Not only Britain is trying to promote a 'cool' image. Also, Austria wishes to change towards a more modern image building on, say, the popular music of Kruder and Dorfmeister. Both countries make use of branding, corporate identities and joint marketing approaches to promote their culture abroad.

There is a heated debate about whether one should adopt protectionist cultural policy or not. Some countries argue that it is better to empower artists so that they can compete on international markets (UK, Netherlands). Other countries (led by France) disagree strongly and coin their protectionist tendencies with the goal of promoting cultural diversity. This goal is not controversial if it amounts to special instruments to sell French films, books or music outside France or to offering ethnic minorities the chance to express their culture or to bring in more non-European culture within national borders. However, it is controversial if it boils down to keeping as much culture from the US out of Europe. Although there may be a case for promoting own-language products and blocking foreign-language products, this is generally a dangerous route to take and often in direct conflict with the objectives of liberalising international trade.

9. Lessons for the making of cultural policy in Europe

The governments of Europe believe that culture cannot be left to the whims of the market. They argue that culture is an experience good, takes time to enjoy and appreciate, and has strong social externalities. It is therefore unpalatable if only the cultural elite enjoy culture, because culture is like language in essence a social phenomenon. If culture is non-excludable and/or rival, it is a public good. Culture has social value, but it also has existence value, innovation value option value and intergenerational value. None of these factors are properly internalised by the market. Hence, governments of Europe work on a cultural policy that stimulates cultural education for school children, develops a taste for cultural goods that make a lasting impression, brings high culture to where ordinary people are (parks, squares, pop temples, etc.), boosts the programming and demand for high culture, finances cultural expressions that are non-excludable and/or rival or has social, existence, option or bequest value, and provides room for experiment and research & development.

The challenge for most European policy makers is to boost high culture, including the synergies with low culture, and strive for a democracy of culture by making sure that more people have the competence to appreciate and understand cultural expressions. Democracy of culture is not concerned with dumbing down high culture, but with making high culture available and accessible to broader, new and more diverse audiences. This enhances the public good character of culture. Furthermore, cultural expressions only become meaningful if they are confronted with a critical audience. Culture has to compete with many other leisure activities, which explains that cultural participation has over the last quarter of a century been stable while the level of education has risen substantially - see van den Broek and de Haan (2000). Culture in Europe has become a more normal, integral part of an omnivore diet of excursions, holidays, visits to leisure parks and even sport. Pine II and Gilmore (1999) stress that culture increasingly has to be an experience. High culture in Europe faces the danger over the next few decades of becoming marginalised as the leisure industry becomes even more professional, the young invest less and less in cultural competence, the circle of genuine art lovers becomes smaller and culture is to be found more often only in places of entertainment. Hence, many governments in Europe attempt to fight the dumbing down of society by ensuring that culture is more than mere amusement, invest in cultural competences and education, and give space for innovation and experiment.

Governments should avoid dead-weight losses and substitution, on the one hand, and lobbying and rent seeking on the other hand. If subsidies to art producers are allocated by committees of experts (as on arts councils), there is a real danger of `art for the sake of art' and an erosion of the public support for the arts. The French model is less attractive than the Dutch or British model, because it gives to much influence to bureaucrats and politicians and prestige objects. The Dutch model allows a greater possibility

for shaping cultural policy than the British model, but is more susceptible to lobbying. One should keep the committees of experts small, appoint the experts for not too long periods and allow interested laymen on the committees as well. Since the task of deciding on the artistic merit and financial needs of different cultural organisations is a difficult task, lobbies in the cultural sector are strong and politicians tend to focus on the short term and act in a time-inconsistent fashion, recent theories of delegation suggest it is best to delegate the execution of cultural policy to an independent Arts Fund while the Minister of Culture restricts itself to setting out a mission with clear priorities, criteria and budgets and making sure the Arts Fund adheres to the mission.

More demand-oriented subsidies, such as vouchers, interest free loans, matching funds finance, public-finance partnerships etc., stimulate the cultural sector to produce art for which there is a demand in society. The danger with this is that safe, boring, better known art wins from innovative art. Hence, special facilities are needed to stimulate experimental art and research & development.

The performing arts are labour intensive and suffer like education, health care and police from Baumol's cost disease. Productivity growth in the arts lags behind other sectors. Relative price increases and greater pressure for bigger art subsidies result. Still, the newly found riches of technical progress elsewhere leads to extra demand for culture, especially if culture is a luxury good. There may be a shift from unique to reproductive art expressions, from small-scale to large-scale productions and from labour-extensive to labour-intensive productions. In addition, the performing arts are good at lobbying and letting themselves be heard. Hence, the performing arts may swallow a growing proportion of the total culture budget at the expense of other cultural needs. This is somewhat of a paradox, since the performing arts are much less a public good than reproductive art forms. The paradox is difficult to swallow, since subsidies for the performing arts profit a highly educated, high income minority living in the big cities. Hence, governments should be careful to provide sufficient funds for cultural causes which benefit current and future generations such as monuments, archaeology and museums.

Governments in Europe should avoid addiction to cultural subsidies and sustaining the status quo by allowing equal chances for newcomers and having a level playing field. In the Renaissance there was fierce competition between producers of art and also some degree of specialisation. Now a healthy gust of domestic and foreign competition and more market-oriented support from governments can be important motors behind a revival of the creative and innovative arts sectors of Europe.

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