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**Supporting Culture and
Multiplication Effects of Subsidies
to Culture in Brno**

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EU- reasearch „Culture Economics in Europe“:

- In year 2003 was the turn in area of culture in Europe 654 mld Euro.
- It is about 100 mld more than in car industry.
- In the years 1999 – 2003 shown the culture an increas about 12,3 % more, that was whole increase in EU-countries.
- Employment was in EU decreasing, but there were more work in culture area.

The main resources for supporting culture

Direct		Indirect Subsidies/Resources
Subsidies from public budgets	Not from public budget	
Subsidies	taxes	Social contributions
Subsidies with a contribution	fees	Tax reduces for donators
	money from sales revenues	Tax reduces for donees
	foundations and foundations funds	
	other founds (state fund for czech cinematography)	
	Communal obligations	
	Donations and sponsorship	
	Lottery and punts	
	Flag days = public collections	

Finance of culture

- The range of ownership models in the cultural sector interacts with the finance of culture.
- Organizations and facilities that are publicly owned or subsidized receive funds raised from taxes from central and local government bodies.
- Public finance can also be indirect through tax expenditures.
- Finance may come from private sources even for state-owned institutions (consumer purchases of tickets are an obvious source but sponsorship, donations of money, goods and volunteer labour can be significant sources of support.)



We can make the general observation:

- The balance of public and private financing varies a lot between different countries:
 - By and large, the proportion of private finance of culture is greater in the USA, Japan and the UK than in other European countries, Canada and Australia.
- Differs between countries is the role of non-profit organizations and their relative importance in the cultural sector:
 - That is typically lower in continental Europe than elsewhere.
- There are the private for profit organizations that are financed from private capital and from sales revenues:
 - Such as the cultural industries and Broadway and West End theatre



Next general observations:

- Even in countries that spend relatively large amounts on public provision or subsidy of culture, the cultural budget is only a small proportion of government spending, often less than one per cent of the government budget.
- The distribution of public finance between different parts of the cultural sector is often uneven:
 - The performing arts tend to be more heavily supported by public subsidy than heritage, literature or the visual arts.
 - Within the performing arts sector, opera and ballet take a large proportion than orchestra and theatre.



Another universal observation of the public finance of culture:

- It is organizations rather than individual artists that receive the greatest amount of direct and indirect public support – it is argued that organizations can offer individual artists more effective opportunities for exhibiting their work.
- They are problems in the public finance of the cultural sector – data collection and analysis are still far from satisfactory even in countries where cultural policy is well developed. Data on the use of subsidy are needed for answering question about the equity as well as the the efficiency of cultural policies.



Multiplication Effects of Subsidies to Culture

- In the beginning of 2007, Prague struggled with the decision whether to hold or not the Olympic Games. Prague council representatives asked the prestigious PricewaterhouseCoopers firm to elaborate analyses which reduce the high input costs of holding the Olympic Games (economic calculations state 135 billion CZK, out of which 70 billion should be covered by taxpayers) by multiplication effect benefits. (The Olympic investment should bring an additional multiplied amount of 25 billion CZK according to the study.)
- Naturally, the multiplication effect theory is not generally accepted among economists (they regard it as non-reputable). A discussion on this topic is logical and it currently takes place in Brno as well, where the attention of multiplication effects is paid to the field of culture rather than sports.

Short theoretical background

- It is understandable that theater visitors' total expenses connected with visiting a theatrical performance do not equal only the price of a theater ticket alone, but in fact they spend a much higher amount of money. It can include, for instance, a fare price, expenses in a theater refreshment bar, the purchase of a new dress, a visit at the hairdresser's, and so on. These expenditures, however, become an income of somebody else (outside the theater area) and part of them can again become an expense of this other person and further an income of another person. This is thus known as the so-called *multiplication effect*, i.e. the multiplication of a primary expense of a theater visitor.
- Even the supply side, that is the theaters themselves, will similarly initiate additional incomes for their employees and various firms (their suppliers) through paid wages and payments for various orders.

- The sense of this reasoning is the fact that the multiplication effect will represent a bigger benefit to the economy than the original amount of the primary expense (subsidies); and therefore the possible change in expenses for culture should not be measured merely by benefits coming from the field of culture itself, but also by benefits stemming from the multiplication effects. It is absolutely obvious that the benefit from public funds expenses (subsidies) for culture would be bigger under this conception than under the traditional one.

Results of existing surveys

- Foreign analyses (in Rhineland-Westphalia, Vienna, Switzerland) as well as surveys conducted in the Czech Republic (Marketing Laboratory Ostrava, STEM Prague) confirm the proposition that theaters not only cost money, but they also bring it. They state that the amount visitors spend on an admission ticket equals or exceeds the amount they spend on additional services (transportation, refreshments, a visit at the hairdresser's, etc.).
- 1 Swiss franc generates 3 francs.

