Are less government support and more competition a threat to diversity in the supply of arts?

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Introduction

Cecil Graham: “What is a cynic?”
Lord Darlington: “A man who knows the price of everything and the value of nothing.”
Cecil Graham: “And a sentimentalist, my dear Darlington, is a man who sees an absurd value in everything, and doesn’t know the market price of any single thing.”
(Oscar Wilde, 1892, Lady Windermere's Fan, A Play About a Good Woman)

Summary

A high per capita GDP is of crucial importance for the arts. The higher the GDP, the higher the demand for arts and cultural products. Similarly, the higher the GDP, the higher the government revenues and the greater the scope for funding. Therefore, it is equally important to look at what brings about a higher per capita GDP. We test the following hypothesis: the more competitive the economy, the higher GDP. It appears that competition indeed is good for the arts. By stimulating the competitiveness of the Dutch economy as a whole, the NMa is simultaneously stimulating the arts. When talking about diversity in the supply of arts, competition is – however – not the most important factor. Other market failures play a more significant role in reducing artistic diversity. Still, we conclude that less government support is a threat to diversity in the supply of arts, only insofar as this support is meant to correct market failures.

1 The importance of being wealthy

What do the Renaissance and the Golden Age have in common? They were both times of rapid economic growth and artistic and cultural output. Back then, it was not the government who subsidized artists. On the contrary, painters, writers and other artists were fully maintained by patrons, mostly wealthy aristocrats and merchants.

The Renaissance began in Florence, where the Medici, a wealthy banking family, played a central role in patronizing and stimulating the arts. Lorenzo de' Medici in particular (1449–1492) – also known as Lorenzo il Magnifico – was responsible for an enormous amount of arts patronage, encouraging his countryman to commission works from Florence's artists. He also commissioned a great deal of art himself and from 1490 to 1492 the young Michelangelo was under his protection.

Similarly, in the Golden Age, money and art also went hand in hand. Members of the 'schutterij' (city guards) played an important role in fostering the arts.[1] They were proud of this and paid a fair sum to see their status preserved for posterity by means of a group portrait. Rembrandt's Night Watch ('Nachtwacht') is probably the most famous example of these portraits and was commissioned by the members of the 'Kloveniers schutterij'. Rembrandt was paid 1,600 guilders for the painting, which was a considerable sum of money at the time. Rich Dutch merchants and other patricians were also the major force behind architectural developments. They commissioned new houses with ornamented façades to project their new status.

[1] The 'schutterijen' arose in the 16th century, when volunteers formed vigilante groups that in times of war or insurrection took action to ensure the safety of the republic. Later they lost their function, though it remained decorum. The 'schutterijen' also served as honour guard companies, such as the festive entry in 1638 of Maria de' Medici – who was descended from Lorenzo – in Amsterdam. Her visit was considered to be the international recognition of the Republic of the United Netherlands.

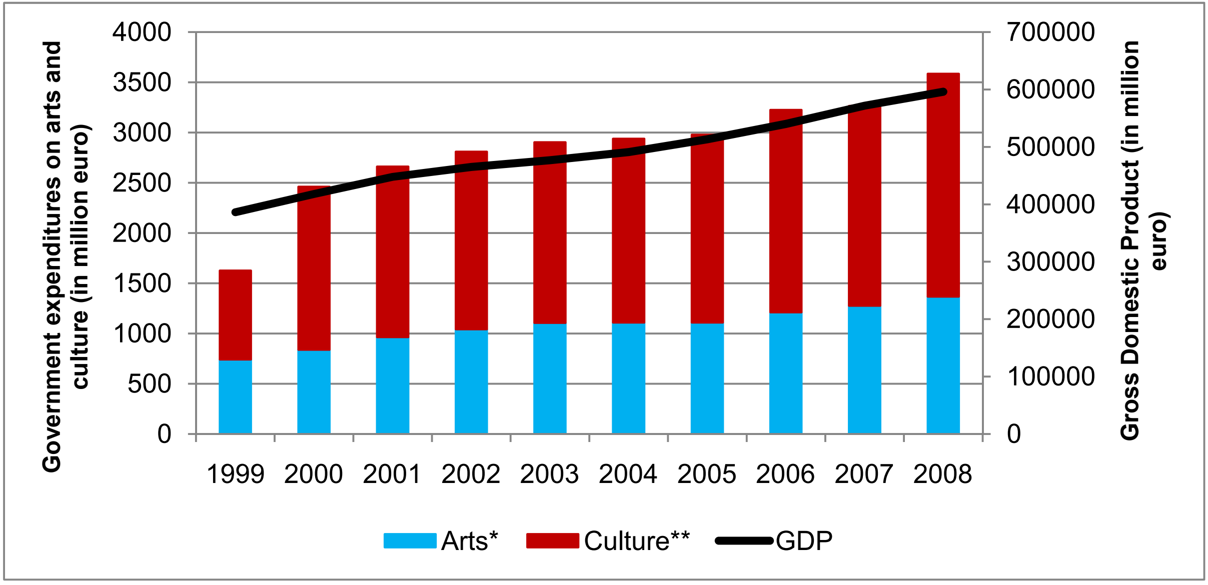
Figure 1: The role of the government in arts increases in time

