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An Arts-Employment Analysis:

The Effect of Government Funding on Employment
at Deck Chair Theatre and Spare Parts Puppet Theatre

By

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A Thesis Submitted in Partial Fulfilment of the
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Abstract

It is important for governments to recognise employment generation resulting from public expenditure. Funding alternatives that are a cost effective way of generating employment are key objectives in public finance. One funding alternative is the arts. The arts have to compete with other economic activities for a share of government funding. As a result of increased competition, the economic contribution of the arts has become an important issue in arts advocacy. Therefore, it is important that the measure of employment generated by arts funding is accurate and reliable. Arts employment data is generated by cultural organisations applying for public funding through the Australia Council. The problem is that the existing method of calculation, though reasonably detailed, ignores employment of contracting artists and inaccurately accounts for part-time employment. The purpose of this study is threefold: (1) To develop a more accurate measurement of employment in arts organisations than currently exists with the Australia Council via its employment data generation, by including in the measurement, the amount of part-time and contracted-artist employment. (2) To identify the amount of government funding that translates into equivalent full-time jobs. (3) To demonstrate and explain
the problems and distortions that arise by the use of employment multipliers.

These problems are addressed at a sample of two theatre companies: Deck Chair Theatre and Spare Parts Puppet Theatre. The measurement developed: The Government Arts-Funding Employment Ratio shows the amount of government funding that translates into equivalent full-time jobs. This is developed in two versions. One including the effects of an employment multiplier, the other ignoring these effects. The multiplier effect means that for every job within the theatres, 1.667 jobs are generated outside the theatres. The results, ignoring the multiplier effect, show that during 1989-1991, every $30,220 of government funding to Spare Parts Puppet Theatre, translated into one equivalent full-time job. At Deck Chair Theatre, over the same period, every $25,821 of government funding translated into one equivalent full-time job.
Declaration

"I certify that this thesis does not incorporate without acknowledgement any material previously submitted for a degree or diploma in any institution of higher education; and that to the best of my knowledge and belief it does not contain any material previously published or written by another person except where due reference is made in the text."

Signature

Date 26.1.93
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Kerrie McGovin, General Manager.

Angela Chaplin, Artistic Director.

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1.0 Introduction

1.1 Background

1.1.1 Public Subsidies to the Arts: A History

A brief overview of the historical framework showing the rationale for public patronage of the arts introduces the concept of public cultural policy. The problem of allocating public funds amongst a variety of competing purposes is a fundamental problem for policy decision-makers. The priority in deciding on these activities requires careful consideration of the costs and benefits that arise from each alternative (Patronage, Power and the Muse, 1986, p.28).

In respect to the public patronage of the arts, Cummings and Katz (1989, p.6) show that in recent centuries, there have been three types of environments which have generally directed the development of public cultural policy. These are: the Absolutist State, the Mercantile State, and the Free-Market State. In 17th century France, the court of Louis 14th was an example of an Absolutist State, where there was a strong tradition of funding to the arts by the monarchy. 17th Netherlands is representative of the Mercantile State, where the increasingly wealthy burgher class were an influential source of private commissions for the arts community. Finally, in the 19th century, the
Free-Market State, was where public funding to the arts has been less favoured. Here, a philanthropic approach to the arts by private industry and by wealthy individuals was preferred. Current day Canada and the United States of America (USA) are good examples of the free-market environment.

In their 1987 study, The Patron State: Government and the Arts in Europe, North America, and Japan, Cummings and Katz (1989, p.8) identified four basic approaches to arts funding that arose out of these environments: government as patron, government as manipulator, government as regulator, and government as impresario. The government as patron refers to where the government is the primary financier and consumer of the arts. The manipulator approach is where the government influences the market for the arts through the use of such instruments as taxation and subsidies, but without the type of control that is typically required by the government as patron. The regulator approach is where public administrators directly make decisions concerning the financing of the arts. Finally, the government as impresario is where the government is primarily the organiser and presenter of public culture. Cummings and Katz (1989, p.8) show how the British Broadcasting Corporation (BBC) is a good example of the impresario approach. This is because through the BBC, the government is essentially producer and distributor of culture to the
wider community.

