

POLITICAL DETERMINANTS OF PUBLIC SPENDING ON CULTURE:
EMPIRICAL EVIDENCE USING ITALIAN MUNICIPAL GOVERNMENTS' DATA

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**POLITICAL DETERMINANTS OF PUBLIC SPENDING ON CULTURE:
EMPIRICAL EVIDENCE
USING ITALIAN MUNICIPAL GOVERNMENTS' DATA.**

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Political Economy and the Economics of Art and Cultural Heritage rarely have intersected. In this paper we investigate the relationship between Italian municipalities' spending on culture in the 90ies and 2000s and a number of political variables, such as a left/right dummy, an election year dummy and a coalition government indicator, controlling, among others, for socio-demographic characteristics, level of human capital and instruction, proxies of social capital, extent of private financing of cultural provision, touristic relevance. We use panel data regression analysis and find that there are indeed some significant political determinants in local government expenditure in culture.

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1. Introduction.

In recent years the cultural sector has been the object of new strategies of public intervention in a number of countries, Australia being the pioneer in this respect with its “Creative nation” agenda (1994) followed by the UK, Canada and some Scandinavian countries. Recently the European Union has commissioned a report called “The economy of culture in Europe” (2006) having a similar kind of approach. This new attitude is associated with a rise of interest for creativity, now considered as an essential factor to increase a nation’s competitiveness in the globalisation era. If, until not so long ago, the only economic externalities justifying public spending in culture were the benefits for tourism, now new arguments are put forward, such as the following :

- If an area aims at becoming an innovation district, a rich cultural environment is an essential feature to attract the mobile “creative class” (Florida (2002)). The creation of creative hubs has been suggested to be a successful strategy for a country; “global” and “local” go together, as the term “glocalisation” illustrates (Greffé (2002))
- ITC has been the fastest growing industry in the last two decades, and this, in spite of generating in the present serious problems to some cultural industries (music in particular), should go along, in perspective, with a rapid growth of content industries (books, media, music, video games). Content industries benefit from investment in the core cultural sector (heritage, contemporary art, performing arts). The externalities are similar here to those exerted by scientific research on industrial production.

A second important reason why public cultural spending has witnessed a revival, both in theory and in practice, is its potentially positive contribution to economic growth through its role in social inclusion and integration policies. These are crucial in all industrialised countries nowadays, especially because of the size of the immigration phenomenon.

Public cultural spending usually takes the form of subsidies to production and in-house production (government-owned museums, theatres). International comparisons are difficult because of non-homogeneity of classification in national accounting and the fact that the different levels of government play different roles here and there¹. This is the reason why empirical research on the subject using international data is simply non-existing. Empirical works using a country’s local governments’ cultural spending is also scarce.

¹ Eurostat has set up a working group involving a number of European countries in order to tackle the problem.

Bodo (2007) highlights that Italy's public cultural spending is 90 % done by two actors: central government and municipal governments, with the former traditionally spending more but with municipalities rapidly catching up in the last years. In fact, municipalities pay for the cities' libraries and often run their own museums and theatres; many of them have been organising cultural festivals in the last years. We concentrate here on cultural expenditure of Italian municipal governments, taking the 117 provincial administrative centres (i.e. Italy's biggest cities) as our sample.

The high mediatic exposure of, say, a grand art exhibition opening should suggest a politician to schedule it before an election. The Left/Right dimension should also be relevant, with the Left more spending-prone, as the recent Italian experience at the central government level shows (Bodo and Bodo (2007)). Finally, coalition governments might also have an effect on the dimension of this type of spending: if higher spending signals competence, the municipal councillor for culture may use it to increase the popularity of his own party. Our main aim is therefore here to consider whether political determinants are relevant for public cultural spending, controlling for other potential drivers of cultural expenditure. The specialized press tends to give politics' influence on cultural policies for granted, but to our knowledge this issue has never been investigated empirically from an economic point of view.

We use panel data regression analysis. We regress the level of public cultural expenditure on the political determinants of municipal governments, controlling for a number of relevant variables, such as geographic and socio-demographic characteristics, level of human capital and instruction, proxies of social capital, extent of private financing of cultural provision, touristic relevance.

Our work is organised as follows: section 2 is about the data we use; section 3 illustrates the model and econometric techniques; section 4 shows our results, while section 5 reports our conclusions.

2. The data.

Data on cultural spending of all 8101 Italian municipalities are available from the Minister of Internal Affairs since 1998, as this is the time the Internal Stability Pact, mirroring the European Stability and Growth Pact and imposing the communication to central government of many accounting items, came into force².

