



Arts Funding

A New Approach

By David Rawcliffe

“Art is the most intense mode of individualism that the world has known.” Oscar Wilde

Government support for the arts is currently provided as a subsidy to producers. This system suffers from four major problems: it relies on an expensive bureaucracy; it distributes subsidies unequally between regions and income groups; it distorts producers’ incentives through corruption, politicisation and arbitrary criteria; and it reduces competition, innovation and efficiency. This paper proposes a new system for arts funding: consumer-side subsidies delivered as vouchers to all citizens, which would alleviate the four problems outlined above, and better fulfil the central objectives of art funding.

Arts funding today

Organisational structure

Since 1994, arts policy in the United Kingdom has been devolved to the national governments, each of which delegates administration of arts funding to an arts council, a non-departmental public body:

Country	Arts Council	Parent Organisation
England	Arts Council England	Department for Culture, Media and Sport (DCMS)
Wales	Arts Council of Wales	Welsh Assembly Government
Scotland	Scottish Arts Council (to become Creative Scotland in 2010)	Scottish Government
Northern Ireland	Arts Council of Northern Ireland	Department of Culture, Arts and Leisure (NI)

Each is governed by a national board, appointed by and accountable to the government, and run by an executive team, headed a chief executive. Arts Council England

(ACE) further delegates authority (including the vast majority of funding decisions) to nine regional boards.

Although the general arguments in this paper apply to all the national arts councils, the focus is for simplicity’s sake on ACE, which allocates 80% of the total funding.

Expenditure

The scale of government spending on the arts is vast. In the 2007/08 financial year, the four arts councils together received £521m from national governments¹, and £168m² from the National Lottery. The arts also receive funding from local government, and from the overlap with funds directed at museums, galleries, heritage, tourism, and broadcasting.

ACE’s yearly expenditure is distributed as follows³:

- 58% on ‘regularly funded organisations’ (RFOs), to support their ongoing activities, ranging from £20,000 to £27,000,000.
- 12% on ‘grants for the arts’ (GFTA), made to individuals or organisations for one-off activities, ranging from £1,000 to £200,000.
- 7% on managed funds, used for various reports, initiatives, partnerships, awards and subsidies.
- 6% on Creative Partnerships, an education programme for children and young people.
- 6% on capital and stabilization projects, primarily to fund new artistic facilities.
- 2% on other lottery programs.
- 9% on administrative costs.

At least 76% is therefore distributed as direct subsidies to producers of the arts.

How subsidies are determined

The criteria by which subsidies are allocated are extremely opaque. RFOs, for example, secure funding by drawing up a funding agreement with the Arts Council specifying deliverables in the areas of ‘excellence and innovation’, ‘reach’, ‘engagement’ and ‘diversity’. These terms are left deliberately undefined, with Arts Council guidance stating that:

*We are not providing specific examples of deliverables or more detailed definitions of either outcome. We are interested in regularly funded organisations defining these areas for themselves and how they judge success.*⁴

There is no indication as to how the size of the subsidy is calculated for different institutions.

The purpose of the Arts Councils

ACE's stated aim is to:

Put the arts at the heart of national life and people at the heart of the arts.

In more concrete terminology, its purpose, along with the other arts councils, is to serve as the bureaucratic apparatus distributing hundreds of millions of pounds of government subsidy to the arts.

Why subsidize?

Before analysing the effectiveness of the current system of subsidy, it is necessary to identify the purpose of art subsidy. Advocates of arts subsidies typically advance two arguments in their favour.

Positive externalities

The market for art is subject to market failure because of various positive externalities, beneficial effects of art production that are not factored into its price because they do not accrue to the purchaser. Five such externalities are particularly significant:

- A successful arts industry generates *national pride* enjoyed by everyone.
- The arts industry leaves an important *legacy* for the next generation.
- Artistic *innovation* benefits other artists. Unlike in many other fields, it is not generally protected by intellectual property laws.

- Arts provision contributes to *education*, which provides wider civil benefits.
- A flourishing arts sector encourages *tourism* from abroad, and so benefits the wider economy.

Equity

At market prices, those on low incomes could not afford to attend many art events. Subsidies are needed so that the poor are not excluded from enjoyment of the arts. Redistributing income is not a solution because art is a merit good, “desirable to provide in quantities greater than consumers would wish to purchase at market prices.”⁵ This argument is often accompanied by dubious claims that ‘art could not survive without subsidy’, that art is ‘the mark of true civilization’ or that ‘the market will only sustain the lowest forms of art’.