Economic utility effects

- Theater subjects spend a significant part of their expenditures on services and goods produced in other branches of the economy; by doing so they ensure sales of further production.
- Out of all public financial sources provided for theaters, a third of them returns back to public funds in the form of both direct and indirect surcharge payments (it was proved that in the Ostrava region 1 million CZK return out of the total 2.5 million CZK) because a theater is an important tax and fee payer.

- Theaters produce goods and articles of cultural nature predominantly from inland sources and with minimum costs on material flows. They use mostly inland workforce, which is often highly qualified, creative and with strong innovative abilities.
- It is a relatively cheap source of development and economic prosperity.
- Theatrical activities directly affect cultural tourism, which brings above-standard incomes for public funds.

- Out of the group of culture instruments, theater is one of the crucial economic tools for the development of city and town agglomerations. Sociological studies show that agglomerations with “cultural events” prosper even economically at the same time.
- Theater as a culture product is part of the culture industry, which surpasses the traditional industries thanks to its production of services and goods of cultural nature. In the USA it has already reached 6% of GDP while in Germany it has reached 3% GDP with an ever-growing trend.

Social utility effects

- Theatre is an important factor of social cohesion.
- Theater is an important urban element. It becomes a natural center of a community and people.
- It is the involvement of public funds that helps theaters to be democratic, open and accessible for the majority of people. People's participation in cultural wealth is guaranteed by the Charter of Basic Human Rights and Freedoms. Theater reinforces democracy.

- People's cultural rights, namely the right for the protection of cultural heritage and an access to it, the right to participate freely and practically in the use and performance of culture, the right for the freedom of artistic activities and propagating their outcomes, belong to the declared public interest.
- Theater is directly connected with life quality.
- Theater contributes to the cultivation and education of people.

- As a place of so-called positive deviation, it is an instrument against criminality, social deprivation, drug addiction, and so on.
- In the globalization process it is a place of national and regional identity as well as identification with one's own cultural heritage including language. It identifies people with their town (town district, region or country). Theater also easily crosses boundaries and barriers even towards cultural minorities. Theater represents a highly mobile socioeconomic potential of a community.

Aesthetic utility effects

- interpretation, preservation and the development of cultural heritage,
- space for new artistic work,
- a place of experimenting, innovation and creativity as the determining phenomena of current years,
- a place of lively communication as well as space for self-reflection of people through arts,
- overlaps to other kinds, genres and media, including a direct influence on the film and audiovisual arts,
- space of an alternative to commercial activities.

Research methodology in Brno theatres

- The *primary research* took the form of addressing subscribers and visitors of the three theaters:
 - National Theater (thereinafter NT)
 - Brno City Theatre (thereinafter BCT)
 - Center of Experimental Theater (thereinafter CET)
- A printed questionnaire was given to 3,500 BCT subscribers and 2,700 NT subscribers. All of them could choose between filling out the questionnaire in a written form and filling it out on the theater's webpage. These data were used for examining the "theater – visitor" relationship.
- The *secondary research* focused on addressing economic departments of the theaters so that it would be possible to obtain information from the existing materials for the second and third part of the research, i.e. "theater – theater" and "theater – suppliers".

