

# Markets for Arts and Culture

Robert M. Coen

Professor Emeritus of Economics

Northwestern Alumnae Continuing Education

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Rembrandt (1606-1669)

*Self Portrait* (1659)

National Gallery of Art

# Special Aspects of Arts Markets

Producers are not profit maximizers

Consumption brings psychic reflection and pleasure, not material gratification

Consumption is non-rivalrous

Difficult to protect producers' property rights in their creations

Benefits are social as well as private

Defines national character and pride, creates cultural heritage  
Can revitalize communities

Productivity lag causes long-term budget squeeze

# Is the Art Market Irrational?

Art critic Robert Hughes:

“The price of a work of art is an index of pure, irrational desire.”

From studies of auction prices, David Galenson (Chicago)

Average annual yields are in line with other investments. 1950-2000 yields are:

American paintings 12.2%

Impressionist 11.6

Old Masters 11.2

S&P 500 12.6

Work of greatest artists sell for highest prices

Works from most important periods of great artists' careers bring highest prices



Guggenheim Museum, Bilbao, 1997



Tate Modern, London, 2000



Pompidou Center, Paris, 1977

# Illustration of a Productivity Lag in the Arts

	2005	2015	% change 2005-15
Widget industry			
Output (widgets) per hour	10	12	+20
Wage per hour	\$10	\$12	+20
Unit labor cost	\$1	\$1	0
Non-labor unit cost	\$0.10	\$0.10	0
Widget price	\$1.10	\$1.10	0

## Symphony orchestra

Orchestra = 100 musicians

Each musician works 8 hours per concert

Hall = 1,600 seats

Output = 1,600 admissions per concert; musician-hours per concert is 800

Output (admits) per hour	2	2	0
Wage per hour	\$20	\$24	+20
Unit labor cost	\$10	\$12	+20
Non-labor unit cost	\$1.00	\$1.00	0
Admission price	\$11.00	\$13.00	+18

# Revenue Sources of Not-for-Profit Performing Arts Groups and Museums. 2006-2010

Source	Percent of total revenue
Earned income	40.7
Individuals	20.3
Endowment	14.4
Foundations	9.5
Corporations	8.4
State-local gov.	5.5
Federal gov.	1.2

Source: *How the U.S. Funds the Arts*, NEA, 2012

# Indirect Subsidies to Arts Organizations

Exemption from local property taxes

Non-profit organizations are not subject to tax

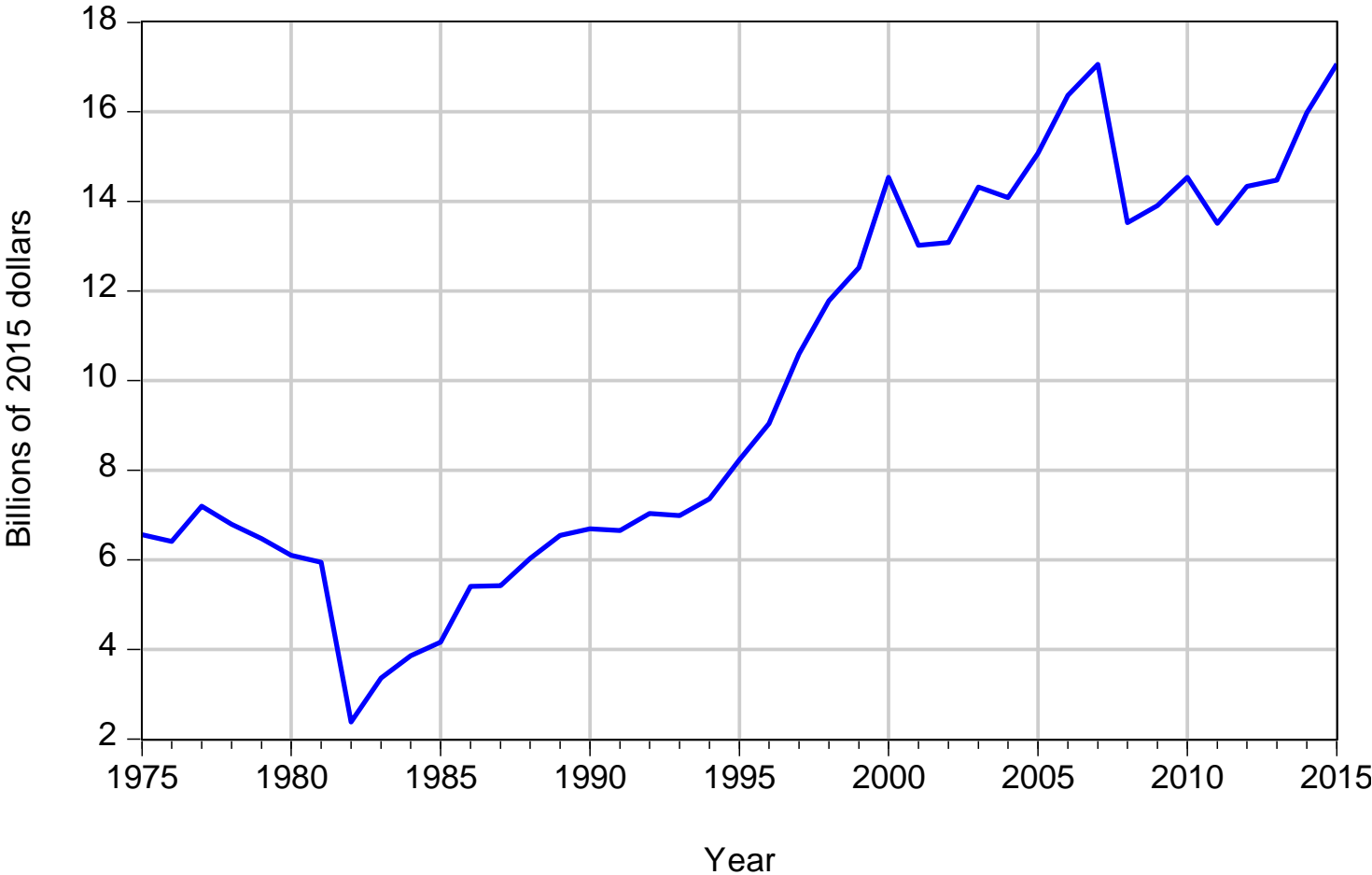
Charitable contributions are tax deductible