The Absolutist, Mercantile and Free-Market environments, and the four government approaches to arts funding, provide the historical framework in which the scope for public assistance to the arts came to be.

1.1.2 Subsidy to the Arts: The Australian Context

The approaches to arts funding identified by Cummings and Katz (1989, p.8), can be observed in the Australian context. The public funding of the arts appears to have developed from, a regulator approach to an impresario one, then to a manipulator approach. The establishment of the Commonwealth Literary Fund in 1908, and the Commonwealth Arts Advisory Board in 1912, enabled the government to have a reasonably direct control over the funding of arts. Parsons (1987) describes the scenario:

Australia's traditional Philistinism had dictated that the pioneers of arts funding ... were able to induce governments to fund the arts only by presenting an impeccably 'sound' public image. (p.11)

This suggests that the public funding of the arts was not readily independent of the desires of the bureaucracy, and so represents an example of the regulator approach.
The beginnings of an impresario approach occurred with the establishment of the Australian Broadcasting Commission (ABC) in 1932. Primarily through its orchestras, the ABC was fairly instrumental in the diffusion of public culture in Australia (Rowse, 1985, p.6). With the establishment of the Australian Council for the Arts in 1968, and its successor, the Australia Council in 1973, a transition from impresario to manipulator approach was made. In the early 1970s, the government of the day wanted an independent arts funding body that would distribute public funds to the arts, and act as an arts policy advisor to the government. The Prime Minister, Gough Whitlam (cited in Patronage, Power and the Muse, 1986) made the government's intention clear:

A single council [the Australia Council] seemed to offer the prospect of a broad policy for the national development of the arts within a streamlined administration providing independence from political pressures and safeguards against centralised and authoritarian tendencies. (p.63)

This suggests that the Australia Council was to become, what Hillman-Chartrand & McCaughy (1989, p.43) call, at arm's-length with government. A peer evaluation mechanism of grant approvals was designed to restrict potential government interference with the allocation of public funds to the arts communities (Parsons, 1987, p.15).

Rowse (1985, p.6) identifies the development of commonwealth government patronage to the arts, and
identified two phases: First, an era of voluntary cultural entrepreneurship followed by statutory commonwealth patronage. The first lasted until the late 1960s, and was characterised by government funded entrepreneurs who chose to pursue various cultural objectives. The ABC was an outstanding example of this. It established its own orchestras and ensembles, and so by doing, became an entrepreneur of classical music.

In 1932, when the ABC was established, commonwealth funding to the arts become substantial. The first phase of government funded voluntary entrepreneurship was replaced with statutory patronage with the establishment of the Australian Council for the Arts (ACFTA) in 1968 and the Australian Film Development Corporation (AFDC), established in 1970. From this point onwards, a system of direct government grants meant that ACFTA and AFDC had a statutory obligation to allocate government funding to various cultural activities that were not viable in the market place. This provided the means in which to debate the public interest, in respect to arts funding allocation. (Rowse, 1985, p.13)

In Australia, cultural activities are not only publicly funded at the Commonwealth level through the Australia Council, they are also funded at the state and local levels of government. In Western Australia the state cultural funding body is the Department for the Arts. The operating
budget in 1989 was $8.7 million, representing less than 1 percent of state government expenditure. State government funds are also channelled through to the arts by statutory authority sponsorship, such as the Healthways program.

1.1.3 Economics: Advocacy for the Arts

Cummings and Katz (1989, p.6) believe that western societies have experienced a trend towards public involvement in the arts in the latter half of this century. Essentially, the reason for this has been a desire to broaden public access to the arts. The growth of publicly funded culture reached its zenith in the 1960s and early 1970s. In the late 1970s, however, calls for budget cutting, and greater public accountability has seen the growth of public funding to the arts generally slow down.