We consider 117 of them: the cities which are provincial administrative centres. They have a population between about 2,5 millions (Rome) and 20.000 and are historic cities with local museums and sites in the vast majority of cases. We consider "*Certificati consuntivi*" (final budget

² These data are available on line up to 2006 (http://finanzalocale.interno.it/sitophp/home_finloc.php?Titolo=Certificati+Consuntivi).

balances) as these certify expenses that have actually taken place in the last year. The items are two: aggregate cultural spending, and spending in “Libraries, Museums and Art Galleries” which is a subset of the first one.

There is a distinction for both items between current spending, capital spending and transfers.

Transfers, in turn, are divided into transfers to companies and municipal agencies, to families and non-profit organisations and to other levels of government³.

Confirming Introini and De Benedetto (2007) these data show a great variance, explained not only by the different size of the cities, but also by their geographic and economic characteristics. They highlight that bigger and richer cities, especially from the northern and central areas of Italy, spend larger shares of their public budgets in cultural expenditure (with some important exception, though).

Political data on Italian municipalities from 1993 to 2006 have been collected by Fabio Padovano for IREF (Institut de Recherche Economique et Fiscal). They include electoral dates and results, with a classification of winning parties along the left-right dimension. Composition of winning coalitions, with their number of parties, is also reported.

In 1993, in fact, the Parliament passed a new electoral law for municipalities by which the mayor was elected directly, through ballot, in all the municipalities with population over 5.000 inhabitants. Mayors are in office for 5 years and there is a two term term-limit. Political analysts claim the new law has induced a stronger political competition at a local level, introduced a tighter link between the citizens’ and the mayor’s political agenda, and enhanced the level of transparency and accountability for local politicians.

An important control variable we consider is private cultural spending. Unlike in a number of other countries, private cultural institutions are relatively new to the Italian context, and they have boomed in the last 15 years. Most of them are foundations, but one should distinguish between the so-called “*fondazioni di origine bancaria*” (or *fondazioni bancarie*, banking foundations), and the rest.

The former are the foundations which own relevant shares of local, regional, and sometimes national banks, and are, by far, the richest and most active private subjects in financing non-profit organizations in the areas of health and social assistance, artistic and cultural initiatives. Recently some of them have also developed their own operating branches, so that they pursue some of these tasks through in-house production. Banking foundations are 88 in all (17 of them spend 80% of

³ A number of municipalities have recently externalised some of their cultural offer to companies or non-profit organisations in which the municipality itself is usually the dominant partner. Transfers of the first and second type are therefore sometimes quite relevant, and comparisons between municipalities are better made at an aggregate level.

their aggregate expenditure), and are mainly concentrated in the Northern part of the country (Di Lascio and Segre (2007)). They originate from a 1993 law by which government-owned banks were privatised⁴.

According to “Il Giornale dell’Arte”, which publishes an annual census of the foundations active in the field of arts and culture, other types of foundations are generally characterised, with few exceptions, by a small capital and largely live on subsidies, either public, or actually coming from the banking foundations themselves.

We therefore decided to focus on the cultural expenditure by the banking foundations only. They are organised in an association, ACRI, from which we got the disaggregated spending data from 1995 to 2006. Unfortunately, ACRI did not consent to provide us with the data about the geographical direction of each banking foundation’s cultural expenditure. However, they are usually forced by bylaw to spend in the area where the bank operates, and this is what happens in most of the cases. We therefore use banking foundations’ cultural spending as a proxy for private cultural spending in the towns where they reside.

We have elaborated ACRI’s data in a number of cases:

1. some banking foundations are not from a provincial administrative centre, but from a smaller town. We have considered in this case the province in which the town is located, and have imputed 25% of their total spending to its administrative centre;
2. the name of some banking foundations refers to both a smaller town and its administrative centre. We have imputed 50% of their total expense to the administrative centre;
3. the name of some of them includes a number of administrative centres. In this case we have divided the spending figure according to weights reflecting their population;
4. finally, the name of 4 banking foundations refers to a region (including many provinces), and one to two regions. In this case, just like in 2., we have assumed only half of their total spending goes to provincial administrative centres, the rest being directed to smaller towns, and we have used the same criteria as in 3. in order to calculate the share of expenditure in favour of each provincial administrative centre⁵.

The use of weights based on the relative size of towns may sound arbitrary but, in fact, it may reflect a marketing strategy or the effect of political influence on banking foundations’ decisions. A possible alternative is to use a measure of towns’ cultural heritage. The only obvious candidate for Italy is the so-called “Carta del Rischio”. This is a project by ICR (Central Institute for

⁴ They were privatised in a peculiar way. In fact, they were separated into two entities: the bank itself and a foundation, owning the shares of the former but not the power to run it and whose aim was to provide services generically beneficial to the community.

⁵ Fondazione Banca Nazionale delle Comunicazioni was neglected, as it did not have a territorial reference. Its expenditure in culture was however negligible.

