

**The Economics
of the Arts
in Ireland**

By Joe Durkan



The Arts Council/
An Chomhairle Ealaíon

THE ECONOMICS OF THE ARTS IN IRELAND

JOE DURKAN

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FOREWORD

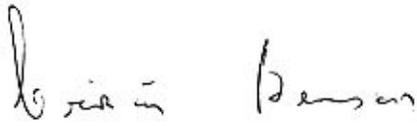
This monograph by Joe Durkan is intended as a contribution to the debate on the economics of the arts in Ireland at a time when the sector is being delineated by a series of reports and studies.

In commissioning and supporting such studies, the Arts Council has sought to widen the range of commentators and researchers with an interest in this area as well as attempting to create dialogue in a language intelligible to different audiences.

Joe Durkan's arguments draw on a number of sources and, while eschewing the special pleading which is common to economic impact studies, show clearly that, as is the case with other core public services, the justification for government expenditure in the arts derives from market failure and the benefits, in terms of societal welfare, that may be realised from correction of this failure.

He also shows that changes in supply and demand for the rest of the decade could produce a significant expansion in access to the arts and offers recommendations to policy makers.

The Arts Council welcomes Joe Durkan's independent analysis and hopes that its elaboration will be of interest to those in the world of finance as well as arts.

A handwritten signature in cursive script, reading "Ciarán Benson".

Ciarán Benson
Chairperson, The Arts Council

November, 1994

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INTRODUCTION

This study was commissioned by the Arts Council to examine the Economics of the Arts in Ireland.

The structure of the study is as follows. Section 1 analyses the economic case for state intervention in the arts. It concludes that there are efficiency and equity arguments that can be used to justify state expenditure in the arts. Section 2 looks at the production and utilisation of the arts in Ireland, drawing on recently published research. In output terms the arts (narrowly confined to areas of interest to the Arts Council — refer to 2.5 below) amounts to £225 million, and employs about 14,500 people. There is a very high degree of utilisation and participation associated with the arts, and this has grown since the early 1980s.

Section 3 examines the economic impact of the arts. It provides estimates of the contribution of the Arts to GNP and to total employment in the economy, but cautions about the use of economic impact studies. The real benefits of the arts accrue to those who produce or avail of the arts, and it is this that is the prime justification for public expenditure in relation to the arts. Section 4 is speculative and suggests that changes in both demand for and supply of the arts over the rest of the decade will be very significant.

Finally, in Section 5, recommendations for public policy arising from the analysis are presented.

SECTION ONE

The Economic Case for the Arts

Introduction

1.1 Economists have shown that, given certain assumptions, markets which are perfectly competitive produce optimum results in terms of efficiency and welfare in a society. These assumptions are very restrictive. On the supply side it is assumed that firms all face equal knowledge about the market, and the available production technology, and that there are many firms, none of which can exert market power. On the demand side it is assumed that consumers have complete information i.e. always know what is best for them and always make choices which maximise their utility (benefits). If each consumer always acts in this way and if each firm seeks to maximise profits, it is held that social welfare and efficiency are maximised. In practice however, real markets are not perfectly competitive and as a consequence much of Government policy is designed to try to make markets perform better or to overcome the consequences of market failure. Market failure arises for a number of reasons. These fall under the general headings of externalities, public goods, lack of information and merit goods.

Externalities

1.2 Externalities are one example of competitive market failure. Externalities are phenomena which arise from the actions of one economic agent (i.e. a firm or an individual) and which impose costs

on or confer benefits on others, where these costs and benefits are not taken into account in any transactions between the parties. These costs and benefits are known respectively as negative and positive externalities. The important point here is that the economic agent does not actually bear the costs imposed on others or receive any payment for benefits conferred on others. Those who bear the costs are not in a position to transfer them back to those who cause them. In the same way those who benefit from externalities do not have to pay for the benefit received.

1.3 Market systems may not produce goods which provide positive externalities in sufficient quantities, since the providers cannot charge. In many cases the existence of collective positive externalities is used to justify Government expenditure in a particular sector. In the case of the arts there are potential positive externalities:

Intergenerational benefits: Much of society's enjoyment of the arts is attributable to past generations (paintings, museums, architecture, literature etc.). The extent to which society carries the arts from one generation to the next owes little to markets, but more to patronage, by governments, religious bodies, and wealthy individuals/companies. Contemporary arts have the potential to add to the existing stock, and provide potential benefits to future generations as well as the existing generation. If it were left to the market to decide, since the current generation can not, in general, charge future generations for future benefits, the level and extent of contemporary arts would be less. Finally, if left to markets, much of what does survive in the world of the arts might not have survived. The degradation of many archaeological sites in Europe in the 18th. and 19th. centuries are the principal examples of this. These are intergenerational externalities. The maintenance of a society's culture and identity between generations provides a dual role for the State. First, to foster the arts, in the realisation that this provides benefits in the future as well as at present, and second to preserve the existing body of arts.

