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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  
Reshaped the Conditions of Cultural  
and Art Institutions

Publications of TaiLa-project

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# Foreword

In May 1999 the Arts Council of Finland and the Department of Political Science at the University of Helsinki launched a joint project to assess the overall state of Finland's cultural and art institutions after the recession and the administrative reforms of the 1990s.

The first task for the project was to survey the economic conditions for these institutions. This required designing a new statistical frame and updating earlier statistics on financing and public expenditure on the arts and culture. The first publication produced by the TaiLa project reported the results of this work (Heiskanen 2000). The second publication dealt with repertoire changes and managerial strategies on adaptation in Finnish theatres (Kurvinen 2000). The strategies of Finnish cultural and art institutions in adapting themselves to the new economic situation of the 1990s were analysed in the first part of the project's final report (Heiskanen 2001).

This publication is a translation of the first project report. The first part of the publication deals with designing the statistical frame and solving related methodological problems, the second part deals with the updating of the statistics. The latter part also offers an analysis and interpretation of the financing situation in the institutions in the late 1990s.

As a translation of an earlier work, this publication represents an interim phase in a continuing process. The statistical frame that was introduced and the methodological problems that were analysed are connected with an EU project for developing cultural statistics, particularly to the work started within the project's working group on cultural expenditure and financing (LEG/Task Force 3). With regard to the statistical and methodological terminology used in this translation, the reader should bear in mind the interim nature of the publication. With regard to the process of developing cultural statistics inside the EU, the situation and the terminology are still in a state of flux.

We hope this translation will be of value to the reader in introducing an important phase of this European statistical development work, and in providing an indispensable source of information on the public financing of culture, and the financial situation and adaptation strategies in Finnish cultural institutions in the 1990s. We would also like to take this opportunity to thank all those who have contributed to the TaiLa project, especially the project leader, Professor Ilkka Heiskanen, for the valuable information and analyses the project has provided of the situation in Finnish cultural and art institutions.

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# I AIMS OF THE SURVEY

The original aim of our survey was *to sharpen and update the statistical data compiled in the past two decades on public financing of the arts and culture in Finland*. These data have primarily been presented in two publications, the “National Report” commissioned by the European Council<sup>1</sup> and in Pekka Oesch’s situation survey<sup>2</sup>.

Also another objective was set for the updating. Since the survey was part of a more extensive TaiLa project centring on *the present conditions and operating strategies of cultural and art institutions*, it was expected to sound the *changes in the operating conditions and especially in the public financing of these institutions*. Even more specifically, it was expected to determine, with the aid of statistics, whether *any essential changes* took place in the public financing and operating conditions of these institutions *during the first half of the 1990s* – namely during and after the recession.

This survey is also *closely linked to the work the European Union has carried out in the past few years on further developing the entire accounting system for the arts and culture*. I myself participated in the work of a working group<sup>3</sup> developing statistics on cultural financing and expenditure within the framework of a more extensive EU project (known as the LEG organisation) on public cultural statistics. This work ultimately brought forth the perspective of *compiling statistics on an end-user level of public financing*, which is elaborated on and applied in this report.

The report is composed of two parts: a methodological and an empirical/statistical part. The former centres on *analysing the problems due to which the reliability and international comparability of statistics on public cultural expenditure and financing are often questionable*. The starting point in the analysis is the work carried out by the EU on developing cultural statistics (as referred to above) and the perspective it provides. This is the basis

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<sup>1</sup> Arts Council of Finland/Research and Information Unit, Cultural Policy in Finland. National Report, *European Programme of National Cultural Policy Reviews*, Helsinki, 1995, especially chapters 4, 5 and 8.

<sup>2</sup> Pekka Oesch, *Julkiset kulttuurimäärärahat 1994/Public Cultural Expenditure on the Arts and Culture in Finland in 1994. Tilastotietoa taiteesta 15 A, Taiteen keskustoimikunta/ Facts about the Arts series, 15 A, Arts Council of Finland*, Helsinki, 1997.

<sup>3</sup> The official name of the working group was Task Force 3#, Cultural Expenditure and Financing, operating within the project organisation of LEG, Leadership Group on Cultural Statistics in the EU.

<sup>4</sup> While this report was being written, the TaiLa project was engaged in collecting data on an institutional level through questionnaires and interviews. These data facilitated the work on interpreting the statistical material. The interpretations also drew on two master’s theses, one by Pirjo Kauhanen and Marke Vornanen, *Mitä orkesteri soittaa? Sinfoniaorkesterin ohjelmiston suunnittelu ja soitettu ohjelma* (What Does the Orchestra Play? How the repertoires of Finnish Symphony Orchestras are planned and what they contain), University of Jyväskylä, Department of Music Studies, September 1997) and the other by Tiia Kurkela, *Hyvivoitavaltion lippuluukulla. Teattereiden ohjelmaliittiset ja taloudelliset selviytymiskeinot rahoitusympäristön muutoksissa* (Finnish Theatres at the Box Office of a Welfare State. Repertoire changes and managerial strategies for adapting to a new era of public financing), University of Tampere, Department of Arts, Theatre and Drama Studies, May 1999).

from which our report *presents the solutions applied in the statistical part and recommended in a more general context of solving the key problems in preparing cultural statistics*. In the statistical part I will first outline *the general statistical background* for understanding *the financing conditions of the 1990s* and from here move on to the actual *updating of cultural statistics extending to an institutional level*.

The statistical part will not content itself with merely producing an update, but *also comprises interpretations* – specifically from the perspective of the operating conditions and public financing of cultural and art institutions<sup>4</sup>. Readers who are less interested in the analytical and technical problems of statistical work may wish to directly skip to the statistical part. Its statistical references are accompanied by sufficiently detailed clarifications and reservations. These are also presented in the text itself in the context of interpreting the statistics.

## II METHODOLOGICAL PART

# The applied perspective and solutions to statistical problems

### Introduction

The original aim of the EU project on cultural statistics was to begin work on producing comparative European statistics. It ended up, however, presenting only a broad, general frame for co-ordinating statistical work, which was illustrated by stray statistics. This frame was completed in August 1999 and the final report of the project was approved in October of the same year<sup>5</sup>. The sub-frame for compiling statistics on public expenditure and financing was, however, already completed in May 1999<sup>6</sup>. While developing it, we had to, within our own working group (Task Force #3), determine what type of a strategy would be appropriate for compiling statistics on public expenditure and financing, what kind of statistics and proportioned indicators would in practise prove the most useful and what kind of technical difficulties might be encountered in their development.

When we started collecting and analysing the material used in this publication, the aim was to also *test the EU general statistical frame for public financing and expenditure*. The frame turned out, however, too dissented, although in some respects also needlessly detailed. The dissension stemmed from the general statistical frame, which the Task Force on expenditure and financing had to implement in its own work.

The basis of the general statistical frame was a classification of cultural activity concurrently in two directions: as contextual domains (such as cultural heritage, literature and book publishing, and visual arts) and as functions (such as cultural preservation, creative work, production, distribution, etc.). The produced frame was not, however, comparable to the normal classifications used in Finland and elsewhere in compiling and recording statistical material on the arts and culture. Its delineations rendered the sphere of culture excessively broad and left the classifications random. Adjusting the frame and testing it again with Finnish material would have required at least a couple of years of a researcher's work. Thus the statistical part of this publication was reduced to a scale in which it could be produced in the assigned few months.

Our EU working group for developing a statistical system for cultural expenditure and financing paid particular attention to *the end-user level of public financing* ("institutions"), whereby the statistical frame assumed a rather detailed shape in this respect. Due to the weaknesses of the general statistical frame and the detailed nature of the frame for financing, the Task

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<sup>5</sup> LEG, Cultural Statistics in the EU. Final Report of the LEG, *Eurostat Working Papers, Population and social conditions 3/2000/E/No1*, Luxembourg 1999.

<sup>6</sup> Task Force #3, Cultural Expenditure and Financing, *Final Report of TF #3, Document TFC 028*, dated 25 May, 1999.

Force suggested that the testing of its frame should be begun with only a few statistical categories and indicators. This is also the aim of the statistical part of this publication.

Thus the statistical part implements the EU frame only in part and mainly focused on the arts and cultural institutions. However, in some respects it *also places the suggested statistical frame for public expenditure and financing under test*. We have applied in the statistical part the perspective that was set forth in the EU working group, emphasising *the need to extend the scope of cultural statistics to the terminal point of the flow of money, to what is called end-user level*. This perspective is illustrated by the following quotation:

“Although the working area of TF#3 is restricted to expenditure and financing it is good to realise that in the case of data on institutions it is absolutely necessary to have additional data to be able to make any sensible conclusions. These data refer to the products or services rendered by the institutions. Without this it is not possible to make any relevant statement. A second group of variables needed refers to simple things like the number of institutions concerned and their relative size. Also crucial is to be able to make further distinctions in the population of institutions to be able to group more homogeneous institutions together.” (Task Force #3, Document TFCE 028, 21)

The statistics should thus address the question to what extent and in which ways the different groups of end-users of the financing, from the perspective of this publication institutions in particular, *receive or obtain the funding directed to them and how do they consolidate it in their own production with their own income and revenues and with resources potentially attained from elsewhere*<sup>7</sup>.

Even though the quotation above only refers to institutions, the end-user principle and the classification of end users should regard the entire scope of public financing. Financing directed to other recipients – to artists, organisations, businesses or households – should be examined and included in end user-level statistics as well.

The report of the Task Force #3 does not extend to other end users of financing beyond institutions. It also leaves the concept of “institution” needlessly vague. The concept, however, seems to refer to all collective end users of financing, be they public institutions, businesses or other organisations in the field of the arts and culture.

Cultural statistics have traditionally resigned themselves to the formal classification of institutions according to their *ownership and legal status*. This has often proved difficult and it hasn’t usually resulted in an accurate picture of the overall institutional structure and the operating principles of the institutions. As I will demonstrate, the sensible development of cultural statistics requires the classification of institutions/end-users in two directions: first, *according to the economic nature of their activity* (market-led or non-

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<sup>7</sup> It should be stressed that in question here are, expressly, **the end-users of financing**. Naturally the products and services produced with the aid of the financing also have their own end-users: **the customers, audiences and consumers**. I have been suggested the term “producer” in this context, which I find, however, at the same time both too broad and too narrow, as public financing can be directed either to actual production (i.e. library services) or to create preconditions of production for the producer (i.e. concert halls). In the chapters to follow I will elaborate on the problems that are linked with the different meanings of the end-user concept in production and consumption.

profit, public or not), and secondly, *according to the expected demand* (who “commissions” the production, who is the production targeted to). I will examine these questions in the methodological part of this publication *mainly from the perspective of the system of national accounts*. My objective is to seek out general guidelines for how statistics on public support and financing should be developed in the future and at the same time to lay a foundation for the analysis and interpretations presented in the statistical part.

These issues can also be placed into a wider perspective. One might say that we have two different statistical approaches, based on totally divergent ideologies regarding the relations between economy and culture.

In traditional statistical work based on the principles of welfare state, the aim is to *monitor the increase of supply* as enabled by public support, which is believed to *lead to a more equitable cultural life*. As its antithesis, there is *end-user-based statistical work*, which is often perceived as only aiming at technical goals: *at the evaluation of the “performance” and “results” produced by the recipients of financing and support*. The statistical part of this publication will demonstrate that this type of an ideological division is not applicable. *The statistics and indicators developed from the end-user perspective also reveal defects in the financing system that are, in view of the end-users, arduous and may actually hinder or even paralyse their functioning*. At the same time, we will disclose new and more sustainable grounds for the need for public support.