Conservation, a branch of the Ministry of Culture) aimed at mapping all Italian municipalities according to the number of monuments and to classify them according to the conservation risks they run. We have had a look at this document and concluded that it would not probably make a lot of a difference to consider it instead of population. In fact, what it shows is that generally, and especially in the Northern part of the country (where most banking foundations are based), administrative centres are actually the municipalities which are richest in monuments.

We include in our analysis a number of other control variables.

In particular, from official national statistics by ISTAT we take some relevant economic variables: for each city and for every year from 1998 to 2006, we consider the nominal value added (in euro), the nominal GDP per capita (in euro) and the unemployment rate.

Some socio-demographic variables are also included. In particular, from official and census statistics by ISTAT, we consider, for each city and every year from 1998 to 2006, the population, the distribution of population across age classes (namely, the percentage of the population under 15 and over 65), and some indicators for the average level of instruction (average instruction level) and of human capital (presence of a university and number of university students).

Moreover, in order to capture some indicator for the level of social capital we include as regressor a proxy for the number of cultural associations active in each city in the years 1998-2006. These series have been extracted by Paolo Buonanno from official statistics by ISTAT for the period 1996-2003 and we have updated for the remaining years.

Finally, we append a dummy to capture whether the city is traditionally a receiver of large tourism flows, based upon data from ENIT on the most visited cities in Italy.

3. The models at test and the empirical strategy

As anticipated, our work is motivated by some questions.

- Is the local public expenditure in culture only related to the economic wealth in the community, or is it rather determined by the level of instruction and human capital in the cities?
- Is public cultural expenditure conditioned by the number of private initiatives by local non-profit organizations or is it motivated by independent considerations on the priorities of cultural events and investments?

- Are local banking foundations acting as a complement or a substitute financing source of local public expenditure?
 - That is, is public cultural expenditure *crowding out* or rather *crowding in* private financing?
- Is public cultural expenditure really driven by political determinants such as the timing of local elections, the left-right orientation or the number of parties in the ruling coalitions?
- And, if so, are there significant differences in the way in which local cultural expenditure takes place across different political frames?
 - For instance, is it true that the closer are the elections, the more frequent are cultural events?
 - Is it true that left-wing local governments tend to finance diffuse cultural initiatives while right-wing governments prefer to spend in capital investments such as theatres or libraries?
 - Is it true that coalitions with a larger number of parties are likely to be more “in tune” with the private initiatives by non-profit cultural organisations, while more homogeneous coalitions tend to align their spending with private financing by local foundations?

In order to address such questions, we aim at running 4 specifications of a *fixed effect* panel (within group *OLS*) estimation of a model of the type:

$$y_{it} = \beta X_{it} + \alpha_i + \varepsilon_{it}$$

where α_i is a source of unobserved heterogeneity across cities, non necessarily uncorrelated with our set of regressors, and where, in the four specifications, the dependent variable y_{it} takes the form of (1) capital spending, (2) current spending, (3) transfer to companies and municipal agencies, and (4) transfer to families and non-profit organization, respectively.

The regressors X_{it} in the model are derived from the data described above:

- *Elect*: dummy variable taking value 1 if the year is an election or pre-election year
- *Parties*: number of parties composing the ruling coalition
- *Polit*: variable capturing the left-wing orientation of the ruling government, taking values 1 (right), 2 (centre-right), 3 (centre), 4 (centre-left) or 5 (left).
- *VA*: nominal value added
- *CapGDP*: Nominal GDP
- *Unempl*: unemployment rate

- *Instr*: average level of instructions (in year of education)
- *Univ*: dummy variable taking value 1 if the city has a university
- *UnivStud*: number of university students in the city
- *Assoc*: number of cultural associations in the city
- *FoundExp*: private expenditure by banking foundations in the city
- *Tourism*: dummy taking value 1 if the city is an important attraction for tourism.

Number of observations for each of the above variables in our panel is 1053 (117 cities, considered for 9 years). The aim is to see whether the coefficients associated to each of such regressors turns out to be statistically significant and, if so, in which directions they are pointing to.

4. The empirical results.

Since we are still in the process of data analysis and estimation, we are not able to provide any definitive results. However, some preliminary and tentative regressions on sub-samples of the entire panel seem to suggest that coefficients associated with nominal GDP, level of instruction and social capital are likely to be significant and positive across all specifications. Coefficients of the level of private expenditure by banking foundations seem to be significant, while its sign vary across specifications. Finally, coefficients of the electoral year dummy and of the number of parties in the coalitions are likely to be significant, although their sign is ambiguous across specifications. Results are still very preliminary, though, and we are currently working on providing more conclusive estimations on the whole sample of observations.

5. Conclusions

(Still to be written)

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