Benefits to the national economy: There is rarely a singular reason why foreign and domestic tourists chose a country for holidaying. This is particularly so in the case of Ireland where the weather does not offer consistent seasonal conditions, either in terms of holidays in the sun or winter holidays. In these circumstances the variety of experience offered by a community is important in terms of tourism. By enhancing the attractiveness of the country for tourists, the arts confer direct and indirect benefits to the providers of marketed services in the economy. The most obvious beneficiaries are hotels, guest houses and restaurants, but others benefit directly also. These include the retail sector, over a wide range of goods and

services, and also the group of visitor attractions that have been developed and grown up in recent years. There are important induced benefits from tourism in terms of activity elsewhere in the economy, both upstream and downstream, in terms of the provision of goods and services to the tourism industry and from the expenditure of those employed in the sector. The Exchequer also benefits, both from the effects of direct tourism expenditure and from these induced effects. National pride in the preservation of the arts, which is a benefit to citizens, provides benefits to non-residents also. This is an important externality. A further benefit to the national, regional or local economy is provided in that the presence of an active cultural life constitutes a location advantage whereby the city, town or area attracts potential investors.

Society Improvement through Continuous Education: Society benefits from exposure to the arts. Education, which makes individuals socially aware, adaptable and informed, confers collective benefits. The arts are an element of further education, and thus deserve public support.

1.4 However, even where externalities can exist people may not benefit fully from them. Awareness and appreciation of the arts requires education also. Formal arts education is inadequately catered for in the Irish education curriculum, though clearly people are exposed to art forms through language, music and other courses. For the arts to provide collective benefits therefore, it is necessary to provide education for the arts. This will increase society's demand for both contemporary and existing arts, and also expands the human capital of society. Finally, it is difficult to see how the tourism externality can be realised if the arts are not rooted in the society.

Public Goods

1.5 It has been shown that the arts provide collective benefits to society. These benefits display the characteristics of what are termed "public goods". As their title suggests, public goods are goods which, once provided, confer benefits on all (e.g. defence) — each citizen can benefit without reducing the amount available for others — and no person can be prevented from benefiting from the provision of the good.

It is clear that public goods will not be financed through the private sector as it is not possible to charge users directly. They must be financed by the State. Some of the benefits from the arts in fact amount to public goods, and of course some of the benefits are private also. The main concern is how to determine whether the public good element is being produced in the correct quantities and what level of State support is adequate or desirable?

1.6 One approach relies on expertise and judgement of professionals in the area. This, in one sense, is the model on which the Arts Council is based. Typically this is the approach adopted in the provision of many public services. Where a system relies on the expertise and judgement of professionals there is a need for constant renewal and stocktaking by professionals if the services are not to stagnate. Other research indicates that the Arts Council is innovative, and the rolling over of council members every five years creates an environment favourable to change. Another approach, which could also be used in conjunction with the use of professionals, is for Government to ask its citizens how much they would be willing to pay in general taxes for the production of public goods including the arts and to use economic principles to determine the optimum level to provide or finance. There are also difficulties with this approach. One difficulty involves the nature of the process whereby the Government informs itself. The typical method is by use of survey techniques. The principal difficulty with this is the design of the questionnaire — if respondents believe they will be paying for the provision of the public good they will tend to understate their true preferences whereas if they believe there to be no charge/cost to them, they tend to overstate their preferences. The value which individuals attach to the arts will also impact on their responses. Even with this problem it is possible for Government to derive a view in relation to people's willingness to pay for the arts. A second, and more fundamental difficulty relates to information available to consumers, on which their judgement is based. This is dealt with next.

Information

1.7 The competitive market model assumes that all persons (producers and consumers) have full information about the range of products being sold, what the true costs and benefits associated with these products are, and always make informed choices which maximise allocative efficiency and the welfare of society. However, in practice consumers are not always fully informed. This information gap is another cause of market failure — if consumers are not fully aware of all of the potential options available to them, and the benefits from these options, they are not in a position to make optimal choices. There is the danger in some sectors, that what is termed the "principal-agent" problem will emerge. This phenomenon arises when the supplier of a product or service has more information than the user. A typical example of the principal-agent problem arises in the healthcare sector where the doctor's knowledge exceeds that of the patient, and this can often lead to supplier induced demand.

