State and Provincial Art Councils:
A Framework for Analysis

MICHAEL RUSHTON

Department of Economics
University of Regina
Regina, Saskatchewan
Canada S4S 0A2

econ@uregina.ca

April 2001

DISCUSSION PAPER 92
State and Provincial Arts Councils: 
A Framework for Analysis

Michael Rushton
Department of Economics
University of Regina
Regina, Saskatchewan S4S 0A2
Canada

Telephone: 306-585-4179
Fax: 306-585-4815
Michael.Rushton@uregina.ca

April 2001

The author thanks for their generous support the David and Lucile Packard Foundation
and the Cultural Policy Program at the University of Chicago, where this paper was first
presented and served as the subject of a stimulating and informative discussion.
State and Provincial Arts Councils:

A Framework for Analysis

ABSTRACT

Analyses of public funding of the arts have traditionally focused either on the justifications for state support, or on the rent seeking behavior of art producers and administrators. This article argues that each of these approaches neglects a key consideration: how the goals and values of citizens and taxpayers are ultimately translated into publicly funded works of art and arts institutions. A research framework is proposed that focuses on the series of political and informational exchanges surrounding the activities of state and provincial arts councils. A substantial literature has developed over the past decade that draws attention to the transaction costs involved in governance relationships. The public funding of art is particularly prone to such transaction costs, and these must be considered in the design and assessment of state and provincial cultural policy.
State and Provincial Arts Councils:

A Framework for Analysis

The question “why should taxpayers subsidize artists?” has long been debated among academics and policymakers, and frequently appears in the popular press alongside news of the latest publicly funded arts scandal. In the academic literature there have been two streams of analysis, which I will call the welfare economics approach and the public choice approach. In this paper I want to suggest that each of these methods leaves many interesting questions unanswered, and to propose a new framework that will provide a more fruitful avenue for further research on public funding for art in general, and for state and provincial arts councils in particular.

The paper will ask many more questions than it answers. My goal is to suggest a program of research into state and provincial arts councils that focuses on the incentives, constraints, and outcomes that arise from their institutional design. The research agenda is both positive and normative: we wish to explain the rationale behind the institutional design we currently observe, and to ask whether there are alternative designs that could provide better outcomes.

As will be shown below, in the world of art the definition of “better outcomes” may itself be subject to debate. Putting my values up front, I believe a good public policy outcome is one that uses the state to allocate resources to those activities valued by citizens, in those cases where the state will be more effective than the market. This is consumer sovereignty in a very broad sense, including a willingness on the part of many of us to pay for cultural activities that will in the end change how we see the world. Good
public policy means state funding of the arts that, within the limits imposed by our world of transaction costs in markets and politics, reflects what citizens would like to fund. And for those who worry that such an approach would lead to the gutting of arts councils, there is some evidence that public support for the arts will be higher the better the values of citizens are reflected in the art that they fund.

I will begin by reviewing briefly the central results of welfare economics and public choice when applied to public funding for art, and the limitations of each way of studying the question. I will then describe and assess the transaction cost approach. Later in the paper, the Saskatchewan Arts Board serves as a case study.

**Welfare Economics and Public Funding**

The starting point for the welfare economics approach to public policy is a version of Adam Smith’s ‘invisible hand’. Abstracting from the technical details of the argument, in the absence of externalities, competitive markets will produce an outcome that is efficient: there will be no conceivable rearrangement of society’s allocation of resources that could improve the well-being of one person without simultaneously making someone else worse off.

If one begins with this analysis, what then is the role of the state in the economy? One role focuses on income distribution. An efficient outcome might be one with unacceptable inequality in income, and individuals will want the state to engage in policies that help reduce inequality, either through transfers of current income from the rich to the poor, or through the provision of services like education and health to all
regardless of their income, so that the poor are given a better chance at ultimately being able to obtain good jobs.