The end-user perspective is almost completely opposite to the one we have been accustomed to applying here in Finland in the past three decades of public financing. In the spirit of the welfare state, we have usually approached statistics on financing and expenditure with the conception that *the responsibility for financing the arts and culture lays on the state and municipalities*. Consequently, statistics are compiled to prove how successfully these levels have performed their duty. Even more detailed statistical work and analysis extends at most to contextual domains, it settles for a comparison of how much public support is directed to the different spheres of the arts and culture (music, literature, film, museums, libraries, theatres, etc.) and which of them increase or lose their shares in the annual budgetary roundabout. The statisticians have not to any appreciable extent been interested in *how well the financing is actually directed to the needs of its users, to what extent it activates or leaves non-exploited other material or nonmaterial resources or to what degree and how does it generate continuity, new activity and new creative thinking*.

The end-user perspective does, however, set forth nearly as many problems as it solves. Part of these problems may seem relatively technical and harmless, but in a deeper analysis they may lead us to consider even profoundly complex logical and social value-based solutions. One example of these problems is the question of an equitable supply of arts and cultural services. Even if we tried to concentrate on the technical problems of measuring equitable supply, they would inevitably lead us to also address more general questions on the generation of public welfare and on the distinctive nature of creative work. This outlook is hopefully clearly reflected in the following methodological analyses as well.

# 'The "two-accounts model" of the EU statistical frame and its adaptability in Finland

Our EU Task Force on public financing and expenditure at least partly succeeded in crossbreeding the traditional perspective to public financing and the end-user perspective by using two separate but inter-linked "models of accounting". One of them focuses on the public financier level, in Finland namely the state and the municipalities, the other on the end-user level, specifically on the finances and activity of cultural and art institutions.

The following model (**Figure 1**) was developed to steer statistical work on a financier level.

The first column of the table shows the domains which were allocated in EU statistical work to the sphere of culture. I will later return to this topic and reflect on the appropriateness of this definition and its specifying functions.

The top cross-column of the figure should be interpreted as *the balance sheet on the aggregate net expenditure of the public financiers*. It is the sum total of the net expenditure items to the different domains. Self-gained revenues, received expenditure transfers and other potential income have been deducted from the aggregate expenditure per domain. The purpose of

**Figure 1. Data matrix on public expenditure and financing on a financier level**

Domain	Current expenditure and receipts							Capital invest-ments
	Receipts		Expenditure					
	From other government levels	Other receipts	Transfer to other government levels	Other transfers	Personel costs	Capital costs	Other current expendi-tures	
1. Cultural heritage								
2. Archives								
3. Libraries								
4. Books and press								
5. Visual (or plastic) arts								
6. Architecture								
7. Performing arts								
8. Audio-visual production								
Total								

this has been to disclose what is called *the pure tax-payer's share* (in the case of Finland, the own net financing by the state or the municipality) per domain, per expenditure items and as aggregate amounts. In principle, the approach is the same as the one used here in Finland in budget proposal accounting for net budgeting in public administration (of the state and municipalities). The figure suggests that investment expenditures should be kept separate from other expenditure due to their tendency to strongly fluctuate in time. They, too, should be studied as net expenditure, so that their sum total would reveal the pure tax-payer's share.

In terms of accountancy, the method is simplifying. It excludes operative information on financing: the returns from and costs of the financing and write-offs. Moreover, it doesn't separate administrative costs and actual financing expenditure. Nor does it in any way take into account possible transfers of expenditure and income in time or rolling of expenses (for example, an institution's obligation of or exemption from coverage of its own shares of the collective expenditure of its umbrella organisation).

Although the impacts of these factors on the aggregate amount of financing are small as such, they reflect essential features of the institutions' operating conditions. Administrative costs could be used to measure the expediency or bureaucratisation of the administration. The rolling of expenses and the right to transfer income or expenses in time reflect, in turn, the financial restraints or freedom of the recipient of financing. Such information is not usually included in any of the statistics on public financing – nor is it in the model presented above. For the recipients of financing, especially institutions, these factors, however, often imply conditions for and/or restraints in using the finances. They should thus be regarded in end user-level statistics, so that the resulting statistics – including those on institutions – could better help us to sharpen the focus of financier-level statistics in these respects.

In terms of the data provided by the statistics, the *evident weakness* of the model in Figure 1 is that the *classification of expenditure transfers is limited to only two categories: transfers to other administrative levels and other income transfers*. The latter category should have been further divided to classify end users into such categories as, for example, individuals, non-profit institutions and organisations, and businesses.

An even more difficult task is to separate investments expenditure from operating costs. The fluctuations in cultural investments undoubtedly serve as a measure of the prevailing interest in culture. This interest can be illustrated – as Figure 1 demonstrates – by separate statistics on public investment in building cultural institutions.

However, separate statistics on investment expenditure are not alone sufficient for monitoring investments. In cultural statistics the investments should also be linked to an itemised list of operating costs through rents,

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<sup>8</sup> Here I already make the distinction between the *community* sustaining the activity, the *company* engaged in it and its *actual operating unit and/or units* (the library, theatre, opera, museum, etc.) We will show that the distinction / non-distinction between these three levels can be problematic, not only in terms of accounting, but also in terms of the dynamics of control between the communities, companies and units, and of the division of power and responsibility in their decision-making and executive bodies. As we will see, these dynamics of control are also significant for statistical/technical reasons. In some cases the division of communities, companies and units into “private” and “public” is specifically based on their interrelations of power and control.

income and depreciations. If this is not done, the amounts of public financing and expenditure can appear as strongly distorted. This may occur, for example, when a public financier builds a premises and then lets it to a community, company or unit engaged in artistic or cultural activity at a rent below going standard or even at no rent at all.<sup>8</sup>

The situation becomes even more complex when a community or company has donated realty to the state or the municipality, which in return is committed to its maintenance and basic repair, paying a low rent or none at all. Furthermore, the community, company or unit may earn additional income by letting out spaces for which it itself is paying little or no rent.

If the wish is that statistics on public cultural expenditure should reflect actual expenditure (*taxpayers' shares*), in cases like this the budgetary plan and accounts of the financier should calculate the rent, including a sufficient amount of profit on building investment, and add it to the expenses. Moreover, regular real estate deductions should be shown in the calculations and financial statements. Similarly, the rents should be shown as full-scale expenses in the accounts of the concerned company itself – and naturally also on the credit side as public coverage of expenditure, if the public landlord compensates for it by additional appropriations. In order to secure the comparability of statistics on public financing, this should be done even when the public community (the provider of financing itself, often through an umbrella organisation, a special agency or an administrative unit) itself is engaged in artistic or cultural activity and the operative units (museums, theatres, orchestras, etc.) do not separately keep or close accounts.<sup>9</sup>

These general critical comments are logically succeeded by the question of how well the model of accounting in Figure 1 lends itself to adaptation in Finland: how accurately does it reveal the actual public expenditure, in Finland mainly implying the state and municipalities. I will first examine the feasibility of the model in discerning public expenditure on the state level.

Since state administration has adopted a net-based system in budgetary accounts, the pure taxpayer's share should be found directly from the data entered in the closed accounts which have been filed in the public accounting offices. Also investment expenditure can be found from the same source, but directly only as far as it appears in the actual cultural budgets. Despite net budgeting, it is, however, possible to also derive data from budgetary accounts on receipts to cultural and art institutions which operate within the budget economy (such as the Finnish National Gallery).<sup>10</sup> In order to render these data comparable to the equivalent receipts to publicly subsidised private cultural and art institutions (i.e. the National Opera, the National Theatre), the calculation should only include receipts from activity supported for cultural-political reasons (and from performance directly linked to it and produced at cost price). Since separate accounts are not usually kept on these

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<sup>9</sup> Among these in Finland are the National Board of Antiquities and the Finnish National Gallery, whose "own" museums do not manage their "own" finances on a level of keeping separate accounts. The same category also includes fully-municipal (such as municipally-owned non-incorporated) institutions.

<sup>10</sup> Cf., for example, Valtionkonttori/State Treasury, Tilivirastot ja talousarvion ulkopuolella olevat rahastot. Nettobudjetointi ja kirjanpito. *Määräys, 21/03/97 1 (2) 19.2.1997* (Accounting offices and funds that fall outside the scope of the budget. Net budgeting and bookkeeping, Regulation 21/03/97 1 (2) 19 February 1997.)



activities or the performance production linked to them, obtaining figures on them and itemising them for statistics is extremely difficult.

Since the state has incorporated its real estate administration and assumed, alongside with budgetary accounts, a system of business accounts, actual property costs should already by now show in the accounts and financial statements of state institutions. To what extent is it possible to derive data on the actual cultural expenditure and financing from business accounts, is, however, yet a totally different question.<sup>11</sup>

It is, however, evident that rent expenses are entering accounts and becoming increasingly visible in the accounts and financial statements of both the providers and recipients of public cultural financing. In cultural statistics, in turn, this – as opposed to net budgeting – will appear as a significant increase in public expenditure.

Even if the problems regarding property costs were solved, the detailed classification of expenditure of the model in Figure 1 could bring out uninformative or even misleading data. In Finland, over 90 per cent of cultural expenditure (directed through the Ministry of Education) appears as expenditure transfers by the state to the municipal sector, to national cultural and art institutions and to associations and artists. The state's own actual cultural expenditure consist, first, of costs of public administration, of which a considerable part are so called joint expenses shared by the administration for the spheres of youth, sports, education and science. Second, they include the expenditure by the agency-type sections of public administration, such as the National Board of Antiquities, the Finnish National Gallery, the Finnish Board of Film Classification, the Finnish Film Archives, the Finnish Film Foundation, and the Finnish Library for the Visually Impaired, and the administrative expenses of the national art councils. All these units have been established in or have drifted to the sphere of the budget economy rather randomly<sup>12</sup> and it doesn't make sense to embark on a detailed classification of their expenses per different expenditure items expressly as "the own" expenditure of the state's cultural administration.<sup>13</sup> Should this be attempted, personnel costs, for example, would be distributed rather randomly mainly across the sphere of cultural heritage, archives, art universities and libraries (scientific and academic libraries), and would thus be more inclined to reflect the historically formed administrative structures than the true expenditure structure of the state-financed public cultural supply.

Instead of a detailed itemisation of the state's own cultural expenditure, it would be more appropriate to use an institution-based classification system (national libraries, archives, arts institutions, etc.) and to sum up *national expenditure and receipts* by domain regardless of the formal legal and

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<sup>11</sup> The introduction of business accounting and its feasibility as a reliable source of information have been strongly criticised, see i.e. "*Liikelaskenta – Turha uudistus kuntasektorilla?*" (Adopting business accounting in the Finnish municipal sector – an unnecessary reform?), interview of Salme Näsi, *Polemiikki*, [http://www.kaks.fi/pages/polemiikki/0299\\_art2.html](http://www.kaks.fi/pages/polemiikki/0299_art2.html).

<sup>12</sup> It isn't of course always a question of drifting. The development of the National Board of Antiquities and the establishing of the National Gallery reflect the overall development trend of nationalising artistic and cultural life which prevailed in Finland from the 1960s to the 1990s. The art universities, which were nationalised as part of this development, make up a sphere of their own in the budget economy, which mainly falls outside the scope of the statistical analyses in this report.

administrative status of the institutions concerned. Another option would be to specify the classification of expenditure transfers and abandon other classifications of expenditure. A more detailed classification of expenditure transfers would help to determine the end-user groups. A more specific breakdown of expenditure could then be presented on an institutional level – or more generally on an end user-level. *The latter approach is applied in the statistical part of this report.*

The observations we have presented on the feasibility of using a financier-level accounting system for preparing statistics on and itemising state cultural expenditure and receipts also applies to the municipal sector. However, in some respects the situation there is even more complex. The municipalities have adopted the practise of net budgeting to varying degrees, and the receipts of cultural institutions may in some cases be entered in the municipal financial statements, and in others not. Similarly, the practise of how the statutory state subsidy is entered in municipal accounts varies according to the legal status of the institutions. In accounts and financial statements investment expenditure by municipalities is entered as gross amounts, whereby they may include state investment shares. Also the collection of institutions' property payments (rents) and their potential compensation may or may not be shown in municipal accounts.