The existence of an independent agency, such as in this instance the Arts Council, is therefore an important corrective.

In the case of the arts, ignorance or a lack of information about the arts means

that potential consumers are deprived of the benefits awarded by participation in or appreciation of the arts. This reminds us of the point made in paragraph 1.4 that for the arts to provide collective benefits formal arts education should be made a feature of the education curriculum. Arts education will represent the first exposure to and education in the appreciation of the arts, and this allied to the information widely available now will limit the extent of the principal-agent problem in the case of the arts.

Producers also encounter difficulties with this lack of complete information — demand for the arts is less than it would be if information were better, and hence suppliers of art forms are often operating well below capacity. This manifests itself in a need for income generation outside the art form, low income and failure to develop. Of course it is not claimed that all artists would survive if full information were available, or that if full information were available, that there would be no need for the State to be involved in the arts.

There is also a difficulty caused by the fact that it is not always clear what exactly constitutes the arts. The boundaries of the arts are not obvious, and changing technology is shifting even well defined boundaries in some subsectors. There is the issue of immediate versus long term, i.e. should resources be put into current art forms and their maintenance, or into arts education, which has a long-term payback, or should art forms with a long gestation period be supported at the expense of current work. There is also the question of innovation or repetition within art forms. Such qualitative issues cannot be resolved by the market mechanism. In a market situation people would undertake investment in those areas where they expect future returns. If their judgement is incorrect then the venture fails, and the resources are lost. If successful the venture provides returns to the activity. In the case of the arts, where market failure is so common, this investment function is provided by the state. There are risks for the state as there is less public acceptability of poor decisions in the case of public funding, where it seems to be believed that the state or state agencies can foretell the future, or have some special knowledge of the future that make all ventures profitable or worthwhile. Although these expectations are based on an absurd premise (viz. that one can foretell the future) the criticism that emerges from the premise (viz. that with "proper planning" the problems could have been dealt with) tends to make decision making conservative. There is also a value in the experiment with innovative art forms, which can be embodied in future decision making, and this needs to be recognised.

1.8 The previous paragraphs have focused on efficiency considerations arising from market failure which pose a case for Government support for the arts. We now consider the question of equity.

Equity Considerations

1.9 The distribution of income in society is not uniform. Inequalities arise between groups with similar socio-economic backgrounds and also between groups with very different backgrounds. Much public expenditure is concerned with interpersonal and Intel-temporal equity. Some examples of Government activity to resolve these inequalities include direct income support (unemployment assistance, old-age pension, grants to third level students) and also indirect support, for example in the provision of services such as healthcare, education, library services and so on.

There are arguments for public expenditure in these areas not just in relation to equity considerations. These arise on efficiency grounds, and as a result of the preferences of the society. It is not clear how far the equity argument can be pushed as this is primarily a question that society, rather than analysis, must address. Some differences in income reflect market failure and the provision of services is one mechanism to deal with this. Later we show (Paragraph 3.10) that society recognises the importance of the arts, yet some well defined groups systematically experience less from the arts. In particular, those with higher incomes benefit more from public provision of the arts. This suggests that equity considerations could form the basis for some increased public expenditure in relation to the arts, but it would be important that this expenditure be directed to dealing with the consequences of the lack of equity.

Conclusion

1.10 In this section, we have shown that there are both efficiency and equity arguments that can be used to justify State intervention in relation to the arts.

SECTION TWO

The Arts in Ireland

Introduction

2.1 The limits of the Arts sector are difficult to define. As a production sector, the arts are often seen as falling within neat categories e.g. theatre, dance, visual arts and so on, and much of the description of the arts is undertaken within defined art forms. Even within these, however, the limits are often blurred. For example, the retail side of literature is generally considered not part of the sector, yet it is clear that retail outlets perform an invaluable function in supporting literature and in bringing literature to potential audiences. As a production sector, the arts sector provides output for current consumption of contemporary art forms and the base for an addition to the stock of art which can be enjoyed in the future.

The arts, as an aspect of society and individual experience, tend to be much wider than the production side. The individual derives enjoyment or benefits not only from new art or from new interpretations of existing art, but also from existing art, as is the case with reading Shakespeare or visiting heritage sites or museums.

