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PUBLIC FINANCING OF THE ARTS AND CULTURE: STATISTICS AND REALITY IN FINLAND

Methodological Issues and Identification of the 1990s Turning Points that Re-Shaped the Conditions of Cultural and Art Institutions

English Summary

The study reported in this publication has both national and international roots. It is, on the one hand, an integral part of a research project (TaiLa) mapping and analysing the changing conditions of the Finnish cultural and art institutions: libraries, orchestras, theatres and museums. Updating and reinterpreting the statistics on public expenditure and financing presented in this publication was the first stage of the project exploring *the overall changes of economic and financial condition of the Finnish cultural and art institutions in the 1990s*. The latter stages of the project focus on *transformations of institutional structures and managerial strategies*.

As to its international roots the study is a continuation of an international effort to improve comparative cultural statistics. A Leadership Group (LEG), working under the auspices of the EU, carried out in 1996-1999 an extensive planning process for developing comparative cultural statistics for the European Union Member States. The first *methodological part of the publication* discusses and develops further the “two-accounts model” suggested by Task Force #3 of the LEG for compiling financing and expenditure statistics. The second *empirical part of the publication*, while updating and interpreting Finnish public financing and expenditure statistics, also tests this model.

The two-accounts model presumes that aggregate data on public cultural expenditure and financing are seldom as such sufficient for compiling reliable, meaningful or internationally comparable statistics. Instead of just refining the techniques for turning the available aggregate data into comprehensive national statistics, one should adopt an “end-user perspective”. This means that, in order to make national statistics valid and meaningful, one should work “from bottom up”, develop classification systems and data compilation

techniques for data on institutions, or more general, for data on the end-users of public financing. The compilation of statistics becomes in practice an iterative process where information from the institutional/end-user level reorients statistical work on the national level and helps to check the validity and reliability of its results.

The end-user approach is developed further in the methodological part of the study. It is suggested that in applying the end-user perspective the paramount task is to develop a reliable classification of institutional units, comparable to that used in the System of National Accounts (SNA93). Only then would it be possible to utilise other statistical systems (industrial statistics, business statistics, or census data) as sources for cultural statistics. A logical link to SNA-statistics is also necessary if we really want to use cultural statistics to assess economic and employment effects of the arts and culture.

It is suggested that any attempt to develop a general statistical frame for the arts and culture is bound to end up in a cul-de-sac. This was the case with the frame suggested by the UNESCO and that seems to be the fate of the frame proposed by LEG/EU. In the planning work the frame is internationally agreed upon and accepted, but found nationally either inapplicable or unapt in practice. Instead of such frames it might be wiser to develop *a separate SNA satellite account system for the arts and culture*. Models for this can be found in environmental protection and in tourism where such satellite accounts already do exist.

The methodological part discusses the applicability of the two-accounts model and the end-user perspective for compiling Finnish statistics on cultural financing and expenditure. The cultural statistics' link to Finnish SNA statistics is analysed and special attention is paid to the possibility to derive cultural statistics from the registers of institutional units maintained by Statistics Finland. The validity of these statistics depends much on the criteria used to classify institutions in different institutional sectors, for example, how theatres, orchestras, museums etc. are allotted into such categories as market or non-market units, enterprises or non-profit units, or government or non-profit units. The Finnish system of registering cultural and art institution was found to be somewhat arbitrary – or at least problematic.

“Institutional sectoring”, that is, allotting cultural and art institutions into the above categories, is not only an issue of validity of the data and its classification. It is also an issue of how we interpret public subsidies to institutions. We can, for instance, ask *whether subsidies to an opera house should be considered support for an ineffective enterprise or an expression of “public demand” and “cultural” welfare transfers to households*. The classification also determines how the value-added contribution of the institutions to the GDP is calculated. The study indicates *that these problems cannot be solved by developing general statistical frames for the arts and culture; they could be best handled within a satellite account system*. Against the backdrop of these main issues the study also discusses such perennial issues of cultural statistics as the scope of culture, the time span of events and observations, and types of potential statistical indicators that could be developed for policy purposes.