Throsby and Wither's (1979, p.1) explanation of this phenomenon, is that because of inflation and recession in the 1970s, government allocation of funding, at all levels, has generally become subjected to a higher level of scrutiny. Public accounts committees are examples of this. It is of little surprise, therefore, that the economic arguments have become important in arts advocacy. In recent times the economic dimension of the arts has increasingly become more important, as Myerscough (1988) explains:

Arguments [for public arts funding] based on their intrinsic merits and educational value were losing
their potency and freshness, and the economic dimension seemed to provide fresh justification for public spending on the arts. (p.2)

Myerscough's comments were in the context of Great Britain. In the Australian scenario, Brokensha and Tonks (1986) relate the experience:

The arts lobby has been forced to justify its demands in more rigorous terms. One way of doing this is to adopt a 'language' that is universal in 20th century policy-making i.e., economics. (p.37)

In past years, arts funding has primarily been justified on the basis of its aesthetic value (Brokensha & Tonks, 1986, p.37). It was now becoming necessary for arts advocates to take on more pragmatic arguments. Here, the economist enters into the arts arena. The role of economics in arts advocacy is now emerging as a more important one. This has not always been the case. In 1963, Galbraith (cited in Thosby & Withers, 1979) pointed out that:

Art has nothing to do with the sterner preoccupations of the economist. The artist's values—his splendid and often splenetic insistence on the supremacy of aesthetic goals—are subversive of the straightforward materialist concerns of the economist. (p.1)

Despite Galbraith's concerns, it is important to note that in some of his later writings, he considers artistic endeavour as an important factor in the economic development and cultural success of a society (Galbraith, 1983).
Cwi (1982) agrees with Galbraith, that the arts are important in economic development. He points out that there are subtle induced effects that occur due to the presence of the arts (Cwi, 1982, p.25). These effects are where a cluster of arts activities generates what is generally known as cultural ambience. This is a source of attraction that gives individuals reasons to frequent specific areas in search of entertainment. In Perth, Northbridge and Fremantle are good examples of districts that have a cultural ambience. Cwi (1980, p.312) says this is an important device in the revitalisation of inner city regions. This is the point that Myerscough (1988, p.145) alluded to when he surveyed business decision makers as to how the cultural ambience of a region would effect their relocation decisions.

The increasing importance of the cost effectiveness of public funds allocation, the justification of public decision making, and public accountability of government expenditure, has given rise to a body of literature on the economic contribution of the arts (Brokensha & Tonks, 1986; Cwi, 1981; Cwi & Lyall, 1977; Hamer, Siler, George & Associates, 1977; Metropolitan Arts Council, 1977; Myerscough, 1988; Sullivan & Wassall, 1977, Wall & Purdon, 1987), and the economic and non-economic arguments that underlie the justification of public subsidy to the arts (Austen-Smith, 1980; Mulcahy, 1982; Peacock, 1969/1976; Rose, 1985; Throsby & Withers, 1983).
1.1.4 Deck Chair and Spare Parts Puppet Theatre

The subjects of this study are the Deck Chair and Spare Parts Puppet Theatres in Fremantle, Western Australia. Both theatres rely on government funding to continue operations, which is typical of arts organisations. From 1989 to 1991, Spare Parts Theatre received 73 percent of total income from government grants, whilst this figure was 70 percent for Deck Chair Theatre (see Appendix 16).

These theatres are typically run on half million budgets (see Appendices 7 and 8). During 1989-1991, Spare Parts Theatre spent 66 percent ($1,115,000) of its total expenditure on employment (see Appendix 7), whilst Deck Chair Theatre spent 63 percent ($859,722) on employment. This expenditure maintained between 10 and 14 equivalent full-time jobs over the 3 year period at Spare Parts Theatre, and between 10 and 12 jobs at Deck Chair Theatre (see Appendices 2 and 3).
1.2 Purpose of the Research

From a marketing perspective, it is important that individuals and organisations who receive funding from the government, present valid arguments that give reason to those who allocate, donate, or otherwise provide funds. Kotler & Andreasen (1991, p.281) call this group Donor Markets: individuals, foundations, corporations, government, and government funding agencies, who in this case provide funds to the arts. Corporations may be motivated by the desire to maintain good public relations, whereas individuals may be motivated by a variety reasons, including personal philanthropy. Where the government provides funds, a different kind of reasoning is required by public decision makers. In the Australian context, this reasoning is to maximise the benefit from those public funds to the wider community (Patronage, Power and the Muse, 1986, p.28).