2.2 The above distinction is partly that between flow and stock concepts, where the flow consists of contemporary art, new interpretations of existing art, and the services (or benefits) derived from existing art, while the stock consists of existing art. The situation is analogous to that of the stock of capital (either physical or human) in the economy. In the case of physical

capital, investment is needed to increase the capital stock.

2.3 This is a useful way to think of the arts. The arts sector is producing a flow of goods and services, some of which are enjoyed, to varying degrees, on production only, while others add to the stock of the arts which will provide goods and services in the future. A priori, it will be difficult to know what elements of current production will have long-term benefits.

Production of Art Forms in Ireland

2.4 It is necessary to consider the extent of current production and also the extent to which the output and the services are reflected in people's demands, and this is done in the following paragraphs.

2.5 The main areas on the production side that we have considered derive from Arts Council activities and relate to Theatre, Dance, Music, Film, Exhibitions, Visual Arts and Writing. The basic information is derived from a Coopers & Lybrand Report "Employment and Economic Significance of the Cultural Industries in Ireland" (November 1994). This report pieces together the disparate information available on the arts in Ireland and supplements this information by means of survey work where appropriate. The numbers derived are essentially orders of magnitude. The coverage in some sectors, particularly music, is wider than the Arts Council coverage in its expenditure, but this reflects, in this case, a thriving private music industry.

2.6 In overall terms in 1993 the arts sector, as defined above, had a gross revenue of some £225-250 million and employed some 14,200 people (full time equivalents) directly. Two sub-sectors, music and film, account for 75 per cent of turnover and 80 per cent of employment. The bulk of turnover is derived domestically, though exports are a minimum of £50 million. Music and film are the most important export earning sectors, accounting for 85 per cent of earnings. State grants, subventions and direct funding are an important source of revenue for the arts. Together these amounted to about £15 million in 1993, for areas covered by the Arts Council.

- In the Dance sector, State funding accounts for 80 per cent of revenue, but the absolute amounts are small.
- In Theatre, State funding accounts for 30 per cent of revenue and amounts to over £5 million.

As indicated above, these data refer only to areas of direct Arts Council activities.

On the wider definition of the arts sector contained in the Coopers and Lybrand study:

total revenue of the arts is about £450 million;

export earnings are approximately £100 million;

State grants amount to £50 million;

total full-time equivalent employment is about 21,500.

2.7 The information available on costs incurred by the arts sector is very poor, both in relation to wages and salaries and other inputs. Gross Annual Turnover in the sector is less than £16,000 per person when allowance is made for full time equivalents. This compares with a figure of £50,000 per person employed in manufacturing. This suggests that average income per person in the arts is low, and this is confirmed by the information in the relevant surveys contained in the Coopers & Lybrand study referred to earlier in which income per head varies by sector from £6,500 to £10,000 per person. These figures are very low and confirm an impression that those involved in the production of the arts are poorly paid.

Utilisation of the Arts

2.8 The previous paragraphs have described in broad terms the production side of the arts sector. It is clear from this that while the State is important to the sector as a whole, there are subsectors within the arts that are not heavily dependent on State support and clearly must derive their revenue from the provision of goods and services to consumers. There is some information available on utilisation of the arts by residents from the report "The Public and the Arts. A Survey of Behaviour and Attitudes in Ireland" carried out by the Business Research Unit of the Graduate School of Business, University College, Dublin. The report allows us to examine attendance at the arts across the population (adult) and over time (between 1981 and 1994) based on survey work carried out in 1994 and 1981. There is also some information available from the 1993 Visitors Attractions Survey which measures visits to fee paying attractions in Ireland by both domestic and foreign tourists.

2.9 The UCD report provides a comprehensive view of attitudes and behaviour towards the contemporary arts in Ireland by the resident adult population. The survey revealed a picture of participation that is summarised below.

Proportion of Sample that had Arts Experience 1994, 1981. (%)		
	1994	1981
Attendance at Arts Events	78	60
Purchase of Arts Goods	82	50
Participation in Amateur Artistic Activities	21	16
Participation in Arts Activities	35	n/a

Overall what the survey indicates is that there is a high degree of utilisation (attendance, participation) of arts services and goods in the country. In addition, there has been a marked increase between 1981 and 1994 where comparable data exist. In addition the target population has increased. The number aged over 19 rose dramatically over the period as indicated below.