Due to these problems, the feasibility of using data from municipal financial statements in compiling statistics on municipal cultural financing is rather questionable. Since a substantial part of municipal cultural expenditure goes to the maintenance of municipal institutions or to cover the expenditure of non-institutional units and activity, it is easiest to start from the net expenditure of the institutions<sup>14</sup>, of which state expenditure transfers (state shares and special subsidies) are deducted, and to use the difference as the first approximation of municipal cultural expenditure. Using the same method, other expenditure items within the sphere of the system of statutory state subsidy, the VOS system,(especially expenditure on municipal cultural activity) can be added to this approximation and the sum total can be further particularised and supplemented by other expenditure items that can be found in municipal financial statements. This is the method applied in the statistical part of this report.

The accounting system applied by the EU task force on financing and expenditure assumes that aggregate public financing can be calculated by

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<sup>13</sup> In the cases of the National Board of Antiquities, the museums of the Finnish National Gallery and the Finnish Film Archive the public expenditure coverage (their share of the total expenditure residual) of cost-subsidised activity, such as museum exhibitions, supported for cultural political reasons should be separated from their aggregate expenses, which would mean that the other expenses (the rest of the expenditure residual) would be administrative expenses of artistic and cultural activity. These expenses, as well as those of the agencies with clearly administrative responsibilities (such as the Board of Film Classification) could be added to the general administrative expenses of public arts and cultural administration – presupposing that the latter can be separated from the other administrative expenses of the Ministry of Education. The public expenditure coverage for activity cost-subsidised for cultural political reasons could here be seen as “internal income transfer” within the public administration to support production serving private households. But it isn't likely that even this “sorting out” would enable the preparation of appropriate statistics on public expenditure of cultural administration by applying the model in Figure 1.

<sup>14</sup> In bookkeeping this is referred to by a variety of terms, such as “defrayment” or “expense residual”, cf. Appendices 2 A and 2 B.

summing up the net financing received from different administrative levels, that is by eliminating, on the one hand, income and other revenues, and, on the other, expenditure transfers between the different levels. In practise, these are not, however, simple operations. It may depend on the legal status and ownership structure of the financed institutions whether they are able to use their own income and other revenues and how these are taken into consideration in the accounts and financial statements of both the provider and recipient of the financing. It may also depend on the definition of the operating level of the institution (national, regional, etc.) whether they themselves receive the expenditure transfers from the higher levels (the state) or whether these are transferred to them through the pay office and bookkeeping of an intermediary level.

**Figure 2. Data matrix on public cultural expenditure and financing on a institutional level**

	Domain						
	Type of institution						
	Type 1	Type 2	... ..				Type n
<b>Current receipts:</b>							
Turnover							
Operating subsidies from the government							
Operating subsidies from other source							
Other operating income							
<b>Current expenditure</b>							
Purchases of goods and services							
Labour costs							
Other operating costs							
<b>Capital expences</b>							
<b>General data</b>							
Number of institutions							
<b>Employment</b>							
Number of employees							
Number of full-time equivalents							

Practises of keeping and closing accounts are in fact used as a weapon in the battle waged over the way in which the responsibility of public financing should be distributed between the different administrative levels (in Finland the state and municipalities). They are also used in the struggle the institutions are engaged in to maximise the support they receive from public – and other – financiers. On the other hand, the practises of keeping and closing accounts of the different financing levels and institutions – or, more generally, the end users – often also change asynchronously, that is independent of each other, in which case the flows of money from one level to the other and to the end-user are ultimately hard to monitor. If monitoring them is impossible, statistics based on data derived from closed accounts remain unreliable. I will later return in more detail to the problems that changes in the practices of keeping and closing accounts have caused in preparing cultural statistics.

The second model of *institutional accounts* of the EU Task Force on cultural financing and expenditure is more distinct than the first one on the financier-level and speaks in favour of preparing statistics on end user-level. It can also be presented in the form of a simple table (**Figure 2**).

The figure effectively reveals the need to identify three different structures in cultural statistics as explicitly as possible: *the institutional structure* (types of institutions), *the income structure* (especially singling out own income/other revenues and public coverage of expenditure) and *the expenditure structure* (which can be based on general administrative or business classifications of expenditure).

There is a clear calculatory connection between the models of accounting on the financier and on the institutional levels. The sum total of public coverage of operating costs (calculated across domains and types of institutions) in Figure 2 should equal all the financing instalments the public financiers have directed to the institutions' operating expenses minus the internal expenditure transfers between the financiers.

The model in Figure 2 can be used as a starting point for concretely determining the different components of public cultural expenditure and their accumulation into a whole – or rather, into different wholes. This can be presented as follows:

When 1) we add to the sum total of public coverage of the institutions' operating costs 2) other public expenditure transfers (to companies, artists, organisations, etc., net), 3) administrative expenses of public cultural administration and both 4) public investments in building projects and acquisition of realty and equipment and 5) investment subsidies (net) transferred to other administrative levels (i.e. municipalities), we come up with **the aggregate amount of public cultural expenditure**.

When we further add to this figure 6) the institutions' own income and other revenues used to cover operating and investment costs, and 7) the amounts of own income (earned privately or in form of an own enterprise) artists have spent on the costs of their own artistic work, we come up with the **aggregate amount of financing for publicly supported cultural activity**. Obtaining the exact (annual) amount would still require that in the case of institutions, associations and artists as well the items, depreciations and rolled expenses and the inter-level or temporal transfers of expenditure items and financing, as entered in financial statements, are all taken into account.

Making reliable international comparisons would require that all the

compared countries would develop on end user-level consistent and corresponding classifications of the end users as well as income and expenditure structures, which would then be concordantly used in the actual statistical work.

If we wish to make even broadly speaking reliable international comparisons, we should still add to the public financing and aggregate public expenditure tax expenditure, that is the special concessions and tax exemptions for the arts and culture in comparison to the normal taxation structure. Furthermore, we could try to calculate the impacts of *public support, monopoly status or tax privileges* on competition, especially *the competitive advantage they give* to certain units compared to purely market-led activity. All this indirect expenditure can only be calculated by identifying it on an institutional level and aggregating it into national aggregate amounts, which are then added to the direct expenditure. Carrying out this kind of work no longer falls within the sphere of normal statistical development and compilation, but requires a more extensive frame for development. These are presented later on in this report in the context of *SNA satellite systems*.

The institutional and professional classification of end users is not only essential in terms of international comparison. It is also important for practical reasons, as it is needed for bringing out of the statistics the true meaning of public financing. *Only with the aid of well-classified and end user –based statistics can we find out where public financing is directed to and what it accomplishes – what it actually produces.* How this output should be calculated is, however, yet another question of its own. I will return to it later on while examining certain problems that are linked to proportioned (statistical) indicators.

The task force on public expenditure and financing within the EU project on cultural statistics has been criticised for presenting, apart from statistics on the own expenditure of public financing, also statistics on income and expenditure on an institutional level. The critics claim that it does not make sense or is not possible to compile statistics on this level. Moreover, it is claimed that comparisons on an institutional level are difficult or even impossible to make due to the differences between the institutional systems.

In the chapters above I have already shown that compiling statistics on an institutional level does make sense. The only way we can secure the expediency, reliability and international comparability of national statistics on public expenditure is by comparing financing received by the institutions – or more generally the end users – to the amounts allocated by the financiers. At the same time we come up with the statistical starting points for determining the significance of public support for artistic and cultural production – and especially for its mental and social vigour.

In terms of access to data on an institutional level, Finland has an advantage over most other countries. This is not, however, due to any excellence of our official statistics. In Finland, the sector of cultural and art associations has produced relatively good institutional statistics – on libraries, theatres, orchestras and museums. By particularising and combining the data from these statistics we can determine where and how the different items of public financing have been directed to and what they have meant in terms of institutional activity (institutional groups). With their aid we can also verify the reliability and accuracy of statistics on public expenditure and interpret their social significance.

This advantageous situation mainly concerns only the institutional sector. In the case of statistics on other end users - artists, associations and businesses - compiling end-user statistics is considerably harder in Finland as well. In these sectors end-user data can only be found in random and often outdated cross-sectorial studies. I will briefly examine the nature and development needs of this data in the final sections of the statistical part of this report.

## Determining and solving from an end-user perspective problems in preparing statistics on financing

Assuming an end-user perspective doesn't only aim to improve statistics in terms of the amount, coherence and applicability of the data they provide. It is also important for the technical aspects of statistical work. It helps us *1) in reconciling cultural statistics with other statistics, 2) by leading to a more unambiguous determination of statistical units and 3) in recognising and understanding changes concerning basic statistical data, for example, changes in accounting systems.*

In the following chapters I will examine these three technical problem complexes for two reasons: *1) in order to outline a wider perspective from which statistical work on public cultural expenditure and financing could be developed in the future, and 2) to substantiate the approach applied in the statistical part of this report.* Searching for this wider perspective also brings us to the sphere of so called value choices, to reflect on the way in which the production of the arts and culture – and especially its public support – can be organised. Here we will also have to – at least indirectly – consider the question of the special nature of creative work and cultural products. I have tried, nonetheless, to keep these assessments technical, that is, mainly restricted to the different alternatives in developing statistics.

## Reconciling cultural statistics with other statistics

How easy or difficult it is to develop and update cultural statistics depends largely on the degree to which it is possible to utilise in this effort other, more general statistical systems. If the classifications in these systems – for, example of statistics on national accounts, population census, business, labour, industry and public expenditure – are brought to a sufficient level of exactitude, cultural statistics could be prepared by merely compiling data.

A “level of exactitude” mainly refers to two issues: first, particularising the applied statistical classifications so that artistic and cultural activity can be clearly enough discerned from other activity, and second, using samples that are large enough so that a sufficient amount of cases are entered in all the

categories of the new classification system. Technically this implies bringing the classification and method of compiling data of a given statistical system (for example statistics on business) to a numerically higher and more exact level of digits describing statistical classifications.

In the EU project on cultural statistics this issue was dealt with by comparing the classifications of domains and functions in its general statistical frame to the classifications of economic activity used by the EU. The aim was, should a sufficient level of comparability be reached, that data for cultural statistics could be obtained from general statistics using classifications based on economic activity, that is from census, labour, business, etc. statistics. The adoption of general, common classifications would also ensure the international comparability of cultural statistics.

The question surfaced more concretely in the Task Force # 2 on cultural employment, which considered the possibility of acquiring data on employment in the cultural sector through population census and labour surveys by making more explicit the EU classification systems based on economic activity (NACE Rev.1, In Finland TOL95) and profession (ISCO88, in Finland Professional Classification 1997). The task force recommended that in acquiring and processing statistical material nationally and within the EU it would be sensible to use appropriate NACE and ISCO classifications and to aim at an exactitude of at least four classifying digits in the classification and compiling of the material.

The system of classifying subsectors<sup>15</sup> in the EU general statistical frame - and the corresponding sufficiently specified NACE categories (supplemented by classification of the function of the public bodies)<sup>16</sup> - can undoubtedly be utilised in compiling statistics on public cultural expenditure and financing, especially in the *classification of the financed activities* (preservation of cultural heritage, performing arts, visual arts, etc.). On the other hand, data based on the classification of activity, which are derived, for example, from business or census statistics, are not very useful in the development of cultural statistics, *if the nature of the statistical units they are based on is not sufficiently specified*. The statistical units used in statistics on public expenditure and financing are *institutional units* representing the financiers and the end users of financing, whose legal status and nature vary to a great extent. If this variation cannot be controlled or integrated under a same classification, the harmonisation and specification of the other classifications (such as those based on economic activity or profession), does not, in itself, suffice for the development of mutually coherent and internationally comparable statistics.

The EU project for developing cultural statistics did not systematically examine the classifications of statistical units, or especially those of institutional units. This would have, however, been essential, as without integrated institutional (or more extensively, end-user) classifications, it is, as I already stated, impossible to develop reliable and internationally comparable statistics. The most systematic and internationally most widely approved system of classifying institutional units (ISC, Institutional Sectorial

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<sup>15</sup> The terms used in the classification are domains and functions, c.f. Figure 1 on page 14, I will evaluate the expediency of this classification system further along the line.

