

# *Should the Taxpayer Support the Arts?*

**DAVID SAWERS**

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## *Foreword*

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MANY IEA AUTHORS have analysed the effects of government actions which over-ride markets. They have frequently concluded that the main benefits accrue to those in government and to the powerful interest groups which, in politicised markets, have an incentive to invest heavily in lobbying in order to influence policy. In such markets, entry is deterred and the discovery process which leads to entrepreneurship and innovation is stifled.

In *Current Controversies* No.7, David Sawers, an independent consultant and one-time co-author with the late John Jewkes of a pioneering study of innovation, considers whether the dead hand of government might also be a problem in the world of the arts. He concludes that it is.

In Britain, Government support for the arts - which means a transfer from taxpayers in general to those, mainly in the middle classes, who wish to attend artistic activities - is of relatively recent origin. But it has grown much faster than government expenditure in general and it has shown signs of institutional expansion: in 1965 a junior Minister was appointed for the arts but by 1992 it was thought necessary to have a separate Department of National Heritage.

Mr Sawers examines the 'non-economic' arguments for support for the arts (Section 4) and finds them unconvincing. For example, although it is often argued that the arts cannot survive in the private sector, Sawers finds the claim implausible:

'The Arts Council asks us to believe that the market-based artistic system which flourished for centuries, and which produced the British cultural heritage we now admire, in periods when incomes were far smaller than they are today, cannot now function; and that the arts therefore cannot now survive without government subsidies' (p.32).

Nor does he agree that subsidy fosters innovation. He argues that history suggests the opposite - innovative musicians and playwrights

enjoyed popular acclaim. Subsidies are '...liable to reduce choice and the development of new ideas' (p.39).

The economic arguments for arts subsidies (Section 3) are usually couched in market-failure terms. Markets, it is claimed, will fail to provide the 'correct' amount of artistic activity because such activity provides benefits to people other than those who patronise the arts ('external benefits'). Because charges cannot be made for such benefits, suppliers will 'under-provide'. But Mr Sawers's analysis of possible external benefits concludes that the case for subsidies on such grounds is weak. Consequently, his overall conclusion is that:

'There seems to be no plausible justification for the present level of government expenditure on the arts. The evidence suggests there are some arguments which may justify small amounts of assistance, linked to informing the young about the arts and to preserving art for future generations. Local subsidies may also be justifiable, if financed by local people for anticipated benefits to the local economy. But...the case for substantial and widespread subsidies from the national taxpayer does not seem sustainable' (p.36).

Mr Sawers is concerned also about the present centralisation of funds for the arts. In his view, far from encouraging new and innovative work,

'...the concentration of patronage in the hands of one government funded body will inevitably impose some degree of standardisation on the character of the subsidised works. The result is liable to be success for the accepted styles, and obstacles for the novel' (p.40).

His most striking policy recommendation is therefore that both the Department of National Heritage and the Arts Council should be abolished. Sawers is aware of the problem of stopping an 'unjustifiable spending programme' (p40) supported by articulate lobbyists: to ease the transition he suggests that the Council should be dismantled over a period to allow subsidised institutions to adjust.

An arts policy appropriate to Britain would, in Sawers's words, '...leave decisions on what art should develop to its people' (p.40) whilst ensuring that those people are 'educated to know about the arts' (p.40). Moreover, it would '...recognise the merits of dis-engaging the government from the affairs of the arts' (p.40).

The views expressed in this paper are those of the author, not of the Institute (which has no corporate view), its Trustees, Directors or Advisers. It is published by the Institute as a contribution to public debate about policy towards the arts.

September 1993

COLIN ROBINSON

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Professor of Economics, University of Surrey*

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## *The Author*

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DAVID SAWERS is a writer and consultant who specialises in industrial economics. He spent 18 years as an economist in the government service, and has also worked as a journalist and an academic. His major publications are (with John Jewkes and Richard Stillerman) *The Sources of Invention* (1958), a classic study of industrial innovation, and (with Ronald Miller) *The Technical Development of Modern Aviation* (1968), a study of innovation in the aircraft industry. For the IEA he has written, with Wilfred Altman and Denis Thomas, *TV - From Monopoly to Competition - and Back?* (Hobart Paper 15, Revised Edition 1962), and *Competition in the Air* (Research Monograph 41, 1987).

# *Should the Taxpayer Support the Arts?*

DAVID SAWERS

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## **1. Introduction**

GOVERNMENT SUPPORT FOR THE ARTS is now regarded as a normal feature of central or local government expenditure in most Western countries. But it is only in the last 50 years that British governments have adopted the role of subsidiser rather than occasional patron of the arts. The development of the arts in Britain, from the 16th to the 20th centuries, was primarily influenced by the exertions of individuals.

Governments intervened when they saw opportunities to get a good bargain for the state: when the British Museum was founded in 1753, the purpose was to house three private collections which had become available, and part of the cost was raised by a lottery. The National Gallery was founded in 1824 because one valuable collection could be bought and another was given to the state. Many of the museums and galleries which followed during the 19th century, in London and provincial towns, were financed by private donations because governments remained reluctant to spend public money on such institutions. The performing arts were left to private enterprise, with occasional and modest patronage by royalty. The government's main role was as censor of plays.

Attitudes were very different on the Continent, where autocratic rulers patronised the performing and the visual arts to enhance personal or national prestige; after the princes lost their powers, the role of patron passed to governments and municipalities. Support for the performing arts and for museums was regarded as part of the state's educational role.

Such attitudes did not influence government policy in the UK until the Second World War, when the government began to fund performances of music and other arts to improve the morale of civilians. This activity was followed by the establishment of the Arts

Council in 1946, largely at the instigation of Lord Keynes, to channel government funds into the arts; its expenditure was initially modest, but it increased more than 20 times, in real terms, between 1949 and 1993. For comparison, total public expenditure in real terms trebled in this period, as did real personal consumption.

## *Minister for the Arts Appointed*

A junior government minister was first appointed in 1965 to take responsibility for policy towards the arts, within the Department of Education and Science; in 1992 a separate Department of National Heritage was established, to combine all arts-related government activities and so give the arts a higher profile in government. It was modelled on European ministries of culture. Its first Minister, Mr David Mellor, apparently wished to emulate M. Jack Lang, his French equivalent, who had made himself the patron of the arts and builder of new theatres and monuments. There has been surprisingly little public debate about the merits of these changes, or of government expenditure on the arts in general. Parochial issues like the virtues of the Royal Opera's plans for rebuilding are more likely to occupy leader writers than basic questions such as the case for subsidising the arts: should the government, in a society that values individual freedom, have a policy for the arts at all?

Despite the growing governmental interest in the arts in Britain, the contrasting historical backgrounds have ensured that they have remained much less dependent on the state in Britain than on the Continent. Subsidised theatres, including opera and dance, still account for only about 20 per cent of the theatrical audience in London, and perhaps a third in the UK as a whole; many musical activities get little or no subsidy<sup>1</sup>. In France and Germany, by contrast, the publicly-owned, non-profit and subsidised theatres and concerts attract the majority of the audience; in 1973 the subsidised sector earned some 63 per cent of the commercial income of all the performing arts in France, while subsidised theatres in Germany

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<sup>1</sup> Annual Reports of the Arts Council; *Cultural Trends*, No.11, 1991, and No.16, 1992 and Myerscough et al (1988).

attracted nearly 80 per cent of the total theatre audience.<sup>2</sup> Subsidies are also much higher on the Continent; they represented about 85 per cent of income for the subsidised German theatres in the mid-1980s and 91 per cent for French theatres in 1983,<sup>3</sup> but were 46 per cent of income for subsidised British theatres in 1991-92.

