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Emerging modes of public cultural spending:
Direct support through production delegation

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Abstract

This article addresses the evolution of modes of public support of cultural production by discussing and analysing the emerging phenomenon of outsourcing of public cultural services taking place in Continental Europe, especially Italy. We argue that in this context, which is traditionally characterised by the public production of cultural services, the current outsourcing trend is changing the very nature of public intervention in the market for cultural goods and services. This change leads to the recognition and definition of a new category of public intervention in the cultural field: direct support through production delegation. Its main and distinctive feature is a combination of institutional arrangements aimed at reducing public spending inefficiency while preserving government determination of cultural policy guidelines. Increased uncertainty about economic conditions, such as the prospective cost reductions associated with outsourcing, future economic cycles and cultural consumer preferences, may also help explain the selection of this institutional arrangement.

1. Introduction

This paper aims to address the current evolution of cultural policy financing. For many decades, the debate surrounding alternative modes of public support for the arts and cultural production has been centred around a state vs market dichotomy and its reflection upon policy objectives and organisation of cultural production.

Over the last two decades, however, cultural policy scholars have identified a new phenomenon: the fading of the distinction between public and private organisations in the cultural sector. This trend is often called “hybridisation” or “désétatisation” and consists of the emergence of a variety of mixed forms of governance with both public and private stakeholders. Hybrid organisations, or QUANGOs, rely on both private and public finance of which the latter often comes from different levels of government and/or public agencies. Schuster (1998) highlights this increasing complexity in the cultural sector by documenting the evolution of the governance and financial structure of American museums in the nineties. Using European case studies, Boorsma et al. (1998) and Meier and Frey (2003) demonstrate how new institutional arrangements are emerging between the ideal types of purely public and purely private cultural organisations.

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Within this broad perspective, we concentrate on the sources of the emergence of hybridisation in countries traditionally characterised by publicly produced cultural services. We argue that hybridisation is the consequence of a shift from in-house production to production delegation of public cultural services, and we interpret this trend as the consequence of two intersecting phenomena: devolution and privatisation. Privatisation is of particular interest here. Privatisation is a broader category than the sale of publicly owned theatres and museums or their temporary assignment to external organisations. Subsidies to private cultural producers may also be intended, in current cultural policies, as a form of privatisation. In fact, consensus is emerging that the provision of subsidies is outsourcing in other areas of governmental intervention, such as schooling (Merzyn and Ursprung, 2005; Elinder and Jordahl, 2013). The system of public subsidies and grants has been traditionally conceived as a peculiar feature of arm's length models of government intervention in the arts and cultural production. However, the increased use of subsidies in countries traditionally characterised by strong direct support and management of public cultural organisations requires reconsideration of this phenomenon because it does not seem to be associated with the creation of arm's length agencies.

While the outsourcing of public services has been extensively analysed in the economics and governance literature, less attention has been devoted to the conceptualisation of this growing phenomenon in the cultural policy literature and to the analysis of its consequences compared to other modes of public cultural spending. We contend that the shift from a traditional arrangement of publicly provided cultural goods and services to outsourced production should to be interpreted as a new paradigm of public support of the cultural sector: direct government support through production delegation.

However, what is the true nature of this new form of public support for the arts and cultural production? Why have some countries transitioned towards this peculiar mode of support rather than adopting an already established institutional arrangement? We answer these questions by considering how direct support to the cultural sector through production delegation relates to traditional modes. We propose a heuristic framework for understanding the motivations for choosing one type of support over another and highlighting the distinct roles played by economic and political factors in different national contexts. In the economic dimension, we reconsider the extensive economic and governance literature explaining the outsourcing of public services and contextualise it for the cultural field. In the political dimension, we address issues of political accountability for governments devising cultural policy.

By analysing the interaction between the economic and political dimensions, we argue that direct support through production delegation emerges in situations whereby government failures are perceived as more burdensome than market failures in the provision of public cultural services and a government is interested in retaining influence over cultural policy guidelines. Moreover, increased uncertainty about economic conditions, such as the prospective cost reductions associated with outsourcing, future economic cycles and cultural consumer preferences, may also help explain the choice of direct support through production delegation.

We support our claims by referring to Italy, which is a particularly interesting case study for several reasons. First, Italy has historically relied on the provision of cultural services through public sector institutions and enterprises with a very limited tendency toward insulation of the sector from the political process of cultural policy decision-making. However, beginning in the mid-nineties, outsourcing in the cultural field became increasingly adopted by the public sector in the cultural field. Outsourcing is often devised as subsidies without the concurrent establishment of an arm's length body (Bertacchini and Dalle Nogare, 2014). For instance, aggregate data on the cultural expenditures of all 8,092 municipalities, which provide a considerable share of public support to the cultural sector in Italy, reveal that transfers were the fastest growing item (+47%) between 2000 and

2010 [1], representing 22% of municipal cultural spending by the end of this period. Because these subsidies are granted in a political decision at the beginning of every fiscal year and are discretionary, this evidence indicates that cultural activities, which were once produced in-house, are increasingly assigned to private or public-private organisations that are responsive to the political majority currently in office.

