

# Hong Kong Arts Festival Arts Management Seminars

## Funding Models: How should we fund the arts?

Robert Sirman, Director, Canada Council for the Arts  
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The question you have asked is what funding models for the arts are best suited for the rapidly changing conditions of the early 21<sup>st</sup> century. Using a broad definition of the arts to include the performing arts, the visual arts, literature, and new media, I hope the following will be helpful to your considerations.

### Diversity of Funding Sources

In contemporary society, the arts flourish through a diversity of funding sources. These are typically grouped into the following four categories:

- *Earned revenues*, which include sales income, royalties, fees, rentals, and those things often referred to as user fees
- *Government or public funding*, including government grants, loans, or other contributions derived from tax revenues, government lotteries, and the like
- *Private sector funding* from individuals, corporations, and foundations, sometimes in the form of tax deductible donations, sometimes as outright gifts, and sometimes as marketing sponsorships
- *Cross-subsidization with commercial/industrial sector*, including the revenue from associated businesses like restaurants or gift shops, or contracts with broadcasters, recording companies, publishing firms, and other industries

Of these four revenue sources---earned revenue, government grants, private sector fundraising, and commercial cross-subsidization---some seem to dominate more than others in different parts of the world. For example, we think of government funding as characteristic of European nations, and private sector fundraising as characteristic of the United States. In reality, however, there is constant blending between models. As a case in point, private fundraising is strongest where there is supportive tax legislation---a straightforward blend of private and public models. And with increased globalization there is a clear movement toward using blended models everywhere in the world.

One of the strengths of this trend is the added resilience which funding diversity offers to arts practitioners. When one funding source is jeopardized, another can be tapped, giving the arts sector a greater capacity to adapt to changes in the external environment. This was dramatically demonstrated to me in the last organization I led, Canada's National Ballet School, where the withdrawal of significant government funding in a particular year triggered a major increase in private sector support. This allowed us to not only end

the year with a surplus but also build much stronger ties to the broader community. Regardless of the art form, funding diversity contributes to stronger long-term financial stability.

### **Artistic Freedom/Freedom of Expression**

Because artists have long functioned as a means to hold up a mirror to society, intentionally or not they frequently provoke negative---and sometimes hostile---reactions. These reactions are perfectly understandable when we consider the shock factor of coming face-to-face with work that lays bare our deepest fears and insecurities, or challenges long-held beliefs and prejudices. They are negative reactions nevertheless.

In the commercial realm, there is little about this phenomenon that raises concern. If people don't want to buy a painting, or read a book, or see a play, it is generally accepted that this is their right. Market forces are at play in the arts just as they are in the automotive industry, and artists are subject to the consequences of consumer choice just the same as all other suppliers of goods and services.

When the forum for decision-making is not the open market, however, but the realm of government, very different considerations emerge. Here decisions about what work will or will not be supported raise questions about potential censorship, the limitation of civil liberties, and the free exchange of ideas.

That's why in the arts, as in scientific research and many other highly sensitive spheres of imaginative practice, the principle of arm's length funding is so topical.

### **The arm's length model and peer assessment**

In the arts world, the usual model for arm's length funding is the arts council. This is a model where government decides what the mandate and budget of an arts council will be, but the arts council is free to decide who and what it will fund without political interference. Governments typically identify broad funding priorities as part of this relationship, and this is generally accepted to be a normal part of the accountability framework within which the arm's length model operates.

My own organization, the Canada Council for the Arts, is one such arm's length funding body, and I can assure you that protecting the arm's length principle in our relationship with government is an ongoing priority. On the one hand, this principle ensures that funding decisions are based on the quality of applications, rather than on whether or not they meet the political agenda of the government in power. On the other hand, the arm's length principle protects politicians from having to assume responsibility for negative fall-out from highly provocative work, since it is clear that they had no role in the decision-making process that awarded support to the offending project or artist. The Canada Council for the Arts has now been in operation for 50 years, and I can say without qualification that its arm's length status has been one of the key factors in its success.

As a sidebar, we should take note of the distinction between arm's length funding and funding based on peer assessment. Arm's length means that decisions about who and what will be funded are made without interference by government or politicians. Peer assessment means the process that is used to decide who and what will be funded is based on the input and assessment of fellow practitioners---peers of the applicant---usually through assessment panels or juries.

In the popular imagination these two principles are often conflated, but in reality they are two separate practices. Arm's length bodies like arts councils can make decisions without peer assessment, just as government departments can use peer-assessment to guide their decisions. At the Canada Council for the Arts we enjoy both an arm's length relationship to government and the benefits of the peer assessment model. Last year we used 780 peer assessors on more than 130 juries to invest \$160 million in over 6,000 individual artists and arts organizations across Canada.