### *Income and Price Effects*

The audience for the live performing arts and visitors to museums have above-average income, educational and social status, in the UK and other Western countries,<sup>4</sup> and demand for these services increases as incomes and educational standards rise. Demand should rise as fast as incomes as the income-elasticity of demand for theatrical performances appears to be about or greater than unity. Its level is influenced by the strength of competition from other forms of entertainment. Although costs also rise when incomes grow, because the arts are labour-intensive activities, the price-elasticity of demand for the live performing arts seems to be less than unity - that is, a price increase results in a less than proportionate fall in demand. Evidence from the USA suggests that the price-elasticity of demand for museum entry is very low, perhaps -0.1.<sup>5</sup> The increase in demand for the arts produced by growing incomes therefore tends to offset the depressing effect on demand caused by higher costs and prices. Nevertheless, demand will grow less fast than that for goods or services with similar income elasticities which are less

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<sup>2</sup> M.Montias, 'Public Support for the Performing Arts in Europe and the United States', in DiMaggio, *Non-Profit Enterprise in the Arts*, Oxford University Press, 1986.

<sup>3</sup> B.S. Frey and W. Pommerehne, *Muses and Markets*, Oxford: Basil Blackwell, 1989.

<sup>4</sup> See C.D. Throsby and G.A. Withers, *The Economics of the Performing Arts*, Edward Arnold, 1979; Ford Foundation, *The Finances of the Performing Arts*, 1974. Myerscough et al., *The Economic Importance of the Arts in Britain*, London: Policy Studies Institute, 1988; Cultural Trends, No.11, 1991; M. Feldstein (ed.), *The Economics of Musicals*, National Bureau of Economic Research, 1991; and National Audit Office, *Department of National Heritage, National Museums and Galleries: Quality of Service to the Public*, London: HMSO, 1993.

<sup>5</sup> Frey and Pommerehne, *op. cit.*, p.63.

labour-intensive, or which benefit more from increases in productivity.

Since the Arts Council was founded in 1946, British national income has increased by about 2.6 times and consumers' expenditure has roughly trebled in real terms, while the proportion of young people receiving higher education has risen from 3 to 28 per cent. Demand for the performing arts should therefore have increased, although it might be expected to increase more slowly than consumers' expenditure as a whole because of the price effects explained above.

### *Competition from TV Video and Sound Recording*

Demand for theatrical performances was reduced, especially in the 1950s and 1960s, by the development of television, which brought drama into the home. This competition seems to have had most effect on the lower-quality theatrical activities, such as the commercial repertory theatres, and may help to explain the closure of many provincial theatres. The introduction of video recording has more recently strengthened this competition, while the improvements in sound recording have increased the scope for enjoying music at home. Although the growth of the new media may have curbed the demand for live performances, it has produced an unprecedented increase in the audience for the performing arts as a whole. In so doing, it has created new opportunities and new markets for artists of all types.

This demand from the new media can be expected to continue growing in future, as the number of television services multiplies. American cable and satellite services expect to provide 150 channels per company within a year, often providing pay-per-view subscription services, giving access to film and video libraries. The large number of channels, and the pay-per-view system, make the companies interested in satisfying minority tastes such as the arts. One company, DirecTv, plans to broadcast cultural events for a charge of \$15-\$30 (£10-£20).<sup>6</sup> The long-awaited improvement in the supply of cultural programmes on television may therefore be near.

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<sup>6</sup> 'Hughes Gambles on High-Tech TV', *Fortune*, 23 August 1993.

### *Taxation and the Arts*

Taxation of incomes has also been reduced drastically since 1946, mostly since 1979: the high rates of income tax in force from the 1940s to the 1970s were held to justify state patronage of the arts, because private individuals could not afford to support them. Present circumstances are very different; income tax rates are much reduced, and tax relief is available for gifts to most arts institutions. Individuals and companies can therefore more easily afford to support the arts, at the same time as the market for them has been increased by higher incomes and better education.

#### *The Paradox of Increasing Subsidy: the Arts Council*

Paradoxically, subsidies to the arts therefore increased just at the time when demand for them was rising. Despite this expansion in their market, it seems that artistic activities which had survived with little or no government aid for centuries are now widely believed to be dependent on public support for their health, if not their very existence.

The Arts Council, in a recent study of policies for the arts,<sup>7</sup> argues that the nature of society has changed in the last 50 years and that the role of the arts in society has changed as well: the creative development of people has become more important, and the arts have therefore become vital to the health of society. They enhance the moral environment and support the emotional and spiritual health of society. Government backing is therefore justified because the arts are essential to society, because it allows more people to enjoy the arts, because it helps the development of the arts, and because the institutions which used to support the arts - such as churches, guilds, monasteries and railway companies - no longer do so.

The Arts Council believes that the arts cannot exist in the private sector; indeed, it argues that they have never done so, and that the profitable parts of the arts industry would wither without the infusion of ideas from the publicly funded sector.

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<sup>7</sup> *A Creative Future: The way forward for the arts, crafts and media in England*, London: HMSO, 1993.

### *Interest Groups Promote Subsidies*

One possible explanation of this paradox of rising expenditure on the arts is provided by the characteristics of the people who gain most from subsidies to the arts. There can be little doubt that those with above-average incomes and education have more political influence than those with lower incomes: they are more articulate, more active in political parties, and provide most politicians. It would be natural for the governing classes to favour subsidies from which they benefited, and to believe that the arts which they appreciate also contribute to the health of society. Other subsidies which benefit the richer classes, such as that to rail services in the UK, are jealously guarded and have increased as national income grew.

Other factors pushing up subsidies have been increases in costs (especially in the performing arts) from higher earnings; and the inevitable weakening of the incentive to improve efficiency that is created by the availability of subsidies. The increase in subsidies to public theatres in Germany - from 27 per cent of their income in 1911-12 to 54.7 per cent in 1949-50 and to 84.3 per cent in 1985-86<sup>8</sup> - shows how government support, once provided, seems bound to go on increasing. Once an organisation becomes dependent on subsidy, whether it is an opera house or a railway, reducing its dependence is a painful business for its management, staff and customers.

The received opinion in politics today is that support for the arts is part of any civilised government's duty. In some countries at some times, as has recently been true in France, the promotion of the arts becomes a major part of the government's efforts to improve its image. In most countries, support for the arts plays a less visible role; but it is accepted as something a government should do.

The purpose of this paper is to analyse the arguments which can be used to justify government support for the arts, from the viewpoint of a political economist. Economists have examined the case for

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<sup>8</sup> Frey and Pommerehne, *op.cit.*

support of the arts in the framework of welfare economics, which provides a more rational basis for discussing the case for subsidy than the sociological, if not emotional, arguments of the Arts Council.

## 2. The Financing of the Arts in the United Kingdom

### *Increasing Government Spending on the Arts*

GOVERNMENT EXPENDITURE ON THE ARTS has increased much faster than public expenditure as a whole since the early years of the Arts Council. As Table 1 shows, since 1949-50 total government expenditure has roughly trebled in real terms, whereas expenditure on museums and galleries has increased 12-fold, and expenditure on the Arts Council has increased 20-fold. These figures probably exaggerate the increase in expenditure on museums, because there have been accounting changes in the last decade; a 10-fold increase may be a more accurate representation of the change.

