

Why public funding of the arts should always be temporary

Written by The Conversation USA

Last Friday, the [Australia Council](#) announced what it called “a \$112 million investment over four years to focus on small and medium sized arts companies”. Let’s skip past the misleading [polly-speak](#) use of the word “investment” in that announcement (it’s a grant, not an investment), and focus on the other clause “over four years”.

The Australia Council’s funding announcement contained some [pleasant surprises](#) for some organisations, and [much disappointment](#) for others. One of the unfunded was [Quadrant](#), a right-of-centre literary magazine, whose editor-in-chief lamented how unfair it was that the Australia Council continued to fund left-of-centre literary magazines.

But it’s not the distribution of favours here that is the problem. Rather, it is the unquestioned expectation of perpetual funding, whether from the right or the left irrespective of however worthy.

So it was good to see Arts minister Mitch Fifield emphasise, in a follow-up [press release](#), not the case for the level of funding or the justice of the distributional consequences, but rather the temporary nature of Australia Council funding:

“It was always intended that slightly fewer companies would be funded at a higher level ... The Australia Council’s funding contracts are for fixed terms, and are not in perpetuity. Four year funding rounds provide new organisations the opportunity to apply for funding in a competitive environment, based on the Council’s independent assessment. A third of those receiving funding are new organisations.”

Economic theory suggests that this is indeed the right way to frame this issue.

Government funding for arts organisations should always be viewed as temporary because

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there are significant costs and dangers that arise from an implicit contract to permanent funding.

Some government activities certainly should be permanent wards of the State. National defence is a good example, and the Courts and Justice system is perhaps another. And in a democracy with the power to tax and redistribute income, there may certainly arise a stable equilibrium about what that particular level of public funding for the arts should be (i.e. about [AU\\$7 billion](#) in Australia it seems). But the idea that certain organisations should have perpetual access to that funding is anathema.

It is perfectly consistent to say that the Australian taxpayer should generously fund public arts and culture while at the same time arguing that no organisation should ever receive funding twice. Why is that?

A central reason is the costs of capture. Any organisation that is permanently publicly funded is much better integrated into government so that it can be effectively governed, brought under control, and subjected to voter scrutiny. The exceptions to this rule mostly fall under the headings of national security. The arts are not among them.

The offer of a permanent arms-length funding commitment veritably invites corruption. Not the stashing-millions-in-a-Panama-account type of corruption, but the softer sort that happens as sinecures pile up on governing bodies, creating fiefdoms that [entirely benefit the insiders who run them](#). The benefit of temporary funding is that it minimises the window of capture.

This is not to say that temporary funding is inherently better than ongoing funding, but that governments are not the best source of ongoing funding. Governments are much better suited to a temporary seed funding approach in order to get something started. This can generate a public benefit without the expectation of a quid pro quo relation with the government of the day.

Ongoing patronage is much better suited to corporate or private funding, where building a close relationship is a good thing because it invites mutual monitoring and reduces transactions costs. This is because both parties do indeed expect to benefit from the relationship. A close relationship between a private organisation and a government patron, however, is inherently open to abuse and corruption because the relation is completely one-sided in terms of benefit.

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Another reason is that turnover of funding creates competition that incentivises all parties to bring their best work forward. Those in favour of permanent funding say it brings certainty to enable long term planning. But in reality it has the opposite effect by removing all consequences for institutions that fail to engage in effective long term strategic planning for growth.

Permanent funding removes the hard incentive to develop new business models to grow the operation or organisation beyond the initial period. It militates against long term thinking.

So how long is temporary? This is the question we should be asking. One or two years is too short to get anything started, and to get beyond initial experimentation. Eight to ten years is probably too long, as it invites complacency. Four years is probably about right, because it's long enough for things to be tried and for learning to take place, but short enough to concentrate the mind on ongoing viability from day one.

So I'd like to suggest an addition to the Minister's emphasis that Australia Council contracts not be imagined in perpetuity. Why not consider a lifetime cap, such that for any organisation there is a maximum number of years beyond which it could never draw upon public funding. A variation on this is a lock-out principle, where if you not only received but even applied for funding in one round you would be locked out of the next.

This sounds harsh, but the logic to this is the problem of asymmetric information. Governments and funding bodies do not know (and cannot know) what the true capabilities and intentions of any arts organisation really are: all they can know is what the organisation tells them.

The organisation's incentives are to express maximum need, and to promise only delightful outcomes when funded. To get the incentives right, there has to be a cost to seeking public funding.

Adding further layers of paperwork and panels only causes organisations to invest more heavily in grants writing. But a hard cap or lock-out, incentivises organisations only to put their very best work forward.

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A better principle for government funding of arts and culture is that it should only be temporary.

The idea of celebrating that “one-third of those receiving funding are new organizations” means that we still have “two-thirds” of the way to go.

Disclosure

Jason Potts receives funding from the Australian Research Council. He is affiliated with The Institute of Public Affairs.

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