Responses

Both arguments are vulnerable to damaging rebuttals, nowhere made better than in David Sawers’ IEA publication *Should the Taxpayer Support the Arts?* Empirical evidence brings into question the significance of the positive externalities, while the normative arguments concerned with equity rest on questionable premises: that it’s right to fund people’s leisure by taxation, that patronage alone can not adequately support the arts and that art has worth beyond the utility that people derive from it.

Widespread support for arts subsidies

Nevertheless, arts subsidies enjoy considerable support from the political establishment and the public. James Purnell, the former Secretary of State for Culture, Media and Sport, said earlier this year that, “when you are made a minister in this department ... basically your job is to get the money in”⁶, while Jeremy Hunt, his shadow, has said that, “philanthropic giving should not be a replacement for state support.”⁷ A survey commissioned by the Scottish Arts Council found that 82% of the Scottish public believe that central government has a responsibility to support arts and culture⁸.

Summary

The arguments for subsidy are weak, and in the mind of the author government should end all public support for the arts. However, subsidies enjoy widespread and entrenched support in the bureaucracy, in the media, in the government, in the opposition, and among the public. This paper therefore focuses not on the abolition of subsidy, but on the efficiency of its delivery.

The failure of producer-side subsidy

The current system of centrally-administered producer-side subsidies is inevitably plagued by four problems.

Bureaucracy

The current system relies on an enormous central bureaucracy at great expense to the taxpayer. The New Culture Forum’s recent publication, *Managed to Death*, provides a detailed account of ACE wastage over the last decade, but the headline figure tells the story adequately. Last year ACE alone spent £49m on administration: almost 10p for every £1 given to the arts. Although DCMS has now imposed a welcome requirement of a 15% reduction in administrative overheads by 2010, this will not eliminate the problem: central allocation of arts funding is inevitably a costly process. ACE’s figures of course omit another

extremely significant cost: the time and energy spent by artists and art institutions applying for grants.

Unequal distribution

Central allocation of arts subsidies has generated an unequal distribution between regions and income strata. Geographically the figures are most striking (see Table 1).

London receives an arts subsidy of more than £24 / head of population, while the South East and the East receive less than £2. Consumers travelling between regions to attend arts events may mitigate these inequalities to some extent, but not enough to explain a twelve-fold difference.

The products of arts council subsidies are disproportionately enjoyed by the better off (see table 2) ⁹.