The figures in Table 1 may also exaggerate government expenditure which can be attributed to the arts through its support for museums, because some museums serve industrial or scientific purposes as well as the arts. Out of some £270 million that the

**Table 1:**  
**Government Expenditure: Arts, Museums and Total**  
**(£ million, 1991 prices)**

|         | Arts Council | Museums and Galleries * | Total Public Expenditure |
|---------|--------------|-------------------------|--------------------------|
| 1949-50 | 9.7          | 20.1                    | 72,700                   |
| 1960    | 16.1         | 29.9                    | 97,800                   |
| 1970    | 66.0         | 65.7                    | 148,000                  |
| 1985    | 203.7        | 174.7                   | 217,200                  |
| 1991    | 205.0        | 246.8                   | 227,800                  |

\* Excluding expenditure by the Depts. of Education and Environment.

Sources: Annual Reports of the Arts Council; Clarke, R., 'Government Policy and Art Museums in the United Kingdom' in Feldstein (1991); *Cultural Trends*, No. 14, 1992; and *National Income and Expenditure*.

**Table 2:**  
**Public Expenditure on the Arts in UK, 1992-93 (£ million)**

| <b>Museums and Galleries:</b>     |                |
|-----------------------------------|----------------|
| England                           | 213            |
| Scotland                          | 28             |
| Wales                             | 14             |
| Northern Ireland                  | 9              |
| Universities                      | 10*            |
| Local Authorities                 | 156            |
| <b>Sub-Total</b>                  | <b>430</b>     |
| <b>Arts:</b>                      |                |
| Arts Council                      | 221            |
| Business Sponsorship              | 4              |
| Acceptances of art in lieu of tax | 2              |
| Other arts expenditure            | 11             |
| Local Authorities                 | 145-195        |
| <b>Sub-Total</b>                  | <b>383-433</b> |
| <b>Total:</b>                     | <b>813-863</b> |

\* Estimated

Source: *The Government's Expenditure Plans, 1993-4 – 1995-6*, London: HMSO, 1993.

central government spent on museums and galleries in 1992-93 (Table 2), £62 million went to the Imperial War Museum, the Natural History Museum and the Science Museum - institutions not primarily concerned with the arts - and £30 million to the Victoria and Albert Museum, which provides some assistance to industrial design. About £10 million was spent on university museums, which cover the sciences as well as the arts. A further element of uncertainty is the amount spent by local authorities on the arts, which is not well documented.

The £221 million received by the Arts Councils for England, Scotland and Wales in 1992-93 (Table 2) was mostly spent on the performing arts. The £4.5 million spent on the Business Sponsorship



Incentive Scheme was intended to encourage business sponsorship of the arts; and an unknown sum will have been granted as tax relief on gifts from companies and individuals to arts companies which were registered charities - as are most subsidised and many unsubsidised arts organisations. Local authorities probably spent about £300-£350 million on museums and the arts, of which £156 million went on museums. Local authorities also spent £620 million on libraries, some part of which will have been spent on books and magazines of literary or artistic interest.<sup>9</sup>

#### *Total Government Spending on the Arts*

The total expenditure of central and local government on activities related to the arts may therefore have been about £850 to £900 million in 1993 (Table 2), excluding expenditure on education in the fine arts and the performing arts. Students taking degree courses and the institutions in which they are taught receive government finance, like other university activities. But students taking non-degree courses, which includes many students of drama, can receive only discretionary grants from local authorities towards their costs. The £900 million amounts to less than half of 1 per cent of all public expenditure. The arts therefore represent a small element of public expenditure; but the merits of this expenditure depend on the benefits which it produces for the community as a whole, not on its scale.

This estimate excludes tax relief on gifts to arts organisations registered as charities, a status that applies to most subsidised theatres - which are non-profit organisations - and most museums. Tax relief on charitable gifts was made much more generous in 1990, when the value of individual gifts on which individuals and companies could obtain tax relief was increased to £5 million a year. In addition, individuals and companies can obtain tax relief on an unlimited value of gifts through covenants, which have to run for at least three years. Individuals can obtain tax relief on whatever income-tax rate they pay - so up to 40 per cent - but companies can obtain tax relief only at the basic 25 per cent rate of income tax.

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<sup>9</sup> *The Government's Expenditure Plans: 1993-4 - 1995-6: The Department of National Heritage*, London: HMSO, 1993; and *A Creative Future...*, *op. cit.*

These changes may well lead to large increases in charitable giving in the longer term.

#### *Museum Subsidy: the Concentration on London*

Central government expenditure on museums is concentrated on London. About £186 million of its expenditure went on museums and galleries in London, which represented about 85 per cent of central government expenditure on museums in England and about 68 per cent of its expenditure for the UK as a whole. Government funding has increasingly been supplemented by commercial earnings and donations, although most museums make no charge for entry. The percentage of the major national museums' income coming from non-governmental sources increased from 19 per cent in 1988-89 to 26.5 per cent in 1992-93.

Despite this increase in earnings and gifts, these museums remain more dependent on government finance than many smaller museums in this country, or large museums in the United States. The Metropolitan Museum of Art in New York, for example, obtains less than 20 per cent of its income from government sources. Its largest sources of income are gifts, endowments and members' subscriptions, with entrance fees providing only about 10 per cent of income.<sup>10</sup> The low price-elasticity of demand for entrance to museums suggests, however, that more could be earned from this source. Only the Science Museum and the Natural History Museum in London charge for admission; they also earn relatively little from this source, although the National Audit Office has commented that they have the most sophisticated approach to marketing among the major museums.

There are about 800 museums owned by local authorities in the UK. They vary greatly in size, and the number of visitors they attract is comparable to that for the 16 English museums financed by the government. In the late 1980s their earnings represented about 13 per cent of their income, or rather less than the government-financed museums earned. Fewer than 30 per cent of the local authority museums charged for entry; those that did charge

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<sup>10</sup> Feldstein, *op. cit.*; and 'Making the Fossils Frolic', *The Economist*, 5 June 1993.

**Table 3: Expenditure of the Arts Council, 1991-92**  
(£ million)

|          | Music | Drama | Dance | Visual Arts | Literature |
|----------|-------|-------|-------|-------------|------------|
| England  | 43.9  | 36.0  | 18.3  | 3.7         | 1.3        |
| Scotland | 7.0   | 3.4   | 1.9   | 1.5         | 0.7        |
| Wales    | 3.4   | 2.5   | 0.4   | 0.8         | 0.8        |
| Total    | 54.3  | 41.9  | 20.6  | 6.0         | 2.8        |

Source: 47th Annual Report and Accounts, The Arts Council, 1991/92.

covered 22 per cent of their costs from earnings. There are also about 1,200 independent museums in the country, mostly small and specialised, some of which receive grants from local authorities. About two-thirds of them charge for entry, and they cover about half of their costs from earnings.<sup>11</sup>

*Arts Council's Spending:*

*Concentrating on Large Companies and Cities*

The expenditure of the Arts Council is concentrated on music (which includes opera), drama and dance, as Table 3 shows. But its expenditure is also concentrated on large companies and large cities; in England half of its expenditure goes to companies based in London, and 51 per cent goes to the 20 largest recipients of grants. This distribution of the Arts Council's expenditure has remained similar over the last 20 years, although the proportion spent on the four large national companies - the Royal Opera House, the English National Opera, the Royal National Theatre and the Royal Shakespeare Company - did fall from 34 per cent in 1972-73 to 28 per cent in 1992-93, and six of the largest 20 recipients in 1972, all regional theatre companies, had dropped out of the top 20 by 1992. The fall in the four national companies' share of expenditure did not mean that their grants were reduced, but that the grants to most of

<sup>11</sup> Audit Commission, *The Road to Wigan Pier?*, London: HMSO, 1991; and *Cultural Trends*, No.14, 1992.

these companies increased less fast than the Council's total expenditure. Subsidy has also come to represent a smaller proportion of their income, and seat prices have had to be increased in real terms.