Population Aged Over 19 (000s)

1981	2,073
1986	2,185
1991	2,250
1993	2,327

From this it is clear that the actual numbers of those utilising the arts have increased. For instance applying the proportions above to the relevant population figures suggests that 1,815 thousand people in 1993 attended arts events compared with 1,244 thousand people in 1981. This represents an increase of 45 per cent in attendance. The Public and the Arts report offers a comprehensive interpretation of these results.

We do not have sufficient information to determine the extent to which the greater numbers were accommodated within existing or new facilities. There is independent evidence that there has been a very big increase in the number of venues, particularly for live music, but that average attendance per venue has declined.

2.10 While the overall figures for utilisation indicate a high degree of arts utilisation there are significant differences by region (Dublin, Rest of Leinster, Munster, Connacht/Ulster) by area (urban/rural) and by occupational class (Middle, Skilled Working, Semi-Skilled/Unskilled Working, Farmers). There are also differences by age and distance from events. The knowledge that these differences exist by these categories does not provide a causal explanation for the differences. A separate set of hypotheses is required. It is

difficult to believe that region per se is an explanation for lower utilisation. The reality is that Dublin tends to have quite high utilisation because there is a ready concentration of arts activities in Dublin. Where the population is more dispersed it may be difficult for providers to cover costs at realistic entry prices to users.

2.11 There are also significant differences in utilisation rates between art forms. This reflects preferences and possibly also the availability of art forms. There may be a minimum market size which is necessary before an activity can be justified either on commercial or broader economic grounds.

Role of Public Sector and Policy

2.12 In this Section we have set out some estimate of the size of the arts sector and the utilisation of the arts in Ireland. It is clear that the sector is significant in terms of numbers employed and total turnover, whether we take the overall sector as covered in the Coopers and Lybrand study, or the more narrowly defined Arts Council supported sector. It is also clear that there is a high degree of utilisation of the arts by residents.

2.13 The level of State funding includes State grants from all sources and direct provision of services by the State. The level of funding through the Arts Council is just one element of State funding, covering a wide range of areas of interest. There is little State funding where private sector interests can provide the services profitably. The State is mostly involved in those areas where market failure is perceived to exist. There is diversity in the sources of State funding rather than centralisation, and this allows for diverse views of market failure.

2.14 The provision of contemporary arts must be seen as partially adding to the stock of capital in the arts. It has many of the characteristics of investment at an early stage in the investment cycle. There could be widespread failure, but those elements of contemporary art that survive will provide services to consumers thereafter. The private sector is unlikely to provide the necessary funding, so that it is sensible for the State to be involved, because it believes that contemporary art has potential value.

SECTION THREE

The Economic Impact of the Arts in Ireland

Introduction

3.1 The most obvious impact of the arts in Ireland is captured by the numbers of people employed in the sector and the value of revenue of £225-250 million. The value added of the sector — i.e. the value of sales less inputs from other sectors, is clearly less than £225 million. From survey data it seems likely that the value added of the sector is some £150 million with inputs accounting for about £75 million. The sector is thus substantial in the economy. In employment terms it accounts for 1.2 per cent of total employment, assuming all those in employment are full time employees.

3.2 In recent years, attempts have been made to assess the economic impact of this sector in other countries, and to assess the impact of other sectors, both here and elsewhere. The logic behind such studies is considered below.

Economic Impact Studies

3.3 An economic impact study takes as its starting point the direct expenditure associated with an activity. This direct expenditure is broken down by value added and the purchase of inputs from other sectors. The value added represents the income of those involved in the production of the final goods and services. This income will be spent on other goods and

services, thus generating value added and inputs in other sectors of the economy and increasing other people's incomes. Those involved in providing inputs also find their income increasing and their expenditure also increases other people's incomes. Thus corresponding to the initial expenditure there are a whole series of interrelated expenditures and incomes. We can think of the total effects in the economy as the direct effect of the initial expenditure and the indirect and induced effects deriving from the generation of income from inputs and the expenditure of income. What stops the initial expenditure having an infinite effect on incomes in the economy are the following:

(1) some of the initial expenditure will require inputs (indirect and induced) which are imported, and thus do not generate further incomes domestically;

(2) individuals do not spend all their income. Many individuals will save, either directly through conscious savings decisions, or indirectly through pension schemes. Their saving will not be reflected in increased expenditure unless certain conditions are satisfied — i.e. that savings media are constrained in their ability to raise resources necessary for lending from overseas. This is not the case in Ireland. Thus savings represent a reduction in the income generation capacity of any increase in expenditure on the arts;

(3) the tax system also reduces the available income of income recipients. The more highly geared the tax system is the greater this effect, and the less the effects on output in the economy of an increase in expenditure in the arts, or indeed in any area. In recent years, economic impact studies have included the impact of Government increasing its own expenditure to take account of improved Government revenue from other activity in the economy, on the basis that Government works to a target budget deficit or surplus and any factor that improves the budget balance will be reflected in increased expenditure. In principle this effect, referred to as Government recycling, could apply to reductions in taxation, but the economic impact is less in this case. In the 1970's, before the emergence of budget imbalances, it was not conventional to include recycling in economic impact studies, but it is now common.