Second, our analysis of public provision through production delegation also highlights the role of uncertainty. We claim that a government is more inclined to select a reversible type of privatisation of activities (one that does not involve the sale of public assets) whenever the financial consequences of a move away from the status quo are unclear. Italy illustrates this thesis quite clearly with reference to uncertainty over consumer preferences and future economic conditions (and their effects on public finance). In fact, over this period, Italy experienced two relevant phenomena. The first is the increase in a new form of cultural production, *general knowledge festivals*,[2] which reveals a shift in consumer preferences. Most of these festivals were local government initiatives that would prove successful only after several years, and local governments decided not to produce them in-house but to outsource them to allow themselves to close them down if they failed. The second is uncertainty about government budgets, because these have been subject to highly volatile interest rates on public bonds.

Finally, while some previous research discusses the privatisation of Italian heritage with a particular emphasis on the relatively rare transfers of ownership of publicly owned monuments and historical buildings (Benedikter, 2004; Trupiano, 2005; Zan et al. 2007; Ponzini, 2010), our analysis is the first to address the vast and pervasive phenomenon of outsourcing of Italian public cultural services. A broader analysis will allow future research to make more systematic comparisons of this case with experiences of hybridisation, such as public museums in the Netherlands (Engelsman, 2006) and public orchestras in Australia (Boyle and Throsby, 2012) and Japan (Kakiuchi et al, 2012). Our heuristic model could also provide insights into the interpretation of the economic and political factors that have affected such governmental decisions.

The paper is organised as follows: Section 2 illustrates the traditional classification of models of public financial support for the arts identified in previous research; Section 3 addresses the emergence of direct support of culture through production delegation; Section 4 discusses the economic rationale and political accountability arguments behind the choice among different types of public support; Section 5 illustrates the heuristic model in which economic and political accountability issues are jointly considered as the underlying drivers of the choice for a specific institutional arrangement for financing the cultural sector; Section 6 enriches the analysis by discussing how uncertainty favours a government choice toward direct support of culture through production delegation; and Section 7 concludes.

2. Traditional Cultural Policy Models: an illustration

In this section, we illustrate the traditional cultural policy models that have been identified in previous research. As illustrated in Figure 1, the available policy mechanisms for organising and supporting production and consumption in the cultural sector differ considerably in the nature of public intervention.

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[1] By comparison, overall municipal cultural spending grew by 26%. These data refer to current expenditures.

[2] General knowledge festivals are a specific type of festival aimed at discussing and disseminating knowledge of several disciplines, such as science, literature, mathematics, philosophy, etc. They differ from traditional music and performing arts festivals in that their core activities are conferences and lectures rather than performances.

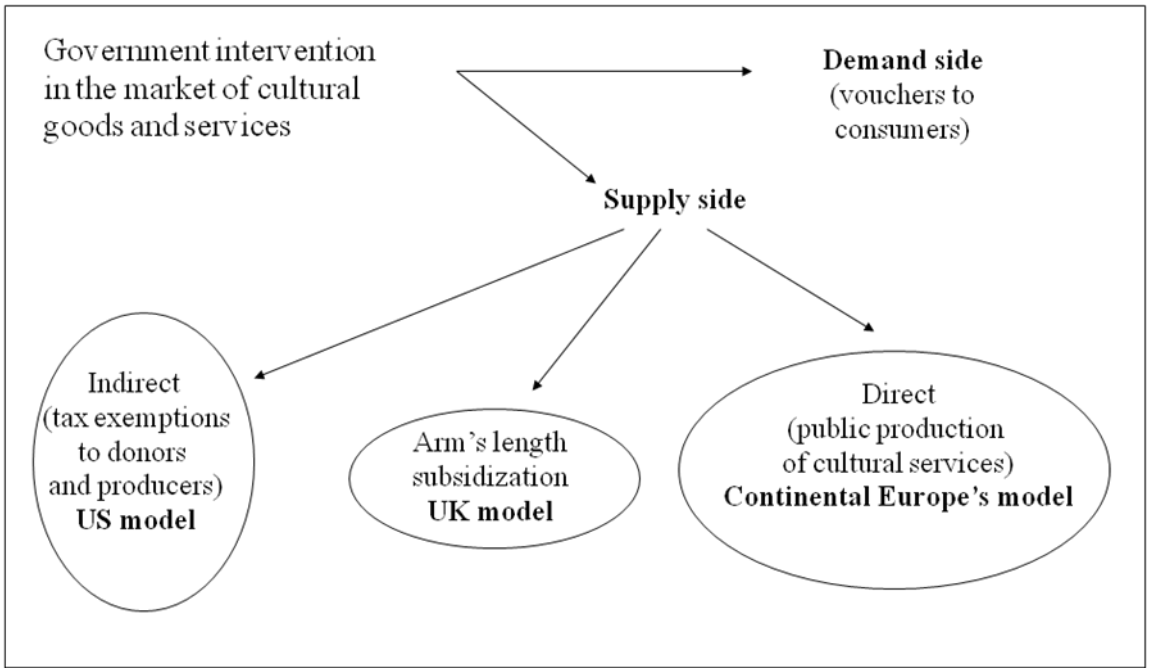

Figure 1: Traditional models of public financial support for the arts and culture

Government action may be first classified according to whether it affects the demand or supply side of the market for cultural services and goods (especially new artistic expressions). Demand-side interventions refer to funds that are channelled directly to consumers via the provision of free or low-cost vouchers exchangeable for cultural services. Though technically feasible, this type of scheme, generally based on the economic rationale of consumer sovereignty, has rarely been practiced and few successful examples exist (West, 1986).

