Funding the Arts and Culture in the EU

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1. Introduction

This paper analyses the various sources of financing culture in Europe1. It focuses not so much on the need and content of a European cultural policy as on the conditions necessary to conduct such a policy. Our concern lies particularly in the availability of financial data on public and private financing of the arts and culture. The main objective is that of focusing on the relationship among the public and private sectors that financially support the arts and culture and, especially, on the reciprocal influence that they can have. The analysis is both qualitative and quantitative. To best illustrate how culture is financed, the study explains data (where possible) in a wide cultural policy frame, including the analysis of policy priorities, decision-making patterns and administrative organisation.

2. Theoretical background of the study

For the purposes of the study it behoves us to stress a peculiar economic characteristic of culture: the likelihood that the way a cultural good is financed will matter to its valuation and its functioning (Frey 1997, Klamer 2002, Klamer & Zuidhof 1998, Throsby 2001). It usually matters whether cultural activities are financed by means of (government) subsidies, market arrangements or the non-profit (third) sphere. The mode of financing has bearing on the organization of cultural institutions and especially affects the appraisal of cultural goods and their valorisation.

The study focuses on three main sources of funds for the arts: the government, the market, and the third sphere (non-profit sector). Each has its own rationale, and tends to generate its own institutions and organisations. Any cultural policy may need to take these sources and their consequences into account. The study tries to adhere to a differentiation of these three main sources of financing by grouping the data accordingly. More specifically, the analysis considers:

A. Public support:

● Public direct support
This includes subsidies, awards, and grants, as well as lottery funds provided by central and lower levels of governments5.

● Public indirect support
The analysis of indirect financial support to culture will draw attention to tax expenditures, which refer to income that local and national governments forego because of tax reductions and exemptions granted to cultural institutions or to companies and individuals supporting the arts and culture. Tax incentives provide extra funds for culture.

B. Private support:

● Business support
Indicators refer to support from business organisations.

● Non-profit organisations support
Indicators refer to support from non-profit organisations and individuals’ donations for culture.

The analysis is based on the collection of data from secondary sources (national statistics, ministries'
reports, and international database). The quantitative analysis proved to be very difficult as data for the period under consideration were frequently unavailable or not comparable.

3. Findings

3.1. Cultural policy priorities and organization of the public administration responsible for culture

The qualitative analysis considers the cultural policy priorities and the administrative organization in place in the 27 EU member states. The organization of the administrations responsible for culture and the arts varies widely among member states – from highly centralized to decentralized organizations. Most countries have a centralised structure with a central ministry bearing most responsibility. Some authority has been devolved to lower levels of government which, in general, operate under the control of the minister. Ireland, Cyprus, Italy, France, and Luxembourg belong to this group. Countries like Austria, Belgium, Germany, Poland, Portugal, Spain and the United Kingdom, instead, have a decentralised organisation where lower levels of government (Länder, regions, counties, provinces, and municipalities) are responsible for most cultural matters. In general, a process of decentralisation and déséralisation has taken place (and still is taking place) in accordance with what could be seen as the ideals of society that have developed in Europe over the past ten years. Most countries have started a process aiming at the reorganisation of the administration responsible for cultural matters, turning to a more active involvement of lower levels of government. The East and Central European countries are an interesting example of attempts to introduce new systems by looking at best practices in the rest of Europe. For example, the Baltic countries (Latvia, Lithuania and Estonia) have embraced the Nordic approach to the governance of culture, used predominately in Sweden, Denmark and Finland. East and Central European countries show a tendency towards decentralisation. Still, financial and management limitations remain barriers that prevent local levels of government from being able to assume new responsibilities.

The analysis of the administrative organisations responsible for culture in the 27 countries reveals the application of the so-called arm’s length principle in some of them. The presence of “arm’s length bodies” has had an important impact on the development of culture and the arts. However, the role of these bodies in East and Central European countries is limited.

Common features and peculiarities have surfaced with respect to the cultural policy priorities in the 27 countries. Aligning with EU cultural policy objectives, support to creativity, heritage protection and promotion, and a focus on creative industries are two objectives that nearly all the countries share, followed by recognition and promotion of national identity, cultural pluralism, internationalisation and decentralisation of responsibilities. Certain countries focus on specific objectives such as support to individual artists, education in the cultural arts, or the preservation and protection of heritage.

3.2. Public and private financing of the arts and culture

3.2.1. Direct public financing of the arts and culture

In the period under consideration, public direct support has shown a general increase, especially in Central and East Europe. A significant rise in state spending on culture is noticeable in Malta and Cyprus due to the higher level of development investment in culture. Among the new members and acceding countries, the growth in central government expenditure on culture is considerable. Among the older EU member states, the increase in central government spending for the period 2000-2004 was more moderate. During the period studied, national spending on culture as a percentage of GDP varied between 0.3% and 1.2% among countries, but fluctuation within countries
tended to be slight. When a broader definition of culture is considered⁵, the data suggest percentages of GDP between 0.4 to above 2 percent, with Luxemburg and Denmark as the leaders and Greece at the lowest end.

Most East European countries (except Poland and Hungary) plus Malta and Cyprus show a trend towards decentralisation, but the central government remains powerful in the distribution of funds. The autonomy of regions and municipalities achieved in some countries (especially Austria, Belgium, Germany, Poland, Spain and the United Kingdom) has allowed them to contribute significantly to culture at the local level.