Table 1: Arts Council England Grants Per Head by Regional Office

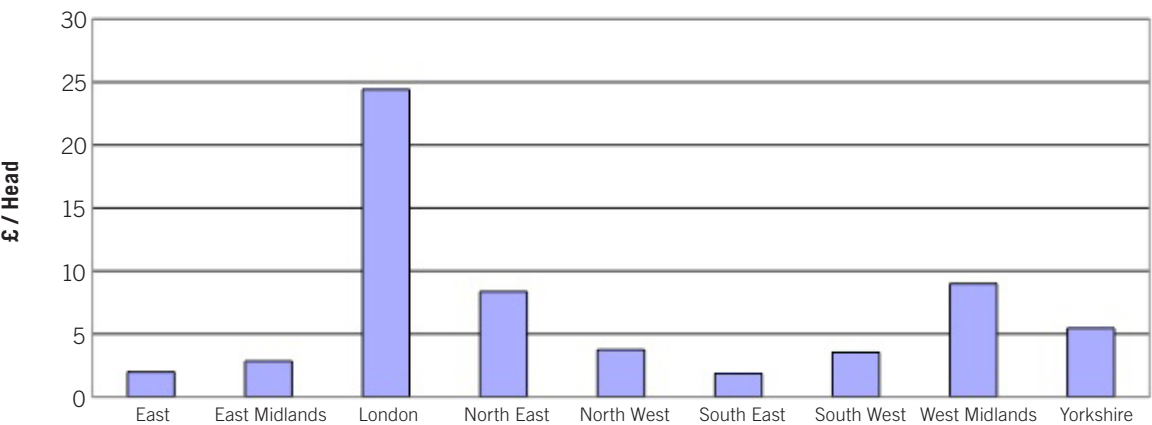
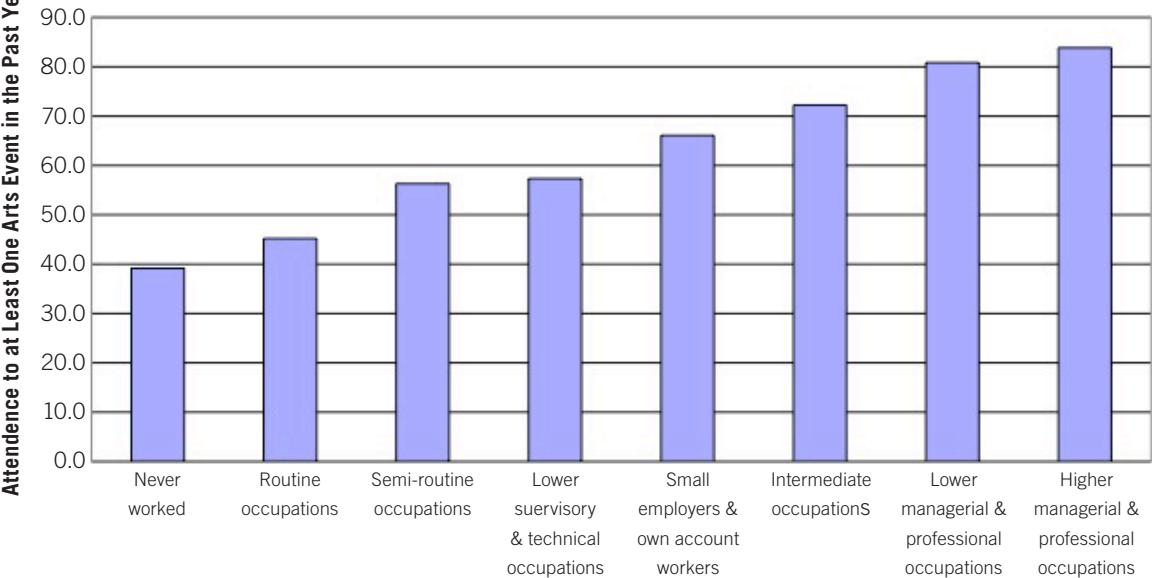


Table 2: Arts Attendance by Employment Type



Fewer than 40% of those in the lowest employment bracket attended an arts event in the last year, compared with 84% of those in the highest bracket. These figures rely on a broad definition of ‘arts events’, which DCMS has stretched to include:

- “Street arts (art in everyday surroundings like parks, streets or shopping centre)”.
- “Event connected with books or writing”.
- “Carnival”.
- “Live music performance” (of any sort).¹⁰

It is likely that a narrower definition of ‘arts events’, omitting more popular entertainment that typically receives no subsidy, would reveal an even less equal distribution.

The net redistributive effect of taxation and subsidy for the arts is of course more complicated: it depends also on how much tax each group pays. Nevertheless, it is clear that the benefits of arts subsidies accrue disproportionately to the well-off under the present system: they are not an effective means of broadening access to the arts.

Distorted incentives

Producer-side subsidy of the arts radically alters the incentives faced by producers. Rather than striving to please the consumer or patron, artists serve the bureaucracy that allocates their funding. This carries three profound risks:

When the power to allocate resources is transferred from free individuals to the state, there exists always a risk of corruption. Bureaucrats may accidentally or intentionally be subject to conflicts of interest that improperly determine the allocation of funding.

Central control of artistic funding leads to politicisation of the arts, either active or passive. In the former case, the government intentionally determines the art produced in order to achieve political ends, or avoid political embarrassment. In the latter case, artists avoid controversial, challenging or risky artwork for fear of upsetting their political backers. It is often argued that state subsidy of the art frees it from external control: in reality it simply moves external control from a diverse variety of consumers and patrons to a single, politically-motivated centre. The politicisation of art is not only worrying for its detrimental effects on excellence, innovation and diversity, but the potential loss of the free expression central to our liberty and the healthy operation of civil society.

Any central bureaucracy with scarce funds must establish

certain criteria by which these funds are allocated. ACE is not clear about what these criteria are, but among them must necessarily be some understanding of what it is for something to be ‘art’, and more particularly what constitutes ‘excellence’ in the arts. These are notoriously difficult terms to define, and the bureaucracy is in reality faced with two options: to establish a broad definition, funding projects that many would consider undeserving, or working from narrow criteria, excluding projects that many would consider worthwhile. There is no middle ground on which everyone can agree – there must always be an element of *arbitrariness* and a *dilution* of funding.