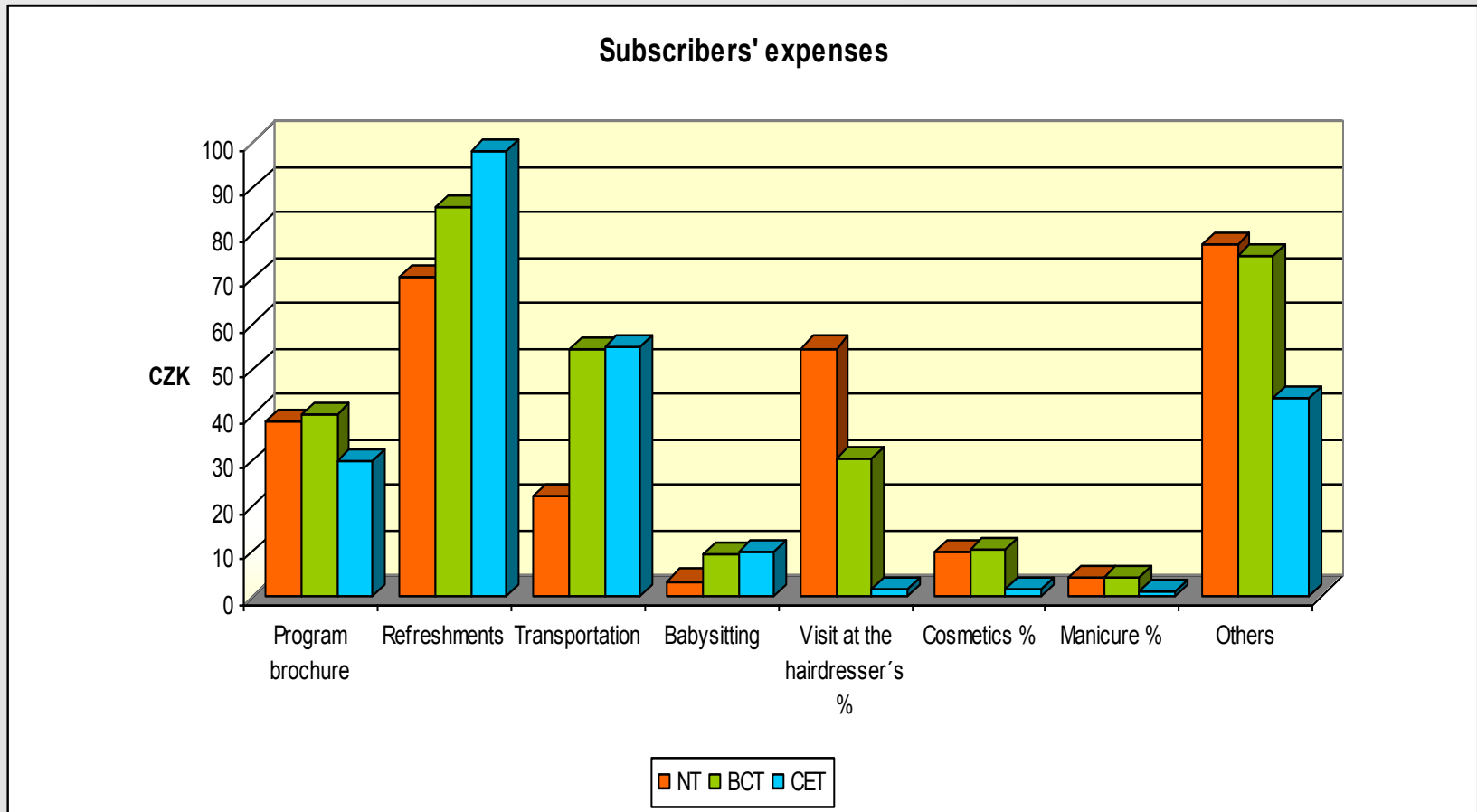
The basic premise of the research consisted of *three partial hypotheses*:

- a theater subsidized from a town budget induces through its products primary as well as additional expenses on goods and services satisfying needs of its customers – theater visitors (an analysis of the “theater – visitor” relationship) – ONLY THIS WAS CONFIRMED
- a theater subsidized from a town budget is not only an artistic unit, but also a production one; it induces multiplication effects in further economic activities of those entrepreneurial subjects that operate primarily within the given area and for a financial compensation for which they provide a theater with their products (an analysis of the “theater – theater” relationship);
- a theater subsidized from a town budget induces payments back to the town budget but even the state budget (an analysis of the “theater – suppliers” relationship).

Results of the "theater – visitor" relationship analysis

- When classifying external effects, the following division was used:
 - "direct" external effects
 - "indirect" external effects.
- Direct external effects are connected with every visit of a theatrical performance, and their value is consumed at a single moment.
- Indirect external effects then represent expenses that are not directly connected with the visit of a theatrical performance but they are results of even other factors. Moreover, their value is not consumed instantaneously at a single theater visit but they transfer their value gradually. It is obvious that both direct and indirect external effects can be further classified as necessary and voluntary. Necessary external expenses are understood as those expenditures that a visitor has to pay at any theater visit (e.g. fare price); on the other hand, the term voluntary includes expenses whose amount depends on personal habits of a visitor (e.g. refreshments).

Subscribers'/Visitors' expenses connected with their visit in the monitored theaters (in %)



- The highest amount is represented in all the three cases by refreshments, followed by the program brochure; expenses on this item correspond to the price level of program brochures in the monitored theaters. Expenses on babysitting correspond to the fact that BCT has the highest number of visitors in the productive age (NT has the highest proportion of seniors while CET has the highest proportion of students). On the other hand, the amount of voluntary expenses on a visit at the hairdresser's, cosmetics and manicure can be explained by the dramaturgy of the theaters ("high-class art" versus "experimental"), which is reflected both through the premises of the theaters and the structure of visitors. Other expenses represent purchases of CDs, books, DVDs, and so on, and they correspond to the production of these supplementary materials by the theaters, i.e. so-called merchandising.

Conclusion - *A research carried out in three theaters in Brno proved that:*

- *People's expenses connected with visiting theatrical performances induce, i.e. multiply, their further external expenses, namely:*
 - *When a visitor spends 1 CZK in the price of an admission ticket, he or she spends on average 1.57 CZK on other additional expenses (an average of the three theaters).*
 - *By purchasing a ticket and watching a theatrical performance, which will induce direct expenses, public funds would obtain on average 15.23 CZK from taxes. This approximately corresponds to 7.8% of an average ticket price.*
 - *Theaters as subsidized institutions induce, i.e. multiply, additional incomes for various sectors (branches) through their demands on these sectors (branches). Theaters thus act as production units that are in many ways linked with the economic life of towns, regions and the country. Thanks to this fact they return to public funds on average (of all the three theaters) approximately 50% of the obtained subsidies.*