Includes donations of appreciated art works



# Charitable Contributions to Arts Organizations, 1975-2015

Billions of 2015 dollars



Note: Includes arts, culture, and humanities

Source: Giving USA Foundation

# After-tax Costs of a Charitable Donation

	Low-income family	High-income family
Donation	\$100	\$100
Tax bracket	\$19K-75K	> \$467K
Tax rate	15%	39.6%
Reduction in taxable income	\$100	\$100
Tax saving	\$15	\$39.60
Cost after tax	\$85	\$60.40

# Percent Distribution of Charitable Contributions by Recipient Organization

Organization	1974-78	2009-13
Religious	50	34
Education	12	13
Human services	14	13
Foundations (a)	-	10
Health	13	9
Public-society	4	7
Arts and cultural	6	5
Other (b)	1	9

(a) E.g., Evanston Community Foundation

(b) E.g., Civil, voting, consumer rights

# Percent Distribution of Individual Charitable Contributions by Adjusted Gross Income, 2005

Recipient organization	Under \$100K	\$100K - \$200K	\$200K - \$1M	Over \$1M
Arts and cultural	1	2	15	15
Religious	67	57	23	17
Combined purpose (a)	9	11	11	4
Basic needs	10	12	6	4
Health	3	6	5	25
Education	3	6	32	25
Other	7	6	8	10

(a) E.g., United Way

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# Direct Federal Subsidies to Arts Organizations