<sup>16</sup> United Nations, *Classification of the Functions of Government (COFOG)*, New York, 1980.

Classification) is given credence to in the international recommendations on national accounts, of which the most recent is the SNA93<sup>17</sup>. The European Union has approved and adopted an almost equivalent system of national accounts, the ESA95 (European System of Accounts) on which the SKT95 system presently applied in Finland is based on.

The general statistical frame developed in the EU project on cultural statistics uses only general definitions of the cultural and art institutions (museums, art galleries, theatres, etc.) that emerged through practise and the classifications mainly rely on what could be called common sense.<sup>18</sup> The applied approach classifies the institutions to, on the one hand, ownership (public and private) and, on the other, the administrative levels of national, regional and local. However, no specific criteria are given on what the institutions, for example the museums or art galleries, should be like, so that they could be merited as statistical units, on how they are located within certain institutional types, or on how the statistics should be organised to clearly reflect the national institutional structure, especially their function, and their relationship to each other or the financiers of their activity.

The significance of institutional classification can be illustrated by some simple examples. Let us assume that we have two national statistical series, showing that public financing for theatres has decreased and that their audience figures have increased. We also have a third time series which reveals that the share of musicals and comedies has increased in their repertoires. Undoubtedly, these three time series together tell us something about the development of theatre life: they could, for example, be interpreted to mean that along with the withdrawal of public financing, commercialism gathers ground. For them to tell us something more detailed and cultural-politically more relevant presupposes a meaningful classification of the financiers, forms of financing and theatres themselves. Which theatres react to decreasing public financing by resorting to commercial strategies, what do their repertoires consist of and what is their claim to success? The classification of financing – for example according to ownership, legal status, size, location and nature and amount of provided financing – should be such that data based on it can be used expediently to compare financing, expenditure and income between and within the different institutional types. The classification by types should truly reflect the institutions' different economic and administrative operating conditions, as well as the operating principles they themselves have assumed an/or the ones the financiers have assigned to them. As will be demonstrated in the following section, defining these classifications and implementing international statistical agreements concerning them is not an effortless task.

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<sup>17</sup> ISC (institutional sectorial classification) is poignantly defined in the classification guides as classification of units with financial decision-making powers into larger entities based on type of activity, form of financing, ownership or legal status.

<sup>18</sup> The classification of institutional units is only dealt with in this report in terms of defining the indicators on the activities of the domains and functions: what type of units are engaged in the activity and how many of them are there. Cf. LEG, Cultural Statistics in the EU, *Final Report*, 1999, op.cit., pp. 26, 32-33.

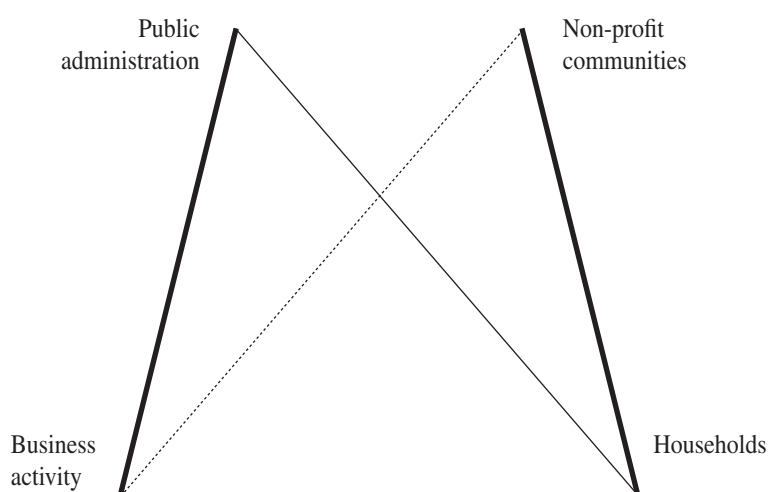


# Defining institutional units

So, if we wish to develop internationally comparable and reliable statistics on public cultural financing and expenditure which are seamlessly interlinked to other, more extensive statistical systems, we have to expressly consider *which institutional units are the sources and targets of financing and how should they be classified*. As I already noted earlier in this report, the clearest result is produced by using the system of national accounts (SNA93/ESA95) as the basis of classification.<sup>19</sup>

In national accounts (ESA95, chapters 2.12-2.16) *an institutional unit is defined as one possessing independent decision-making powers*, through which it can steer and stabilise its own central economic activity. The independence is manifested in the *legal right to use own property and goods, ability to make commitments* and, consequently, *financial and legal responsibility for these activities and commitments*. In practise, all this is expressed in *the unit's own system of keeping and closing accounts* – or at least as the possibility to maintain such a system in practise.

**Figure 3. The four poles of institutional classification<sup>20</sup>**



<sup>19</sup> The 'transnational SNA' is recommendative by nature, its EU and EC versions (currently the ESA95/EKT96) are regulative and binding in the Member States, cf. *Council Regulation (EC) No 2223/96, of 25 June 1996 on the European system of national and regional accounts (ESA) in the Community*. Similarly, the EU/EC regulates the definitions of statistical units and use of classifications – although in a manner that is in harmony with international statistical development work, cf., for example, *Council Regulation (EEC) No 696/93 of March 1993 on the statistical units for the observation and analysis of the production system in the Community* and *Council Regulation (EEC) No 3037/90 of 9 October 1990 on the statistical classification of economic activities in the European Community*. The Community has also obliged its Member States to harmonise their local registers, cf. *Council Regulation (EC), No 2186/93 of 22 July 1993 on Community co-ordination in drawing up business registers for statistical purposes*.

<sup>20</sup> The figure and its viewing have been simplified by focussing it on production activity and by leaving out financial corporations. A wider mapping of the problem complex can be found in Appendix 1, also including the sphere of "foreign", namely the activity of units outside national borders.

According to the system of national accounts, the variety of institutional units can be presented as two partially convergent triangles. Their common base is the segment of the line extending from private businesses and financing institutions to households, their two apices are the units of public administration and non-profit communities.

The figure demonstrates that the lines between the different unit types vacillate. The public administration units and the non-profit communities may engage in business activity, as may households as well, non-profit communities can merge into public administration and become part of it, etc. Lines have to, however, be drawn for statistical purposes. In terms of the recommendations and interpretations presented later in the statistical part of this report, a couple of examples of drawing the line seem called for.

First one should note about the definitions in national accounts that they expressly focus on *the value that can be measured in monetary terms (value added)* of the units engaged in the production. If the produced product or service is not discernable in wages or in the prices paid for products or services, the activity itself is not entered into accounts, nor are the units performing it in the business registers which the accounts are based on.

In terms of cultural statistics, the division between public and private sector non-profit activity is the most important in respect of this report. There is, however, reason to note, first, that *the division between businesses and households isn't entirely problem-free either* (base of the triangle in Figure 3).

Pursuit of financial profitability, accountability and the economic significance of activity are normally perceived as the criteria determining business activity. These criteria differentiate and place on the side of business activity, first, natural persons (self-employed or tradesmen) who operate under their own or registered company name, second, so called artificial legal persons (corporations, co-operatives, partnerships, etc. ), and, third, public enterprises. In Finland, units with a personnel equivalent of more than half a manpower-year or with a turnover of over FIM 50 000 are included in business statistics on the basis of "economic significance". In the case of artificial legal persons, this means, in practise, registering themselves as employers and payers of value added tax. In terms of public cultural financing, the relationship between the business activity of a natural person and personal earned income is not unproblematic. For example, direct public support to artists is directed to the artist as an individual, so he/she can be "freed" to concentrate on creative work. If this work is the main source of income for the artist, the support should, in principle, be considered in the same manner as business support in calculating value added contributions in national accounts. As far as I know, this is not the case.

The second problem falling on the base and right side of the triangle in Figure 1 is voluntary work, which is quite common in the field of arts and culture. According to the ESA95 recommendations (c.f. ESA95, chapter 3.08e), the services produced by unpaid voluntary work are not included in national accounts, not even when they have been supported through different non-monetary forms of support (premises, different natural benefits). Thus, in principle, they fall entirely outside Figure 1 or are considered households' "non-accountable" economic activity.

The situation changes when this activity is organised into the form of associations or organisations (on the right side of Figure 1), whereby, after meeting certain criteria, it turns into non-profit activity. In statistical practises in Finland, non-profit communities are registered according to the same criteria as businesses (half a manpower year, turnover over 50 000). They are one part of a larger group of “quasi corporations”, which apart from associations includes, for example, religious communities, foundations and housing corporations. All these meet the same criterion of autonomy which has been set for an institutional unit (according to ESA95, chapters 2.12 - 2.16) and the basically same data is compiled on them as on businesses.

From these basic solutions we can move on to a problem even more significant in terms of classifying institutional units: drawing the line between businesses and non-profit units (Figure 1, diagonal from the bottom left to the top right) on the one hand, and between public communities and non-profit communities (or more precisely, “non-profit communities serving households”) on the other (Figure 1, the “tension” between the apices).

In definition the line is first drawn between *market and non-market* production. Public and non-profit production is normally regarded as falling within the sphere of the latter. According to SNA93 (chapter 6.45), the units that sell products or services “at an economically significant price”, that is a price that affects “the amount that is wished to produce” and “the amount that is wished to buy”, belong to the sphere of market production. In practice – especially in the case of private institutions – drawing the line is, however, hard. ESA95 has attempted to solve the problem by determining a so called 50 percent limit: the price is considered significant if sales income covers at least half of the unit’s production costs. This delineation has been criticised for overlooking public demand which is expressed as publicly commissioned production, for example, in many countries appearing, i.e., as contracts with schools and hospitals to produce special services at a special price. In the sphere of culture, this leads to the question *to what extent the production activity of strongly-supported cultural and art institutions should be regarded as an expression of “public demand”*. I will later return to this question.

Consequently, the next question concerns the issue of when should the units of non-market activity be considered public, and when as true non-profit units (serving households). Two criteria enter the picture here: the financing criterion and the so called “control criterion”: according to the SNA95, non-profit units should be allocated among public bodies, that is as part of the public sector, if they are primarily financed by government and also controlled by it.

In ESA 95 the financing criterion has been made more explicit by rules according to which *non-profit units whose activities* are predominantly financed by *public financial support which isn’t directed to any specific production activity* should be allocated among public bodies – providing that the control criterion is met, as well.<sup>21</sup>

Control, in turn, means that that government is able to inflict on the operating policies and programs of a non-profit unit through its right to appoint managing officers in charge of a unit’s operations (SNA93, chapter 4.62)

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<sup>21</sup> C.f. Rafaele Malizia, “Problems of classification of institutional units: Some case studies”. Agenda item p. 4, *Joint OECD/ESCAP Meeting on National Accounts, Bangkok, 4-8 May, 1998*.

Both of these criteria are left general and difficult to apply. In the case of the control criterion this is especially true when a unit has a complex ownership structure (when, for example, a unit is an enterprise which is owned by a foundation) or multilevel administration, say, in the form of administrative council and board of directors, in which case the executive management can be appointed by the former, and the other managers by the latter. In such cases there are different options of how public control can be directed, for example, through the representatives of the financiers to the different levels of the system formed by the units, making it difficult to determine who, ultimately, appoints the persons in charge of a given activity. Particularly problematic are the cases where units whose operations are predominantly dependent on public financing are granted autonomous decision-making powers, enabling them to appoint their own managing officers. The financing is, however, left “open”, dependent, for instance, on the annual budgeting processes of the financier. Thus government sort of deliberately steers the financing and control criteria into mutual conflict: it delegates the responsibility but controls the financing itself.