Conversely, mechanisms addressing the supply side of the market for cultural services have been more widely adopted. Three main approaches to public support have been noted, including direct measures administered by public authorities, arm's length systems of subsidisation and indirect support through the tax system (tax exemptions). These approaches mirror ideal types of government intervention and public funding for cultural services that have been identified and broadly discussed in the cultural policy literature (i.e., Hillman-Chartrand and McCaughey,1989; Cummings and Katz, 1989; Mulcahy, 1998). For instance, Hillman-Chartrand and McCaughey (1989) define Architect, Patron and Facilitator models to illustrate the French, UK and US public support models for the arts and culture, respectively.

Although these approaches are not mutually exclusive and have sometimes been combined in a country's cultural policy, there are remarkable differences across countries in the prevailing approach.

On the one hand, continental Europe has generally been oriented towards the Architect model based on the direct production of cultural services, and the French and the Italian systems are paradigmatic examples (O'Hagan 1998). Within this approach, the lion's share of public production of cultural services has traditionally been in-house production, i.e., supplied by publicly owned cultural institutions (theatres, orchestras and museums). On the other hand, the United States relies on tax incentives to subsidise cultural organisations, especially encouraging private support through philanthropy (Schuster, 2006).

Between these extremes, the UK and a number of other countries, such as Israel (Katz and Sella, 1999), have developed a peculiar model of public intervention in which public subsidies to private cultural organisations play a larger role. In this model, a government directly supports the supply of

cultural goods and services through subsidisation but delegates the allocation of public funds among private cultural institutions to arm's length agencies. This delegates decision-making responsibilities to independent statutory bodies of experts in the art and cultural field (Van der Ploeg, 2006).

This scheme can also be adapted to different fields of the cultural sector. For instance, if we consider performing arts policy, vouchers for theatres represent interventions on the demand side, while tax exemptions for private donors are indirect measures of support on the supply side. Public subsidies granted by a committee of independent experts to performing arts companies for producing and distributing their creative projects is a more direct type of supply side intervention. Finally, a government may decide to provide cultural services directly by operating a theatre with a publicly funded orchestra (in-house production).

Crucially, these three supply side approaches highlight different degrees to which a government is involved in the funding and production of cultural goods and services and reflect different attitudes toward the assignment of responsibility for selecting the cultural activities to be subsidised. In both the direct support and arm's length subsidising models, a government directly commits financial resources to sustain cultural production, while through indirect support governmental aid is through foregone taxes. Generally, direct support entails a greater number of public cultural institutions compared to the indirect support and arm's length subsidisation models. In direct intervention, politicians and bureaucrats play a prominent role in allocation decisions. Indirect support leaves the allocation of funds to a larger number of individuals and private organisations that direct their donations to cultural institutions and activities according to their preferences. The arm's length model relies instead on expert advice to set priorities and formulate criteria for distributing subsidies (Throsby, 2010).

3. Direct support to culture through production delegation as a new emerging model

While the extant research has based the analysis of cultural policy on the above clear-cut classification, over the last decades two widespread trends have affected some countries adopting the Architect model of cultural policy: devolution and privatisation. These phenomena have often appeared contemporaneously and have intersected, and they have produced a number of hybrid institutions whose roles have become increasingly important.

Devolution refers here to a legal or de facto change in the distribution of power to determine cultural policy among different levels of government. As noted by Rosestein (2010), public cultural institutions increasingly depend on funding from different levels of government and financing mechanisms that rely upon decision-makers with very different public roles and responsibilities.

Privatisation is a complex phenomenon that not only includes the one-off transfer of property and control from the public to the private sector but also includes different forms of temporary control over public assets and services provision (Schuster, 1997). In fact, full and reversible privatisation share features that make them equal alternatives from a policy perspective. In particular, both forms lead to changes in the legal framework within which cultural services are provided and shape new action boundaries for suppliers. In particular, both cases induce a shift towards private contracting of production.[3]

[3] Sometimes, production is delegated to firms that are not (at least partially) private but fully owned by one or more governments, which is sometimes referred to as *contracting in*. As long as these public firms are subject to the same legal framework as private firms, and they often are, this is another form of privatisation. In fact, Domberger et al. (1995) investigate outsourcing in other public domains and find that the effects of outsourcing on both cost and quality are the same irrespective of service provider ownership. What matters is not the ownership of the service provider per

With devolution and privatisation, the nature of public intervention changes. The role of public cultural organisations in providing in-house cultural services shrinks and produces a new institutional arrangement for the public provision of cultural goods and services: direct support of culture through production delegation (Figure 2).

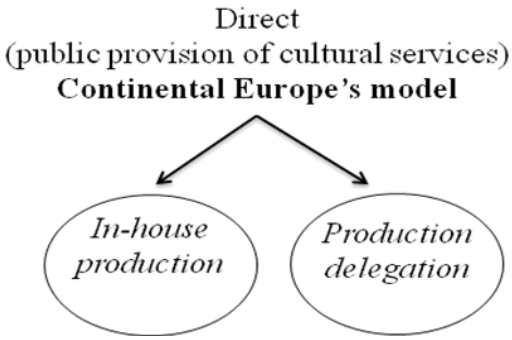

Figure 2: Direct support to culture through production delegation

In Italy, for instance, a number of public-private arrangements have been set up locally for the management of previously publicly run cultural facilities or for delivering cultural services since the end of the nineties. Founding members often include both private partners (such as banking foundations, wealthy private organisations originating from the privatisation of banks in 1992) and public partners, such as municipal, provincial and/or regional governments. These new public-private arrangements usually possess small endowments and rely on sponsorships, ticketing and contracts or subsidies from their stakeholders, of which public support is often prevalent. As many as 400 public-private entities were active in the cultural sector in 2004 (Grossi, 2004).
The adoption of public-private arrangements by local governments in the cultural sector has been eased by the landmark case of the Egyptian Museum of Torino, the first national museum transformed into a public/private foundation with participation from the Ministry of Cultural Heritage, local public authorities and local banking foundations (Ponzini, 2013; Bodo and Bodo, 2013).

