An Overview of the Political Economy of Cultural Policy in the United States of America

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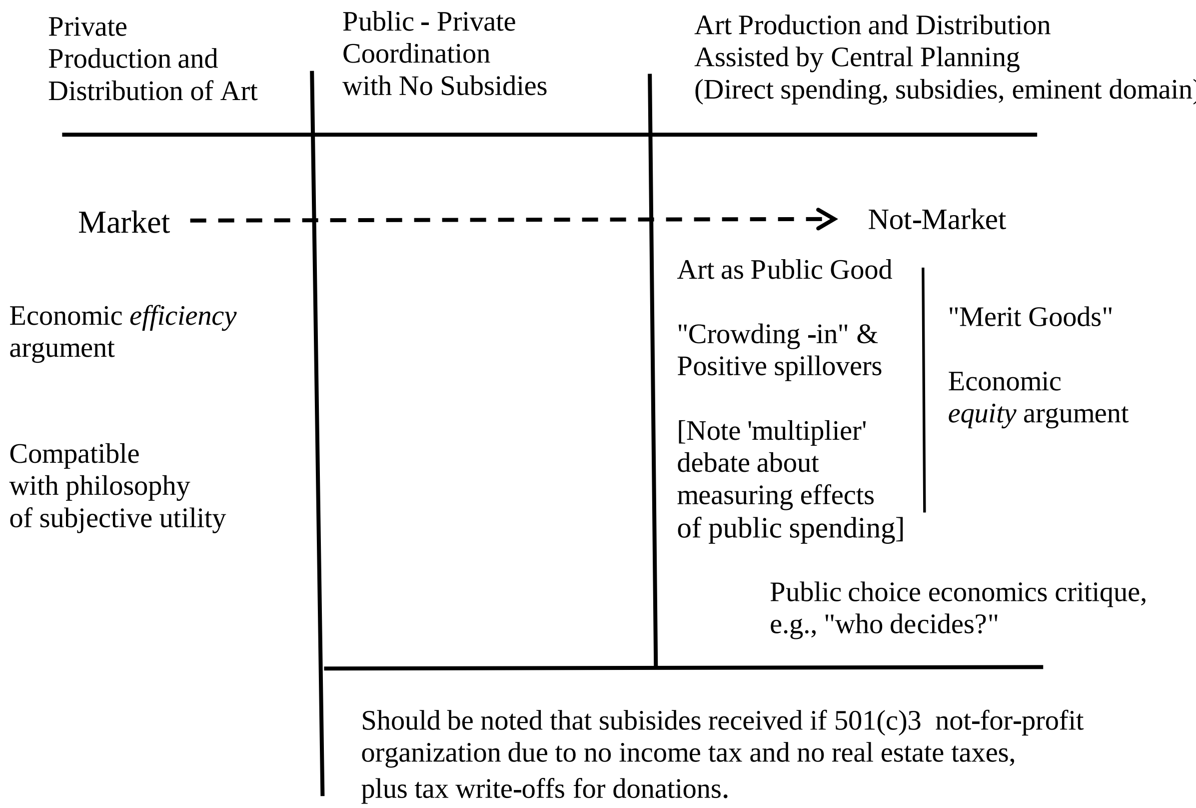
1 Introduction

This overview provides a synopsis of the political economy of the arts for master's level students (and advanced undergraduate students) who are neither expert in economics nor political economy. The purpose is to present a theoretical construct in the economics of cultural policy for those interested in arts management and policy and would like to be versed in the relevant economic issues surrounding public policy in the arts, yet whose studies preclude the in-depth study of political economy. The overview, because it is an overview and not a comprehensive survey, is therefore guilty of the sin of admission on the debate over many economic issues, but nonetheless hopes to hit many of the substantial topics in the field of cultural economics as it relates to the subject of public policy.

The narrative in this overview relates directly to Figure 1 below and is meant to "fill in the blanks" as to what this heuristic represents conceptually and theoretically. Figure 1 is divided into three sections moving from left to right, 1) Private production and distribution of art, 2) Public-Private coordination with no subsidies and 3) Art production and distribution assisted by central planning. As we move from the left to the right in Figure 1 we move from a free-market to more government intervention, e.g., from the Market to Not-Market in our political economy analysis. Using this approach the reader will be able understand the different issues surrounding the various different arguments for and against government support of the arts, both in theory and as practiced today.