WPA/Federal Theater Project, 1935-43

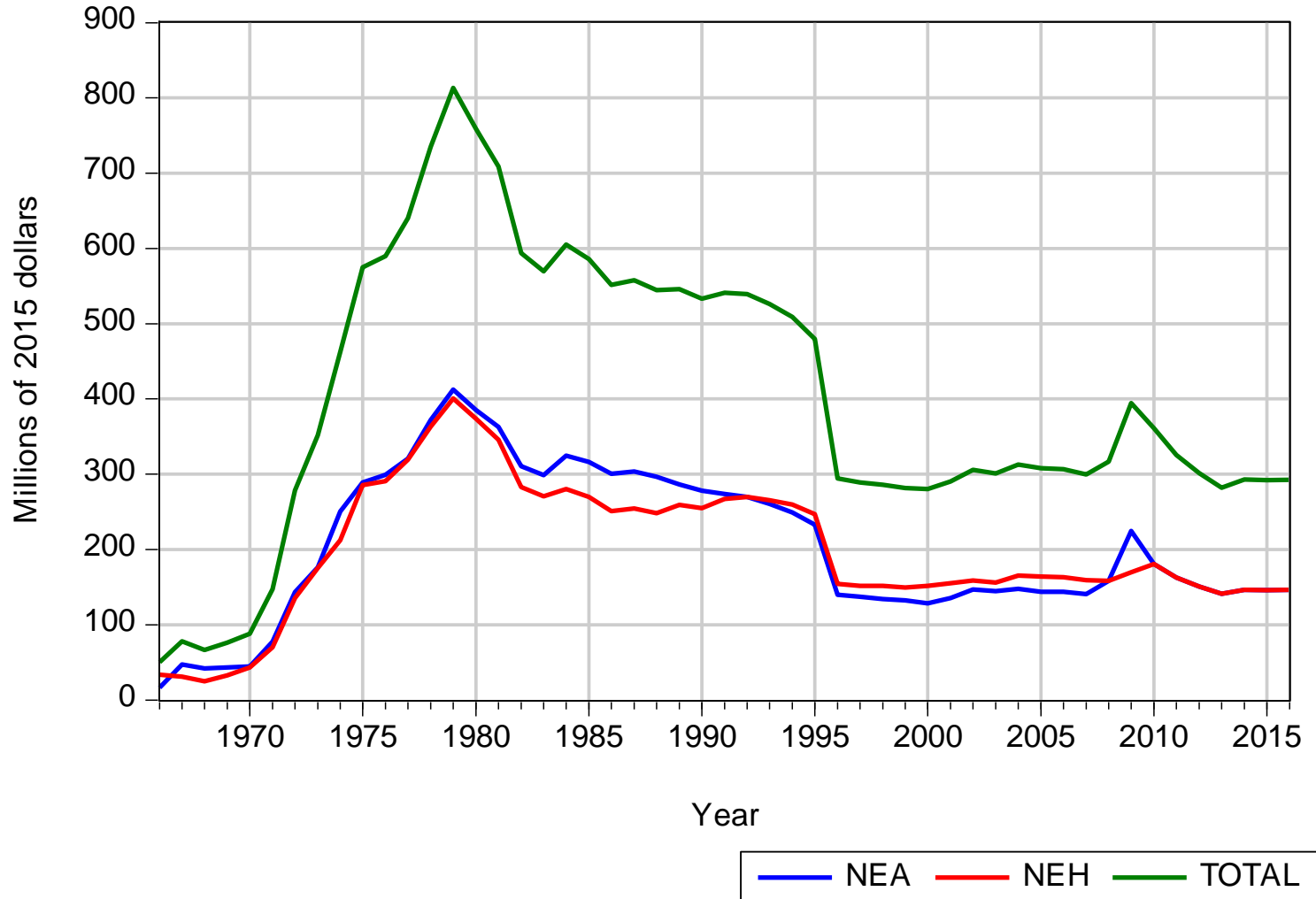
National Endowment for the Arts, since 1965

National Endowment for the Humanities, since 1965

Corporation for Public Broadcasting

# NEA and NEH Appropriations, 1966-2016

Millions of 2015 dollars



# Direct vs. Indirect Subsidies to the Arts

Direct subsidies -- more common in Europe

- Fairer way to finance national heritage
- More stable funding? (not so for NEA and NEH)
- Organizations relieved from fundraising
- Greater artistic freedom than marketplace test?
- Avoids commercialism in the arts sector?

Indirect subsidies -- more common in America

- Avoids government choosing what to support
- Builds stronger community of interest and support
- Diversifies funding sources
- But giving is volatile
- Tax benefits erode tax base
- Need “visible hand” to develop arts (Detroit example)



# Comparison of Arts Funding by Councils and Agencies

Country	Budget U.S. dollars	Year
Arts Council of Wales	\$17.80	2012/2013
Arts Council Ireland	16.96	2012
Scottish Arts Council	14.52	2009/2010
Arts Council of England	13.54	2010
Arts Council of N. Ireland	12.36	2011/2012
Australian Council	8.16	2010/2011
Canada Council for the Arts	5.19	2011
Creative New Zealand	2.98	2009/2010
NEA	0.47	2012