The model of direct support through production delegation is often associated with the more general term *outsourcing*, which in the cultural field may take up two distinct forms, as illustrated in Figure 3.

se but the shift towards flexible working contracts and use of voluntary work, which are often unavailable to governments.

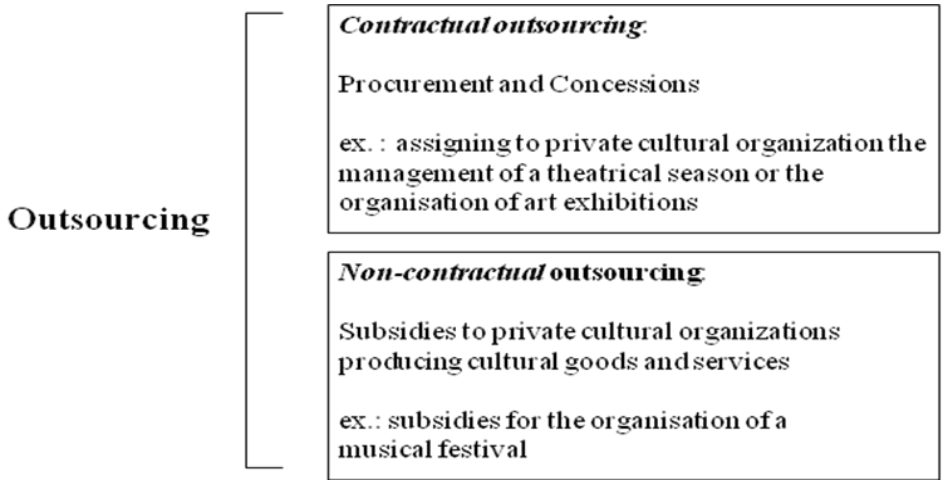

Figure 3: Types of cultural services outsourcing

Contractual outsourcing, also called contracting out, is a formal form of production delegation, which consists of either concessions or procurement contracts by which a government assigns a service provider, usually selected through a competition, the task of providing a cultural service that was previously produced in-house. Procurement contracts are more common than concessions in the cultural field because ticket prices often remain politically determined, that is, they do not reflect production costs, and profits are negative.[4]

The financing/subsidising of an external organisation for producing and delivering cultural goods or services (non-contractual outsourcing) is a less formal and more implicit form of production delegation. There is no legal constraint for the subsidised organisations and they may make whatever use of the tax money they receive. However, the relationship with the subsidising government is perhaps better described as an implicit contract (Hart, 1991), and reputational considerations are likely to induce the providers of cultural services to satisfy their public patron's standards.

This view on subsidies may also be found in recent contributions examining schooling policy. According to Merzyn and Ursprung (2005) and Elinder and Jordahl (2013), who consider subsidies to private schools as an alternative to public schools, subsidisation is similar to contracting out and should be defined as a form of reversible privatisation.

This represents a new perspective on subsidies in the cultural field. In the cultural policy literature, subsidies have predominantly been considered within the arm's length model in which their presence is part of an institutional arrangement that dilutes political influence over cultural policy. However, the allocation of subsidies is often not decided upon by independent agencies but by governments themselves. In this case, subsidies may be considered a means of allowing a government to avoid in-house provision while retaining the power to select the cultural activities that are worth being produced. We will elaborate on this idea in Section. 5.

In the cultural field, subsidies are very similar to contractual outsourcing, especially when the subsidised cultural organisation heavily depends on public support and produces cultural services for the public. In Italy, for instance, the number of fully private cultural foundations has boomed

[4] The only exception may be the case of outsourcing single non-core activities, such as bookshops in museums and online ticketing reservations. This type of outsourcing is also present in Italy. Law n. 4, 4-01-1993 on museum ancillary services (bookshops, catering, etc.) was the first Italian law allowing outsourcing in the cultural field and prescribed that these services should be contracted out as concessions.

over the last 20 years. Recent inquiries on their financial resources highlight that private cultural foundation generally have small endowments and they rely on public support (Centro di Documentazione sulle Fondazioni, 2007). Thus, this growth may reflect a rise in non-contractual outsourcing.

Contracts or grants may also be devised for the production of a new cultural good or service (say, a new festival) rather than a pre-existing in-house production. In other words, outsourcing does not necessarily reduce the fields of action of government intervention. Rather, it reduces the in-house production of activities in a wider pool of direct public support.

4. Criteria informing the government mode of intervention

The funding and allocation of financial resources to cultural activities is a field of governmental action characterised by considerable heterogeneity across countries. While such heterogeneity is partly the result of different historical and institutional paths, at the core of a society's preference for a specific mode of public support is its own perception of the role that government should play in two dimensions. The first relates to economic arguments and welfare considerations. The second is the influence that a government exerts in designing cultural policies and relates to political accountability.