David (1501-1504) and the 'Nachtwacht' (1639-1642): both created without any government support; Eiffel Tower (1887-1889) paid for by the French government

After the Golden Age, governments took on an increasingly important role in arts funding. But if the government is the main sponsor of arts, then a high GDP is of essential importance to the arts. The higher the GDP, the greater the financial scope for granting subsidies to the arts. The years between the end of the 19th century until the First World War were characterized by unprecedented economic growth. This period is called La Belle Époque and is known for the incomparable speed and intensity of the development of arts. Cinema and photography rose to prominence, as well as new artistic movements such as Impressionism and Art Nouveau. The government played an active role in encouraging this. For instance, in 1889 the World Exposition was held in Paris with the Eiffel Tower built as a symbol of technical and architectonic progress.

After World War II, the public sector exerted an increasing influence over consumption and investment expenditure in Western economies (Peacock & Scott, 2000). This law of increasing state activity is known as Wagner's law after the German political economist Adolph Wagner (1835–1917) (not to be confused with Richard Wagner, who lived slightly earlier (1813-1883)). Frey (2000) demonstrates that this law applies to arts. Nowadays, the Dutch government spends over €3.5 billion on arts and culture (cf. table 1). The amount spent by private individuals is unknown. Statistics Netherlands (CBS) only details household expenditure on recreational and cultural services, and these amounted to €9.7 billion in 2008. Since this number includes a broad range of activities – from visits to stadiums, amusement parks, fairs, circuses, zoos, cinemas, to 'high' cultural activities (visits to theatres, museums etc.) – it seems safe to conclude that the government's funding role is very important.

Table 1: Net government expenditure on arts and culture neatly matches GDP growth



Source: CBS Statline; net expenditure equals gross expenditure minus income.

* Net government spending on arts and arts promotion; professional performing arts, amateur arts, art accommodations, creative art, musical and cultural education, and other arts.

** Net government spending on culture, management and dissemination; museums, monuments, libraries, archives and media.

This introductory section shows that a high GDP is important for the arts. Those who want to encourage the arts must also ensure a high GDP.[2] Discussing the arts in terms of money may appear cynical (cf. Lord Darlington's proposition in Oscar Wilde's play quoted at the top of this paper), but assuming that art is beyond financial value is simply sentimental (cf. Cecil Graham in the same play).

[2] In dictatorships, a high GDP is not required to obtain a thriving arts environment. In such a regime, the dictator is able to enforce anything he wants (be it art or war). As a dictatorship not worth pursuing, that option is disregarded here.

2 The importance of having a competitive economy

The question is, then, how to achieve a higher GDP. This section will seek to answer this question using data from the World Economic Forum. Their annual competitiveness report examines the factors that enable national economies to achieve sustained economic growth and long-term prosperity. Competitiveness – defined as the set of institutions, policies and factors that determine the level of productivity in a country – would appear to be key. Which obstacles stand in the way of improved competitiveness?