In fact, it has been stated as regards the SNA93 financing and the control criteria that they presuppose that the countries implementing them should use their own judgement in classifying units as public bodies on the one side and as non-profit units serving households on the other, especially when the financing and control criteria are not concurrently met. Also those cases are discretionary where the control is limited only to a specific sphere of activity and where the government does not have the right or doesn't use its right to appoint managing officers.<sup>22</sup>

Earlier on I noted that the degree to which general statistical systems (business statistics, census, etc) are feasible as sources of data for cultural statistics is dependent on *the ways in which and how explicitly delineations between different institutional units are presently made in national accounts and to what extent they are adhered to in other statistical applications*, rather than on the explicitness of different sectorial classifications (such as TOL/NACE classification of economic activity or 1997/ISCO88.COM classification of profession). The current delineations in the field of culture are apparently left so discretionary that even the formerly discussed clarifications of classifications according to economic or professional activity are not in themselves enough to guarantee that cultural data can be obtained through general statistical systems – let alone the international compatibility of these data.

So how are the SNA93/ESA95 classification criteria applied, or how should they be applied in the Finnish arts and cultural sector? First, we can ask whether our cultural and art institutions should be placed within the sphere of market or non-market production. If we follow *the 50 per cent rule*, the answer is unalterable. According to the rule, practically all the professionally operating publicly subsidised cultural and art institutions fall in the sphere of non-market production. And if we apply the financing rule, nearly all the institutions should be allocated in the sector of public bodies. Despite this, in Finnish statistical practises only those units among our cultural

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<sup>22</sup> OECD, “Institutional sectoring”, Agenda item 5, p.4, Joint *OECD/ESCAP Meeting on National Accounts, Bangkok, 4-8 May, 1998*.

and art institutions that are clearly in the sphere of state or municipal budget economy, are allocated in the public sector. The rest are classified either as businesses or non-profit communities. Their classification as businesses is based on their legal status (form of company) and the formerly discussed criteria of “economic significance” and – in practise – it takes place when they are entered in business registers. The line between public bodies and non-profit units is drawn on the basis of *legal form and the control criterion*, whereby “... many publicly financed units do not meet the control criterion and are thus classified as non-profit units serving households”.<sup>23</sup> Consequently, in Finland the National Opera, due to its foundation-based nature, is classified among non-profit units, and the National Theatre as a “domestic enterprise”, even though government “predominantly” finances them both.<sup>24</sup>

In fact, *the most problematic dividing line* in Figure 3 runs between the bottom-left corner and the right apex (dotted line). The root of the problem is that the classification criteria of national accounts do not provide an unambiguous answer to how the “non-turnover businesses” - in other words units registered as businesses with a turnover equalling less 50 per cent of their costs – enjoying massive public support should be classified. We already noted that the Finnish National Theatre is entered in the register of Statistics Finland as a business, which obviously is the case with many other units engaged in ostensibly business-led non-market cultural activity. Thus the register contains, for example, 34 museums and other units in the field of cultural heritage, which have been entered there as businesses. Apparently they – or at least many of them – operate within the VOS system and, in practise, on the non-market sector, but are classified in cultural statistics as “real” businesses.<sup>25</sup>

Undoubtedly, business-type non-market units are not in any aspect real businesses. They can be entered as “non-profit”, but also just as well – if they meet the control criterion – as public bodies. This solution is illustrated by an example from England where the Royal National Theatre was recently transferred in national accounts from the category of non-profit communities to the side of public bodies: the institution has been acknowledged as predominantly dependent on public financing and as operating under public guidance.<sup>26</sup>

Equally problematic in terms of registering businesses and communities on the cultural sector is the fact that part of the communities maintaining artistic and cultural activity (associations and foundations) do not end up registered - according to the formerly presented criteria – as businesses, or are classified as engaged in business or non-profit activity in some field other than the arts and culture. Obviously, part of artistic and cultural activity falls

<sup>23</sup> Eva Hamunen (Statistics Finland), as per message in e-mail discussion, 31 March, 2000.

<sup>24</sup> Statistics Finland actually has only two communal registers, a businesses register and a register for public bodies. A separate system is applied for the calculating the value-added processes and monitoring the employment effects of non-profit communities, c.f. Ilja Kavonius, “Kolmas sektori ja työllisyys kansantalouden näkökulmasta” (“The third sector and employment from the perspective of the national economy), Hyvinvointikatsaus 1, 2000, p. 8-16.

<sup>25</sup> Cf. *Statistics Finland, Kulttuuritilastot/Cultural Statistics 1999*, op.cit. p. 83.

<sup>26</sup> In practise the transfer increases the sum total of cultural GNP, but the effects are so insignificant that they are not apparent in national accounts statistics.

– at least as such – outside the registry systems and the cultural statistics based on them, even if it were entered in national accounts on the basis of tax data.

In summary: the cases presented above demonstrate that if the classification and registering solutions for institutional units, which are often quite discretionary, are not taken into account, and data from business or other public community registers are mechanically drawn on instead, the ensuing statistics do not in reality tell anything about the scope of market-led activity or its actual distribution according to economic activity or line of profession.

<sup>27</sup> Since, despite the SNA recommendations, the classification and registering solutions differ from country to country, the development of internationally comparable cultural statistics based on business registers and general public statistical systems seems, at this stage, a totally utopian thought.

I have already noted that in the case of Finland the basic statistical data compiled by different associations (library, theatre, orchestra and museum statistics) offer, at least so far, the best basis for statistical monitoring of public cultural expenditure and financing. Here in Finland – as apparently is the case in many other countries – there is, however, a huge gap between data gathered on an institutional level and data obtainable from national registers. Traditional unit classifications, based on legal form, ownership and geographic location, are used in compiling statistics on an institutional level, whereas classification in national registers – especially differentiation based on business and non-profit activity – are more or less random. What is needed is national synchronisation – and also international synchronisation if our goal is international comparability.

If our wish is to develop a sensible general institutional classification system, we should, however, maintain as our starting point the ESA95 recommendations for defining institutional units in national accounts as discussed above. The classification criteria, though, require specifying and trans-national standardising. More generally speaking, the *question regarding the degree to which activity is market-led, non-profit and/or public is essential as sensible classifications help us to see cultural activity in its wider economic and social contexts.*

Specified classifications in national accounts still do not provide a sufficient basis for cultural statistics: even more explicit classifications are required based on the questions *who are the financiers of culture, what is the culture financed, for what reasons, in which ways and with what consequences.* The question “with what consequences” in turn leads to the classification of the recipients of financing according to their financing structures: *where does the money come from, how is the money received from different sources (intentionally or unintentionally) combined, what is it needed for, and how is it allowed to be actually used.* Naturally, the statistics do not have to directly answer these questions, but if the classifications are not meaningful in this respect, even the best researcher cannot derive from them answers to these cultural-politically important questions.

In order to avoid misunderstandings, there is reason to stress that placing institutions – or more generally institutional units – in some statistical

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<sup>27</sup> C.f. Tilastokeskus/Statistics Finland, *Kulttuuritilastot/Cultural Statistics 1999*, op.cit. Helsinki 1999, p. 82-83; c.f. also Tilastokeskus/Statistics Finland, *Suomen yritykset/Corporate Enterprises and Personal Business in Finland*, Helsinki 1997, *Yritykset 3/1999*, pp. 39, 41.

category determined by national accounts does not necessarily imply anything in terms of their legal status and practical administration. The transformation of the Royal National Theatre in England in national accounts from a non-profit community to a public body, as was discussed above, hasn't by any means effected the operations or administration of the institution. However, the transfer does have cultural-political significance: the institution is recognised as predominantly dependent on public financing and also as operating under public guidance. In the development and use of the institutional classifications cultural statistics are based on, this symbolic side to the matter should also be taken into account.

## Classifications based on financing and their interpretation

In the chapters above I have noted that institutional classifications are essential in compiling statistics on public cultural financing, both in terms of the financing and the financed units. I will start my analyses in the following section with the classifications traditionally used in cultural statistics in Finland and aim to examine their meanings from the wider perspective of the system of national accounts and its satellite systems.

Statistical work on public expenditure traditionally contents itself with *the classification of financing units* with the division between state (central administration), regional administration and local administration. On the side of *financed units* the equivalent division is national, regional and local. This division in turn does not necessarily only refer to geographical location and achieved market position; it can be grounded on special responsibilities determined by the public financier (for example, as national stages, as special state museum, as a local theatre, etc.) which usually also secure special financing.

The other *traditional classification of financed units is based on ownership*. In the case of Finland, a division is made between, for example, fully-governmental and fully-municipal institutions and publicly subsidised "private" institutions. The former directly belong in the sphere of state or municipal budget economy and administration, the latter are financed either through a general system of expenditure transfers and/or as a matter of discretion. Moreover, classification and statistical work itself have to take into account the many-staged and many-layered structure of administrative and financing systems.

*Many-staged administration* means that arts and cultural institutions are subordinate to different host or umbrella organisations. In the case of institutions operating in the sphere of the public budget economy, the host or umbrella organisation can be a public body with an extensive operating range, or a public agency or enterprise as a division or special unit of which the cultural or art institution operates. Among the former in Finland are such institutions as the Finnish National Gallery (Kiasma, Ateneum and Sibrychhoff), among the latter the National Board of Antiquities (the National Museum and its affiliates) and the National Broadcasting Company (the Radio Symphony Orchestra).

The host or umbrella organisation looks after the finances of the institutions or units, which normally do not keep separate accounts. Thus it is often difficult to determine the size of an institution's own finances – or the amount of public financing it receives. In statistics on a financier level (the model in Figure1) one can include the entire “host organisation” (such as the Finnish National Gallery or the Board of Antiquities) if its function is “cultural” on the whole, but this doesn't solve the problem if we wish to classify the financing more explicitly according to the domain or function of the recipient. In institutional-level statistics (model in Figure2), in turn, it is necessary to separate in one way or another data on the functional units (institutions) from data on the host organisation.

The many-staged structure of administration and *the problems it implies do not only pertain to institutions operating in the sphere of public budget economy*. Problems are faced also in the case of some units which are fully dependent on public support, whether their legal status be businesses, associations or foundations.

I have already (footnote 7) drawn a distinction between a *community* maintaining an activity, a *corporation* engaged in it and a *unit* performing the actual function. I also remarked that a many-staged structure causes problems when we have to determine whether a given institution or unit is non-profit or a public body on the basis of the control criterion. The ability or inability to differentiate different levels and consolidating different legal organisational forms also cause problems in terms of monitoring public financing or examining the responsibilities of the members of administrative bodies. A few examples can be used to shed light on the issue.

Among the Finnish national arts institutions, the National Theatre is a limited company which is owned by a foundation. In practise, though, the bodies of the foundation have very little significance in terms of the finances of the company, and they are also released from financial liability concerning business operations. The National Opera, in turn, is a foundation by legal status, and its production side (“artistic activity”) has not been incorporated from the financial duties and functions of the foundation. Consequently, the members of the foundation's bodies (administrative council and board) – regardless of who has appointed them - have to bear financial responsibility for both the original capital of the foundation and the performance level of its practical functions.<sup>28</sup> This situation often also changes the role of the representatives assigned by the financiers to the financed unit. While bearing as members of the administrative body the responsibility for the

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<sup>28</sup> C.f. Risto Ruohonen, *Muistio koskien Suomen Kansallisoopperan taloutta, hallintoa ja tulevaisuuden rahoitustarpeita* (P.M. on the finance, administration and future financing needs of the Finnish National Opera), Helsinki 31 March, 2000, p. 12-14

<sup>29</sup> In the context of national accounts the institutions are anomalies: the National Opera is a foundation engaged in production, the National Theatre a “non-turnover” unit. In the administrative bodies of the former the representatives of public financiers can have a decisive effect on operational management appointments, the latter in turn is clearly “private” in this respect. Of course one can claim that both these solutions work well in practise. This doesn't, however, solve statistical problems: are both units in some respect “non-profit”, do they belong in the same category of institutional units and would it, ultimately, be more sensible statistically and cultural-politically to classify them as public bodies. Finding a unique answer to these questions is naturally more important in terms of international comparability than of compiling domestic statistics.



unit's finances, they easily shift from the role of controller to lobbying on behalf of the unit's interests and for additional public financing.<sup>29</sup>

The many-layered structure of financing, in turn, implies that one layer of administration (state) supports another (regional unit, municipality) in the financing and administration of the arts and culture. Thus, in determining the aggregate financing by an intermediate administrative layer we naturally have to deduct from the layer's financing the money transfers received for the same purpose.