Figure 1 Overview of the Political Economy of Cultural Economics



2 Private production and distribution of art

We will start with the concept of *laissez-faire*, or where political economy defines that there is no role for government in the arts. Assuming that art is “nothing special” then there is no reason for government to assist in the promotion of the arts. The free-market, or free competition, decides how art is created, distributed, and consumed. This idea is compatible with the economic efficiency argument for markets. The market left alone without government intervention will provide the most efficient allocation of resources in an economy. People will only create economic goods (in this case, art) if they expect that these goods will be demanded by others, producers have the profit motive to create goods that people want to buy voluntarily with their own resources, and the creators of these goods hope, plan-on in their economic calculus, that people will voluntarily purchase on their own these goods without any government intervention.

The market, left to itself, is the most efficient way of allocating resources in a society because only if people want to buy what is produced will the creators gain a profit. The market matches, free from the distortions of government intervention, the buyers and sellers of economic goods, this is known as the economic law of supply and demand. The idea of the market is also compatible with that of subjective utility, where only each person in a society knows what she or he wants and in which they find value (utility). The market left alone equates these subjective (demand) utilities with the people who provide the goods that each person wants. Thus, the market, when left alone is efficient because there is nothing getting in the way of matching buyers and sellers of economic goods. This idea of efficiency, and wealth-creation through free-market competition is known as the First Theorem of Welfare Economics (Varian 1987, 542) and has been with us since at least since the time of Adam Smith, whom many regard, albeit rightly or wrongly, as the founder of economics as a science.

3 Public-private coordination absent subsidies

The intermediate step between the market and central-planning in the arts is where government and the private sector coordinate the public policy for arts. This of course is represented by the many Arts Councils in municipalities where government provides a “talking shop” on local promotion of the arts. It is only when direct government spending is involved, be it through local tax-breaks, subsidies, or locally-appropriated monies that we move to the third level, that of local central planning for arts.

Government can help to promote the arts, without taxing the local public budget by direct expenditures, through encouraging the private sector to promote arts-related activity on its own, without government subsidy or expenditure. An example of a non-subsidized public art project would be displaying a private artist’s work in a public space without direct subsidization. However it should be noted that many, but not all (movie theatres and film festivals for example), arts organizations are not-for-profit organizations who already receive many tax-breaks by being registered as not-for-profit organizations, therefore, even without local subsidies, many arts are subsidized by the tax code of the United States. Arts organizations registered as not-for-profit organizations (i.e., 501 (c) (3) corporations) by the US government, eventhough they do not receive direct local budgetary support, are a cost to local tax-payers because not-for-profits do not have to pay local real-estate tax nor local income tax, this of course is a tax (local tax income foregone) on localities. For example, 60% of museums in the USA are not-for-profits, whereas 40% are government-owned (Johnson 2003).

4 Art production and distribution assisted by central planning

In the far-right section of Figure 1 we find the most government involvement in the arts, the opposite of the *laissez-faire* model first presented on the left-hand side of Figure 1. There are many reasons that cultural economists support the use of tax-payer money for supporting the arts. If we view art as a “public good” this means that the market by itself does not provide enough of this good to maximize the welfare of society because market costs are greater than public benefits, therefore the government needs to step in to make sure enough art is produced, or actually made available to the public, to equalize total costs and benefits for art society. Under this logic (and all logic under this central planning category for the political economy of art), funds should be taken from elsewhere in the economy to support the arts.

Under the public goods argument, not enough art is produced because, 1) people get utility (satisfaction from consumption or from potential consumption) from knowing that art is in their communities eventhough there is no way to charge them for this utility directly, and 2) even if we could charge people directly for their appreciation for the availability of art there would be other people who would take advantage of the situation and consume art – or appreciate the availability of art – because they cannot be excluded from it. Therefore the argument goes (Samuelson 1973), the government has to tax and spend for art to make sure that people who wouldn’t pay for art don’t take advantage of those who would pay for this art.

In addition, there are Keynesian-type arguments for government support of the arts, not least that art creates economic growth because as people consume art in a given location this money spent on art consumption spills-over to the rest of the economy in a greater proportion than the original government expenditure for art. Meaning, say for example, that, for every dollar a local government spends on a theatre production, the people attending that production spend two dollars for a dinner after the show, giving a "Keynesian multiplier" of two.