The Global Competitiveness Index (GCI) is a composite index and consists of 12 pillars[3], each of which is made up of several variables. For instance, 'goods market efficiency' includes 15 variables, including the effectiveness of anti-monopoly policy.[4] A total of 109 variables are included in the GCI, and GDP is not one of these. Below, we present a simple linear regression of GDP per capita on GCI. The data set includes 129 countries. The results reveal a significant and positive correlation between the two variables (cf. table 2 and figure 2). Although we did not use any sophisticated econometric techniques[5], our results do show quite a strong correlation.[6]

Table 2: A simple regression shows that GCI score correlates strongly with GDP per capita

GDP per capita in 2010	Coefficient	Standard error	t-value	95% confidence interval	
Global Competition Index 2010	23.26	1.66	14.04	19.98	26.54
Constant	- 82,82	7.06	- 11.74	- 96.79	- 68.86
					N=129; R^2= 0.6080; $R^2_{Adjusted}$ = 0.6049

We performed the regression again using only those pillars that describe market efficiency. This composite index is called the Efficiency Enhancer Score (EES), and is made up of data on higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, and market size.[7] The results are shown in table 3 and figure 3. These are quite similar to our earlier results. When we repeated the same two regressions using data from 2008, we obtained similar results. We therefore conclude that the relationship between competitiveness and GDP per capita is strong and robust.

[3] Institutions, Infrastructure, Macroeconomic environment, Health and primary education, Higher education and training, Goods market efficiency, Labour market efficiency, Financial market development, Technological readiness, Market size, Business sophistication and Innovation.
[4] In 2010, the Netherlands ranked second on this variable.
[5] For instance, we did not correct for the dependence of the 12 pillars underlying GCI. Not only are the pillars related to each other, they also tend to reinforce each other.
[6] Because we did not use advanced techniques, we are humble in interpreting the results and speak of a correlation rather than causality. However, the results are so robust that this correlation cannot be neglected.
[7] In 2010, the Netherlands ranked eighth on both GCI and EES.

Table 3: Similarly, EE score correlates strongly with GDP per capita

GDP per capita in 2010	Coefficient	Standard error	t-value	95% confidence interval	
Efficiency Enhancer Score 2010*	21.81	1.64	13.28	18.56	25.06
Constant	- 73,90	6.79	- 10.88	- 87.35	- 60.46
					N=129; R^2= 0.5813; $R^2_{Adjusted}$ = 0.5780