Policy Exchange’s 2006 publication *Culture Vultures* provides an extremely thorough account of the extent to which the incentives faced by artists have been distorted for political ends by the New Labour government, and the vast waste of money, collapse in quality and loss of freedom that have been the result.

Reduced competition

Subsidising the arts, like any other sector of the economy, inevitably suppresses competition. No new producer can hope to compete against incumbents enjoying subsidies at the level the arts councils provide. Among the top ten recipients¹¹ of ACE funding (the big national companies who together take 40% of regular funding), subsidy contributes an average 43% of income. This effectively closes the market to new entrants, who cannot receive this level of funding until they are well-established, with an artistic reputation and political connections. ACE claims to encourage innovation, diversity, and efficiency, both in its publications and in the funding agreements it negotiates with arts producers, but its system of subsidy destroys the competition that incentivizes producers to innovate. The imposition of targets and the monitoring of producers cannot encourage them to improve as much as the financial imperatives of a competitive market.

A proposal: arts vouchers

A voucher system

The four problems with the current system of subsidy outlined above are inevitable consequences of centrally-controlled producer-side system of subsidy. These would all be alleviated by a consumer-side system of subsidy in the form of a voucher system, and the purposes of subsidy would be fulfilled more efficiently.

Each citizen would receive a yearly allocation of arts subsidy, of approximately £11 if current funding levels were

maintained, which they could spend on arts event(s) of their choice. The subsidy could take the form of physical vouchers distributed to households, electronic cards, or centrally-held records accessible by arts producers' ticket offices. Vouchers (in whichever form) would be non-transferable, and exchangeable for cash by arts producers.

Problems solved

After initial set-up, the administrative costs would be limited to the yearly distribution of vouchers, maintenance of a list of approved arts producers, and redemption of vouchers. This would likely total less than the complex decision-making processes required by the current system.

Subsidy would be more fairly distributed. Consumers would receive the same amount per head, regardless of their location and income. If the government decided that a different distribution were more equitable (e.g. higher subsidies for the poor, or those living in rural areas) then this could easily be achieved under a voucher scheme. What's more, arts subsidies would be enjoyed equally by all, rather than disproportionately subsidising the particular hobbies of those who regularly attend the arts.

By taking funding decisions from the hands of a bureaucracy and placing them in the hands of consumers, a voucher scheme would reduce the potential for corruption, and eliminate the politicisation of the arts. Other than specifying the broad categories for the arts (e.g. theatre, classical music, painting, etc.), the government would play no role in determining who was deserving of funding: the definition of good art would be that which people wanted to see, or that which private patrons wanted to fund. Art would once more respond to the demand of the market: artists would produce works that people enjoy, not that pleases the bureaucrats.

Any new producer could establish itself and instantly compete for customers on a level playing field with other arts producers. Diversity and competition would flourish,

and producers would have the incentive to innovate, to respond to the customers' demands and to bring about efficiency savings. There would be winners and losers, and some would not enjoy finding themselves in a marketplace, but the benefits to taxpayers and arts customers would be considerable.

A voucher system would focus subsidies on producing the sorts of arts with the greatest positive externalities. Those artists selected by a consumer-driven system are likely also those that would generate the most national pride, that would be enjoyed the most by the next generation, and that would attract the most tourists. As already argued, consumer-side subsidies encourage innovation.

Conclusion

The arts council system of government support for the arts is an outdated, centrally-controlled, bureaucratic nightmare, that is expensive, unfair, and ineffective. The objectives of arts subsidy would be fulfilled far more efficiently by a post-bureaucratic solution, that empowered citizens, and compelled the arts establishment to meet their needs. A voucher system is exactly that.¹³

End Notes

- 1 These and following statistics are taken from the Arts Councils' Annual Reports
- 2 Northern Ireland figure unavailable, 2006/07 figure used
- 3 2008/09
- 4 Guidance for Arts Council England lead officers on funding agreement 2009/10 – 2010/11
- 5 Musgrave (1973)
- 6 <http://www.thestage.co.uk/news/newsstory.php/24375/plan-to-create-up-to-10-000-entry-level-jobs>
- 7 <http://www.localconservatives.org/newsshow.aspx?ref=438>
- 8 <http://www.scottisharts.org.uk/1/latestnews/1001671.aspx>
- 9 DCMS Taking Part Survey
- 10 Source: DCMS Technical note – PSA21: Indicator 6
- 11 National Theatre, English National Opera, Royal Shakespeare Company, Welsh National Opera, Opera North, Birmingham Royal Ballet, English National Ballet, North Music