The second role is in the allocation of resources. In efficiency terms, markets will tend to under-produce goods that exhibit ‘external benefits’, where Albert benefits when Betty purchases a good produced by Charles even though Albert has neither purchased the good himself nor taken part in its production. Markets will also under-produce goods that are, in the economist’s sense, ‘public goods’, where once a good is provided additional users do not diminish the ability of others to benefit from the good, and where it would be difficult to exclude people from enjoying the good even if that were desirable. National defence is the textbook example of a public good. In either case, the welfare economics approach would say that there is a role for the state in either providing these goods for society, or at least in subsidizing the private provision of the goods.

Cultural economists working in the welfare economics tradition have found a role for state subsidies to the arts on both distributional and allocative grounds. First, it is important that members of society have access to those goods that build independence and the capacity to be an active participant in the life of their communities. Cultural education requires access to cultural exhibitions and performances. William Baumol, countering claims that public support of the arts benefits primarily the well-off, wrote that “individuals who are unable to use the language well and who are unfamiliar with society’s cultural heritage face marked handicaps in getting good jobs and advancing up the economic ladder. …[C]ultural illiteracy has much in common with linguistic illiteracy” (Baumol 1997, 10). However, there is more to culture than making us better and more productive individuals (Hughes (1992) claims this view of culture as uplifting
is distinctively American). In 1942 John Maynard Keynes, at the time the world’s preeminent economist, accepted the task of becoming chair of the Committee for the Encouragement of Music and the Arts, the forerunner of the British Arts Council. According to his biographer, Keynes “had long been of the opinion that in the modern world art required a new kind of support to take the place of the affluent classes of earlier times. …In the time to come the mass of people should be able to enjoy the delights of fine art which in the past had been reserved for the favoured few.” (Harrod 1951, 518). So we should also consider that there is nothing wrong with the notion that the poor should have access to culture simply because they would enjoy it.

On allocative grounds, there is a familiar list of reasons why the marketplace alone will not provide an optimal amount of cultural goods (see Frey 2000; Heilbrun and Gray 1993; O’Hagan 1998; or Throsby 2001 for more detailed discussion). The essential allocative problem is that there may be externalities associated with the production and consumption of artistic works. This is for a number of possible reasons:

- people may feel national or local pride from artistic activities even if as individuals they do not directly take part;
- they may benefit from the innovation in non-artistic fields that results from artistic creation – this may include changes in social life more generally that are partly spurred by art with political dimensions;
- individuals may feel an increased sense of well-being simply because a vibrant arts community provides them with the option of one day enjoying its output; and
- there may be a desire to leave an artistic heritage for future generations.
In addition, there may be public good aspects to artistic activities, such as public sculpture. Finally, there are important educational aspects in artistic production. Individuals lead better lives when they have cultivated an appreciation and understanding of art, and this requires exposure to art. Smolensky (1986) claims this was the primary rationale for the municipal financing of art museums in the US since the 19th century, and Scitovsky goes so far as to claim that “the only valid argument for government aid to the arts is that it is a means of educating the public’s tastes, and that the public would benefit from a more educated taste” (Scitovsky 1972, 68).

As useful as the welfare economics approach is in clarifying why public funding of the arts is a good thing, it has some significant limitations. First, it is going to be very difficult to determine *how much* public support is optimal. This is for a number of reasons. The values of the externalities are not obvious, very difficult to measure, and will vary across art forms and genres. Contingent valuation methods have been applied to the preservation of heritage sites, but that is for cultural goods that already exist, not for the funding of new works. Even regarding arts education for children, over which there seems to be less controversy than for other public funding for the arts, it will be challenging to determine what is the best amount of spending when it is set beside all of the other valuable areas of education from which children benefit.

Second, the welfare economics approach is silent regarding the mechanism by which a desire by taxpayers for public support for some kind of art is translated into the actual works of art that ultimately arise from the funding process. While to some degree this is true of all publicly provided goods, taxpayer preferences regarding which
highways should first be upgraded are more likely to be closely satisfied than preferences regarding the various art forms and genres that are publicly funded.