### **The timeliness of funding**

One of the major challenges for government funders, whatever their funding model, is the turnaround time in responding to applications. We might think of this as the timeliness factor, and it is an important factor indeed.

For individual artists, there is often great urgency to respond to time-limited opportunities. These may take the form of travel grants, or exhibition costs, or special invitations to showcase abroad. Given that these grants to individuals are typically small in size---rarely more than a few thousand dollars---funding models should strive for maximum flexibility in order to turn around requests in a matter of weeks rather than months. An example of such flexibility might be programs with open, rather than fixed, application deadlines.

Organizations too may face circumstances which require quicker than usual response times. An example we faced not so long ago in Canada involved an unforeseen crisis faced by many arts organizations in the midst of a SARS outbreak. In several instances audiences sharply declined for reasons totally beyond the control of the organizations affected, and a quick intervention by government funders was clearly justified.

The arts are also rapidly changing, such that new practices regularly emerge outside traditional disciplines, practices like computer-based art or multi-disciplinary work that crosses over several different art forms. This inevitably poses serious challenges to government funders, who often operate on long planning cycles and cannot easily customize existing programs or launch new ones to keep up with arts practitioners.

It is for this reason that much of the current literature makes reference to the need for arts funding programs to be nimble and flexible---to respond in a timely and sensitive manner to changes in the external environment.

## **“Government” and “the arts” describe complex phenomena**

This is probably a good time to pause and consider what we mean by government.

When we talk about government funding, we are typically referring to the investment of state-controlled resources such as tax revenues, the profits of state-run lotteries, or publicly owned real property such as arts venues. We need to keep in mind, though, that there are different kinds of governments.

In many parts of the world, including Canada, there are at least three different levels of government: municipal or city governments, state or provincial governments, and national or federal governments. One can also have supra-national governing bodies, like the European Union.

Each level of government has its own distinct legal authority and sources of revenue, and so when thinking of public funding models one must keep in mind the level of government one is talking about. In Canada, all three levels of government have the authority to fund the arts, and are increasingly doing so from one end of the country to the other. They do not always fund the same things, however. The federal government is more likely to fund international touring, for example, while the municipal government is more likely to fund community-based arts practice. Similar differences in approach between different levels of government are common elsewhere in the world.

Governments should therefore not all be lumped together into a single entity when we consider options for different funding models.

The arts too are highly diverse, and we conflate them together at our peril.

At the outset of my remarks I said that I was using a broad definition of the arts to include the performing arts, the visual arts, literature, and new media. I could also have included performance art, interdisciplinary art, and combined arts, since these too are established practices in the contemporary arts canon that are intended to be captured within my comments.

Making distinctions between disciplines or art forms is only the beginning. One must also consider the different legal and administrative models at play in the arts sector, including self-employed artists, co-operatives and partnerships, small businesses, not-for-profit corporations, charitable structures, state-run entities, and full-fledged multi-nationals. Some groups may operate on a project-by-project basis that radically shifts from one project to the next, making it difficult for them to establish consistent and predictable funding relationships. Others may operate on much longer time frames, making financial commitments three to five years in advance. Not only do these different structures impact the way the arts are practiced, they also impact the funding models used.

Government funders may support both for-profit and not-for-profit entities, but usually their underlying motivation for each is quite different. Similarly, it is challenging for organizations that do not have charitable status to raise significant resources from the philanthropic private sector, since obtaining a charitable tax receipt is a prime motivator for many private sector gifts. These distinctions are important to keep in mind if we are to make sense of the different funding models available.

### **Are some decision-making models more appropriate in certain circumstances than in others?**

Let me now move on to the challenging topic of whether some decision-making models are more appropriate in certain circumstances than in others.

In analyzing what constitutes arts practice it is usual to group activities together into different phases or stages. One of the most common of these systems divides arts practice into creation, production, dissemination, and preservation. By creation we mean the generation of new work or ideas, like writing a play, painting a picture, or choreographing a dance. By production we mean the process---usually involving many people, and often entire organizations---of transforming an initial idea or draft into a work that can be experienced by others, such as rehearsing and performing a new piece of music, publishing a book of poetry, or mounting a multi-media show. By dissemination we mean connecting the art to a broader public, such as touring a dance work, mounting a festival, or circulating an exhibition. And by preservation we mean saving the work for future generations, such as building an art collection, underwriting dance archives, or digitalizing library collections.