4.1 Economic dimension

Because cultural policy concerns the financial decisions that a government makes to support the production, provision and consumption of cultural activities, economic factors are relevant to understanding the scope of government intervention and market alternatives in the cultural sector.

In the cultural economics literature, several scholars justify the public support of the arts and cultural services by highlighting the public goods character and/or positive externalities of producing and consuming such goods. From a welfare theory perspective, Frey (2003) suggests that private markets tend to misallocate or under-provide resources in the arts because of market failures in both the production and consumption of cultural goods. On the demand side, cultural services do not only have use value but also an option and existence value. Some people may not themselves value art but consider it a bequest to future generations. On the supply side, the provision of cultural activities may yield positive external effects to individuals and firms not involved in their production process, such as the increased attractiveness of places and improved quality of life due to cultural infrastructure and amenities (Falck et al., 2011). Cultural production in creative industries is also acknowledged to generate positive spillovers that enhance local development processes (Sacco et al., 2013). The producers of cultural services are not fully compensated in monetary terms for the benefits created, and culture is underprovided.

While market failures provide an economic justification for strong government intervention in the cultural field, measures designed to correct market failures might be themselves be plagued by government failures. One example of government failure in the direct provision of cultural services is X-inefficiency (Leibenstein, 1966), which occurs when technical efficiency is not achieved in the organisation of public production because of insufficient competitive pressure. Generally, failures arise when government decision-making is not consistent with public welfare enhancing criteria and is affected by the private interests of politicians and bureaucrats (Tullock et al. 2002).

Direct support for the production and delivery of cultural services is justified when perceived market failures are larger than government failures. When the opposite is true, a government should

prefer more market oriented approaches to cultural policy, such as product delegation of in-house produced services or indirect support on the demand (vouchers) or supply sides (tax exemptions).

Assessing the extent of market and government failure has shaped the current economic debate on the design of modes of public support to art and culture. In particular, the privatisation trend occurring in the cultural sector in many countries may be a consequence of the reconsideration by policy makers of the relative importance of government failures (Schuster, 1997). Three main circumstances influence the shift in the balance between a direct government intervention and market oriented approach in the production and provision of cultural services.

First, as for other public services, a new emphasis on economic efficiency has fostered the adoption of market-oriented approaches. According to this view, costs are expected to be reduced by introducing competition where there is a public monopoly (Savas, 1987). However, as noted by Donahue (1989), outsourcing will work best where potential competitors exist, a condition that is not always satisfied in the cultural sector, especially when for local cultural services. The in-house production of cultural services should be less necessary in larger cities where cultural industries and arts organisations tend to localise and competition exists from a larger number of private providers.

Second, the conditions that influence the transaction and monitoring costs are central in determining when a public service can be successfully outsourced (Williamson, 1979). When the production of cultural services entails the management of assets which require highly specialized resources and skills (such as for a museum collection or a cultural facility), holdup problems may arise between the government and the contracted cultural organisation because the outsourcing relationship involves the use of transaction-specific assets. Once investments in such cultural facilities have been made, one party — either the owner of the facility or the contracted cultural organisation— might be at an advantage over the other party in the relationship. This fact can increase the transaction costs associated with writing, monitoring, and enforcing a contract between two parties to avoid opportunistic behaviour.
Holdup problems are exacerbated in situations in which quality concerns or social goals are part of an efficient outcome and thus part of a welfare-maximising government objective function (Hart, Shleifer and Vishny, 1997). Asset specificity in the cultural sector is particularly high in the preservation and conservation of cultural heritage and art collections. In this case, that some countries have privatised their museums but not their collections or the activities related to their preservation is consistent with such theoretical arguments. The main implication of this economic argument is that a government is more likely to prefer production delegation to in-house production when asset specificity and monitoring costs and concerns about quality are not high.

The third economic circumstance to consider is the fiscal stance of the public sector. Fiscal crises and worsening public finances have provided an economic justification for reducing the extent of government intervention and administrative burden of the state in the cultural sector.[5] Such a claim recognises that past or ongoing economic inefficiencies and government failures in supporting cultural production may have worsened that status of public finances. Fiscal stress may modify the structure of government intervention because a government is induced to privatise or outsource public cultural services. This also allows governments to circumvent fiscal rules such as spending caps by taking certain expenditures 'off-budget' and inventing new ways of collecting revenues outside of normal taxation (Schuster, 1997). As a result, outsourcing is not only viewed as a

[5] The evidence that these reductions have actually taken place is mixed. For instance, after examining the US State Arts Agencies, some authors (Lowell, 2004; Lewis and Rushton, 2007) have observed a positive relationship between cultural spending and fiscal stance. However, Noonan (2007) does not observe a clear effect of public revenues or debt on state public cultural spending.

solution to reduce fiscal stress and administrative costs of direct intervention but also as a way for a financially stressed government to obscure its support of cultural production.

4.2 Political dimension

One aspect that makes public support of cultural and artistic activities particularly challenging is the nature of the artistic and cultural expression, which entails the transmission of values, symbols and contents. It is usually assumed that this type of communication does influence the self-perception and Weltanschaung of individuals. Art also conditions the expression of the cultural identity of the community and social cohesion. The content presented is therefore important and entails decisions based on political and ideological views about whether and to what extent governments should control the type and quality of cultural production to attain specific objectives.