Donations represent complex transactions where the exchange of value is not necessarily confined directly to the transacting parties, nor does it necessarily require direct reciprocation (Bagozzi, 1975, p.32). As an example, the public funding of an arts organisation is an exchange of public monies in return for the generation of employment, the production of art, and resulting community enjoyment and benefit from the aesthetic experience (Patronage, Power and the Muse, 1986, p.26). The recipients on the
other hand, compete with other causes for the allocation of these public funds. Justification of that claim becomes a very important factor. In this context, an arts organisation has a consumer market on the one hand -- an audience for example, and a donor market on the other -- the public decision makers.

In a consumer-centred philosophy of marketing it is necessary to consider the needs of the consumer as supreme. Public funding agencies, not unlike customers, require arguments that justify the allocation of funding. Economic arguments that strengthen the justification for that allocation, are important if the arts organisations are to present their case in the best possible way. In other words, they have to sell themselves to their donor markets, just as they sell themselves to their audience.

The purpose of this study is threefold:

(1) To attempt to develop a more accurate measurement of employment in arts organisations than currently exists with the Australia Council via its employment data generation in the application for government assistance forms. This will be done by including in the measurement, the amount of part-time and contracted artist employment at a sample of theatres.
(2) To identify the amount of government funding that translates into equivalent full-time jobs.

(3) To demonstrate and explain the problems and distortions that may arise by the use of employment multipliers.

An economic measurement will be developed, The Government Arts-Funding Employment Ratio. This simply identifies the government funding contribution to Deck Chair and Spare Parts Puppet Theatre, that translates into equivalent full-time jobs.

The ratios produced in this study are not meant to be used as a comparison between Deck Chair and Spare Parts Puppet Theatre. These theatres are very different, and a comparison would not be valid. The ratios, however, may be used with caution to compare arts organisations that are very similar. It is anticipated that these ratios will be refined by further research, so that they can be applied to other arts organisations, if not the wider arts community.
1.3 Justification

This research is important because it will provide information for both parties to the arts funding transaction, that should lead to more informed decision making. From a government's perspective, it can identify the most efficient way of employment generation. From the recipient's perspective, stronger economic arguments for public funding to the arts.

The aim of this study is to contribute to the economics of the arts by the development of a more accurate employment measurement, both in terms of positions and expenditure of public funds. This study is justified because accurate economic data is important when presenting arguments in regards to public patronage of the arts.
1.4 Statement of the Problem

The economic contribution of the arts to employment and income generation is an important argument for the arts advocate. It is important, therefore, that it is accurately measured. The Australia Council collects economic statistics from recipients of public funding. From this, employment data is generated. The true amount of employment is understated because the amount of employment generated by individuals who contract their artistic services directly to theatrical performances and the production of art is not accounted for in the Australia Council statistics. Secondly, part-time employment is not accurately described because it is accounted for only in the number of positions, not the period of employment.

These omissions provide the scope for this research to supply the missing data on a sample of two theatre companies. This will provide an accurate insight into the generation of employment, and the amount of government funding that translates into full-time jobs.
1.5 Research Objectives

The objective of this study is to quantify the amount of government funding that translates into full-time jobs over a three year period, 1989-1991. This is done at a sample of two arts organisations: Deck Chair and Spare Parts Puppet Theatre. Both are located in Fremantle, Western Australia. The primary research questions are:

1) What is the government funding contribution, in dollars, when accounting for direct and indirect employment, for both theatres, that translates into one equivalent full-time job over the research period 1989-1990, 1991, and 1989-1991 for each of the following employment categories?

- Artists and Support
- Administration and Marketing
- Contract Artistic Services
- Total employment

2) What is the government funding contribution, in dollars, when accounting only for direct employment, for both theatres, that translates into one equivalent full-time job over the research period 1989, 1990, 1991, and 1989-1991, for each of the
following employment categories?
- Artists and Support
- Administration and Marketing
- Contract Artistic Services
- Total employment

The subsidiary research questions that are required for computation are:

1) What is the total employment expenditure for Deck Chair and Spare Parts Puppet Theatre over the research period: 1989-1991 for each of the following employment categories?
   - Artists and Support
   - Administration and Marketing
   - Contract Artistic Services
   - Total employment

2) What is the total employment in: weeks, days, and hours for:
   - Artists and Support
   - Administration and Marketing
   - Contract Artistic Services

employment categories at the Deck Chair and Spare Parts Puppet Theatre over the research period 1989-1991?
3) What are representative rates of income for the following Contracted Artistic Services:
   - Production Designers
   - Music Composers
   - Writers

   over the research period, 1989-1991?