Figure 2: A high GCI score corresponds with a high GDP per capita

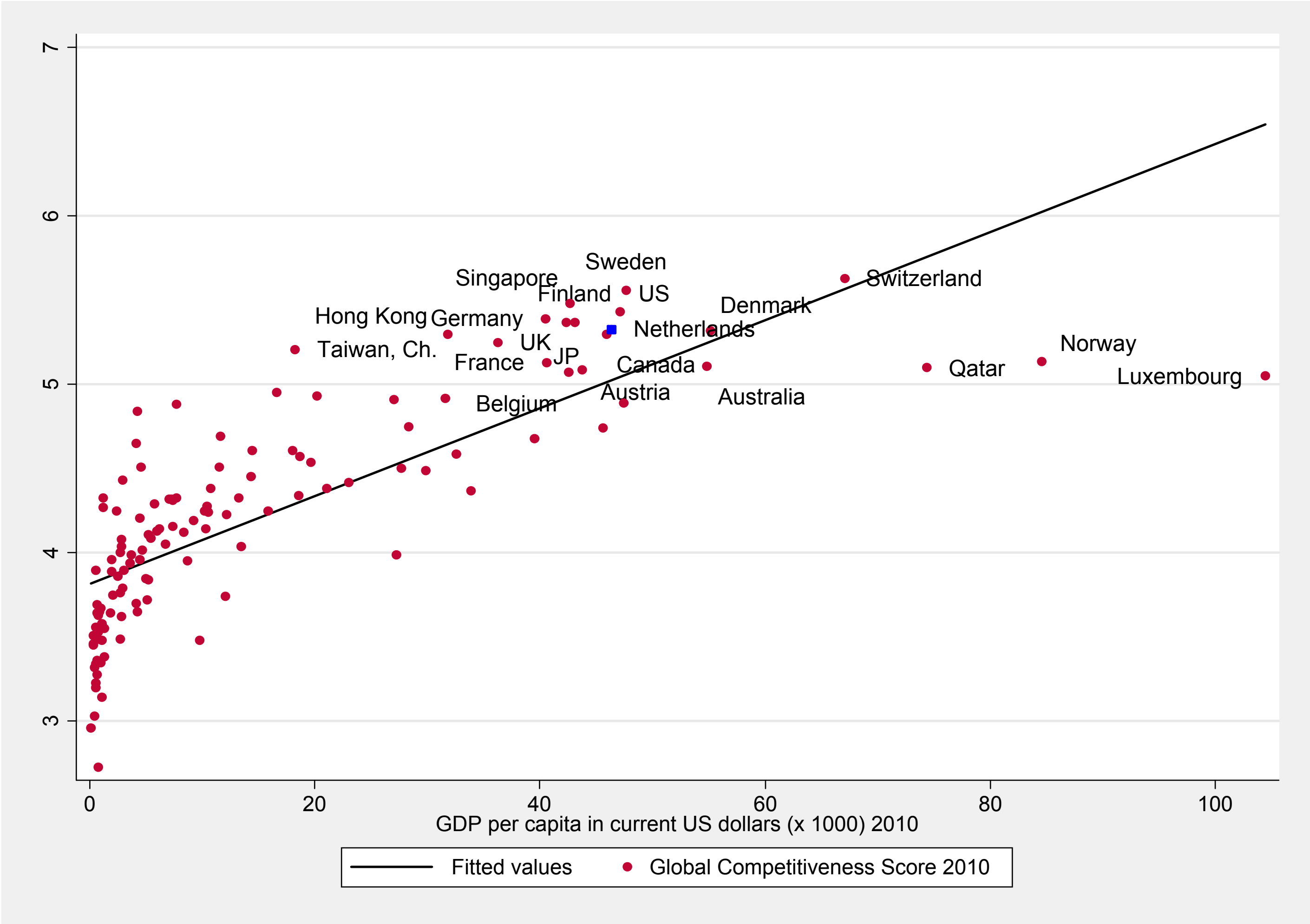
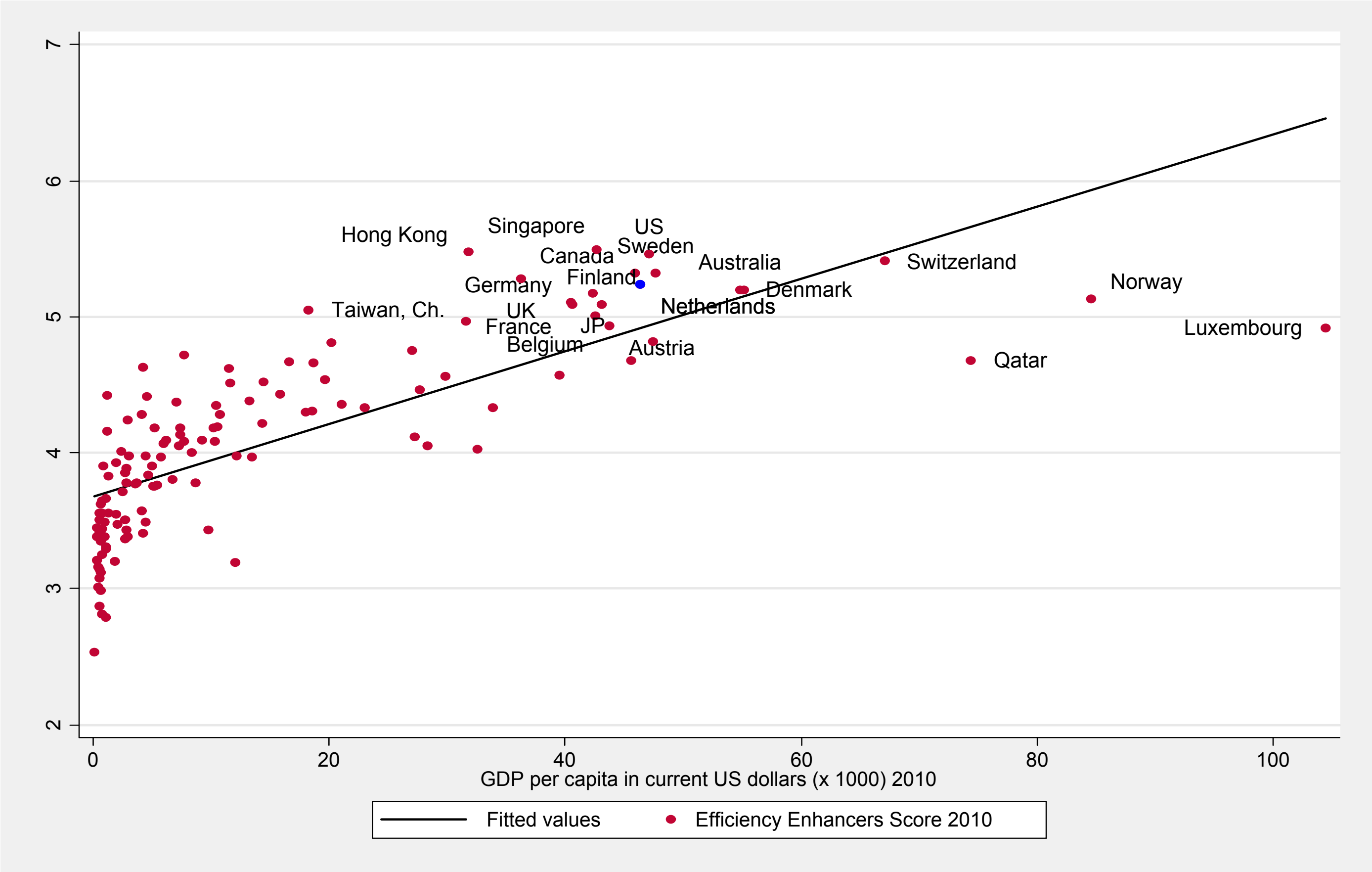