Control is not necessarily exerted by the political veto of a message that artists and cultural service providers convey through their activities.[6] Rather, devising a system of public support for the arts and cultural production must inevitably include an agenda for the following crucial questions:

- First, what is and what is not art/culture;
- Second, what are the criteria to be used to judge the value of an artistic manifestation?[7]

In other words, it is more a question about the guidance of a cultural policy, i.e., deciding who is entitled to define the criteria for the identification of the activities worth being supported. These decisions sometimes have only indirect effects on the actual values and contents embodied in supported cultural activities. Yet, such effects, though less evident than censorship, are never negligible and may even translate into a real political influence on the arts and cultural sector. This influence occurs, for instance, if a government chooses to remain in direct control of cultural production and other circumstances are verified, such as favourable artist attitudes toward political power and/or strong government monitoring efforts.

Historically, several fields of cultural production in different societies have experienced high degree of control. According to Cowen (2000), one example is France, where the government centralised guidelines for artistic production as early as the seventeenth century through the establishment of cultural institutions such as the Academie des Beaux-Arts and public Salon exhibitions, which provided the major network for sales. Currently, direct intervention in television content through government-owned stations is another clear case of political control.

While control over cultural policy has spawned several normative recommendations for how governments should operate (Madden, 2009), we take a positive approach here. We simply claim that the choice of one institutional arrangement over another is the reflection of a society's perception of the role that political power should play in determining which arts and cultural services are worth supporting. In fact, different institutional arrangements identify different subjects entitled to decide the type and quality of cultural services to support: politicians and bureaucrats

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[6] Although we recognize acts of censorship against cultural expression as a problem in authoritarian states, this explicit type of control is out of the scope of our investigation. Rather, we focus on how public funding decisions made by governments in democratic systems affect cultural operators and artists in their expression.

[7] Aesthetic quality may seem the most neutral answer; however, taste is subjective, and the very choice of quality over other criteria (for instance, morality or amount of new research embodied in the artwork) is a political choice.

(direct support), private patrons (indirect support), cultural experts (arm's length models) and even consumers (vouchers).

Crucially, there are two views concerning the role a government should play in devising mechanisms of public support for the arts and cultural production. One view is compatible with a principal-agent relationship between voters and government in which the former trust the latter more than other (private) agents. The other view is compatible with the opposite circumstance.

In the former view, a government maintains control of cultural policy. This role may reflect an awareness of representing a constituency: its preference function reflects the median voter's tastes.[8] Alternatively, a government may perceive itself as a benevolent dictator who must engage in the provision of merit goods (Musgrave, 1959), the intrinsic value of which it knows better than other actors do.[9] This view is compatible with democratic systems as long as voters consider themselves to possess incomplete information about cultural issues and view politicians as experts. The choice to retain cultural policy within the government sphere of influence entails the choice to provide direct support through public cultural spending. In fact, all other alternatives (i.e., indirect support, arm's length models and consumer vouchers) place the allocation of public cultural spending in the hands of groups that may not represent what is best for society.

When a society trust less its government than private agents, these alternatives are more likely to be chosen as prevalent modes of public support. This mistrust is often based on political economy arguments. Specifically, there are two reasons why a government may be judged untrustworthy by its constituency. First, government actions may diverge from voter preferences because office motivated politicians are driven by re-election and/or ideological goals (Besley and Coate, 1997). Second, a government may be *captured* by interest groups, such as public employee unions (Lopez-de-Silanes et al. 1997). Under these circumstances, cultural policy determination should be delegated. As noted, a government has three alternatives: vouchers to consumers; tax exemptions on donations to cultural institutions; and arm's length delegation to independent bodies of art and cultural experts.

The arm's length model differs from the other two in that the actual determination of the *amount* of public support to culture is directly defined by the government. It is as if voters trust their government to define the amount of public support but not its ability/neutrality in actual allocation. With vouchers and tax exemptions, instead, the amount of support for the production of cultural services is not the outcome of an explicit governmental decision but the consequence of consumer actions and donors benefitting from indirect support mechanisms.[10] There is another substantial difference: in the arm's length model, decisional power is not returned to voters in their role of potential consumers and donors as in the other institutional arrangements. Instead, there is a double delegation by which, as in the case of power delegation in monetary policy (Rogoff, 1985), by appointing an independent authority, a government ties its hands. A preference for the arm's length model thus comes from the median voter's realisation of its own incomplete information and limited competence in cultural matters. Consequently, the power to decide remains concentrated in

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[8] According to the median voter theorem (Downs, 1957), political preferences may be reduced to a one-dimensional spectrum, and political competition induces parties with different ideological platforms to converge to the view of the voter whose preferences are at the median of the spectrum. In other words, shifting from extremism toward a moderate policy agenda pays in electoral terms, which is why all parties choose this strategy.

[9] This attitude is sometimes apparent in the rhetoric of Continental European cultural policy ministers and their bureaucrats.

[10] Clearly, a government still has some degree of control through the specific determination of the benefits for the consumer/donor in these cases; however, as they say, you can lead a horse to water, but you can't make it drink.

the hands of a few who, however, are not politicians or government officials as in the benevolent dictator case.