4) What are the appropriate union award rates of pay per hour for part-time and casual actors, and production and venue personnel, over the research period 1989-1991?

5) What is the definition of a full-time job that is representative of the performing arts industry in; weeks per annum, days per week, and hours per day over the research period 1989-1991?

6) What is the number of equivalent full-time jobs that represent:
   - Artists and Support
   - Administration and Marketing
   - Contract Artistic Services
   - Total employment

   over the research period, 1989-1991?

7) What is an appropriate employment multiplier that is representative of the performing arts?
2.0 Literature Review

2.1 The Arts in Society

The notion of public support for the arts is not a new concept. In ancient Greece, the main drama festivals were publicly sponsored. Theatre was supported by the State so as to keep admission prices within the means of the general population. Broad access to the arts, or theatre at least, was something of which all could enjoy. (Cornwell, 1990, p.36)

In the Middle Ages the arts were more or less controlled by the church in western societies. Horne (1988, p.1) describes the types of culture that existed during that period: Ruling Class Culture, and Folk Culture. The emergence of what Cornwell (1990, p.35) calls the 'commercial economy' in the 17th century, meant that access and enjoyment of the arts was no longer a privilege of birthright. A move away from a feudal lifestyle to one based on enterprise of the individual, meant that private access to wealth gave rise to a diffusion of the arts in society. This was especially evident in 17th century Netherlands, where the wealthy merchant class were influential patrons of the arts. Cornwell (1990, p.36) refers to this as the democratisation of the arts.
By the 19th century, the arts were becoming more widely available. Horne (1988, p.1) describes three types of culture that developed from the dichotomy of ruling class and folk cultures: High Culture, Mass Culture, and Popular Culture. High Culture is the domain of the intellectual and elite, whereas in Mass Culture, the emphasis is placed on mass production and standardisation for the largest possible audience. Finally, Popular Culture is a mix of High and Mass Cultures. The arts have always been an important and integral part of civilisation (Creedy, 1970). A detailed discussion on the development of the arts in society cannot be justified in this review. The point is, however, that the development and nature of the arts, has laid a framework from which arguments for public subsidy to the arts is grounded.
In Australia the role of government in the arts is outlined in a Standing Committee report on Expenditure to the Commonwealth Government titled: *Patronage, Power and the Muse* (1986). The purpose of this document was to report on government assistance to the arts. In concordance with the doctrine of *Utilitarianism* (Shaw & Barry, 1989, p.55), the objective of government is to maximise public benefit from public expenditure, in this case subsidy to the arts.

In order to investigate the arguments that justified public subsidy to the arts, it was necessary for the Committee to define the arts, and identify the costs and benefits that arise. The Committee adopted a classification schema of the arts proposed by professor Donald Horne. These were: *Heritage Art, New Art,* and *Innovative Art.* Heritage Art is works of the past generally found in museums and libraries. New Art is contemporary art, and Innovative Art was essentially new interpretations of culture. (Patronage, Power and the Muse, 1986, p.35)

The Committee believed that these different forms of art conferred different benefits to society, in terms of access and participation. The Committee concluded that the government ought to assist the arts because it did confer public benefits to society, and was subject to market failure. Government objectives were to ensure the widest
possible access to the arts in the community. Because the arts are generally subsidised in many parts of the world, and Australia was not an isolated culture, it was decided there was a role for the government in arts funding. (Patronage, Power and the Muse, 1986, p.37)
2.3 Public Subsidy to the Arts

The question of why the arts are reliant on private philanthropy and public subsidy to survive financially, has given rise to a large body of literature. Economic and non-economic arguments explain why this is the case. Specifically, the arguments are: because the arts are merit goods (North, 1982; Pen, 1983; Throsby & Withers, 1979; Scitovsky, 1983), because the arts are subject to market failure (Austen-Smith, 1980; Baumol & Bowen, 1966/1976; Peacock, 1969/1976; Rowse, 1981; Throsby & Withers, 1979), because of the birth right of future generations to the arts of today (Baumol & Bowen, 1966/1976; North 1982), because the arts are a device for education and social order (Mulcahy, 1982; Rowse, 1981), and because the arts are important for the moral basis of society (Mulcahy, 1982).