Typically this range of activity from creation and production through dissemination and preservation parallels a corresponding continuum from the most individualistic practice through collaborative and organizational practice to the most highly institutionalized practice. A playwright may write the script of her newest play alone in a library. The script is then given a reading by a group of colleagues, and after a series of rewrites rehearsed and performed for the public by a theatre company. The artistic director of an arts festival---perhaps right here in Hong Kong---hears about the work, attends a performance, and contracts to have it tour and presented as part of a future festival program. The play may then be published, filmed, or otherwise preserved for posterity.

It is my contention that this continuum also corresponds to circumstances where arm's length and peer-assessment models are paramount, and to those where more bureaucratic decision-making is appropriate. Creation is the highest-risk, uncertain end of the spectrum, and therefore the zone where one needs to defend the broadest possible range of outcomes and possibilities. It is in this zone that one invests---with no guarantees whatsoever---in the next generation of artistic and aesthetic leaders, the wellspring of totally new and unprecedented artistic ideas. It is also full of dead-ends, frustrations, and outright failures. Under these circumstances, the protection of arm's length decision-making, and the deeper insights of peer assessment, are, in my opinion, of greatest

importance and value. Here is where I would argue these models are not only desirable, but superior.

At the other end of the spectrum---practices dealing with preservation---circumstances are notably different. Here we are dealing with work that has typically demonstrated its value to a broader public---sometimes through the marketplace, sometimes through critical response, sometimes simply through its impact on other artists and their work. Using the museums field as an example, this work has either entered the established canon, or has a reasonable potential for doing so. Here issues of uncertainty and risk are minimal, and with them, the urgency to protect decision-making from political input, although we do sometimes see controversies in the museum field over acquisition decisions. These controversies, however, are relatively rare, and thus it is at this end of the spectrum that we most commonly see direct investment by government departments based almost solely on bureaucratic decision-making processes. In fact, one may even have investments which benefit the arts from government departments with no direct mandate for the arts at all, like departments of industry or archives.

Between these two poles of creation and preservation fall artistic production and artistic dissemination, and here there are many different funding models at play around the world. In Canada, we typically rely more on the arm's length model for investing in artistic production, and less for investing in dissemination. In both instances, however, we favour peer assessment. As in all gray areas, this is where opinions are most mixed, and where one is most likely to find the choice of models driven by long-standing historical or political preferences.

### **What about facilities?**

While the focus of our discussion is on arts support and not on bricks and mortar, it is impossible to ignore the role that arts facilities play in framing arts funding policies.

Simply put, many art forms have a strong relationship to the physical environment in which they are practiced. The very words “drama”, “ballet”, “visual arts”, “film”, “opera”, and “symphonic music” conjure up mental pictures of the spaces in which they are experienced.

Where these facilities are commercially owned, the budgets of not-for-profit arts organizations typically reflect the cost to access these spaces through rentals or other arrangements. Where arts organizations themselves own these spaces, facility overhead costs are a normal part of their operating budgets.

Arts facilities can also be publicly owned, as in the case of government-owned cultural centres, theatres, concert halls, and art galleries. In these cases not only the overhead costs, but also the programming costs of running these facilities can come out of the same government funding envelope that supports the work of non-governmental bodies. This in turn can lead to what some might describe as unfair competition for scarce resources.

The relationship between facility overhead and the operating needs of arts organizations is complex at the best of times. When governments find themselves not simply funders but also landlords, even greater challenges arise.

### **What are governments trying to achieve when they fund the arts?**

The example of a municipal government funding the programming needs of a city-owned facility like a theatre or art gallery raises the broader question: what is it that governments are trying to achieve in funding the arts? What are their objectives, and how do they know they are meeting them?

On this subject I have been greatly influenced by research coming out of a UK-based think-tank named DEMOS. In particular, I am indebted to ideas put forward by the head of their culture division, John Holden.

Holden posits that there are three kinds of value flowing from arts investment.

The first, well established in the literature, is intrinsic value. This is the pleasure and enjoyment and insights that come from an artistic experience in and of itself. Some people talk of this as art for art's sake, but we might just as easily think of it as art as it is experienced.

The second kind of value, also well documented, especially over the past 30 years, is instrumental value. This is the ancillary benefit that ensues from arts practice, sometimes measured in financial terms like spending in a restaurant next door or stimulation to the local economy, sometimes measured in intangibles not directly related to art like contributions to good mental health, and sometimes measured in other scales such as academic test scores.

The third kind of value, much newer in our consciousness, is institutional value. This is the benefit that accrues when the arts bring people voluntarily together to share experiences, establish connections, contribute to mutual understanding, and nurture a sense of community. This is the social and socializing value of art, and the link between arts experience and citizenship.