This pattern of expenditure does not seem to reflect a conscious decision by the Arts Council to favour large companies, so much as the result of historical accident and the addictive effects of subsidy. The large, mostly London-based, companies and orchestras were the most obvious recipients of aid when the Arts Council was founded - indeed, the re-opening of the Royal Opera House was one of its initial objectives. As they have developed, and in some cases acquired larger premises, their demand for subsidy has grown as well.

The Arts Council would, it appears, prefer to spend less on the big companies in London and more on smaller and younger companies in the provinces, for another of its original objectives was to 'decentralise and disperse the dramatic and musical and artistic life of the country', as Keynes put it in 1945.<sup>12</sup> But it has been unable to overcome the opposition of the large companies to any substantial reduction in their grants. Its expenditure seems to be effectively controlled by the lobbying power of the larger beneficiaries from its expenditure. The transfer of some responsibility to the 10 Regional Arts Boards has not been accompanied by any redistribution of subsidies towards the regions.

The predominance of London in the Arts Council's expenditure in England is partially offset by the existence of the Arts Councils for Scotland and Wales, and by the expenditure of local authorities. But the Scottish and Welsh Councils, like their English partner, concentrate their expenditure on a few large companies - opera, dance, orchestras and theatres. In Scotland the six largest beneficiaries received 72 per cent of the grants in 1991-92; in Wales the six largest received 46 per cent of the total.

Local authorities provide a more effective counterbalance to the Arts Council; if the estimates for their expenditure are correct, they

<sup>12</sup> 'The Arts Council: Its Policy and Hopes', in J.M. Keynes, *Social, Political and Literary Writings*, Vol. XXVIII: *The Collected Writings of J.M. Keynes*, ed. by Donald Moggridge. London: The Macmillan Press for the Royal Economic Society, 1982, p.370.

**Table 4: Sources of Income of Major Subsidised Companies In England, 1991-92 (per cent)**

|                   | Opera* | Dance | Orchestra ** | Drama |
|-------------------|--------|-------|--------------|-------|
| Earned Income     | 38     | 36    | 49           | 49    |
| Sponsors/Gifts    | 13     | 10    | 8            | 5     |
| Arts Council      | 45     | 49    | 31           | 34    |
| Local Authorities | 4      | 5     | 13           | 12    |

\* Figures for 1989-90, and all of UK.

\*\* Figures for 1990-91, and all of UK.

Sources: Arts Council Annual Report, 1991/92; *Cultural Trends*, No. 12, 1991: Policy Studies Institute.

spend nearly £200 million on the arts - almost as much as the Arts Council itself. There is limited information on how this money is spent; it appears to support a wide range of local festivals, theatres, opera companies and orchestras, in many cases supplementing grants from the Arts Council. But the Arts Council's reports mention many examples in the last few years of reductions in grants from local authorities to companies which are also supported by the Council. Local authorities also support tours by national companies.

#### *Encouraging Private Support*

The government has been encouraging private support for the arts since 1984, when the Business Sponsorship Incentive Scheme was established. By 1992-93, government expenditure of £4.5 million a year was producing sponsorship of £7.5 million a year.

The major companies subsidised by the Arts Council obtain less than half of their income from the box office (Table 4). Although the proportion of income derived from commercial sources by the Arts Council's clients has increased in the last decade, it is much smaller than it was in the early days of the Council. Keynes saw the main role of the state as providing the buildings; then 'the muses will emerge from their dusty haunts, and supply and demand shall be

their servants'.<sup>13</sup> At that time, performances were expected to break even, but that situation did not last for long; as in Germany, subsidy rose inexorably once it became available.

#### *Performing Arts: Survival Without Subsidy*

But there are still some opera companies, theatres and orchestras which manage to survive without any subsidy. In opera, Glyndebourne provides large-scale productions without subsidy, although it obtains about a quarter of its income from donations; in the theatre, unsubsidised performances account for 80 per cent of the box office receipts of all London theatres (including opera and ballet),<sup>14</sup> and there are many unsubsidised companies in the provinces as well; in music, numerous unsubsidised orchestras exist. They do not seem to be artistically inferior to the subsidised orchestras; and they have been responsible for introducing one major innovation to Britain, the 'early music' movement. The unsubsidised companies differ from the subsidised in having fewer, if any, performers under contract, relying on freelance staff. Their fixed and total costs seem to be substantially lower than those of the subsidised companies. Total revenue per performance at Glyndebourne, for example, is half that at the Royal Opera. The implication is that subsidy increases costs.

#### *The BBC Licence Fee and the Arts*

The BBC's licence fee represents another source of tax revenue that helps to finance the arts. The BBC spends about £55 million a year on Radio Three, which broadcasts mostly classical music and serious drama or literature. Its direct expenditure on its five orchestras is about £9 million a year; they give many public concerts, such as the Promenade Concerts, as well as broadcast performances. The BBC's contribution to public-sector support for the arts is probably best measured by its spending on Radio Three, which is listened to by about 4 per cent of the population.

<sup>13</sup> 'The Arts in War-Time', in J.M. Keynes, *ibid.*, p.361.

<sup>14</sup> *Cultural Trends*, No.11, 1991.

### 3. The Economic Arguments for Government Support for the Arts

#### *External Benefits?*

ECONOMISTS HAVE RECENTLY BEGUN to analyse the arguments about government support for the arts in the framework of welfare economics, and thus on the assumption that consumers know best how to maximise their benefits from their expenditure, and with the objective of maximising consumers' welfare. Much of this work was stimulated by the publication of Baumol and Bowen's thesis that costs in the performing arts are bound to increase in relation to those of goods and most services as an economy grows, because the arts are labour-intensive, there is little scope for increasing productivity, and earnings in the arts will have to increase as fast as those elsewhere in the economy.<sup>15</sup> Baumol and Bowen argued that the demand for the performing arts would decline as their relative cost and price increased, and that they would therefore require ever-increasing levels of subsidy if they were not to decline.

One line of study has examined the evidence about costs in the arts and demand for the arts. These studies have shown that Baumol and Bowen were pessimistic, because demand for the arts increases roughly in proportion to income - as stated in the Introduction (above, p.11) - so that rising demand offsets the effect of rising prices. It was also found that cost increases were not inevitable in all branches of the arts, because productivity in some artistic activities could be increased by altering the scale on which they were performed, or by improving the efficiency with which they were produced.<sup>16</sup>

Baumol and Bowen went on to examine the evidence that the market was failing to maximise the welfare of consumers in the supply of the arts. They therefore considered the 'external benefits'

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<sup>15</sup> W. Baumol and W.G. Bowen, 'On the Performing Arts: The Anatomy of their Economic Problems', *American Economic Review*, Vol.55, No.2, May 1965; and *Performing Arts: The Economic Dilemma*, Twentieth Century Fund, 1966.