The traditional classification solutions based on ownership and level of governance (state/municipalities) suffice if the statistical aim is to present general development trends in public financing. If, on the other hand, statistical work aims to provide information on the conditions created by the financing from an end-user perspective, it should in one way or another take into account the following questions:

- 1) does the financing pertain to only one public financier or agreed/regulated co-operation among more than one financiers:
- 2) is the financier under (for example, legal) obligation to provide continual financing;
- 3) is the original source of financing "ear-marked" funds (for example, national lottery funds);
- 4) is the financing universal or conditioned (for instance, linked to certain performances);
- 5) is the financing direct or does it take place through intermediate layers; and if such layers exist,
- 6) to what extent can they regulate the amount, timing and target of the financing.

Considering all these questions on the financier level is complex. Classification is considerably easier on an end-user level. On this level the units can be classified according to what kind of public support they are entitled to, where the financing comes from (state, municipalities, associations or foundations), what form it comes in (direct budget financing for public communities, expenditure transfers or different subsidies, etc.), and its reservation range (what for and when can it be used). On the same token, we get an answer to which institutional sector the units actually belong to: market or non-market production, public bodies or non-profit units serving households.

It is only on the end-user level that we can find out about the implementation of the control criterion: the degree of independence (for example, duty/right to keep accounts) and the right of government to oversee the unit through appointing managing officers. Similarly, we can, for example, examine questions of power and responsibility in the context of the institutions – even though they may be beyond the range of actual statistical problems.<sup>30</sup>

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<sup>30</sup> Problems regarding the distribution of power and responsibility in the institutions administrative bodies are not restricted only to the government-supported institutions, they also apply to institutions within the sphere of the public budget economy. The most central of them concern administrative financial subordination or independence of the functional units (museums, libraries, archives, etc.) in respect to the umbrella organisation acting as the superior body. A system of autonomous or incorporated finance management is still not considered a sensible solution for these units in Finland, c.f. Pirkko K. Koskinen, *Selvitys Valtion Taidemuseosta* (Evaluation of the National Art Gallery), the Finnish Ministry of Education, Department of Cultural, Sport and Youth Policy, Publication series, No 2, 1999. The same approach is reflected in the government bill on the National Gallery, approved by the Parliament on 30 May, 2000, in which, however, the superior-led decision-making is mitigated and the visibility and independence of museum units is strengthened.

In Finland the classification of public financing and financiers of the arts and culture has always been – at least superficially – easy, since the financing has almost solely taken place on the state-municipal axis. The role of the regional level has been practically non-existent. The new *system of statutory state subsidy, the VOS system*, adopted in the 1990s on the one hand *further established* this bipolar classification of financiers and on the other *turned the system into a “slot-machine” in which support appears as sort of general “maintenance support”, not price or production support, and in which the state has abandoned executive control as a financier.*

The easiest way of classifying institutions according to financiers is by using the VOS system as a “lever”. Regardless of their legal form, we can consider all institutions within the sphere of this system non-profit, no matter how they are entered in Finnish national accounts or communal registers. Even though the statutory state grants are automatically granted general subsidy, there is no need to even consider in the case of associations and foundation-based institutions, whether they belong in the public sector. According to the control criterion, they don’t.<sup>31</sup> Units that become problematic here are those that are left outside the VOS system, but which predominantly rely on public financing. In terms of national accounts, the problem is technical: how to count their value added impact on the GDP. It does, however, reflect another cultural-political problem, as well: the question *to what degree and in what ways should government control and manage production in the art and cultural sector it finances*. This is closely linked to another administrative question: *how should power, control and responsibility be organised in this production.*

In the statistical part of this report the institutions receiving statutory state subsidy (VOS institutions) have been used as a lever in classification; other institutional types are sort of regarded as a “deviation” from it. The classification is not specified in respect of legal status or control exercised by the financier, but the potential impacts of these factors are examined in the interpretation of the statistics. Their significance is especially illustrated in the analysis of the institutional case models in the statistical part, both in terms of the institutions’ operating capacity and statistical development needs.

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<sup>31</sup> On the other hand, some municipalities have apparently tightened their administrative grip also on the business, association and foundation -based institutions within the VOS system by effecting the amount of grant money they receive through personnel policy and subordinating them to co-ordinating programme planning and setting production goals. This can be justified by the fact that municipalities ultimately have to cover for any random losses accrued even by these institutions past and beyond the VOS system. This type of administrative control has created conflicts. It can be claimed that it basically violates the principles of legislation on the VOS system and those of non-market (non-profit) activity.

# Interpretation of statistics: the economic significance of culture and public cultural demand

In Finland – keeping abreast of international tendency – many studies have been carried out on what the economic and social implications of culture are. The results of these studies have been used as grounds for justifying that money spent on culture is not misspent - instead, it brings the investor returns by far exceeding its cost. This kind of logic fails. Even the damages caused by a typhoon generate economic growth. The profits gained through cultural investment should be compared to the surplus value and social benefit produced by other activities (such as sports or having pets).

So far the only clear, sufficiently delineated, comparable indicators of the economic significance of activity on a sectorial and an institutional level are on the one hand based on its value added contribution to the GDP, and on the numbers of persons it employs on the other. This has also served as the basis for studies in the sphere of culture, which have, however, been grounded on sectorial assessments which have been rather general by nature.<sup>32</sup>

Moreover, these studies have not always paid sufficient attention on the problems concerning the calculation of the value added impacts of publicly supported activity. In terms of non-market activity (activity in the public sphere and non-profit activity that doesn't meet the 50 percent criteria), calculating its contribution to the GDP is easy. In this case, the GDP shares consist of wages, fees, secondary personnel costs and use of fixed capital (depreciation). Applying this method of calculation, "public expenditure" on culture inflates the GDP. In the context of market-led activity in turn, the contribution to the GDP is calculated in the regular manner by deducting from the turnover (base price yield) the secondary product costs (at buyer's price) plus product tax and minus product subsidy. If the received public support is production/product –specific, in other words, if it facilitates the management of market production (that is production for profit or at least meeting the 50 percent criteria) the support is naturally deducted from the gross value added. However, in the case of massive public support, which is used continuously to compensate for most of the secondary product costs (see Appendix 2, **public coverage of expenditure** (deficit), it is pointless to classify the unit receiving it as a business and to especially consider it an *unprofitable business*. I have already referred to problems which are faced in the classification of institutional units in the context of business-type non-market units and of non-profit units receiving massive and continuous public support. If one is not willing or able to classify them as belonging in the public sector, it would perhaps be sensible to note that they are not to any extent market-oriented, but are, rather, *producers of public welfare*. I will soon elaborate on this line of thought.

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<sup>32</sup> Such data have been presented by, for example, copyright agencies, which have aimed to justify copyright compensations by the value added impacts of creative work, see, for example, Finnish Copyright and Anti-Piracy Centre, *Information sheet*, 1992. Apparently, in most of these calculations the value added contributions of the publicly supported institutions (i.e. theatres) have been counted in relation to costs of production factors and capital, and not on the basis of turnover and surplus costs of goods.

Also the employment question is not as simple as is often thought. The arts and culture have in the recent years been promoted as significant providers of employment, both here in Finland and in other European countries. This perception easily disregards employment costs and productivity. Assessment of the former focuses on how many people can be employed within specific cost restraints, whereas the latter on how much is produced within specific cost restraints.

*In terms of employment*, it is important to employ a large number of people with a small output - regardless of how much is produced. *In terms of productivity*, it is important to produce a large amount with a small output - regardless of how many people are employed. Since this non-equation is not distinctly visible, strange paradoxes occasionally appear in preparing cultural statistics. The assessors of the aggregate amount of cultural labour use labour ratios per sub-sector which have been determined through sample surveys. These are attained by dividing the number persons employed by the aggregate turnover. If the ratio is high, the sector is a good employer. At the same time, the assessors of the productivity of the cultural sector can - or at least could - use the inverse of the figure as a measure of productivity: turnover divided by the number of persons employed. They, in turn, are pleased if they find this figure high.<sup>33</sup>

Paradoxes of this kind could be avoided if we had a distinct indicator of social productivity. *The value-added contribution of cultural activity and production (its different sectors) to the GDP could be the most suitable for the purpose.*

However, as I already noted, even the significance of this indicator may vary in national accounts depending on whether the activity and production are allocated in the market or non-market sector. As an alternative in statistical development it has been suggested that *a separate system of satellite accounts should be developed into national accounts for monitoring taxation and public support*. In this system the taxes and subsidies would appear as part of the collective public demand (purchases of market production), and partly also as special products and services purchased for special groups. At the same time, units other than those strictly belonging in the public sector could be regarded as potentially engaged in the production of goods and services for these two forms of public demand. In national accounts the support to 'non-public' units would simply be added to their sales income.<sup>34</sup> Thus, an increase of public subsidy would also increase the value-added contribution

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<sup>33</sup> Background material on this paradox can be found, for example, in the statistical appendix of *In from the Margins*, report of the European Task Force to the Council of Europe, tables 17-19, Council of Europe Publications, Strasbourg 1997.

<sup>34</sup> Anne Harrison, 'A satellite view of taxes and subsidies', OECD, STD/NA (98)11, OECD *Meeting of National Account Experts*, Paris, 22-25 September, 1998. Harrison's logic seems, however, in some respects strange or even faulty. In principle, only cost subsidy should be added to the turnover, instead of aggregate subsidy. The remaining amount of subsidy could be regarded as coverage for the maintenance of the production apparatus, depreciation, etc. in so far as the subsidised unit is not able to provide for it with its own revenues. In the public sector in Finland a difference is made, based on payment basis legislation and net budgeting practices, between cost subsidy for cultural-political reasons, support for other paid activity and other forms of financing the activity. Harrison grounds her suggestions on the concept that the support is 'income transfer to households'. Only cost subsidy which is provided for social-political (here cultural-political) reasons can, however, be considered as such.

of the supported units to the GDP, whereas its decrease would render the value smaller.

This type of a separate national accounts system for taxation and public support would certainly also bring clarity to preparing statistics on the arts and culture. First, *it would clarify the assessment of the economic impacts of culture, i.e. its value-added contribution to the GDP*. The 50 per cent rule would lose its significance: no matter how big or small the support is, or whether it were general or production support, it would increase the share of culture in the GDP. Second, *it would serve as a reminder that government 'commissions' part of the artistic and cultural production*. Third, *it would eliminate the artificially made difference between actual public cultural production and the cultural production formally 'commissioned' from private or non-profit communities*. Public support would no longer appear as support, but rather as a true 'payment' for the social welfare government commissions for the citizens.<sup>35</sup> It would also *make the basic classification of units simpler and more meaningful*. The units could be classified according to how much they produce for market consumption, or for public demand, either collective or serving special consumer groups.

On the other hand, classifying units solely on the basis of the ratio of their own sales income to the public coverage of expenditure, does not necessarily result in statistics that are meaningful in terms of cultural policy. What are also needed are more-detailed classifications and data taking into account what the principles of the production for public demand are (at cost price or at market price) and what type of households the support directed through public demand – income transfers – is ultimately targeted to. Only through statistics produced on the basis of these classifications can we consider, for instance, questions of how much and what kind of public demand (manifested as support) is needed and how its costs should be divided among the levels of public financing (in Finland, state and municipalities). These classifications cannot be developed for the financiers directly and the data they presuppose can only be attained on an institutional level – and not even always there, if the institutions' accounts or data entered in closed accounts, are not sufficiently detailed. *In principle, definition of the nature of 'public demand' on an institution-specific level requires the attainment of even product-specific data on costs and receipts (concerning individual performances, exhibitions, services, etc. ).*

Equating public support and public demand can also obscure two important questions: first, *how does the more or less automatic public support effect the expediency of the activity* and second, *to what extent does it cause distortion of prices and competition*. Answers to these questions as well can only be sought on the basis of data from an institutional - and in my opinion, even product-specific – level.