**Public Choice and Public Funding**

Like the welfare economics approach, public choice economists also assume self-interested, knowledgeable individuals. The point of departure is that individuals will advance their interests by political means, through strategic voting, attempting to influence other voters, and direct lobbying of politicians.

There is no doubt that public choice economics can tell us something interesting about the public funding of art. Those who benefit most from state arts councils will consider the arts platforms of electoral candidates, and where one’s livelihood is directly affected by the funding of the council there is an incentive to spend resources in an effort to affect funding levels. Grampp (1989) claims that the arts are particularly ripe for rent seeking behavior; with a demand for arts that is income elastic, increased prosperity means that less rent seeking effort is needed to obtain the desired transfers. Furthermore, given the general weakness of the arguments for state support of the arts generated by the welfare economics tradition, it must be the case that the funding we observe is simply the result of rent seeking (the same argument is made by Banfield (1984)).

But the public choice approach to the study of state and provincial arts councils has some significant gaps in the analysis. First, it is relatively silent on the process by which lobbying activity results in arts funding and policy. Why should politicians listen to artists or arts administrators? Is the structure of arts councils completely explained by the preferences of artists?
Second, there is a significant amount of evidence (although Grampp disputes the point) that the general public supports state funding of the arts – this is not simply the case of a well-organized lobby taking funds from a mass of taxpayers unable to organize themselves to stop the transfer. Although there are many pitfalls involved in conducting surveys on public support of state funding of the arts, it is generally found that there is substantial support. Hansen (1997) found significant public support for state funding of the very specific good of the Royal Theatre in Copenhagen, even though only a small minority of those surveyed had actually attended the Theatre recently. Schulze and Rose (1998) find strong voter support for the state funding of orchestras in Germany. Throsby and Withers (1979) (in Australia) and Morrison and West (1986) (in Canada) find through their surveys that the level of support desired by the median voter is close to what is actually observed in those countries. Although there are large confidence intervals around the point estimates of the desired level of state support, the evidence seems to be quite strong that this is not simply a case of art producers obtaining transfers that voters don’t want them to have. This is not to say that there is not rent seeking, or that there are divergences between what the public wants to fund and what is actually funded. But there is certainly a desire for *some* sort of public funding.

**Transaction Costs**

Transaction cost economics is an approach to the subject that attempts to understand the economic and political *institutions* that we observe by considering the various *exchanges* that occur through the system, and the impossibility of regulating those exchanges through a perfectly functioning contractual system. *Transaction costs*
are the costs of organizing, monitoring, and enforcing exchanges and contracts. The seminal work is by Coase (1937; 1960), who put forward the importance of transaction costs in explaining the scope of activities that will be organized within firms rather than through market exchanges between independent agents (in the earlier paper) and the inability of the marketplace to correct the externality problem (in the later paper).

Coase’s analysis was extensively developed by Williamson (1975), who explained transaction costs as a result of four features of our economic and political world. First, we live in a world of inescapable uncertainty. Second, people have bounded rationality: there are limits to the time and resources we can spend in acquiring information, even if we use what information we have rationally. Further, there are limits on our language: we cannot communicate perfectly with each other even when we wish to. Third, individuals will exhibit opportunism: we often enter transactions with a lack of candor or honesty, especially when we know something that the individuals with whom we are interacting do not. Fourth, as we become engaged in economic or political relationships, investments are made that are irreversible and that have low value in alternative uses, thus leaving the investor vulnerable to tough negotiations with her trading partner; we refer to this as small-numbers exchange relations.