3.4 The methodology used in economic impact studies is that of Input-Output analysis. This enables the study to provide full effect on output in the economy (GNP), the balance of payments, government revenue and with suitable assumptions, the level of employment. It must be stressed however that these studies are very partial. The application of a similar

approach to all sectors generates output in excess of total output in the economy. Such studies are now seen as special pleading for individual sectors. It is a commonplace that every sector contributes heavily to the economy — much more than its initial value added; that every sector is responsible for much greater employment than its own direct employment; that every sector is making a contribution to public revenue greater than the direct expenditure on the sector by the State, and so on. It is for these reasons that economic impact studies must be treated with caution. The fundamental weaknesses in these studies derive from the assumption that in the absence of the sector, those involved in the activity would be doing nothing. This is implausible.

3.5 Economic impact studies also suffer from the attempts to estimate the net budgetary effects of public expenditure in the area. This is particularly so in relation to the arts, where it is often attempted to show that public expenditure in relation to the arts "costs" the State nothing. This approach misses two fundamental points -

(i) State expenditure in relation to the arts can be justified in relation to market failure as discussed in Section 1. The issue is the extent of market failure and the degree to which it should be corrected;

(ii) It is not a valid argument to determine State expenditure in terms of the net budgetary implications. If this were the case it would be sufficient to find that sector with the greatest net budgetary impact and concentrate Government expenditure in that area. It is as well to recognise that State expenditure could take place in other areas. The question is then the net impact of expenditure in the arts rather than elsewhere. But even this is flawed, since the purpose of State expenditure is to meet society's welfare objectives, and there are real resource costs associated with State expenditure.

3.6 Economic impact studies are concerned with estimating the linkages on the production side between a sector and other sectors in the economy. All sectors exhibit these linkages to one degree or another. The important issue however is the degree of market failure on the consumption side, a point which is turned to later (see 3.9 - 3.11).

Some Estimates for Ireland

3.7 It is clear from the preceding paragraphs that one must treat economic impact studies with caution. The data available for Ireland do not allow us to carry out a full-scale input-output analysis but it is

possible to consider orders of magnitude for the "economic impact" of the sector by comparison with similar sectors, taking account of our estimates above of value added and inputs.

If we assume recycling of tax revenue by Government the contribution to GNP of £225 million final expenditure on the arts amounts to £245 million, while, without recycling, the contribution to GNP is £228 million.

In addition to the 14,200 directly employed in the arts, there are between 4,000 and 5,000 others who are employed as a consequence of the indirect and induced effects. The impact on employment is lower than a comparison of arts employment might suggest, but this reflects the fact that pay levels in the arts are relatively low, or alternatively pay levels elsewhere relative to the arts, are high.

We do not have total revenue generated to the state from arts activities. If we use average tax rates, total revenue to the State in relation to income derived from the arts would be about £100 million. However, since pay levels in the arts are relatively low, this estimate is an upper bound, and realistically, total tax revenue, when direct and indirect effects are taken into account, is likely to be considerably less, at perhaps £50-60 million. It must be stressed that in addition to the caveats indicated earlier a critical assumption in relation to the net exchequer benefit derives from the boundaries placed around the arts sector. The biggest single element of the arts is the music sector. It accounts for the bulk of output, employment and tax revenue, yet is hardly in receipt of any direct State expenditure.