Source: NEA, *How the U.S. Funds the Arts*, Nov. 2012

# Attendance at Arts Events

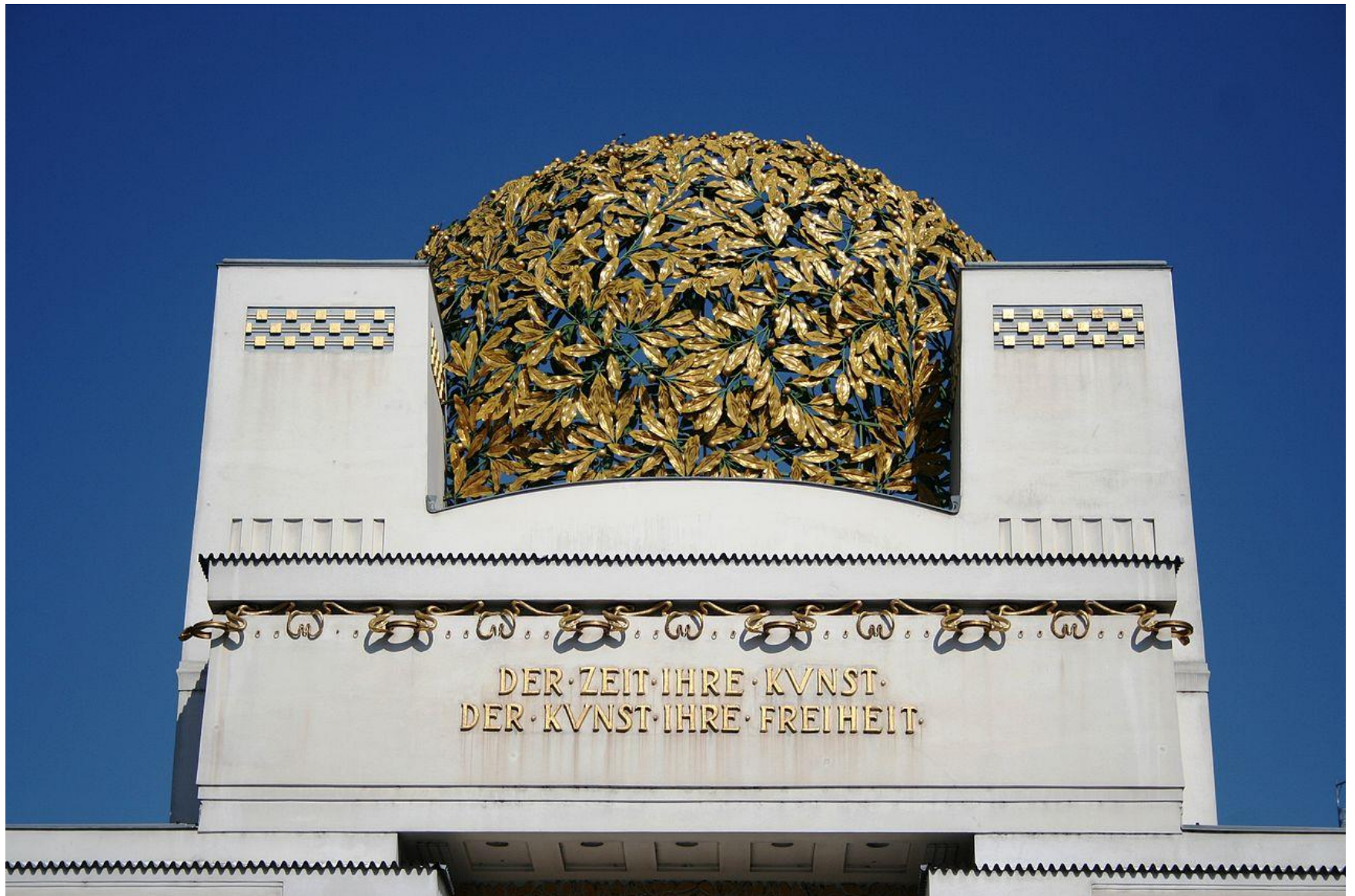
## Percent of Adults Who Attended at Least One Event

Event	2002	2008	2012
Classical music	11.6	9.3	8.8
Jazz	10.8	7.8	8.1
Ballet	3.9	2.9	2.8
Opera	3.2	2.1	2.1
Musical play	17.1	16.7	15.2
Non-musical play	12.3	9.4	8.3
Art museum or gallery	26.5	22.7	21.0
Crafts or arts fair	33.4	24.5	22.4

Source: *How a Nation Engages with Art*, NEA, Sept. 2013



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