At first, transaction cost analysis was applied principally to understanding the institutions we observe in commercial markets – patterns of vertical integration, hierarchies in the personnel structure of firms, the structure of contracts, and so on. The techniques are brilliantly applied to the commercial art world in the recent book by Richard Caves (2000), which will undoubtedly encourage much future research into contractual relations in the arts.
But the method of analysis is also ideally suited to understanding political institutions. It can help us understand the structure of government bureaucracies as well as the employment relations in private firms. It can be a very useful tool in understanding the legislation we observe, and the degree of political oversight of bureaucracies. In commercial or political exchanges we can ask how institutions have evolved to economize on transaction costs. Nobel laureate Douglass North writes: “A transaction cost theory of politics is built on the assumptions of costly information, of subjective models on the part of actors to explain their environment, and of imperfect enforcement of agreements” (North 1990, 355).

Avinash Dixit (1996) has noted that transaction cost analysis is even more applicable to politics than to economics. The analysis is focused on exchanges and contracts, especially the necessarily incomplete nature of contracts; in politics contracts are likely to be even less complete than in commerce. A politician’s electoral promise to increase arts funding will generally be very vague. Furthermore, how do voters enforce a promise by a politician to increase arts funding? Transaction cost analysis also lends itself to the study of governance structures, but these are likely to be much more complex in the public sector than in the private sector. James Q. Wilson (1989) stresses the fact that each government agency or bureaucracy is simultaneously answerable to multiple principals, who are trying to influence its actions in different directions.

Although the transaction cost analysis has not been widely applied to cultural policy, there are some examples. Alan Peacock (1994) draws on insights from welfare economics and public choice, as well as his experience as past Chairman of the Scottish Arts Council, to raise questions about how well the current structure of arts councils
solves the problem of improving the welfare of citizens. In particular he raises questions about the lack of accountability of arts councils, and of their capture by artists and arts administrators at the expense of arts consumers. Some of his specific recommendations are discussed later in this paper. Bruno Frey (2000) studies museum behavior from the perspective of the incentives and constraints facing museum directors, asks how state support for the arts will change the kind of art that is produced, and looks at the effects of having voters make direct choices about public art through referenda, among many other considerations. The focus is on institutional design, and how well alternative organizational structures serve the goals that justify public funding in the first place.

**Why a Transaction Cost Approach to the Arts?**

The development of the transaction cost approaches to economics and politics was driven by the realization that many of the institutions we observe that govern exchange and contract can be explained by the ways real human beings differ from the hypothetical rational agents of theoretical models. But the features of the world noted by Coase, North, and Williamson are particularly obvious in the art world.

First consider the presence of uncertainty. While it is true for many goods that there is uncertainty surrounding how a product in development will be received by the market, for art it is especially true. Caves (2000) is fond of citing William Goldman’s (1984) observation about films: “Nobody knows anything.” This explains much of what we observe in the design of contracts in the commercial art world. But it applies equally well to publicly funded artistic creation. Although there is uncertainty in all public projects, policymakers will be able to project much more accurately the use of an
upgraded highway, or extra places in public universities, than the response to a publicly funded work of art.

Second, there is bounded rationality. The ability to critically evaluate proposals for, or finished creations of, art requires specialized knowledge that results from many years of study. It is not knowledge that is easily obtained by those who do not work on a daily basis with artists and their works. It is conceded that there are other areas of public funding that also involve great expertise: physicians’ services in publicly funded heath care, for example, or state funding of scientific research. However, in these examples while there is certainly specialized expertise required regarding the means employed by the specialists, at least most members of the public have enough understanding of the ends of the work: to cure the sick, or to increase our understanding of the physical properties of the world. But art has become so complex that the average citizen would have a difficult time articulating what art is for. This is not to demean the intelligence or aesthetic sense of ordinary people. Rather, it is a comment on the nature of art: that it defies easy understanding, and especially defies easy communication, of its quality or its purpose. In addition to the difficulties of evaluating art itself, the welfare economics underlying the rationale for public finance is itself complex. Externalities are difficult to quantify at the best of times, but for the arts it seems to be particularly hard, to the point that some would deny their existence at all.