Figure 3: A high EES score corresponds with a high GDP per capita



3 Fierce competition in the arts

Having shown that a competitive economy is greatly important to the arts, we can now turn to the question of whether competition in the arts is good for diversity in the arts. We will first briefly address the subject of competition in the arts, both supply-side and demand-side competition.

Artists compete on the labour market (the supply side). Given the excess supply of artists, competition is fierce and intangible returns on artistic labour means that many artists accept lower wages than their qualifications might earn them on other types of markets.[8] As a result, the income distribution is skewed: a few 'superstars' earn a high proportion of the total income in the cultural sector (Rosen, 1981). The Dutch government intervenes to distribute incomes more equitably through special funds (e.g. the special Journalistic Projects Fund, the Literary Fund and the Dutch Literary Production and Translation Fund) or income subsidies (the Dutch Work and Income for Artists Act (WWIK) in visual arts sector).

There is demand-side competition between cultural activities, such as attending a museum, theatre, or cinema, or buying a book. In order to understand how these different activities compete, it is instructive to look further more closely at consumers' time and budget constraints.

The Netherlands Institute for Social Research (SCP) studies how consumers spend their free time. The SCP looks at the following pastime activities: reading printed media, use of other media (audio, TV, PC and the internet), social contacts, social participation, going out, sports and exercise, and (other) hobbies. Studies conducted by the SCP show that since 1985, the average number of hours available per week for free time has decreased steadily. People aged 12 years and older now have just under 45 hours of free time per week. Ever more time restrictions mean greater competition between the options for spending one's free time.

Although disposable income has increased dramatically since 1985, the number of hours spent 'going out' each week has remained virtually constant, namely around 2½ hours. For the SCP, 'going out' covers the hospitality industry, cultural activities and events (sporting events, etc.). In 2005, half an hour was the average time spent on cultural activities. This relatively limited time allocation for culture means that the competition between cultural activities is quite fierce.

Apart from the restrictions on time, leisure spending is of course also restricted in terms of budget. The choices that consumers make on the basis of this restriction also indicate the goods and services that are in competition. The extent to which these goods and services are really in competition can be gauged by looking at how far customers will substitute one product for another when the price of the first product increases.

[8] Artists are not unique in deriving non-pecuniary returns from particular forms of labour or in desiring to choose projects of high satisfaction. Academics, including many economists, also enjoy working, especially when they can work on projects of their own choosing (Cowen & Tabarrok, 1990).

Estimates made by Goudriaan et al. (2008) show that if the price of the substitutes falls by 1%, the number of visitors to performing arts falls by 1.49%. The price of substitutes is approximated with the price index of culture and recreation (excluding audio and video carriers).[9] Similarly, the estimate for the cross-price elasticity of cinema tickets and the price of substitutes (again approximated using the index figure for culture and recreation, but this time including audio and video carriers and DVD players) is 1.68. The cross-price elasticity of museum visits and substitutes is 1.49. Such positive cross-price elasticity means that substitutes are involved. This demonstrates fierce competition between these substitutes.