3.8 The above estimates must be treated as orders of magnitude only. They provide orders of magnitude of the size of the sector in turnover terms and its total effect on output and employment in the economy. There are other effects which cannot be assigned to these estimates e.g. the extent to which tourists are attracted to Ireland as a result of the arts, since, as indicated earlier, there are rarely single influences on tourists; rather it is the whole package which influences their decision to come to Ireland, or to stay in Ireland rather than travel overseas. The use of Ireland as a location for film making or for music recording will generate associated activity in the tourism sector which will not be captured by these estimates. This can only be estimated by detailed studies of these activities. Thus it is clear that there are benefits to the economy over and above the estimates contained here. While these are important, an arts sector that derived its resources from government to meet tourist needs would miss out on a very important part of arts activity in relation to the domestic population, even if government were entrepreneurial enough to anticipate overseas tourist needs, and to be able to incentivise the arts sector to meet these needs. This is discussed in more detail in the following section. The important point about the provision of

State funding is that, to the extent that there are positive tourism effects, they reduce the net cost to the Exchequer of activities that can be judged on the basis of the correction of market failure. Although it is not possible to prove it, it seems implausible to assume that an arts sector that is not embedded in the society could be developed to meet tourism needs, even though this does not apply in other sectors of the economy, witness the development of the computer hardware industry.

Benefits of the Arts

3.9 It has been indicated earlier that the justification for Government expenditure in relation to the arts derives from market failure and the benefits that could be realised from the arts. This suggests that different elements of the arts industry should require different levels of support from government. In the broadly defined popular music sector there seems to be little market failure and little direct Government support. In other sectors there is market failure and more Government support, which is exactly what would be expected.

This society places great value on the arts. This is clearly shown in the report "The Public and the Arts. A Survey of Behaviour and Attitudes in Ireland". Thus Government is not in the position that it is deciding what is good for people; people have already expressed their preferences. The issue for Government is the scale of intervention.

3.10 In "The Public and the Arts. A Survey of Behaviour and Attitudes in Ireland" people were asked to indicate their attitudes to the arts over a range of topics where attitudes were graded — Strongly Agree, Agree, Neither, Disagree and Disagree Strongly. The percentage of the sample for each category of response is available. The net balance between the two positive and the two negative results provides an indicator of the strength of the attitude being addressed. The relevant questions and net responses are given as follows:

Question

Arts education in schools is as important as science education	+55
As much importance should be given to providing arts amenities as is given to providing sports amenities	+43
The current level of spending on the arts should be maintained even in times of economic recession	+36
Arts and the artists of our times are as important to our society as the legacy of the arts and artists in the past	+79
The arts benefits only those who attend or take part in arts activities	-13

3.11 It is clear that the society places a significant value on the arts. In particular it is widely believed that society as a whole benefits, not just those who attend or participate in the arts. The results of this survey provide a view from the society about the externalities and the intergenerational aspects referred to in Section 1.

Conclusion

3.12 A focus on the economic impact of the arts as a production sector must be examined carefully. The real benefits from Government expenditure in relation to the arts derives from the consumption benefits i.e. the correction of market failure. Too much attention is given to attempting to estimate the complete and total effects of the arts (and indeed other sectors) without sufficient consideration of alternative uses of the same resources, either by Government or taxpayers.

Economic impact studies are likely to overstate the true impact of a sector. More important is the fact that these studies distract attention from a consideration of the true welfare gains from the correction of market failure.

SECTION FOUR

The Place of the Arts in the Future

Introduction

4.1 In the future the factors that will influence the arts will arise on the demand side and the supply side. These factors are as follows:

- (i) **demand** for the arts — a function of demographic change, income levels, the price of the arts (including the taxes that must be raised to fund the arts), and changes in preferences.
- (ii) the **supply** of arts — a function of the stock of arts, technology, the provision of contemporary arts, and the price that can be charged for the arts (including the resources that can be made available for the arts from Government).

Demand

4.2 The increase in the numbers aged 19 and over referred to in paragraph 2.9 is set to continue for the rest of the decade. However the number of new entrants to this age grouping will fall very sharply thereafter. In 1993 there were 568 thousand, compared with 653 thousand in 1988, aged less than 10, and these will eventually lead to a reduction in older age groups in the long term. In the medium term, the ageing of the population will continue and the target groups for the arts will increase in number. The bulk of the increase will take place in the age group 40 to 59 whose numbers will increase by 11 to 12 per cent, while the numbers aged 20 to 39 will be virtually static. The demand for some

art forms is age related, but this needs to be researched further from the utilisation survey. More important is the effect ageing might have in terms of attendance/participation in new and innovative art forms. In the absence of research this requires judgement and further research.

4.3 The period for which we have data on utilisation (1981-1994) was characterised by the most serious deterioration in economic activity, 1980-1986, and the fastest growth, 1987-1991, since the 1950's, with a current overhang of 275,000 unemployed. The most recent medium term forecasts (ESRI 1994) put the growth performance of the economy to the end of the decade at historically high levels. Real income for those in employment is likely to be a minimum of 25 per cent higher than currently by the year 2000, and the numbers employed are set to rise.