Third, there is opportunism. People have the capacity to be dishonest, to be less than forthcoming with their true feelings and intentions, and to “spin” their communications to others. This is not more or less the case in the art world, but an aspect of human nature found throughout economic and political institutions. However, given
bounded rationality in the arts, the possibilities for using opportunism are increased. It is more difficult for individuals not well versed in the arts to evaluate the recommendations of arts boards or peer review panels, which increases the ability of those who are presented as experts to mislead. This problem is discussed in more detail below.

**Arts Councils**

Figure 1 lists a series of transactions that occur when art is publicly funded through an arts council.

![Figure 1 about here](image)

In this section I will consider each transactional relation, and pose questions that one might ask regarding the effectiveness of the institutional design in translating the desires of the citizen/taxpayer regarding public funding for art into the actual works that will be enjoyed by the public.

**Citizen/Taxpayer ? Legislator**

“Contracts” between voters and the legislators they elect are very vague, and not easily enforced. Elections do not allow for voters the chance to pass judgment on how well their elected legislator kept each of her many promises – the vote is a very blunt instrument. Furthermore, if a legislator had promised to seek increased funding for the state or provincial arts council, and the increased funding never occurred, voters have great difficulty in knowing whether this is because the legislator reneged on her promise,
or if unforeseen circumstances – perhaps a need for emergency funding elsewhere, or administrative problems at the arts council that require sorting out – made it good public policy not to pursue increased funding. In other words, like all the transactional relationships involved in public funding of the arts, there is a great asymmetry of relevant information between the principal, in this case the voter, and the agent, in this case the legislator.

Voters have little incentive to investigate the matter further, because it is such a small-scale policy issue (Hofferbert and Urice 1985); the National Assembly of State Arts Agencies reports that in fiscal 2001, state legislative appropriations to arts councils were $447 million, about $1.57 per person in the US. This will be a salient issue only to a very small minority whose well being is directly tied to levels of funding.

Yet it is important for sound policy that legislators have some idea of what voters want. Note that this applies not only to levels of funding, but to what art is funded. Rushton (2000) notes that whatever is the justification for state support for the arts in the first place, whether it be to solve the externality problem, to ensure that poor young people have a chance to acquire cultural literacy, or to strengthen community or national bonds, the preferences of voters on the amount of funding and on the nature of the art they wish to fund must be included.

Practically, one would have to have very strong feelings about arts policies to think that constitutional changes are needed regarding how we elect our legislators. But Frey’s (2000) evidence that voter support for public funding of art tends to increase when voters have a greater say in which particular projects are funded has some important lessons. First, it weakens the case that state support for the arts is simply the result of an
effective lobbying effort by artists to obtain transfers from taxpayers. Second, it highlights the importance of organizational structure. The more extensive the chain of transactions from citizen/taxpayer to the work of art, the less well are citizen preferences going to be represented, and so the less desire there will be by taxpayers to fund the system (also see Galligan (1995) for evidence at the state level on this point).

**Legislator ? Executive Branch**

Legislative oversight of the executive branch of government is very different between the United States and parliamentary systems such as Canada. Almost all of the “rational choice” (i.e. economic) political science literature on legislative oversight is American, understandably.

In Canadian provinces, the executive branch is the Cabinet, drawn from the majority party elected to the legislature, which acts through the authority of the Lieutenant Governor. The legislature’s oversight of the executive is through the principle of ministerial accountability: for each branch of executive government there is a Cabinet Minister who must be prepared to answer for his bureaucrats’ actions to the legislative assembly. Taking the Saskatchewan Arts Board (SAB) as an example, the governing legislation includes the clauses that “18(2) The board of directors [of the SAB] is responsible to the minister for the performance of its duties and the exercise of its powers pursuant to this Act. (3) The minister may refer to the board of directors for consideration any question relating to the carrying out of the purposes of this Act, and the board of directors shall consider the question and report to the minister.” (*The Arts Board Act*, 1997).
But even though the arts board is accountable to the minister, how accountable is the minister to the legislature? In practice party discipline is very rigid, and so the governing party, and the Cabinet it provides, are never under serious threat of defeat on any issue of importance when it comes to the legislature for a vote. In other words, the executive branch is very powerful, and the opposition party in the legislature is left only with the capacity to bring to public attention matters that might embarrass the government. Wilson remarks upon “the central fact of a parliamentary democracy, that political authority over both making and implementing policy is concentrated in one set of hands, those of the executive” (Wilson 1989, 298). See Haggard and McCubbins (2001) for a general discussion of the behavior of parliamentary and presidential systems.