[9] According to the CBS (Statistics Netherlands), the term 'culture and recreation' covers visits to stadiums, amusement parks, fairs, circuses, museums, zoos, cinemas, the theatre, etc.

4 Is competition detrimental to the diversity of arts?

To conclude, consumers' time and budget constraints mean that there is fierce competition between cultural activities. Is this competition detrimental to the diversity of arts? This is not the case, according to Cowen (1998). He argues that a competitive market produces a wider variety and quality of culture, and does not just produce what is popular. Admittedly, there is plenty of popular culture too, but the market also produces 'high culture' for niche and elite audiences. In this context, Cowen & Tabarrok (1990) make an interesting comparison of economists and artists:

> "Economics is often attacked for being too abstract, irrelevant, and impractical. Such attacks are the counterpart to attacks on artists for being too self-indulgent and inaccessible. As economic growth increases, economists choose to take more of their net wage in the form of choice of project. They choose to work on the peculiarities of the art market rather than serving as consultants to the business world."

So, the higher the GDP, the more high-end culture goods and services are produced. That brings us back to our findings from the previous section: the importance of being wealthy.

Despite Cowen's finding (1998), economic theory shows that extreme competition can give rise to a phenomenon known as 'Hotelling's Law' (see box 1 for an example using ice creams on the beach). Formulated by Harold Hotelling (1895–1973), this predicts that highly competitive markets tend to produce homogeneous products, while oligopolistic and monopolistic markets tend towards heterogeneous products. When there is stiff competition, it is risky for suppliers to market distinctive items. More intensely competitive conditions encourage suppliers to aim to satisfy the majority preferences of the bulk of society. So this situation ultimately results in 'excessive sameness' in the products on offer. On the other hand, tempered competition favours openness and diversity, and hence caters better for minorities.

Box 1. Hotelling's beach

Hotelling's Law can be explained by imagining a one-kilometre long beach. The people sitting on this beach want to eat ice cream, but the further they have to walk to buy it, the greater the chance that they will not bother. Assuming that these consumers are distributed evenly along the beach and you are the only icecream vendor, then a vendor will maximize his sales by positioning himself at the mid-point.If a second vendor comes along, then it would seem most logical to divide the beach evenly between the two vendors, with one stationed 333 metres from the start of the beach and the other 666 metres along it. People sitting in the first 500 metres would then buy from the first vendor, with the second one selling to those more than 500 metres from the start of the beach.In fact, however, this model only works if the ice-cream sold is considered substitutable by those on the beach and if the ice-cream vendors co-operate, or at least do not compete too hard. If a vendor is trying to maximize turnover, he will move towards the middle of the beach. By positioning himself 100 metres further along, he will attract customers from the first 550 metres. But the second vendor will think the same, and follow suit. Eventually they will meet in the middle and each will serve half of the entire market from adjacent pitches. The disadvantage is for the consumer, who on average has to walk further for the same ice cream.

The conditions for Hotelling's Law are strict, however, and do not apply in real markets. For instance, it is assumed that each consumer along the beach will consume at least a minimum number of ice creams sold by the vendors on the beach and that prices are fixed by an external authority. If these conditions are not met, firms have an incentive to differentiate their products. When not everybody on the beach consumes a minimum number of ice creams, the vendors can position their products to sections where they know that there will be consumers, in order to maximize their profits; this will often mean that vendors will position themselves in different sections of the beach, occupying niche markets. Additionally, when prices are not fixed, vendors can modify their prices to compete for customers; in those cases, it is also in the vendors' best interests to differentiate themselves from each other as much as possible, so that they will face less competition from each other. In the cultural sector, neither condition is met: there is no fixed minimum level of consumption and prices are not fixed. vendors can modify their prices to compete for customers; in those cases, it is also in the vendors' best interests to differentiate themselves from each other as much as possible, so that they will face less competition from each other. In the cultural sector, neither condition is met: there is no fixed minimum level of consumption and prices are not fixed.

Most markets for cultural services are oligopolistic, and it pays to differentiate your products. That is why cultural goods tend to be so heterogeneous.