Holden is not the first to point out that the public invariably participates in the arts for the first and third of these values, and not for the second. That is, they seek the intrinsic and institutional benefits of arts practice, and not the instrumental outcomes. People participate in the arts because it makes them feel good, and gives them a chance to spend quality time with others. People have an appetite for new ideas, new stimulation, new ways of seeing the world, and the arts provide rich and accessible opportunities to satisfy this hunger.

Governments, on the other hand, almost universally invest in the arts for instrumental gains. They see it as a way to create jobs, stimulate tourism, redress trade imbalances, or fulfill some other non-artistic objective.

A fundamental tension therefore exists between the things that governments want measured to justify their investment, and the reasons why people engage in the arts in the first place. When these objectives align---like the government's investment in an arts festival like the Hong Kong Arts Festival that attracts an international audience through high quality work---no one notices the discrepancy. But when these objectives are not aligned---like government support for highly experimental work that reaches only a small niche audience---it is hard for governments to measure the return on investment and justify their spending.

Unlike the physical sciences, where investment in pure research is considered a beneficial end in itself, the benefits of investing in pure research in the arts are not seen as self-evident. In fact, such investment is too often seen as distinctly self-indulgent, and a waste of taxpayers' money. When it comes to the arts, the public's acceptance of risk, and tolerance for failure, is startlingly low.

### **Where do we go from here?**

A starting point in considering a course of action for the future is to recognize the complexity of the larger context or system in which arts practice takes place.

Using the language of the environmental movement, the arts exist within a complex ecology or eco-system, a series of inter-related elements that together provide the larger framework in which the arts flourish.

At the Canada Council for the Arts, we use the expression arts infrastructure to describe this eco-system. In our most recent strategic plan, released in October 2007 under the title *Moving Forward: Values and Directions*, we had this to say about how the arts infrastructure functions:

For sustainable professional arts practices, a community (however defined) needs excellent individual artists, excellent arts organizations that support, employ, present, exhibit, publish or provide other resources for artists, engaged audiences, a supportive public, an enlightened funding and public policy environment, and facilities for the practice of art. Together, these positive forces provide the basis for a sustainable arts sector, which in turn creates the foundation for the community's cultural life and shared values. (*Moving Forward*, p. 11)

In my opening remarks I commented on the diversity of funding sources for the arts---earned revenues, government support, private sector fundraising, and commercial cross-subsidization. It needs to be underlined once more that these revenue sources do not operate autonomously, but are highly linked.

Earned revenues may be influenced by how entertainment or value-added taxes impact the cost of cultural products and therefore the spending patterns of consumers, how attendance may be affected by perceptions of neighbourhood safety or the availability of

public transport, and the degree to which market demand is fueled from a young age by arts education in the school system.

Private sector support is strongly influenced by government policy, especially policy linked to tax legislation and the potential benefits available to individuals, corporations, and foundations who give to the arts.

Government support may embrace more than direct and indirect financial investment. It can also include regulatory support like cultural content guidelines, legal protections for freedom of expression, or immigration and work permit policies that help or hinder the movement of artists from one part of the world to another.

And commercial cross-subsidization can be impacted by the policies and practices of commercial and public broadcasters, the health of a domestic film industry, or programs to compensate artists for intellectual property accessed through the internet.

All this contributes to the need to establish the value of having a vibrant and creative arts sector in the first place, and then to work backwards to ensure that either the requisite conditions to support it are in place, or there is political will to intervene to that end.

The funding models used are not as important as the conscious and deliberate will to achieve an agreed-upon end.

Yes, I believe that some models are better suited to some ends than they are to others. Peer assessment is more critical to decisions about artistic content than to the operational needs of a city-owned cultural centre. Arm's length provides greater protection to artistic freedom and the exchange of ideas at the creation and production stages than at the dissemination and preservation stages.

But at the front end, one must first believe that art makes a difference. One must see the parallels between what artists do and what other creative professionals in society do, whether they be computer programmers or university professors or chemical engineers.

One must see the power of the arts in bringing people together in productive exchange at a time in the history of the world when people everywhere are confronted by more diversity of race and religion and background than ever before.

One must recognize the attraction, in a time of unprecedented fears over the future of the planet, of entire professions committed to making something out of nothing, and pursuing models of consumption based not on the depletion of natural resources but on sensory experience.

As a university student in the 1960s I used to pass every day under a 19<sup>th</sup> century lintel carved with the biblical quote, "The truth shall make you free." Much has changed since then, and today faith in a singular truth seems much less tenable. As we enter the 21<sup>st</sup> century, I find I have greater conviction in the statement, "The arts shall make you free."

In any consideration of funding models we must first ask ourselves: “How important ARE the arts?” Based on our answer, the rest, I believe, will fall into place.