How does direct support through production delegation appear in this context? Whether culture is produced in-house or outsourced is of little difference for political control. Both cases are in fact the expression of a society who trusts government more when it comes to assign the task to determine cultural policy guidelines. Direct support through production delegation is thus merely another expression of either a benevolent dictator or median voter attitude of the government. This is very clear in the case of contractual outsourcing in which the service provider is asked to produce a specific exhibition or festival. Non-contractual outsourcing may not be so evidently characterised by the preeminent role played by government in the choice of contents. However, this is often, if not always, the case, when the subsidised organisation is a hybrid institution whose founders include the very government subsidising its activities. However, even when the subsidised institution is fully private, a type of self-censorship is at work. Because funding comes from a government, and would not be received if the arts programme were not aligned with the tastes and preferences expressed by the authority, the only successful strategy is to conform to its vision. There is a clear difference with the arm's length model here. With subsidies as a form of non-contractual outsourcing, cultural institutions are not assessed for subsidisation by a panel of experts but directly by politicians or bureaucrats. Under both circumstances, there is an incentive to conform to the subsidiser's views, but in the case of direct support through production delegation, these views are usually narrower. In fact, a government is concerned with the fact that cultural supply is perceived by voters as a direct expression of their will and is therefore unwilling to finance art addressing controversial issues.
In addition, the environment plays a role. Direct support through production delegation is usually an evolution of the Architect model in which private support plays little or no role. This means that arts institutions find it difficult to raise non-public financial support. The presence of private patrons is likely to reduce self-censorship; however, in some places, such as Italy, private patrons are less available and this is especially true for new and local cultural expressions and events.

5. Linking the economic and political dimensions

The simultaneous analysis of both economic and political dimensions of government intervention in the cultural sector provides a more elaborated interpretative framework to reconsider the rationale for a specific mode of public support of cultural production.

However, most contributions on cultural policy have almost exclusively focused on either the former or the latter dimension. Cultural economists have highlighted economic arguments to explain the differences between among the direct government intervention, indirect support and arm's length subsidization models. Conversely, sociologists and cultural policy scholars have put more emphasis on the political accountability issues associated with government intervention;, with few exceptions showing some interest in considering both economic and political issues jointly (i.e., Feder and Katz-Gerro, 2012).

Table 1 provides a heuristic framework classifying the different institutional arrangements for public support of arts and cultural activities as a consequence of a society's (or a government's) position on the economic and the political dimensions. Alternatively, it may be interpreted as a guide for a government wishing to reconsider its modes of support to cultural production, i.e., a presentation of all existing models and what each entails in terms of market failure correction and governmental control over cultural policy.

Table 1 - Taxonomy of public support for arts and cultural activities

		Governmental control over cultural policy	
		Low	High
market attitude	market failures (perceived as) > government failures	Arm's length model	direct intervention through in-house production
	government failures (perceived as) > market failures	Indirect demand and supply support	direct support through production delegation (outsourcing)

The familiar models based on direct support through in-house production of cultural services or the creation of arm's length bodies to subsidise cultural production express a favourable attitude toward direct government intervention to solve market failures, which are perceived as greater than government failures. They differ in the extent of the control a government exerts over cultural policy, with traditional direct support being the expression of a community belief that not only should a government collect taxes to support the arts market but it should also influence the policy guidelines for cultural production. Choosing the arm's length model reveals some mistrust in this respect.

When government failures are perceived as very high, a laissez faire or non-intervention policy is an option; however, this position is not very common. Indirect support of either the demand for or supply of cultural goods and services is an institutional arrangement resting on similar (though less extreme) pro-market premises and on little interest in government political influence over cultural production.

Interestingly, these three traditional models of public support to arts and culture are not consistent with the number of options the matrix in Table 1 suggests. The quadrant of the table that has not been addressed is the one where political influence over cultural policy guidelines is high but government intervention is perceived as less efficient than alternative market solutions and, hence, in-house production is not the preferred choice. Here is where direct support through production delegation appears. This is the choice of a society perceiving that assigning only to the private sector the responsibility to support and organize cultural production is riskier than assigning them to government. However, the government may be highly inefficient; therefore, the best choice, after determining the extent of public support to cultural policy, is to delegate the actual production of cultural goods and services to private actors.

The Italian case is emblematic in this respect.; take for instance, cultural knowledge festivals, a cultural service the whose supply of which has been growing grown considerably in Italy over the last decade (Guerzoni 2009). A good case study among them is the Mantua Festival of Literature, one of the most successful Italian festivals. The organising committee is private, but the very idea of

the festival was, so to say, induced by an input coming from the regional and municipal governments. In 1995, the Lombardy Region commissioned a survey to ascertain the potential for a tourist and cultural redevelopment of some of its cities. The report identified Mantua as the perfect place for a literary festival, similar to those of other European cities. The festival began in 1997., and from the very beginning, it was devised as a private initiative subsidised by local governments, with a share of public funds over the total cost of more than 60%.[11]

Furthermore, in Italy, all types of public cultural services (museums, theatres, etc.) have experienced outsourcing, but some services have experienced more than others have. Bertacchini and Dalle Nogare (2014) observe that in cities where public cultural spending mainly supports museums and libraries, outsourcing is less common than in the case of cities spending more for theatres, festivals, etc. This is consistent with the predictions of transaction costs theory: compared to theatres, performing arts and cultural events, libraries and museums represent facilities related to the production of cultural services with the highest level of asset specificity, which is likely to cause holdup problems. In addition, monitoring is difficult to implement (Brown and Potoski, 2003; Levin and Tadelis, 2010).