On the other hand, there are arguments against the public subsidy to the arts, because priorities exist which have higher claims to public funds, and because public funding of the arts may lead to government control of the arts (Baumol & Bowen, 1966/1976, p.44), and finally because the emphasis should be placed on consumer sovereignty, not the merit good argument (Gold, 1983).
2.3.1 The Merit Goods Argument

Cwi (cited in North, 1982, p.71) describes in general terms, a merit good as something that is essentially good, and thereby justifies public provision because of its goodness, and in cases where market forces fail to allocate it, public intervention is justified. Musgrave (1959) provides a more detailed definition of what he calls merit wants (merit goods). These are a type of individual preference (private wants) that:

become public wants if considered so meritorious that their satisfaction is provided through the public budget, over and above what is provided for through the market and paid for by the private buyer. (p.13)

Where merit goods have characteristics of private goods, there may be no need for public provision, as this may be done efficiently through the market mechanism. However, if they have characteristics of public goods (social wants), the market mechanism tends to fail, and public provision becomes necessary. Therefore, providing public subsidies to the arts is done when these two conditions are met: because they are essentially meritorious, and because they are subject to market failure.

The public provision of merit goods essentially interferes with the private preferences of the individual. This is because a value judgement is made on behalf of society by public decision makers, as to what is in the best interest
for everybody, without reference to the forces of market supply and demand (Musgrave, 1959, p.9). Other examples of merit goods are: low cost public housing, and free education. Unlike public goods, merit goods are not strictly subject to the exclusion principle, and the notion of nonrival consumption. These concepts are discussed in section 3.1.

Merit goods are more like mixed goods, with characteristics of both public and private goods. Merit goods have claim to public subsidy by virtue of their inherent goodness (Musgrave, 1959, p.9). With respect to the meritorious nature of the arts, Scitovsky (cited in Throsby & Withers, 1979) argues:

Works of art are durable sources of stimulus enjoyment which can last for years, or even centuries, and since the specialist's judgement is believed to be a better predictor than the general public's view of what prosperity's judgement is going to be, we attach to his judgement the weight of future generations, which outweighs, of course, that of the single present generation. (p.199)

Scitovsky's argument calls for the right of future generations to an artistic tradition. The basic value judgement in his argument, however, is that the arts are inherently worthy of preservation. This alludes to the fact that value judgements must be made by public decision makers on behalf of society, because the community does not always recognise the best long term interests. This notion is the basis of the merit goods argument.
Pen (1983) puts the notion of merit goods in very simple terms. "Bach is good for you even if you didn't know it." (p.17)

2.3.2 The Market Failure Argument

Rowse (1981, p.31) discusses the market failure argument as a situation where there exists two issues. Firstly, positive externalities occur where the benefits of production cannot successfully exclude those who do not pay. This phenomenon is known as the free-rider effect (Musgrave & Musgrave, 1984, p.54). This concept is explained in greater detail in section 3.1. Secondly, costs of production are not always reduced by market demand, which implies that the arts do not necessarily benefit from economies of scale. However, Throsby and Withers (1979, p.44) would disagree. Their view is that excessive costs that are inherent in the nature of the arts is the reason. This is because of the technological limits to standardisation and the high cost labour inputs.

Throsby and Withers (1979, p.180) expand on the externalities argument put forward by Rowse (1981, p.31). External benefits generated by the arts is where even those who do not attend, participate, or in anyway consume the arts, still benefit from the production of ideas, aesthetic standards, national identity, social
comment and criticism. Since the arts can only recover the cost of production from only a portion of those whom enjoy consumption benefits, costs will tend to exceed revenues. Financial assistance, therefore, will be required.

### 2.3.3 The Arts for Future Generations Argument

Cwi (cited in North, 1982, p.71) says that society has a responsibility to future generations to preserve an artistic culture, and provide an aesthetic standard. Scitovsky (cited in Throsby & Withers, 1979, p.199) agrees, and adds that a specialist's value judgements are a better predictor of what future generations will want.