<sup>16</sup> A.T. Peacock, 'Economics, Inflation and the Performing Arts', in W. and H. Baumol (eds.), *Inflation and the Performing Arts*, New York University Press, 1984; and E.G. West, *Subsidising the Performing Arts*, Ontario Economic Council, 1985.

that the arts might produce - benefits to individuals additional to those enjoyed by the people who patronise the arts. Support for the arts from the public purse that the arts might produce - benefits to individuals additional to those enjoyed by the people who patronise the arts. Support for the arts from the public purse might then increase consumers' welfare, by generating more of these 'external benefits' than the market would produce. They also suggested that the arts have some characteristics of a 'public good'. These are goods for which one person's consumption does not prevent their consumption by others and for which consumption cannot be restricted; it is therefore difficult to charge for their use, and it may be desirable to finance their production by the taxpayer. Baumol and Bowen accordingly concluded that some public subsidy for the arts was justifiable.

Their analysis was followed by that of Peacock, who analysed the arguments for subsidising the arts in the categories of welfare economics, and who took a more sceptical view of the case for subsidy than had Baumol and Bowen.<sup>17</sup> Many other economists have since written on this subject, so that the arguments for and against subsidies to the arts have by now been exhaustively reviewed.

Most of this discussion has considered whether the arts produce external benefits or can be described as public goods. This discussion is often confused by the manner in which these two categories overlap, in that some of the public good characteristics of the arts are also external benefits of the arts, such as sensations of national pride in artistic achievements felt by people who have not attended the relevant artistic events. Some economists call such feelings external benefits, and others call them public goods.

There seems in fact little justification for describing any of the arts as public goods in the strict sense; there is no difficulty about restricting access to any form of art, and therefore for charging for the right to view it. There is also a limit on the number of people who can see a painting or attend a concert (but not on the number who can buy a reproduction or a recording), although admitting one additional person will not exclude another viewer or listener until capacity is reached. It therefore seems preferable to concentrate this discussion on the possible external benefits of the arts.

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<sup>17</sup> A.T. Peacock, 'Welfare Economics and Public Subsidies to the Arts', *Manchester School*, Vol.37, December 1969.

### *Merit Goods?*

The 'merit good' argument should also be considered. This contends that government or 'society' believes that individuals should consume the arts, even if they would not choose to do so themselves. The concept of the 'merit good' is essentially non-economic and paternalistic; it is not consistent with an objective of maximising consumers' welfare, unless welfare is defined by government rather than consumer. It represents a value-judgement by a government, a parliament or individuals which implies that individual consumers would spend their money mistakenly if left to their own devices. Education is often cited as an example of a 'merit good'.

The concept of a 'merit good' does not seem to provide reasons why a government ought to undertake any specific policies; it simply provides an explanation of why a government is undertaking any policy. To describe education or the arts as 'merit goods' does not explain why they should be subsidised by the state: that depends upon the reasons why they are believed to be 'merit goods'. These reasons are likely to be the external benefits which they are expected to produce. Education, for example, is considered to produce large external benefits, which explains why it is generally believed that the state should finance education for all children - and why it is generally regarded as a 'merit good'. Any examination of the possible justification for subsidies to the arts should therefore concentrate upon the possible external benefits.

### *Main Perceived External Benefits*

The main external benefits which have been used to justify subsidies to the arts are:

- *National Pride*: Artistic successes or national artistic treasures preserved in museums may generate feelings of national pride and satisfaction among people who do not themselves patronise these activities. They may feel satisfaction from the belief that they are living in a cultured society, and that they can enjoy these artistic activities if they ever want to do so. The existence of this argument has encouraged attempts to measure the value put on the arts by the general public, and in particular the strength of support for subsidies

to the arts. Surveys of public opinion have suggested that a majority supports such subsidies: in the UK in 1991, 69 per cent supported public funding of the arts;<sup>18</sup> in Australia in 1972-73, 62 per cent supported public spending on theatres, opera houses and orchestras;<sup>19</sup> in the USA in 1975, 64 per cent were willing to pay an extra \$5 in taxes to finance cultural activities.<sup>20</sup>

These opinion surveys have the obvious defect that respondents do not have to pay extra taxes as a result of their answers, and are not compelled to think about priorities for public expenditure by the nature of the questions. Where respondents are faced with choices, the results are very different. In Australia in 1975 people were asked to state their priorities for cutting public expenditure, and the arts were their first choice; in the USA in 1977, expenditure on the arts was rated less important than expenditure on health, transport, education, law enforcement, housing and recreational facilities.<sup>21</sup> Contrary evidence comes from referenda on public expenditure in Swiss municipalities: between 1950 and 1983, 83 per cent of 108 referenda concerning expenditure on the arts approved this expenditure. The proportion of approvals rose during this period, and exceeded that for all proposals for expenditure in the last decade from 1974 to 1983.<sup>22</sup> But support for subsidies to the arts at municipal level may not be translated into support at the national level, where the benefits will be more remote.

The evidence on public opinion is therefore ambiguous. It suggests that public expenditure on the arts is more generally supported on the Continent of Europe, where there is a long tradition of government support for the arts, than it is in Anglo-Saxon countries; and that the arts come low in the public's order of priorities in the latter countries.

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<sup>18</sup> See *Annual Report of the Arts Council, 1991-1992*.

<sup>19</sup> Throsby and Withers, *op.cit.*, p.183.

<sup>20</sup> Louis Harris and Associates, *Americans and the Arts*, New York: The Associated Councils of the Arts, 1975.

<sup>21</sup> See Throsby and Withers, *op. cit.*, and Paul DiMaggio *et al.*, *Audience Studies of the Performing Arts and Museums: A Critical Review*, National Endowment for the Arts, Research Division Report No.9, New York: The Publishing Center for Cultural Resources, 1978.

<sup>22</sup> Frey and Pommerehne, *op.cit.*

- *Attracting Tourists:* Artistic activities, such as a festival, a good opera house or art galleries, may attract tourists to an area, increasing demand for and employment in other service enterprises. Government aid to the arts may represent a more effective means of creating employment than aid to other activities.

A subsidy to artistic activities might increase the number of visitors to a district, although a city like London already receives visitors who attend its unsubsidised and subsidised theatres - about 40 per cent of their audience are tourists, and 35 per cent are foreigners<sup>23</sup> - and the benefits of any additional subsidy would relate only to any additional visitors it might attract. The impact of the subsidy on the number of visitors would depend on the importance they attached to the effects the subsidy produced on the price or choice of entertainment available: where a wide choice was already available, as in London, the effect might be expected to be smaller than in an area where there was little existing entertainment. The establishment of a new festival, for example, might have a significant effect on the number of visitors.

Increasing the number of visitors might well improve the profits of some local businesses and increase the incomes of their employees, but it would not necessarily increase national income. Even if the subsidy diverted tourists from other countries, rather than from other areas of the same country, the outcome would depend on the relative efficiency of the activities which declined because of the increase in taxation required to finance the subsidy, compared with that of the activities which gained from the subsidy.

The localised nature of any benefits makes a local subsidy more appropriate than a national subsidy; if the businessmen of London believe they would benefit from subsidies to the theatres of London, they (rather than the taxpayer) should finance the subsidies - or

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<sup>23</sup> J. Myerscough *et al.*, *The Economic Importance of the Arts in Britain*, London: Policy Studies Institute, 1988, p.81.

perhaps the London boroughs should finance them out of the taxes they raise from local businesses and residents.