Finally, in the case of cultural knowledge festivals, being a new type of cultural service, this has played a role in their funding through direct support through production delegation, which will be clarified in the next paragraph.

6. The role of uncertainty

While the illustrated heuristic model clarifies how direct support through production delegation emerges from the interaction of specific economic and political conditions, the introduction of uncertainty further enriches the explanation for the adoption of this new mode of public cultural spending.

As already highlighted, privatisation in the cultural field is a shift away from the most direct mode of public support, i.e., in-house cultural production. Privatisation often takes place for a number of reasons (such as more powerful public employee unions or insufficient incentives for efficient public management) letting government failures increase, and it may take different forms. As illustrated in Table 2, different modes of privatisation are characterised by varying degrees of reversibility.

Table 2: Privatisation – a taxonomy.

	Privatisation form	Length of consequences of privatisation arrangement	Reversibility
Full Privatisation	Transfer of property/control rights	Forever	None
Contractual outsourcing	Contracting out	Multi-year contract	Mild
Non-contractual outsourcing	Subsidisation	One Year	Full

[11] In the case of the Mantua festival, the role of sponsors is now much more important.

Full privatisation of a public facility producing cultural services corresponds to a complete, irreversible transfer of ownership. It is usually considered an opportunity to raise new resources from the sale of the asset and to reduce the financial burden of a government by taking the expenditures required to run the cultural facility off-budget.

However, a government may not assume that this choice entails a reduction in future costs because, in most cases, the markets for cultural services are characterised by relatively low demand, high fixed costs and positive externalities. Public support is necessary even after privatisation. Whether this support is smaller than before depends on a number of circumstances related to market conditions, which are not known when the decision is made.

As a result, even if retaining control over cultural policy is not of paramount importance (which, we argue, is generally *not* the case), a government may be more inclined to choose an alternative, more reversible privatising arrangement. The fact that a government is uncertain that full privatisation reduces costs in the long-run increases the likelihood of outsourcing over complete transfer of ownership.

There is also another role played by uncertainty in this context. Uncertainty is also a typical feature of the environment surrounding a decision to produce a new cultural service. Whether future fiscal circumstances will afford the long-term provision of a new cultural service is not known in advance. A government's best choice is therefore not to commit in a way that will make it difficult to step back in the future, which would occur with a dedicated department within its administration.

In the Italian context, for example, labour market regulation has traditionally provided civil servants with a legal status that makes dismissal difficult; even changing job assignments is difficult. Unsurprisingly, all levels of government, and especially municipalities, are currently inclined to outsource whenever possible. This was not legally possible in the cultural field up until the mid-nineties when new laws inspired by a context favouring the externalisation of public production[12] were enacted. Since then, the funding and organisation of public cultural production has changed. In fact, policy makers face strong incentives to make the public provision of cultural services more contingent on economic cycles, which affect both their fiscal position and demand.[13]

When a new cultural service is produced, uncertainty about consumer demand is present not only because of the effects of economic cycles on consumer income (Katsuura, 2012) but also because of possible changes in consumer preferences.

As already mentioned, one area of government intervention in the cultural field in which outsourcing is prevalent in Italy is cultural knowledge festivals. This type of festival is a new phenomenon. At the local level of government, it was very common to organise art exhibitions in the nineties; however, the so-called "exhibition mania" slowed and was surpassed by the appeal of the new festivals, especially for cultural tourists. Would these festivals represent the next important trend in a city's cultural life? Would a festival of, say, economics be successful? The choice of the

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[12] New European directives on the outsourcing of economic services of general interest have triggered a *general* trend towards the outsourcing of public services.

[13] Uncertainty originating from the demand side of the market is more important when, as in Italy, a considerable number of participants are cultural tourists. When the prices of cultural services are not determined by the market or approach zero, the effects of economic cycles on participation are small. However, if cultural consumption is part of a bundled goods such as a tourist's trip, the overall price of the trip is relevant and may be affected by uncertain conditions.

theme is crucially important to determining success, but no theme appears, ex ante, guaranteed. Unsurprisingly, festivals are a field in which outsourcing is quite widespread. Guerzoni (2009), who conducted a survey of the 31 major cultural knowledge festivals in Italy, claims that the organisation of such festivals is always private but that, on average, half of their revenues come from local governments. This figure is even higher if we exclude from the sample the very small number of expensive festivals able to attract many sponsors and we consider only the vast majority of events of more modest appeal and size. This is consistent with our predictions: a new cultural service is available and governments decide to delegate its production.

7. Conclusions

In this paper, we provide a picture of the pervasive phenomenon of outsourcing in the cultural field to which we assign a novel, broader definition including subsidisation. We argue that in countries, such as Italy, traditionally characterised by the public production of cultural services, outsourcing, especially strong in cities but present at all levels of government, is changing the nature of public intervention in the market for cultural goods and services. We define this emerging mode of public cultural spending as direct support through production delegation and argue that it is different from previously identified models. The main and distinctive feature of this new model is a combination of mistrust in government ability to minimise failures and a wish to allow public rather than private hands to determine cultural policy guidelines. Increased uncertainty about economic conditions, such as the cost advantages of externalisation, future economic cycles and cultural consumer preferences, may also play a role in explaining the emergence of direct support through production delegation.

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