Baumol and Bowen (1966/1976, p.54) argue that society needs an artistic basis from which individuals can learn to appreciate the concept of culture. This argument parallels the ideas of Mulcahy (1982, p.44) with respect to the educational argument for arts subsidies.

Peacock (1969/1976, p.77) believes that society has an obligation to individuals whose opinions have not yet been formed. This idea touches on the notion of Personal Liberty (Shaw & Barry, 1989, p.70). Mulcahy's view (1982, p.55) is that we do not have the right to restrict the choice of culture for future generations.
2.3.4 The Education Argument

Baumol and Bowen (1966/1976, p.55) argue that there are non-priceable benefits of a liberal education conferred upon society. The premise is that education in the humanities leads to a more civilised society, and since the arts are an integral part of the humanities, the arts must confer these same benefits to society. If the arts are subject to market failure, then this provides reason for subsidising the arts. Along similar lines, Mulcahy (1982, p.45) argues that the arts are important in education because it complements structured learning, creativity and logical thought. Acquisition of these skills confers benefits to the wider community, which means the arts are essential to the education and social refinement of a society.

Horne (1988, p.4) says that subsidy to the arts is essential because it acts as a means of social criticism. This is important in a liberal democratic society, because he considers an educated society has a sense of choice and potential.

Scitovsky (1983, p.9) takes a very different perspective on the issue of arts education and external effects. He points out that informed consumer choice is important for the efficient allocation of goods and services from producer to consumer. He argues that consumers tend to ignore the
externalities that arise from their choice in the domain of excitement, satisfaction and pleasure seeking. Essentially, they cannot be trusted to make an informed choice, accounting for all the costs and benefits that may arise. His point is:

Because so many of the sources of excitement accessible to the unskilled create high external costs and diseconomies, it is desirable for society to subsidize and otherwise promote general education in the skills of enjoying all those forms of stimulus excitement that involve no external costs. (p.13)

Here, Scitovsky refers to the arts as the source of stimulus excitement (pleasure seeking). From an educational perspective, it is desirable to subsidize the activities where no external costs are present, and this leads to a more refined and civilised society. Scitovsky recognises a problem, however, "that it is not always possible, of course, to subsidize the learning process without also subsidizing the enjoyment of those who already possess the skill of enjoying the arts." (p.13)

Finally, Scitovsky argues that subsiding the arts is important because people are given the chance to learn to appreciate them, and not think of them as something which is to the exclusive pleasure of an elite in society.
2.3.5 The Moral Argument

In the literature reviewed there is only one argument for the subsidy of the arts on a moral premise. Cram (cited in Mulcahy, 1982) acknowledging the aesthetic and intellectual reasons, believes the arts should be subsidized because:

"Above all this it is the touchstones of life, the power of standards, the director of choice. Accepted, assimilated, it becomes one of the great builders of character, linked indissolubly with religion and philosophy toward the final goal of right feeling, right thinking, and right conduct." (p.46)

Cram's value judgement parallels the merit goods argument, asserting that the arts are inherently good and are in the public interest. The arts, therefore, should be publicly funded in cases of market failure.

2.3.6 The Arguments for Arts Subsidy: A Caveat

The theme of some papers warn arts advocates, that the arguments for the public subsidy to the arts may be individually insufficient justification (Austen-Smith, 1980; Peacock & Godfrey, 1973/1976; Schnieder & Pommerehne, 1983).

It is important to note that the merits goods argument, the arts for future generations argument, and the educational argument, all presuppose that the arts are essentially
subject to market failure, and could not exist without public support.