The claim that the arts are an especially effective means of generating employment has been made in a Policy Studies Institute study.<sup>24</sup> Its results, however, appear to be based on misunderstandings about the methods that should be used to calculate the number of jobs created by subsidies. The number of jobs in the arts created by government expenditure appears to have been exaggerated by assuming that all employment in the arts could be attributed to government expenditure - although the question the PSI should have been trying to answer was what proportion of the jobs could be attributed to the subsidy. The authors also failed to appreciate that increases in employment in one region may be matched by losses in another region, so that the impact on employment at the national level cannot be obtained by aggregating figures for various regions. The effect on total employment in Britain was therefore exaggerated as well.

- *Learning to Enjoy the Arts:* The arts may increase the social responsibility of individual citizens, or they may provide a calming and educational influence, so that people are less likely to commit crimes. This view was widely held in the 19th century, when it was used by advocates of government expenditure on museums. W.E. Gladstone and Sir Robert Peel were among the politicians who shared the belief that the contemplation of beauty would reduce the propensity to commit crime. It had lost its popularity by the end of the century, perhaps because crime had not responded to the creation of museums, or perhaps because artists no longer seemed to be on the side of the angels.

Tibor Scitovsky has more recently propounded a variation on this argument.<sup>25</sup> He suggests that human beings have a craving for excitement, adventure and stimulation. The arts can satisfy this craving, which may also be satisfied by gambling, violence or crime.

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<sup>24</sup> J. Myerscough *et al.*, *ibid.*

<sup>25</sup> T. Scitovsky, 'Subsidies for the Arts: The Economic Argument' in W.S. Hendon and J.L. Shanahan (eds.), *Economics of Cultural Decisions*, Cambridge, Mass.: Abt Books, 1983.

If the arts become more widely popular, they will displace the more obnoxious outlets for this craving. Scitovsky therefore favours subsidies to the process of learning to enjoy the arts, which would cover subsidising the cost of attending artistic events for the young, as well as teaching appreciation of the arts in schools.

The beneficial effects of the arts on behaviour have not been demonstrated. But a weaker form of the argument, that study of the arts increases understanding of the human mentality and the enjoyment of life, does seem to have some validity. Learning to appreciate literature and the arts is, after all, a part of many educational curricula.

- *Promoting Social Ideas via the Arts:* The arts may promote discussion of social issues and so the development of social attitudes. This effect is a valuable externality, which relates especially to books and drama. They are the media in which, historically, ideas have been developed and put before the public for discussion; this role for the arts remains important in any free society.

It is not obvious, however, that subsidies can increase the external benefits from this role of the arts. Subsidies may augment the quantity of writing produced, but the influence which they allow the government to exercise over the writers may well inhibit the opinions expressed. The value of the arts as a debating ground may therefore be *reduced* by subsidies.

- *Preserving the Arts for Posterity:* The arts which exist today have a value to posterity; those who are alive today may not preserve as much of the arts as posterity would wish, so that a subsidy is desirable to preserve the present stock of arts. This argument for subsidy assumes that tastes in the future may differ from those in the present, so that works of art may be destroyed now which would be valued in the future. It is relevant to state aid for museums rather than the performing arts - and to planning policies for the preservation of buildings.

The logic of the argument suggests that examples of all styles of art should be preserved, rather than examples of the styles fashionable at a particular time. But it does not imply that a

government ought to intervene automatically to create collections for preservation. It should only do so if individuals are failing to preserve some examples which seem to deserve preservation. The state's most appropriate role might be to preserve some examples of the unfashionable.

- *Assisting Education:* The arts can assist education. The study of literature and the performing arts forms part of education in English; the visual arts, and the museums and galleries in which examples are kept, help promote the teaching of the fine arts. The role that the study of literature should play in the teaching of English is a matter of debate, but the current English national curriculum is based on the belief that involvement with literature enables pupils to understand themselves better, and to use the English language more effectively. Experience of live performances or recordings is considered a valuable supplement to traditional teaching methods, and an active tradition of live performances is likely to enhance the quality of the teaching of English literature.

Teaching about the visual arts is considered generally valuable and included in the English national curriculum - as a means of developing the ability to observe and to express ideas visually, as well as increasing the ability to enjoy life by cultivating the appreciation of artistic creations. The same arguments apply to the teaching of music. Pupils' future welfare can be enhanced if they learn to appreciate the visual arts and music; if the arts and music are flourishing, the teaching will be improved, and the pupils will have more opportunities to exploit the understanding of those subjects they have acquired. There may be a case for government support for the arts if the educational subjects they assist are considered important, and if the supply of the relevant artistic activities or museums is considered inadequate to support education effectively.

#### *The External Benefits Summarised*

The external economic benefits said to be produced by the arts do not support a very convincing case for subsidising them. There may be something in the argument for preserving our heritage for future

generations, if individuals are failing to do so. This argument may justify some government support to museums. There seems, however, to be a more convincing argument for acquainting people with the arts, because the ability to appreciate the arts can increase their understanding of human psychology and their ability to enjoy life.

#### 4. Non-Economic Arguments for Support for the Arts

THERE ARE ALSO A NUMBER of non-economic arguments used to justify subsidies to the arts, which have influenced the thinking of the Arts Council - as expressed in its report *A Creative Future...*, and mentioned in the Introduction (above, p.13).

- *Can the Arts Survive in the Private Sector?:* The arts cannot survive in the private sector, and have never done so. They were in the past supported by institutional patrons or rulers; these patrons have now to be replaced by governments.

This argument is not justified by the historical evidence for this country, where institutions, princes and governments have played a very different role from that of their Continental equivalents (as explained in the Introduction, above, p.9). The theatre flourished in Britain from the end of the 16th century because it attracted a large paying audience, especially in London. The need to satisfy this audience is the reason why drama in England differed from that performed in the court theatres on the Continent, and may indeed be said to account for its vigour. The public concert seems to have been a British invention in the mid-17th century, presumably because the audience was available; with theatre music as well, it created a market for music in London which attracted foreign musicians such as Handel, Mozart and Haydn in the 18th century, and many more since.

Institutions have had little influence on the visual arts in Britain ever since the Reformation. The Church of England has never been a patron of the arts. The Church was so important a patron of the arts before the Reformation partly because it then wished to decorate its churches, but also because few individuals could afford such a luxury before the 16th century. Average incomes in 1500 were about a 20th of present levels; but they began to grow in the 16th century

with the expansion of trade, and growth continued thereafter. Demand for paintings and sculptures among individuals did not grow fast, however, until the Restoration in 1660. A market in art developed rapidly in the late 17th century to meet this demand. The role of the patron had become unimportant by the middle of the 18th century, with artists painting to commissions or selling through dealers.<sup>26</sup> In the 19th century the market for paintings continued to grow with incomes, although the demand for art has more recently been weakened by the growth of photography and the availability of reproductions.

The Arts Council asks us to believe that the market-based artistic system which flourished for centuries, and which produced the British cultural heritage we now admire, in periods when incomes were far smaller than they are today, cannot now function; and that the arts therefore cannot now survive without government subsidies. This claim is implausible. Subsidies may change the nature of the arts which get produced: subsidised works may replace some of the unsubsidised works in theatres and concert halls, because subsidised producers need not worry about the audience and can charge less, and this reduced dependence on the audience may well have made the performing arts more elitist. But artists now have a far larger market for their creations than they did a century or two ago, even if the subsidised sector is excluded, because of the growth of the new media. And many of the creations which the subsidised sector appears to value, if its performances are any guide, were written to meet an unsubsidised demand.