5 More than just increasing competition

When talking about diversity in the supply of arts, competition is probably not the most important factor. Other market failures play a more significant role in reducing artistic diversity. Market failures are another much-discussed aspect of cultural economics (i.e., Frey, 2005; Marlet et al., 2007; Van der Ploeg, 2006). Depending on the severity of the market failures, government intervention may sometimes be necessary. From an economic point of view, government intervention is only acceptable if it is welfare-enhancing. The government's role in this regard is one that exists by virtue of market failure. So, whereas people from the art world may take artistic value as a given and see no need to establish a link with human welfare, cultural economists consider it essential to establish that there is a real need for government support in any art project (Frey, 2005).[10]

What are the most striking market failures in the market for cultural goods? The first is that the consumption of art, or cultural goods in general, involves positive externalities. People who consume more cultural goods do better at school, are healthier, and less likely to engage in criminal behaviour. If left to the market, people consume too little of these goods because they do not take account of these unpriced, positive effects.

Another reason for government action is the fact that people might consume too few cultural goods because they are an acquired taste. Just like coffee and wine, you may have to try culture a few times before you get to like it. As Van der Ploeg (2006), the former State Secretary of Culture, rightly notes cultural interest does not depend so much on whether it is high or low culture, as on the level of education of the participant. This would suggest that investing in cultural education at young ages is a valid argument for subsidizing culture, since it may overcome some of the disparities in cultural interest and cultural participation.

Note that these two market failures provide an argument for stimulating the demand for art rather than its supply. Could there be any reason for funding the supply of cultural goods? Yes, in

[10] Economists take the cost of taxation into account. Spending tax money is free. One euro of taxpayers' money will cost more than a one euro (on average €1.10-€1.15), partly because of the costs of collection, but mainly because of the distorting effect of taxation – people make other choices due to taxation: if taxes go up, people tend to work fewer hours and invests less in education.

case of so-called public goods – non-rival and non-excludable goods[11] – the market fails to deliver the socially optimal level. This argument applies to part of our cultural heritage, such as walking through Paris and freely enjoying all the beautiful buildings.

Another ground on which the government support of cultural goods might be justified is intergenerational value. In current markets, future generations do not have a voice, although parents (and grandparents) are probably willing to pay to contribute to the social stock of cultural capital. This applies to subsidizing the restoration and maintenance of monumental buildings and landscapes, as well as to other heritage such as art archives.

A final supply side market failure mentioned here relates to the capital market. If certain high-risk cultural activities find it difficult to access capital, government-funded participation companies may help to secure such capital from the market, especially in combination with fiscal incentives.

We are now able to answer the other question in the title – is less government support a threat to diversity in the supply of arts? The answer is 'yes', although less government support is only problematic insofar as it is meant to correct market failures.

[11] Non-exclusiveness means that it is impossible to exclude people from the use of the good. Non-rivalry means that use by one consumer is not at the expense of use by another. In other words, the marginal costs of an extra user are zero. Consumers will often be unwilling to pay for these goods on an individual basis.

6 Conclusion

This paper has shown how the arts benefit from high GDP and this was certainly the case during previous creative eras, such as the Renaissance and the Golden Age. The positive relationship between GDP and the arts continues to apply today. The higher the GDP, the higher the demand for arts and cultural products; similarly, the higher the GDP, the higher the government revenues and the greater the scope for funding.

If a high per capita GDP is of such crucial importance for the arts, it is equally important to look at what brings about a higher per capita GDP. We have tested and validated the following hypothesis: the more competitive the economy, the higher GDP. In short, competition is good for the arts. By stimulating the competitiveness of the Dutch economy as a whole, the NMa – and more particularly its chairman of the board, Pieter Kalbfleisch – are simultaneously stimulating arts.

Obviously, it is too easy to state that simply enhancing competitiveness would be enough to encourage the arts. The market for arts has failed in several respects and the NMa cannot fix all of these failures – after all, NMa is not short for 'National Market failure Authority'. However, at the same time, Pieter Kalbfleisch is committed, not just as chairman of the board of NMa, but also on a personal basis, to correct some of these market failures. He holds a number of positions alongside his work at the Netherlands Competition Authority. Four of these relate to the cultural sector (mainly music and performance arts): membership of the recommendations committee of the Foundation of the restoration 'Bätzorgel', chairman of the board Pure Jazz, chairman of the board of the Hague Philharmonic, membership of the recommendations committee of the Royal Theatre.

Let me finish by thanking Pieter Kalbfleisch for his effort to increase Dutch competitiveness and by expressing the hope that, after leaving the NMa, he will be able to spend a considerable amount of his free time correcting market failures in the cultural sector.

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