Demand for the arts is believed to be highly income elastic — as income rises demand for the arts increases faster. For a given demographic structure and given preferences, this suggests a significant increase in demand. Where market services are provided and demand increases supply rises. The effect on the price of marketed services depends on the conditions of supply. However, where public services are provided it is not obvious that supply will rise, as market signals are lacking. There is a danger of unsatisfied demand, even where people pay for services. Where people do not pay for services there could be greater shortfalls.

4.4 The most obvious areas where demand is influenced is in the question of preferences. There is a widespread view among arts administrators that if only people were properly educated they would utilise the arts and the art forms that administrators favoured. However, preferences tend to be individual. What arts education can provide is an appreciation of an individually chosen art form, and an exposure to different art forms, which will widen the area of choice of consumers. In the past arts education was not formal in nature for the bulk of the population. Most people's arts education derives from some degree of socialisation in relation to the arts (family, school participation), and early socialisation may determine preferences. There is a good case for some formal arts education because this will widen consumer choice.

4.5 It is not obvious how preferences change over the person's life cycle. It was once believed that there were significant changes in arts preferences as human capital was built up. However a plausible story can be told which sees differences by age in chosen art forms reflecting art forms available early in the socialisation process, while maintaining a relatively constant preference through the life cycle.

4.6 If this is the case, exposure early in life to different art forms is important in widening the choice of ultimate preferences.

Supply

4.7 Production in the arts includes new works, new interpretations of the existing stock of arts capital, and the ongoing experience of the existing stock of arts capital. Throughout time the arts has been driven by the creativity of the artist(s), the availability of technology, and the interplay between creativity and technology. There is no reason to believe that the future will be different. What is different is the number of people directly entering into the creation of the arts, and the ready availability of technology.

4.8 The formal education system is now placing more emphasis on individual participation and creativity. The reduction in the number of students and the increased resources of recent years makes this possible at first level. The new transition year at second level has also provided the possibility of personal development for the majority of second level students. This exposure not only provides people with a range of art forms but through direct participation (e.g. own poetry, acting in plays, musicals, etc.) makes people aware of their own potential creativity. This suggests that over time the numbers of those participating directly in the arts will increase. This could be done at both a voluntary level and also as a source of income.

4.9 This participation is likely to be enhanced by available technology. Access to the production side of many art forms is now relatively inexpensive — e.g. music, literature. The forms in which the arts can be transmitted to consumers are expanding — live, television, radio, video, PC — and technology is constantly widening the area of choice. While some have strong views about form e.g. live versus video, the reality is that there is a wide choice now available to consumers and that this wide choice has expanded the market for the arts. At present CD and PC based technology is in its infancy in market terms, but has obvious implications for the arts in terms of the ability to provide high quality works, in most areas of the arts, directly into households. Similarly, the availability of specialist cable channels offers opportunities for the dissemination of the arts.

Conclusion

4.10 The rest of the decade will be characterised by changes in demand for the arts, reflecting a changing demographic structure, increasing income, and changes in preferences. On the supply side, the

education system is providing the opportunity for people to develop their creativity, and this allied with relatively inexpensive new technology could produce a significant expansion in the arts.

SECTION FIVE

Public Policy for the Arts in the Future

Introduction

5.1 The primary objective of Government policy in relation to the arts should be the correction of market failure. The analysis of the preceding sections indicates the direction of policy.

Recommendations

5.2

(i) Improve access to the arts, particularly among those groups whose current participation is low. There is a measurable outcome in this case.

(ii) Strengthen art forms now considered weak, where there is evidence that potential consumers exist. Outcomes are also measurable in this case via participation.

(iii) Foster innovation in interpretation, and in new art forms. Outcomes in this case are not so obvious, as much will have to be speculative in nature, and the benefits are likely to be long term.

(iv) Provide arts education at first and second level, to overcome information shortages and to allow people to experience their own creativity. Outcomes in this case are also likely to be long term and measured in participation in the arts.

5.3 These are very broad recommendations. It is assumed that, if accepted, policy will be pursued efficiently, viz. art forms will attempt to meet quality standards, access will be pursued efficiently, joint ventures (domestic and overseas) will be sought where appropriate.

5.4 The benefits from the correction of market failure are an improvement in welfare in society. Associated with this we would expect, from arts education and improved access, an increase in the level of production in the arts. There may also be some benefits to the national economy from overseas tourism. The pursuit of the latter is not the prime objective of policy. If it were to become so, then the approach to the arts would be different.