The Arts Council's argument is essentially that something has changed about the role of the arts in society in the last 50 years, which has made reliance on the market for their supply undesirable. This claim is essentially a statement of political belief: that the state should be involved in the supply of the arts, as has been believed in the past by autocrats who wished to influence the thinking of their subjects, or by those who wished to influence the education of their fellow-citizens. In economic terms, it is a strong variant of the belief that the arts represent a 'merit good'.

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<sup>26</sup> See Iain Pears, *The Discovery of Painting*, Yale University Press, 1988.



The activities of the unsubsidised sector of the performing arts demonstrate that subsidies are not required to ensure the supply of high-quality productions. Such an outcome is not surprising: after all, the arts were provided without subsidy until the 1940s, at times when personal incomes were a fraction of their present level.

- *Making the Arts Accessible*: Subsidies are needed to make the arts accessible to more people, by reducing their cost and increasing their availability.

Subsidies seem, in practice, to have more effect on costs than on prices: as pointed out in the Introduction (above, p.14), subsidies to German theatres rose steadily from the 1900s to the 1980s, and they also rose in Britain between the 1950s and the 1980s. In London, ticket prices at subsidised and unsubsidised theatres do not differ significantly; the most obvious difference between unsubsidised and subsidised theatres is that the latter provide a greater choice by operating on the repertory system, so that each production has a shorter run, and carry more permanent staff on their payroll. If reducing price was a prime objective of the subsidy, one might expect the subsidised companies to adopt different policies and to charge less.

Surveys conducted for the Arts Council suggest that charges are not a major influence on the audience for the arts. A report<sup>27</sup> prepared in 1990 found that price came 10th out of 20 factors which influenced decisions about attending arts events, and that this ranking was the same for people of all income levels. An opinion survey in 1991<sup>28</sup> found that cost was mentioned spontaneously by only 4 per cent of respondents as a factor preventing them from attending arts events, although 40 per cent said price had inhibited them from attending at least one event. These results are consistent with the evidence that the price-elasticity of demand for theatres and especially museums is low.

The opinion survey also found that only a third of respondents felt that there should be more arts events in their area, while half

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<sup>27</sup> Millward Brown Associates, *Pricing in the Arts, 1990*.

<sup>28</sup> Arts Council (1993), *op. cit.*, p.22.

thought that there were enough. This degree of satisfaction is surprising, because there seems to have been a reduction in the number of provincial theatres since the 1950s. The Arts Council, as stated in Section 2 above (p.19), has concentrated its funding in London, so that the availability of government support has had less effect on the availability of the arts than it might have done.

- *Fostering Innovation in the Arts*: Subsidy fosters innovation in the arts by freeing artists from the constraint of popular demand.

The Arts Council argues that the more original the artistic work, the more likely it is to be creator- rather than audience-led, so subsidy should be given to the producer rather than to the audience. It also likens the subsidised sector of the arts to the research and development division of an industrial company, which produces new products from which the commercial sector can profit. Some artists have argued that they need creative autonomy in which to work, and that they therefore need to ignore public taste.

This view seems difficult to reconcile with history. Innovative musicians in the past, such as Mozart and Beethoven, enjoyed popular acclaim when they were composing. Innovative British playwrights, from Shakespeare to Shaw, had large audiences for their plays and achieved financial success. It is inherently implausible that the modern - and better-educated - audience is less able to appreciate novel works than audiences in the past. Some distinguished contemporary artists do indeed believe that they should work for or with the audience; Peter Brook, the theatre director, has said that he believes the best theatre must be developed in partnership with audiences.<sup>29</sup> If artists want to produce work that the public does not wish to see or to hear, it is not clear why the taxpayer should finance their activity.

#### *Implausibility of the Non-Economic Arguments*

None of these arguments provides a very plausible case for subsidising the arts. They all seem to be based on the belief that artistic merit and popular appeal are incompatible, although many if

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<sup>29</sup> Quoted in Sonia Gold, 'Consumer Sovereignty and the Performing Arts', in J.L. Shanahan *et al.* (eds.), *Markets for the Arts*, ACE, University of Akron, 1983.

not most of the artists now considered to have been innovators were popular in their own time. The market supported them; it could support their equivalents today.

## 5. The Arts and the Lottery

A NATIONAL LOTTERY is being introduced in the UK in 1995, and the arts will be one of the beneficiaries from the government tax on its turnover. It is estimated that the arts could receive £70 million to £90 million a year, but the amount is essentially unpredictable, because it depends on the turnover of the lottery. Any amount that the arts receive from the lottery will be treated as an addition to their budget, and will not be deducted from 'normal' public expenditure on the arts.

### *Depending on Chance*

This plan has several strange features. Apart from the peculiarity of giving government encouragement to an addiction that can lead individuals to financial disaster, it implies that expenditure on the arts will literally depend on chance. There will be no nonsense about rational analysis of the benefits which could be produced by additional expenditure, or comparisons with the returns that could be obtained from expenditure on other forms of public spending: the arts will get whatever the gamblers provide.

### *Regressive Effects of a Lottery Tax*

Expenditure on the arts financed by a tax on a lottery is likely to be more regressive in its effect than similar expenditure financed out of general taxation, unless a lottery attracts richer gamblers than the present means of gambling. Market research implies that it will not; it suggests that the lottery will be primarily financed by those in the lower socio-economic groups (C2, D, and E). These groups have half the average participation in the arts, while the higher groups (A, B, and C1) have twice the average participation in the arts.<sup>30</sup> The same picture is produced by data on tax payments. Those who pay the

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<sup>30</sup> Peter Moore, 'Who Wants to be a Millionaire?', *New Scientist*, 28 August 1993.

present betting taxes have lower incomes than the generality of taxpayers: in 1991, the poorer 50 per cent of families paid 25 per cent of all taxes but 45 per cent of the betting taxes.<sup>31</sup>

The Government's plans for the lottery would therefore tax the relatively poor to pay for activities in which richer people indulge. It is to be hoped that funds raised by the lottery are given to charities which benefit the lower-income groups who will finance the lottery.

## 6. Conclusions

### *The Case for Subsidies Is Not Sustainable*

THERE SEEMS TO BE no plausible justification for the present level of government expenditure on the arts. The evidence suggests there are some arguments which may justify small amounts of assistance, linked to informing the young about the arts and to preserving art for future generations. Local subsidies may also be justifiable, if financed by local people for anticipated benefits to the local economy. But the benefits from subsidies to the arts are difficult to quantify and have not been quantified; the case for substantial and widespread subsidies from the national taxpayer does not seem sustainable.

### *The Arts Flourish Without Aid*

The greatest weakness of the case for subsidising the arts lies in the evidence that they can flourish without such aid. They survived in this country for centuries before the Arts Council was established, primarily on the income that their practitioners could earn from the public, at times when personal incomes were a fraction of present levels; most theatrical activity in the UK is still unsubsidised. Indeed, the British theatre may well have gained from the absence of the royal patrons who used to rule Continental countries, and dominated the development of drama through their court theatres.

A further weakness of the case for subsidies to the arts is their regressive effect on income distribution. The rich benefit more from

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<sup>31</sup> The Effects of Taxes and Benefits upon Household Income, 1991', *Economic Trends*, May 1993.

these subsidies than the poor: this factor strengthens the political support for such subsidies, but weakens the social case. Those who finance the subsidies through taxes are likely to be different from and poorer than those who benefit from the subsidies.

#### *Tax Relief on Charitable Donations...and the Lottery*

The arguments for government support might be considered to justify the subsidy that is available through the tax relief on charitable donations. This assistance might therefore be retained: assistance in this form increases the number of potential patrons, and removes the direct influence of the state. Donors may be discouraged from giving to subsidised organisations, so that income from this source may not increase until subsidies decrease. The assistance to the arts promised from the national lottery would be wholly unjustifiable; the revenue from this source would be better given to charities.