The empirical part of this publication presents first some national time series data. They are used to identify recent trends and turning points in the

public financing of the arts and culture in Finland. A “double turning point” can be located in the years 1993-1995. In 1992 the public expenditure on the arts and culture peaked in Finland. In terms of the ratio of the total public expenditure¹ to the GDP, it reached the all-time highs, 1.1 percent according to the broader definition of culture and 0.72 percent according to the narrow definition of culture².

The decline that occurred after this boom was due to two facts: the deep economic recession in 1991-1993 and the reform of the state subsidy system in 1993. In the early 1990s museums, theatres and orchestras were included in the regular central government (state) aid system, in the context of a broader state subsidy reform in 1993 they were also included in a new “formula-based” state subsidy system. In this system central government subsidies are calculated on the basis of certain cost criteria (salary cost of a manpower year, average library maintenance cost etc.) and transferred – either directly or through the mediation of municipal cultural administration – to the institutions.

This new transfer system, together with the aftermath of the recession, had two consequences. First, and more immediately, the total financing of the institutions started to decline already in 1993, when the state took over the main statutory burden and the municipalities saw it opportune to decrease their share even more than the state (central government) increased its own. Secondly, the state, due to its budget deficit and the need to invest in the renovation of national cultural institutions, started to retrench – or at least prevent the growth of – its subsidies. This in turn forced the municipalities to start increasing their share of financing around 1995. *Thus the double turn of 1993-1995 led to a situation where co-operation between central government and municipalities started to malfunction: the total financing stagnated and the institutions had to cover the escalating costs, especially the hike of wages and salaries, with their own earned income or with contributions from foundations and private sponsorship.*

The turning points, identified by national aggregate statistics, are substantiated in the study by detailed “end-user” statistics on the income and cost structures of Finnish cultural and art institutions. *In 1994-1997 the aggregate expenditure of major professional institutions (theatres, orchestras and museums, current costs) rose some 17 per cent. At the same time, public subsidies from the central government and the municipalities rose only some ten percent, and the institutions, in order to close the gap, had to increase their own income some 25 per cent.* The statistics suggest that the “formula-based” financing system brings stability into the system of institutions as a whole. On the other hand it has some inherent rigidities, and consequently only few institutions can use it proactively, that is, for improving their economic position and, at the same time, for gaining greater creative freedom and production autonomy.

¹ Comprising the financing from the two main sources, central government and municipalities.

² The narrow “administrative” definition comprises the financing through the Department of Culture of the Finnish Ministry of Education, the broader covers arts education, art universities, international cultural co-operation and some areas of adult education. It should be noted that the GDP ratios are somewhat boosted because of the decline of the GDP during the severe recession of 1991-1993

The study pays special attention to the changing conditions of the national art institutions (National Theatre, National Opera, National Art Gallery, National Museum, Radio Symphony Orchestra). A crucial difference can be noticed in the financial and operating conditions of the “private” (but massively subsidised) national institutions on the one hand and institutions operating with the budget economy of central government on the other. It seems *that the requirement for efficiency and effectiveness is at present more exacting in the case of the “budget organisations” than the “massively subsidised” organisations.*

In conclusion the study assesses how well the tested double account model and the related end-user perspective fared in the test by Finnish statistics. The model and the perspective are considered valid and worth while for adoption in national statistics. They do, however, presuppose a closer co-operation between compilers of cultural statistics and the maintainers of national registers on institutional units for the SNA statistics. There is, however, a need to give a new boost to the overall development of comparative cultural statistics. Such overall frames as those developed by the UNESCO and the LEG/EU do not suffice, the only viable alternative is to link cultural statistics closer to the prevailing SNA-system through a satellite account system.