The literature on legislative oversight of the executive in the US is immense, and here I will just attempt to give a flavor of the issues relevant to state arts councils. The problem is to design an oversight system that ensures effective public service, but one that follows the direction set by the elected members of the legislature, and does not engage in bureaucratic drift. Institutions must cope with the usual problems that generate transaction costs: the combination of uncertainty, bounded rationality, and opportunism. Particularly relevant is the very limited time and resources available to the member of the legislature, who must deal with a very large and diverse range of issues. McCubbins and Schwartz provide a description of the choice of institutional framework that seems quite relevant to arts councils. *Police-Patrol Oversight* is “comparatively centralized, active, and direct: at its own initiative, [the legislature] examines a sample of executive-agency activities, with the aim of detecting and remedying any violations of legislative goals and, by its surveillance, discouraging such violations” (McCubbins and Schwartz 1984, 166).
This may involve holding hearings, commissioning studies, and the like. *Fire-Alarm Oversight* is less centralized, active or direct. Instead, the legislature “establishes a system of rules, procedures, and informal practices that enable individual citizens and organized interest groups to examine administrative decisions (sometimes in prospect), to charge administrative agencies with violating [legislative] goals, and to seek remedies” (McCubbins and Schwartz 1984, 166). These procedures may take the form of ensuring that citizens have access to information and the ability to challenge bureaucratic discretion, and generally more detailed statutory constraints on government agencies. On the assumption that members of the legislature want to take credit for benefits gained by their constituents, and avoid the blame for their losses, and that there are high opportunity costs for the legislator’s time and effort, increasing the problem of limited knowledge, fire-alarm oversight comes to be preferred (see Moe (1997) for a helpful survey of the literature, and Epstein and O’Halloran (1999) for an extensive empirical test of the hypotheses using the US Congress).

For state arts councils, the interesting questions would surround how the discretionary behavior of the councils is limited by statute, and whether differences in the activities of arts councils can be explained at least in part by the nature of legislative oversight. To what degree are arts councils constrained by the possibility of citizens pulling a “fire alarm”? To what degree do arts councils attempt to provide information about their activities on their own initiative, to deflect the possibility of citizens raising concerns to their elected members of the legislature?

In particular, it would be interesting to compare the reporting practices and the behavior of provincial and state arts councils. Does the difference between the Canadian
and US political systems affect what the councils fund, and are Wilson’s (1989) observations that interest group politics is weaker under parliamentary systems, because it is more difficult to play one branch of government against the other, borne out in the arts? At the national level, the Canada Council for the Arts has had a much less tumultuous past decade than the National Endowment for the Arts. To what degree did the constitutional differences between the two countries contribute to this? Finally, do the different systems in Canada and the US lead to different emphasis on the regional distribution of grants? DiMaggio (1991, 229) claims that state arts councils are no different from the NEA when it comes to a need to “spread their funds around.” Do councils in Canada face the same pressure?

**Executive Branch ? Arts Council**

When a state or provincial arts council is described as being “arm’s length”, what exactly is meant by the phrase? Again consider the SAB as an example.

First, note that the legislation that governs the SAB sets its mandate. The details of the mandate make clear some political goals for the SAB, such as multiculturalism, making art accessible to the public, and a consideration of the avocational artist. It further notes in the “Principles” section of the Act that there must be respect for Aboriginal traditions and protocols on the use of traditional names, stories, songs, and other art forms.