#### *Awareness of the Arts Through Education*

The case for government assistance to the arts is strongest in education. If pupils are made aware of the arts when at school, they can have the opportunity to enjoy the arts later in their lives; there may also be a case for subsidising students to attend artistic events and museums by providing vouchers which would reduce the cost of attendance.

There is also a case for some assistance to museums and galleries to finance the preservation of examples of the artistic heritage for the benefit of future generations, and to assist the spread of knowledge about the arts. Any direct assistance that they receive should be contractually related to their educational and conservation functions. It is likely to be considerably smaller than the 75-80 per cent of total costs that they now receive: so large a subsidy is especially difficult to justify for the big London museums, where more than half the visitors are foreigners.<sup>32</sup> Future levels of subsidy should be determined by government estimates of the value and cost of the educational and conservation services the museums are asked to provide; but there is little reason for British taxpayers to subsidise

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<sup>32</sup> National Audit Office (1993), *op. cit.*

facilities for the benefit of foreign tourists. If the museums of London are believed to attract tourists to London, there might be a case for the London boroughs to support the museums out of locally-raised taxes; but the national taxpayer should not be involved.

#### *Spreading Assistance to Museums More Evenly Throughout the Country*

There also seems a strong case for the government to spread its assistance to museums more evenly over the country, dispersing the national collection of artworks so that more of the population has an opportunity to see them. It is absurd that London museums should possess far more works than they can display; a condition of government grants should be that surplus works are loaned to provincial museums.

#### *Reducing the Expanding Bureaucracy...*

British experience shows how the bureaucracy that administers a subsidy will expand as the recipients do. There is now both a Department of National Heritage and an Arts Council to oversee government expenditure on the arts, with responsibilities that seem to overlap and staffs and activities the size of which would surely have startled J.M. Keynes, the founder of the Arts Council. He assured the public in 1945, before the Council was founded in 1946, that 'We have but little money to spill, and it will be you yourselves who will by your patronage decide in the long run what you get'.<sup>33</sup>

#### *... by Abolishing the Department of National Heritage and the Arts Council*

Any future assistance to the arts should be administered by the Department for Education. It is best placed to compare, for example, the relative value of expenditure to assist students to attend theatrical performances or museums with expenditure within schools. The Department of National Heritage would then have no useful function, and could be dismantled. Its staff could return to the departments whence they came. By the same token, the purpose of the Arts

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<sup>33</sup> 'The Arts Council: Its Policy and Hopes', in *The Collected Writings of J.M. Keynes*, Vol. XXVIII, *op. cit.*, p.369.

Council would also have disappeared: it could also be run down along with the system of subsidies it administers.

#### *Local Authority Support for the Arts*

Local authorities could continue to support the arts with funds raised by local taxes, if the local voters wish to have a subsidised theatre or orchestra for their own benefit or as a means of attracting visitors to their region. Decisions about such local subsidies are more likely to be an issue in local elections than decisions about national subsidies could be in a general election; they could even be the subject of referenda, as they are in Switzerland. Local subsidies are also more likely than national subsidies to benefit the taxpayers who finance them.

#### *Vouchers for Students*

If any assistance is given to students, it should take the form of vouchers which entitle them to discounts off the ticket prices for theatres, concerts or museum entrance. The disadvantage of vouchers for artistic events is that they need not be used by their recipients; the risk that they may not be used by the intended beneficiary can be reduced if they are valid for a wide range of activities, and if they are non-tradeable.

#### *Disadvantages of Producer Subsidies*

Providing assistance in the form of vouchers has disadvantages, but they seem smaller than the disadvantages of providing assistance through subsidies to producers. Organisations which receive a subsidy come to regard it as their right, and are motivated to increase their costs and so revenue, rather than to improve internal efficiency; the receipt of subsidy gives suppliers independence of public demands, which can develop into contempt for public tastes; the existence of subsidised arts organisations hampers the birth and growth of new organisations; and the power to dispense subsidies puts influence over artistic success into the hands of government servants.

#### *Subsidies Reduce Choice and Inhibit Innovative Ideas*

Subsidies are also liable to reduce choice and the development of new ideas. As UK experience shows, they tend to be concentrated on

a relatively small number of recipients, which obtain a high percentage of their income from subsidy. Anyone who wishes to establish a new company is unlikely to receive any significant amount of subsidy, and thus faces competition from incumbents with a large financial advantage: they can provide more expensive productions or charge lower prices, so that the newcomer will have great difficulty in obtaining an audience.

#### *Concentrating Patronage Implies Standardisation*

The influence of the funding bodies is also liable to reduce the number of ideas that may be developed. However careful the officials of these bodies may be to be impartial and to seek the opinions of peer groups, the concentration of patronage in the hands of one government-funded body will inevitably impose some degree of standardisation on the character of the subsidised works. The result is liable to be success for the accepted styles, and obstacles for the novel. Although the Arts Council argues that subsidy encourages experiment, it only does so in the directions thought desirable by its staff, who are bound to be influenced by current fashions among their peer group. The provision of subsidy may therefore constrain the development of the arts, compared with the situation which would exist if they were dependent on the paying public for support.

#### *Disengaging Government from the Arts*

An arts policy that is appropriate for a free and wealthy country like the United Kingdom would leave decisions on what art should develop to its people; but would ensure that its people are educated to know about the arts. It would remember, as Clive Bell maintained, that 'The one good thing that society can do for the artist is to leave him alone'.<sup>34</sup> It would therefore eschew bureaucracies which exist to select the artists who should be encouraged. It would also be aware of technical change, which has brought art into the living room and is increasing the choice and quality of the works that can be performed

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<sup>34</sup> Clive Bell, *Art* (London: Chatto, 1915), quoted in L. Robbins, *Politics and Economics*, London: Macmillan, 1963, p.54.

in the home. Above all, it would recognise the merits of disengaging government from the affairs of the arts.

Such a policy towards the arts is a long way from current policies. The problem with any unjustifiable spending programme is always how to stop it; this problem is especially severe when the spending programme subsidises people who are skilled in the arts of lobbying. The strength of the campaign against the Arts Council's attempts to reduce expenditure by £5 million is a foretaste of the opposition that could be expected to any attempt to disband the present subsidy system.

#### *Dismantling Subsidies: a Ten-Year Process*

This dismantling would have to be spread over a long period, to allow the subsidised companies to adjust: they would have to reduce their costs and probably increase their prices – if competition from the unsubsidised sector permitted them to do so. They would also want to increase their income from donations, which are unlikely to grow until their subsidies have declined. The museums would also have to accelerate their change to more commercial policies, and probably adopt universal charging policies. The process might well extend over 10 years, and would best be done by setting a steadily declining level of subsidy for each institution over this period. Its management would then be able to plan for the transition to a more commercial existence.

#### *Firm Government Action Required*

A government that wished to adopt the proposed policy would have to be strong willed. It is therefore unlikely that the present Government will be attracted to it. If it is not prepared to take such strong 'steps, it should at least proceed to reduce the level of aid given to the performing arts and to the museums and galleries. The lower the level of subsidy becomes, the smaller will be the harmful effects of the subsidies. The Government should also seek to reduce the scale of the present administrative superstructure for the arts. If it does not abolish both the Department of National Heritage and the Arts Council, it should, at the least, abolish the Department.

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