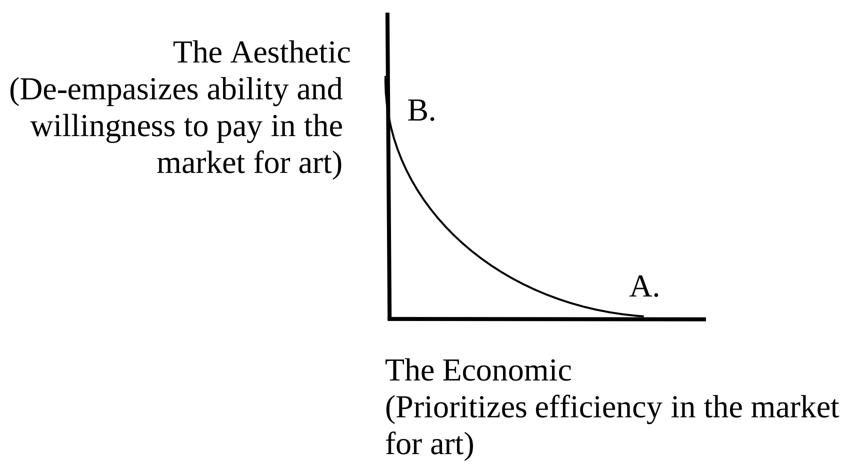
It should be noted that the Keynesian multiplier effect is a matter of debate because 1) government monies spent in one place means less government money to spend somewhere else, and in fact government monies reduce the amount of private monies available, and 2) how can a government know, absent a profit incentive, what is an efficient use of funds, e.g., how can a judgment be made for one government expenditure over another that does not involve political special-interest groups?

Many cultural economists do believe that art is worthy of subsidy, but don't buy in to the Keynesian argument of the multiplier. In other words, yes, arts organizations are good for a community, but there is nothing to give them priority over any other government expenditures, or, for that matter, over reduced taxes and government spending overall.

The concept of "crowding-in" is related to government expenditures for art-related activities, and is also related to a Keynesian concept of a multiplier effect, but often is not identified as such in the mainstream literature. The concept of crowding-in for the arts is that if artists are located in an area, that then this increases the incentives for other artists to move to the area. The argument here is that by providing direct, government tax-subsidies for studio or living space or performance space, that once artists move-in to an area this will create 'crowding-in' where other artists will have the motivation to move and create in the same area. Again, this concept is under debate as to whether or not government direct subsidy, or a general decrease in government cost (reduced taxes and regulation which affects everyone, not just artists), is the best way to achieve economic development in an area.

Also related to the idea of art as a something special requiring government intervention, but different from the idea of expenditures by government as providing some type of Keynesian economic growth "spillover effect" is the idea of art as a "merit good". The merit good argument for art comes not from spillover or Keynesian multiplier effects, but from the belief that art is a consumption good which is not consumed in enough quantities by individuals themselves (oftentimes with the belief that the average person is not well-educated enough to appreciate art), and therefore the government needs to step-in to make sure that the individual prioritizes his or her expenditures in order to consume enough of the merit good (in this case, art) to maximize their welfare. In other words under the theory of merit goods (a concept derived by Musgrave 1959), the government does not let the market and individual choice decide what is best for each person, but the government itself helps decide what people should consume (this trade-off between the market and the aesthetic as merit good is shown in Figure 2 below).

Figure 2 Aesthetic and Economic Trade-Offs in Arts Policy



Under a government policy where aesthetic consumption is prioritized over choices in the market, the government takes steps to distort individual decision-making so that the individual would prefer more art (aesthetic) consumption than they would on their own absent government incentives. This government policy can of course take many different forms, one example that we have already discussed is the tax-breaks that not-for-profit arts organizations receive and therefore these organizations can offer their services at a competitive, lower-cost advantage, relative to other, for-profit, organizations in an economy. Another way is for governments to directly own and fund arts organizations, whether or not they expect any Keynesian spillovers from these expenditures. Another way is for government to take-over privately owned property, property which is not being used for art-related purposes, through eminent domain, and then direct the use of this property for art-related activity.

5 Public choice economics and arts policy

Finally, any time it is government and not the free-market which decides how resources are allocated, either through Keynesian-type spending policy, or, merit goods market distortions for consumer choice, the analyst might keep in mind the "public choice" aspects of any government policy. In both the public goods and merit goods arguments for government involvement in the arts, government decision-makers are, like everyone else in the economy, self-interested, and seek the perpetuation and growth of their government bureaucratic power (James Buchanan won the Nobel Prize in economics for his work in public choice economics in 1986). Therefore the Non-Market alternatives to the creation and distribution of art should be approached in the end with an underlying questioning of who decides what is right for the arts, the individual with free-choice or the government as expert, and the analyst need ask can central-planning really provide more creative output and a fruitful arts-scene than people left to themselves without government intervention? This is David Hume's "healthy skepticism" applied to arts policy.

William Baumol, widely-recognized as the founder of cultural economics, gives perhaps the most succinct summary of the theory of art as a merit good, and of merit goods themselves. "The argument is that the arts deserve public funding because they are good. If asked why, or how one tests the proposition, the implied answer is that it is self-evident. Whether or not this is accepted as convincing, it must surely be recognized to be an honest reply" (Baumol 2003, 23).

In the end, arts policy is a question of politics, not economics, however it is hoped that this overview provides some economic insight for those involved in and interested in cultural policy.

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