Second, the appointments to the SAB are made by the government: the Board is to consist of between nine and twelve people, where at least one-third of the members are to be chosen from a list of nominees from various arts communities, but otherwise are
appointed by the government directly. The government also chooses the chairperson and vice-chairperson.

Third, the budget of the Board is set on an annual basis. Little needs be said on the importance of this consideration for government control of the Arts Board. However, once again asymmetry of information is crucial – how is the budget to be set when the Arts Board has much better information than the government on the true costs of achieving the mandate that has been set? Banks and Weingast (1992) point out that in the very creation of the agency the government is not only committing funding to the cause of the arts, but also creating the very means by which the art world can lobby the government for increased funding. This is not necessarily an inefficient result. The state governor’s office or the provincial cabinet needs to be able to gather information on the situation facing different sectors, and agencies that also act as advocates may be the most effective way to gather that information, even if, as will inevitably be the case, resource needs are exaggerated. The recent paper by Dewatripont and Tirole (1999) builds a theoretical model of a government where it may be efficient to include advocates in the system; an application to arts councils is possible (also see Tirole 1994).

Of course, some advocates are more effective than others. If we compare the allocations to state and provincial arts councils over time, it would be worth examining the structure of the arts councils, and whether there are correlations between institutional design and funding. In particular, does a restrictive mandate, which some may see as an unwarranted restriction on the goal of artistic excellence, serve the purpose of maintaining public support over the long term? Spiller and Spitzer (1992) have pointed out that policymakers who value public support of the arts may **willingly** adopt
restrictions on the content of the funded art if it is a way to ensure better support in appropriations. Some empirical analysis is warranted.

**Arts Council ? Peer Review Panel**

This is the transaction where the problems posed by specialized information are largest. Peer review panels are implemented precisely because they have knowledge of their fields that is not generally held. But this lends itself to opportunism – what factors ensure that the panel will make its recommendations honestly?

First note some of the particular pitfalls with state and provincial arts councils. Because they are arts councils, there is no possibility of blind refereeing. The panel must know the identity of the artist or art institution to be able to evaluate how the current proposal is situated within the development of a body of works by that specific artist or institution. Because we are considering state and provincial arts councils, there is a high likelihood that reviewers and grant applicants know each other personally, especially in small jurisdictions.

There may be a great tendency for the peer review panel to approve more projects than are warranted. Lorne Carmichael (1988) provided an economic rationale for tenure in universities: specialized knowledge is required to evaluate candidates for entry positions or for tenure, but existing faculty, who possess that knowledge, will be unwilling to recommend the strongest candidates if there is a danger that they themselves might be replaced by talented newcomers. Tenure ensures that faculty will provide their best advice on hiring; they have nothing to fear. The efficiency losses that are often associated with tenure in terms of incentives are outweighed by the benefits of being able
to use faculty advice. But arts council jury members have no “tenure”: they themselves might be future applicants, and they have no security of future funding. Creating a culture at the arts agency of claiming a high value for even mediocre projects may be a way to protect their own interests. This is a transaction where advocacy is not helpful.

At the SAB a member of the governing board and a permanent member of staff attend each of the peer review panel meetings. This puts a check on the system. The staff member (either the director of visual arts, performing arts, literature, or other branch) does not contribute to discussions of artistic merit, but can provide input reminding jury members of the statutory mandate of the Board.

A trade-off here is that one wants the members of the peer review panel to put a high amount of effort into their task, which is likely only if the panel members have a sense that they will not be overruled. Baker, Gibbons, and Murphy (1999) provide a useful model of informal delegation of authority, where, say in the context of arts councils, the recommendations of the peer review panel might always be followed even though in the statutes the formal authority to make a grant rests with the arts council board. They note that it might be the case, especially in an institution expected to be around for a long time, that the governing board would desist from overruling a jury recommendation even if the board knew that a particular recommendation was not a good one. The rationale is to keep up the high effort level of the peer review panel.