The satellite system on taxation and public support I have briefly presented above has been mainly designed to serve as a technical parallel system to

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<sup>35</sup> Here again one should bear in mind the ideological connotations of the terminology used in the context of public financing: 'support' is sort of neutral and also often refers to the independence of its recipient regarding its use, 'public coverage of expenditure' implies that government pays the production expenses, whereas 'the share of public demand in turnover' is inclined to demonstrate that it contains a transfer of income to the consumers or to specific consumer groups.

the widely adopted general system of national accounts. In recent years similar parallel but at the same time 'functional' satellite systems have been developed for certain sub-sectors of economic activity which have been considered important or deviant. A couple of systems have been developed for tourism.<sup>36</sup> These systems calculate, e.g., the value-added contribution of tourism to other sectors of economic activity (such as transportation, hotels, restaurants). *There is reason to ask whether the development of this type of a satellite system which would take into account the institutional classifications discussed above, value-added impacts and the perspectives regarding public demand, wouldn't also be a better starting point for developing cultural statistics than the prevailing practise of compiling and codifying data on the basis of traditional statistical classifications.*

## The relation of statistical data to data from accounts and financial statements

In terms of actual statistical work, the end-user perspective means that the preparer of statistics on public cultural expenditure and financing has to make iterative comparisons between the levels of original financiers and the end users. Consequently, the reliability of the statistics can be ensured throughout the process. In short: the sums of money allocated by the original financiers should be found on the end-user level, and if these data do not correspond, explanations should be found for the gaps.

There is also a difficult technical problem linked to this type of iterative comparison: the aspect of deriving statistical material from data entered in accounts and financial statements. As I will illustrate in the statistical part of this report, the institutions receiving public support - and the end users generally - can through different practises of keeping and closing accounts alter the overall economic picture these imply on the institutions' activity. It can be said that a precondition for developing, updating or even reading statistics on expenditure and financing is understanding the accounting processes and their basic underlying principles.

More often than not the preparer or reader of statistics understands these processes only in terms of the financing end, that is, on the basis of how the appropriations are conceived and transferred to budgetary plans.<sup>37</sup> It is also understood that in practice there often appear even significant differences between the budgeted sums of money and the data entered in financial statements. The reasons for these differences in turn are often left in what could be called a black box. As we will later see, the end-user perspective forces the preparer of statistics to open this black box, which often contains exceedingly complex processes linked to accounting and financial statement

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<sup>36</sup> C.f. OECD. "A tourism satellite account for OECD countries", *OECD Meeting of National Account Experts*, Paris 22-25 September 1998. A central aim at the meeting was to develop a system in which the "pure value-added" contribution of tourism to the GDP and the sector's significance as an employer could be unambiguously determined.

<sup>37</sup> C.f., for example, Tilastokeskus/Statistics Finland, *Kulttuuritilastot/Cultural Statistics*, 1999, op.cit. p. 7-31.

practices. At the same time, he/she will have to develop new conceptual frameworks and commensurate the traditional language of subsidy and the new, continuously changing language of money flows, accounting and financial statements.

Furthermore, the end-user level is often the only one on which certain central statistical data can be found. This is the case especially with data concerning “transfers of loss” and changes of direction which may have occurred in the transfer processes after a sum of money has embarked from the original financier. Also data concerning the final purposes the financing is used for (as different expenditure items) and profit on the financing are central. It is these very data that are not accessible to the preparer of statistics - at least in an understandable form - without a knowledge of accounting practises or an ability to read financial statements.

As I have already noted, the end-user perspective and the accounting approach linked to it also require the adoption of certain new concepts. Statistics on financing which have been regarded “from above” and from the perspective of government label public cultural financing as *support* and equate this support with costs. The own revenues of the recipients of support, especially in the case of cultural and art institutions, are however often seen merely as marginal resources and thus not worthy of attention. From the perspective of the accounts and financial statements of the end users (or of a potential interim layer, such as a municipality), *this support “by virtue” is transformed into public coverage of expenditure*, which is used to fill the deficit between operating income and costs.<sup>38</sup> The latter concept underlines that in question here is a use of tax money on financing basically unprofitable activity - which is consciously accepted as such.

“Conscious acceptance” in turn means taking a stand on the significance of artistic and cultural products and services as particular forms of social welfare and - in this sense - as an expression of public demand.<sup>39</sup>

Public demand and public welfare are not an integral and undivided whole. Different products may belong in their sphere (for example, special public services apart from the primary activity) which are produced and distributed according different principles (at cost price, with discounts for special groups, funded by cultural political cost subsidy or purely in pursuit of profit). When this is taken into account, a precise assessment of production costs would require, not only monitoring on an institutional level, but also, as I already discussed above, monitoring even on a product and/or service -specific level (product-based monitoring). This has been the general direction the regulations and net budgeting practises concerning the paid public services

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<sup>38</sup> In appendices 2A and 2B the 1997 financial statements of a medium-sized municipality (Alavus) and a major national arts institution (the National Opera) have been “equalised”. Since these two units are of the same financial scale, the comparison of their statements is interesting even beyond the issue of financial statement techniques.

<sup>39</sup> The acceptance of this “unprofitability” is actually the functional basis of the entire public administration and it multiplies itself as it is transferred from state administration to regional and local administration when the state compensates for service production on these lower levels. Compensation for losses either by their “own” or “state’s” tax money is clearly apparent in the current financial statements of the municipalities (see Appendix 2A). The upkeep of cultural statistics would be greatly facilitated by the development of a coherent system for calculating the incomes of publicly supported cultural and art institutions. For this too, a comparison of appendices 2A and 2B may prove useful.

in Finland have at least partly attempted to pursue.

On the other hand, product-based cost calculation can prove difficult in the case of many cultural and art institutions, especially when the production takes place within an ensemble organisation. In such cases the physical operating environment, the “house”, and the “company” are regarded as a one undivided entity, and the core of the production community is the permanently employed staff, which is, in a way, a perpetual human resource. In product or service -specific monitoring the collective costs would thus include, apart from rent cost and permanent services, also the cost of maintaining these human resources, that is, beside personnel costs of the persons engaged in the production, also a unit’s own share of the overall costs of maintaining permanent human resources. Those savings, in turn, which derive from “storing” permanent staff (for example, a more permanent engagement of a popular and expensive lead performer) should be entered on the credit side in calculating production personnel costs. Thus, the aggregate costs of, for example, an opera production, should include, in addition to the costs of hired services and performers, also the rent equivalent for using collective premises and equipment and own share of realty or other similar costs, the equivalent costs of using the permanent orchestra or choir and - apart from actual and collective salary costs - an estimate of the benefit (positive and negative) accrued from having/ not having the right to use own permanent artistic staff.<sup>40</sup>

Calculations of expenditure on the basis of actual production-based costs and those calculated on the basis of the institutional net budgeting principle would not probably differ very much from each other. On the other hand, only production-based accounting enables us to estimate the true product-specific distribution of public cultural expenditure, proportion it to revenues and to assess the real shares of market-led and public demand-based activity. At the same time, we could clearly disclose potential distorting impacts of public support on market competition, something publicly-subsidised institutions have been accused of. Needless to say, such calculative operations cannot be carried out merely on the basis of the data presently entered in accounts and financial statements and applying broad, general statistical frames. They require well-focussed development work, in which the most progress could be made with the goal of developing a separate SNA satellite system for the arts and culture.

## Determining the scope and time range of cultural financing

Defining culture has been one of the perpetual problems that have hindered the development of comparable cultural statistics. On a national level the problem hasn’t held such great significance. Culture can be defined according

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<sup>40</sup> In the Finnish theatrical circuit much has been said in favour of refining the ensemble system so that permanent nonmaterial resources could be used equitably and efficiently. Production-based cost calculation could help to solve these problems, as well.



to what is considered sensible in terms of national cultural policy and administration, and nothing prevents the simultaneous use of a number of different definitions of culture. However, even on a national level there is a wish to monitor in time the development of the amount of resources spent on culture - both public and private - as well as their focus and impacts, so the basic scope of statistics should be kept as unaltered as possible in time.

Experiences in EU project on cultural statistics showed that even if the problem of defining culture were approached through practice by linking together commonly agreed on domains (see Figure 1 on page..) it is hard to reach an international consensus on which domains should be included in the whole and which functions and units they in turn should contain. Examples of the problem are such units as scientific and academic libraries, which in EU definitions have been classified under culture (instead of science and technology) or the question of whether the opera should be regarded as music or drama.

It wasn't only the definition of these domains that rendered the general statistical frame difficult to apply. The actual difficulty was due to the way in which the domains were further classified as functions (production, distribution, preservation, etc.), which were not defined clearly enough or as a distinct, integral chain of activity or value added. Moreover, the domains and functions could not be singled out from each other distinctly enough. For example, the fact that attempts are made within such "preserving" domains as cultural heritage, libraries and archives to use a function-based division between creative work, production and preservation seemed odd.

This confusion - in addition to the inadequate definition of institutional units - was the main reason why we decided not to apply the general EU statistical frame in this report. Its statistical part resigns itself to simple classifications of domains, the function-based classification system is used in it only once.

The comparability of statistics on public cultural expenditure and financing does not, however, solely depend on the degree to which the field of culture is standardised, but also on many other factors beyond the command of the preparer of statistics. From his/her perspective it would be also important that definitions of the different financing items (for example classification of budget appropriations and the basis, form and right of expenditure transfers), the classifications of institutional units and accounting and financial statement practises would be kept standardised. All these are, however, constantly subject to change and the statistician has to - not only in the sphere of culture - break his/her time series, adjust them retroactively and to try and make the pieces of time series shattered by changes as comparable as possible. The statistical material in this report illustrates how many of the changes that took place in the 1990s, especially those concerning the administrative bonds between culture and education, or the changes in the systems of statutory state subsidy, frame and net budgeting and agreements based on management by results, have made statistical work difficult.

This is exemplified by the adoption of net budgeting in the public administration's budgetary planning accounts. On the level of internal accounts, the deduction of expenses from income diminishes the closing balance of the financial statement. This technical change should of course be taken into consideration in updating statistical time series. When a change

like this occurs, the significance of the whole time series changes and new data from closed accounts should either be converted to correspond with the accounting the old time series is based on or the whole old time series should be retroactively converted to be based on net budgeting. This is naturally more easily done if the time series describing changes in the level of financing can be accompanied by other time series describing the end use of the financing.

Of course one should bear in mind that changes in accounting and financial statement practices can take place on different levels, also on that of end users, so integral and unambiguous time series do not actually even exist, they are always in some respects “footnoted”, bearing many explanatory remarks describing changes that occurred at different times. However, the most secure basis for maintaining the coherence of time series and interpreting changes in meaning is provided by end-user statistics.

In my earlier statistical references, for example in the context of the EU two-accounts model, the applied statistical period has been one year. Consequently, potential temporal transfers of appropriations, longer-term agreements or possible time restrictions to the right to use the income generated by public financing have not been taken into consideration. In using annual data from financial statements these may not be so significant in terms of the financing itself, but when we move on to develop and calculate indicators (such as ratios of own income to public subsidy/coverage of expenditure) the time dimension has to be taken into account both in the development of indicators and in their interpretation. Transfer rights and longer-term financing agreements usually project even strong variations digressing from the annual rhythm of expenditure needs and revenue. They may be due, for example, to a need to agree in advance on the implementation of many-year programs, to contract performers or premises on a many-year time lag or to secure the right to transfer “profits” generated by unexpected growth in own income or other revenue to a number of years ahead.

## Proportioned indicators

A person developing or compiling statistics will always have to reflect and decide on to what degree he/she will settle for presenting statistics as “crude data”, to what degree as proportioned indicators. We can, in fact, speak of three types of indicators: *technical*, *indicative* and *interpretative*.