In conclusion to the arguments for the subsidy of the arts, Baumol and Bowen (1966/1976, p.55) assert that if one were to agree that on the whole, the arts confer to society economic, educational, and social benefits. The arts become public goods if the costs of production exceed revenue raised due to market failure. Since the arts generate external benefits to society from which they are unable to charge for, public subsidy is justified. In summary they conclude:

It is a long-standing tenet of economics that if the wishes and the interest of the public are to be followed in the allocation of the nation's resources, this is the ultimate ground on which governmental expenditures must find their justification. Government must provide funds only where the market has no way to charge for all the benefits offered by an activity. (p.55)

2.3.7 Arguments Against Public Arts Subsidy

Baumol and Bowen (1966/1976, p.43) also discuss the arguments against subsidies for the arts. They point out that other equally important activities and issues may have a greater claim to public funding such as public health, prevention of poverty, education, housing, law and order.
Secondly, although there is no evidence to support the claim, it is possible that public funding of the arts may lead to public control of the arts.

Scitovsky (1983, p.14) examines the argument that public subsidy to the arts is unjust as it is a redistribution of income in favour of the elite. However, Scitovsky together with Throsby and Withers (1984, p.26) disagree, as this argument assumes that, on the whole, consumers of the arts are elitist.

The theme of Gold's 1983 paper is that artists should understand the notion of consumer sovereignty. Producers of art should be wary of isolating themselves from consumers. They should be more aware of the needs of the market place, and hold the preferences of consumers in mind.
2.4 The Role of Economics in the Arts

The first major paper on the economic importance of the arts was by Baumol and Bowen in 1966 (North, 1982, p.70). Since then, the role of the economics in arts advocacy has become increasingly important. Large economic impact studies have been conducted to show for example, that the arts were not a drain on the economy (North, 1982, p.7), as some have argued. The majority of economic impact studies have been conducted in the USA, Canada, and Great Britain. Comprehensive studies that have been conducted are, by Cwi and Lyall (1977), who investigated the economic impact of all the cultural institutions in Baltimore, USA. Cwi (1981) conducted an economic impact study on the arts in six major metropolitan regions in the USA. Myerscough (1988) investigated the impact of the arts on Ipswich, Glasgow, and Mersyside in Great Britain. The Port Authority of New York and New Jersey (1983) examined the economic impact of the arts on the New York metropolitan area.

In Australia, the first economic impact research of the arts was by Throsby and O'Shea in 1980, who investigated the Mildura Arts Centre (North, 1982, p.15). To date, there have been two major economic impact studies on the arts in Australia. First, Brokensha and Tonks (1986) investigated the economic impact of the entire arts community on the

North (1982) conducted a comprehensive literature review on economic impact studies of the arts, and discussed the implications in the Australian environment. While calling for research into the use of economic multipliers in the Australian arts, North (1982, p.3) together with the Canada Council (1982, p.1) warned that, despite the merit of economic impact studies, over-reliance on the results as a means to justify subsidies to the arts may result in the aesthetic benefits being ignored. This issue is discussed in section 4.6.6.
2.5 Similar Research: The Cost of Arts Jobs

The Myerscough (1988) economic impact study assessed the issue of government subsidy to the arts, as part of the scope of the economic impact. Specifically assessed, is the gross cost of a job in the arts in terms of public expenditure. The aim was to point out, as far as the government was concerned, some publicly funded activities, such as the arts, could be compared with other activities to identify the most cost effective method of generating employment. In particular, the cost per publicly funded job was compared between the arts, health, and education. The calculation accounted for the multiplier effect on employment external to arts activities. Public expenditure on the relevant arts organisations was divided by the number of jobs at those organisations. The results were compared with another study by Davies and Metcalf (cited in Myerscough, 1988, p.107) to assess validity.

The cost per job in the Myerscough study ranged from £2,737 in Ipswich to £4,999 in Glasgow. The cost appears to be relatively low, but since it was not possible to identify the definitions used, and the method of calculation, the results cannot be questioned without the benefit of having examined the methodology. What is known, however, is that the method showed the net public sector borrowing requirement cost per person removed from the unemployment count, and the feedback of revenue (taxes) to government as
a result of the existence of jobs created in the first instance. It was recognised that not all jobs created by the arts provide employment for those presently unemployed, as some are simply transfers from one job to another.

The relevance of the Myerscough study is that it parallels the objectives of this research. It was the only economic impact study reviewed, that examined the cost to government of jobs in the arts. A major difference between this research and the Myerscough study, is that this work does not account for the revenue feedback to government. In addition, Myerscough views public subsidy as a public cost, where this study views public subsidy as more a public investment in employment generation.