An example illustrates the point. In the year 2000 the SAB provided a $5,000 grant to a gay and lesbian film festival. The festival was in Regina, the provincial capital, which is known as the “Queen City” (being named in honor of Queen Victoria). The festival adopted the provocative title “Queer City Cinema”, certain to invoke a “fire-
alarm” (see the discussion above). Members of the opposition in the legislature publicly complained about the grant, not on the grounds that it was gay or lesbian but because some of the films were pornographic. The grant served to keep the Arts Board in the press in a way that disproved the theory that there is no such thing as bad publicity. The Board would likely, privately, have been happy if the request for funding for the festival had simply never happened. The Board certainly had the authority not to grant the funds. However, the executive director of the SAB, Jeremy Morgan, said to the press that it was approved on the basis of peer review, and that the public should accept that judgment: “We pick serious people for our juries,” he said, “These are not frivolous people. And it’s important to remember they are also people who live down the street, people who have a sense of professional responsibility” (Parker 2000, A3). This public backing of the integrity and judgment of the peer review panel is a way of ensuring that professionals will continue to be willing to serve on the panels, and that they will endeavor to give their best advice, knowing they have the confidence of the Board. It would be worthwhile to investigate the pattern of jury recommendations and what is ultimately funded across the state and provincial arts councils, and the effects of overruling or not overruling recommendations on the behavior of the juries.

**Peer Review Panel ? Artist**

There are two transactional issues that have some importance at this stage. First, what kind of art activity will be proposed by those seeking grants? Second, how will opportunism manifest itself?
At the state or provincial level, applicants are likely to be well-informed about what kind of projects have received funding in the past, and about the kind of person who is typically selected to be on the peer review committee (although they won’t know the specific individuals until the annual process is completed). It is hard to imagine that this knowledge would have *no* effect on the kind of artistic activities that will be proposed. Joseph Epstein claims that the result will be that arts councils will end up “sponsoring and producing *official* art, just as surely as the academic painters in France or the socialist-realist novelists in the Soviet Union produced official art” (Epstein 1995, 29). Young (1997) makes the case that those in the art world who confer status on works should use their position “responsibly” and so encourage excellence. This is a large subject – the economic incentives are not difficult to discern, but it will be difficult to say much that is not in very general terms. How would we put “quality” of art in an empirical study?

Next consider the question of arts council funding of arts institutions like museums and orchestras based on their budget requests. Peacock writes that in his experience, “the problems of moral hazard and uncertainty are particularly prevalent in the direct subsidization of arts organizations and the incentives to solve these problems are blunted because of the lack of rewards to committees and officials if they take tough decisions” (Peacock 1994, 179). There are two transaction cost features at play here. One is the opportunism of the managers of arts organizations who can inflate the costs of their activities beyond what is needed to fulfil their mandate. The second is the “low-powered incentives” found generally in the public service; the employees of the arts council will
not reap personal financial rewards for finding ways to cut the costs of arts funding without a large decrease in the services offered to the public.

Conclusion

As promised at the beginning of the paper, this has been an exercise in identifying the interesting questions that arise in the analysis of state and provincial arts councils. My proposal is that the central concern for publicly funded art, or for cultural policy more generally, is how to effectively represent the values of citizen/taxpayers through a process that involves many levels of political and informational transactions. All public administration faces at least some problems of oversight and the reliance on agents who may behave opportunistically. But art is particularly prone to these transaction costs, and I would speculate that this is the root cause of the bitter debates that can often arise surrounding the funding decisions of arts agencies.

The research agenda is a large one, and on some questions the relevant empirical observations will be difficult to obtain (for example, in many cases peer review juries are very reluctant to admit academic observers). But progress in assessing the institutional structure of arts councils should provide some light for policymakers and the public, in an area where during the past few decades there has been an excessive amount of heat.

References


Figure 1

Transactional Relations in Public Arts Funding

Citizen/Taxpayer
  ?
Legislator
  ?
Executive Branch
  ?
Arts Council
  ?
Peer Review Panel
  ?
Artist