The distribution of funds among different sectors varies among countries according to their respective cultural priorities. In some states, public support is distributed through foundations, arts councils and arm’s length bodies. In Sweden, Denmark and Finland, large shares of arts councils’ budgets are distributed as grants to individuals, especially writers and visual artists.

In many countries, lottery funds for culture are important and in some, like Italy, their distribution has allowed cultural interventions that were otherwise impossible. Their collection and redistribution methods vary from country to country. They are primarily channelled to capital investment and much less for the realisation of projects.

3.2.2. Indirect Public support to the arts and culture

An important and often overlooked form of government support derives from the creation of a fiscal environment that provides extra funds for culture. Indirect support refers to income that local and national governments forgo in tax reductions and exemptions granted to cultural institutions or to their supporters. Tax incentives take place as tax exemptions, tax deductions and special (lower) tax rates for art and cultural institutions. Fiscal relief can be ascribed to all forms of private support to culture (cash donations, sponsorships in kind, services or equipment).

Although data are difficult – if not impossible – to obtain, in some countries (like the Netherlands and Ireland) indirect support appears to be as important as direct support. Fiscal measures can be very important in stimulating private intervention as they provide individuals and companies incentives to take part in the financing of culture and the arts. They can also favour the creation and development of non-profit cultural institutions with their promise of fiscal benefits. The importance of this form of support very much depends on the national habit of contributing, which is substantial in the Netherlands and the United Kingdom.

Indirect support for culture through taxes is developed differently among countries, although there is a general trend towards the introduction of tax benefits for donations or sponsorships in the cultural sector. France and Italy, countries where these measures have never played an important role, are now interested in this trend.

There are also initiatives to stimulate people’s intervention in favour of third sector organisations in the cultural sector. Special tax schemes allow people to contribute 1 or 2% of their taxes (in Italy 5%) to a non-profit organisation of their choice.

3.3. Private support to the arts and culture

Business support to the arts and culture

Business support has tended to increase since the beginning of 2000 along with the general economic development of the EU. Cultural sponsorship in East and Central European countries lags behind the older member states. Large events or well-established cultural institutions attract the bulk of business support. Business financial support to culture is mostly motivated by social responsibility combined with marketing goals. Tax incentives, instead, are not necessarily the primary motivation for companies to support culture via sponsorship and donations. In countries where businesses traditionally support culture, companies tend to have established a long-term partnership with the cultural actors or institutions, and tend to be strong supporters of regionally-based activities. On
the opposite end, in East and Central European countries, where sponsorship is a rather new concept, support to culture is provided on an ad hoc basis.

**Non profit support to the arts and culture**

There is little explicit acknowledgement of the importance of the third sphere. Even so, its role appears to be increasingly significant.

For the period under consideration there is a general increase in the support through donations. In Belgium, Germany, the Netherlands, Portugal, Italy and Spain, art and culture are the priorities of private foundations' support. However, this is not a steady trend as it shows considerable fluctuations during different years. Still the largest share is redistributed to the organizations in the biggest cities. Support from bank foundations plays a significant role in Mediterranean countries (Italy and Spain). Non-governmental organizations for culture in East and Central Europe are mostly supported by private international foundations.

5. **Recommendations**

The results of the survey indicate that governments (local and central) still remain the largest supporters of culture in comparison to the other sectors. Nevertheless, strong evidence indicates that, when supporting the arts, the three spheres merge activities and objectives rather than separate them. Thus, the best strategy to follow would be to focus on the interaction among the three spheres and find the best ways to stimulate that collaboration. Certainly, governments could devise incentives to stimulate the market and, especially, third-sphere participation in supporting culture. The introduction of fiscal incentives, the use of matching grants and the involvement of private companies in the management of cultural institutions are tools that can easily be adopted by governments. A strategic design of these tools would also allow governments to direct private support towards specific objectives.

Information and communication about cultural projects, policy priorities, financing possibilities and initiatives are fundamental to the cultural sector and to raise public awareness. Governments could encourage private involvement in supporting the arts and culture by stimulating communication among stakeholders; similarly, cultural organizations need to build communication and management skills and adjust their organizations accordingly. Furthermore, especially important is for governments to stimulate and promote joint venture practices with the business sector.

The arts exist by virtue of the people involved, interested, committed. The challenge is to increase the involvement and enlarge the circles of the worlds of art and culture. One way to do that is to develop alternative ways of financing the arts. In particular, an increase in private support – individual contributions, donations, sponsorships – is called for without its reducing government support. Governments can stimulate these adjustments by matching private unearned income and by legislating fiscal incentives. The purpose of these policies is not to interfere with public support but to swell its value in the sector of the arts and culture.

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**Notes**

1) It is based on a research commissioned by the European Parliament and conducted between February and May 2006, see Klamer, Petrova and Mignosa, 2006.

2) Lower levels of governments include Läder (Austria, Germany), Communities (Belgium), Voivodship (Poland), Regions, Provinces, Counties, Municipalities.

3) According to Eurostat (2001) this includes creative arts, museums and archives, performing arts, libraries, film and video, without broadcasting and art education.

4) The report of the Organisation for Economic Cooperation and Development (OECD 2006) considers a broader concept of culture and recreation, where government expenditure includes the administration of sports, recreation and cultural affairs as well as the
maintenance of zoos, botanical gardens, public beaches and parks, support to broadcasting services and in some countries support to provision for religious services. Also included are grants to artists, performers, orchestras and opera companies.

References


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http://www.budobs.org/tax.htm