*Technical indicators* can be normal statistical parameters (per cents, medians, etc.) or standardising factors affecting the interpretation of statistics (deflating, proportioning to population, etc.). *Indicative indicators*, in turn, are statistical time series which are selected and standardised so that they can be used in monitoring the developments in cultural financing over time (growth percentages) and/or in proportion to underlying factors, such as economic development (changes in the GDP) or the development of public finance policy.

*Interpretative* indicators aim to open out a perspective linked to such issues as, for instance, policy outlines or developing management or administration,

by proportioning statistical variables and/or by standardising them in relation to each other. Such indicators help us to understand *the nature and amount of activity* (for example, the degree to which culture is “commercialised”, or its value-added contribution to the GDP) and *the overall operating conditions* (for example, how the responsibility for financing cultural and art institutions is distributed and potential changes in it). They can also be used to describe *the nature and quality of activity* (for example, the share of free concerts in the repertoires orchestras or the share of musical plays in theatre repertoires).

Indicators on the nature and quality also include many different *performance indicators*, the adoption of which has been suggested on the cultural sector, as well. Examples of them include the share of the own income of the publicly subsidised institutions in relation to their expenses or an institution’s operating costs per visitor. Policy-linked interpretative indicators are, however, also often linked to purpose: they may be used to prove, for instance, that culture has strong employment effects. In such cases their mutual analytical links are broken and they cannot be used to analyse the general situation or to create consistent policy guidelines. It is for this very reason why it is important that efforts are made to create a separate satellite system into national accounts also for the arts and culture, which could be used to extensively describe the state of the arts and culture and their economic effects.

The development of proportioned indicators is, however, also important for *the technical aspects of preparing statistics*. First, indicators can be applied to make – at least partly – such time series mutually comparable that only partly overlap. This becomes apparent in the chapters where I examine the ratio of public cultural expenditure to the GDP applying both the broader and the narrower definition of culture. Second, indicators can help in verifying the reliability and accuracy of presented statistics – and also possible transfer or calculation mistakes in the material. For example, a ratio’s strong leap in a time series often leads to the discovery of a mistake. A strong and inexplicable change in values within the indicator system can also reveal that the applied indicators have been “charged” with some so far unnoticed factor, surfacing in new conditions - which even may call into question the actual feasibility of using the indicator.

The statistical part of this publication begins with a few, narrow time series analyses which are clarified by technical and indicative indicators. Technical indicators are for the most part ratios and growth percentages. In indicative indicators a unit’s aggregate expenditure is proportioned to the aggregate expenditure of the financier (central state administration, municipalities) and/or to the GDP. In deflating, which is done only in the case of one of the time series, a wholesale price index has been used, instead of the index describing the development of the costs of public sector teaching and cultural activity. The latter would have provided a managerial indicator on the real development of expenditure in relation to the cost development in the field. The deflator we have used demonstrates the real development of expenditure in relation to politicians’ – and the general public’s – inflation expectations and presumptions on which making or refraining from inflation adjustments is based.<sup>41</sup>

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<sup>41</sup> In the analyses on an institutional level no inflation adjustments are made, since inflation in 1994-1997 was practically non-existent: the annual increase of consumer prices was around one per cent, producer prices remained stable or slightly decreased.

In the institutional-level analyses of the statistical part some ordinary cost and profit indicators have been calculated. They include the ratio of own income and other revenues to the aggregate expenditure, the ratio of different expenditure items to the aggregate expenditure and operating expenses/visitor and public subsidy/visitor. They are not, however, interpreted as performance indicators. The objective of using them has been to examine the significance of different institutional groups according to their tendency for “public consumption”, which was discussed earlier on in the context of the SNA satellite system for taxation and public support. At the same time, these indicators and their interpretations also aim to lay a foundation for the interpretations of the institutional interviews carried out within the framework of the TaiLa project.

# III STATISTICAL PART

## Turning points that reshaped the conditions of cultural and art institutions in the 1990s

### Introduction

The statistical part of this report comprises six sequences which gradually advance from the financier level to that of the end user.

*The first sequence* presents an update of statistics on public expenditure on financing, first as earlier and longer time series, then as shorter ones only covering the 1990s. This sequence is based on the model of public financier-level accounts in the EU statistical frame (Figure 1, page 14), although it will not extend to presenting a detailed itemisation of expenditure, for reasons already mentioned. The statistics of this sequence are presented and interpreted so as to provide, first, *a picture of changes in the financing conditions of artistic and cultural activity and of the essential turning points in the past couple of decades*, and, second, *a picture of the situation now, after the most recent changes in financing in the 1990s*. Identifying the turning points also helps in selection of the sample years best suited for future cross-analyses.

*The second sequence* examines public cultural expenditure *per domain and per art form* in 1994 and 1997. The statistics in this sequence are used to illustrate the focal areas of public financing – and especially the issue of how the strong institutional engagement of public financing leaves public cultural policy a very low degree of freedom to shift the emphasis from one domain to the other.

In the next sequences the EU model for institutional accounts is already applied (Figure 2, page 19). In the institutional classification (*in defining institutional structure*) the VOS system (the system statutory state subsidy) is mainly used as a lever, in relation to which the other institutional types are defined.

*The third sequence* focuses on *the income structure* of the institutions and especially on the question of how the joint financing from the state and municipalities changed in the latter half of the 1990s. Under study here are the central activities within the VOS system: libraries, municipal cultural services and art institutions (orchestras, theatres) and museums. *The analysis of income structure is then sharpened* by a more detailed two-year (1994/1997) cross-comparison between the institutions, including also national institutions. The statistics are presented as comparative tables on three central spheres of institutional activity: theatres, orchestras and museums.

*In the fourth sequence* we will move on to an analysis of expenditure, in which the applied *definition of expenditure structure* also follows along the lines of the EU model for institutional accounts. The analysis of expenditure

structure now focuses only on orchestras, theatres and museums, and the developments are again examined by comparing the years 1994 and 1997. Since personnel costs are usually the largest expenditure item in institutions, the sequence also examines the relationship between personnel and expenditure structures – or rather, the inadequacy of the available statistics to be used in such studies.

I should stress that even though the presentation advances from financier level to that of end users, the updating of the statistics in these four sequences has been iterative, combining and comparing data on the financier and institutional levels.

*The fifth sequence* considers the possibility – or rather, the impossibility – of using *indicators based on audience/visitor figures* to measure the productivity and performance of the institutions.

*The sixth sequence* returns to the problems concerning *institutional classification*, which are illustrated by selected institutional model cases.

The next two sequences once again return to the key questions of statistical work, but now on a concrete level and examining the situation in Finland. *The seventh sequence* shortly examines, based on secondary information, how a broader definition of culture would change the perspective of statistics as well as the actual statistics themselves. *The eighth sequence* reflects on the question to what extent do we really have access to end-user level data from other spheres of cultural financing than institutions.

The task of updating data on an institutional level is inevitably left incomplete, especially if the goal is to solve such statistical-technical problems as were presented in the methodological part of this publication and to take up a well-grounded stand on issues of principle underlying these solutions. A comparison of different institutional types and institutions does, however, give some indication of what kind of new vistas and options of interpretation the development of a statistical system for culture could really open out – and what kind of cultural-political benefits it could bring along.

## Updating time series on public cultural financing and locating the turning points

Table 1 presents an updated and adjusted version of the only long-term time series that have been prepared on public cultural financing in Finland. They were first published in the “national report”, under the title of “Cultural Policy in Finland”.<sup>42</sup> Due to changes in accounting practices and administration, the original time series could only be extended by one year and they end in 1993.

The time series in Table 1 are functional in the sense that they have been detached from the narrow definitions of administrative revenues and costs.

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<sup>42</sup> Arts Council of Finland/Research and Information Unit, Cultural Policy in Finland, *European Programme of National Cultural Policy Reviews*, 1995, mt., 14. Eräät teoksessa esitetyt aikasarjat ulottuvat vuoteen 1970, seuraavassa hyödynnetään tietoja lähinnä vain vuodesta 1977 eteenpäin.

**Table 1. Finnish public expenditure on the arts and culture (according to “broad definition”\*) in 1977, 1986, 1990, 1992 and 1993, (million FIM, in nominal and in constant 1977 prices).**

	1977	1986	Change % -77/-86	1990	1992	1993	Change % -86/-93
<i>In current costs:</i>							
a) Central government expenditure on “art”	132.6	544.6	310.6	857.3	1 081.6	1 100.5	102.1
b) Central government on “other culture”	270.8	1 129.9	317.2	1 603.9	1 981.3	1 720.6	52.3
c) Municipal expenditure on culture, including central government subsidies	518.7	2 190.8	322.6	3 396.4	3 613.0	3 572.0	63.0
d) Central government subsidies to municipal level	167.9	793.2	372.4	1 235.4	1 425.5	1 573.8	98.4
e) Public expenditure on the arts and culture: (a+b+c-d) above	754.2	3 072.1	307.3	4 622.2	5 250.4	4 819.3	56.9
Ratio of public expenditure (e) to GDP in per cent	0.58	0.86		0.89	1.1	0.98	
<i>In 1977 prices:</i>							
a) Central government expenditure on “art”	132.6	271.0	104.3	347.1	410.0	409.1	51.0
b) Central government on “other culture”	270.8	562.1	107.6	649.3	751.0	639.6	13.8
c) Municipal expenditure on culture, including central government subsidies	518.7	1 090.0	110.1	1 375.1	1 369.3	1 328.8	21.9
d) Central government subsidies to municipal level	167.9	394.2	134.8	500.3	540.3	585.5	48.5
e) Public expenditure on the arts and culture: (a+b+c-d) above	754.2	1 528.9	102.7	1 871.2	1 990.0	1 792.0	17.2
<i>In lieu of capital investments:</i>							
Change in “construction intensity”			7.8 →21.6				21.6→13.5

1 FIM = 5,95 €

\*The “broad definition” here covers first the direct promotion of arts (artists’ grants, prizes, financing of artistic projects), expenditure on current costs of national art institutions and art universities, subsidies to regional/local (“municipal”) theatres, orchestras, music schools and conservatories, and subsidies to film production (through Finnish Film Foundation). The second component, the central government expenditure on “other culture” includes costs of preservation and presentation of heritage (National Board of Antiquities, subsidies to museums and archives) and state subsidies to public lending libraries, international cultural co-operation, voluntary work on municipal level and adult education (“socio-cultural work” in a broad sense). Municipal expenditure comprises costs of/subsidies to theatres and orchestras, public libraries and adult education. Municipal expenditure is a gross expenditure including earned income of municipally-owned institutions. Capital investments are excluded because of their strong fluctuation in time. The last row of the table provides a rough measure of investments. The “intensity of construction activities” shows how many “public” construction projects (theatres, music halls, public libraries, cultural/congress centres) were initiated annually on an average. (Kulttuuritilasto/Cultural statistics, Statistics Finland, 1999, 110).

**Source:** Cultural Policy in Finland, 1995, Chapter 4 (budget outlays and closed accounts of municipalities).

For example, the actual state budgetary financing has not been singled out from funds received from the national lottery. Moreover, a broad definition of culture is used: the studied scope includes, in addition to financing of artistic work and cultural and art institutions, also the art universities, general adult education, preservation of cultural heritage, international cultural co-operation, municipal cultural services, basic education in music and general art education. Even though this broader definition is in itself more appropriate than the definition applied in the EU frame for cultural statistics, it too includes expenditure items which clearly do not fall within the sphere of the common definition of culture. They include many central sections of open adult education and international academic student exchange.

Despite the incoherence of the definitions and the time series, we can, through the data summarised in Table 1 and particular case studies, determine the overall developments and turning points in public financing of the arts and culture. Still in the mid-1970s, the growth factors in public cultural expenditure were state expenditure on the arts on the one hand, and municipal expenditure on the maintenance of cultural and art institutions on the other. State subsidies to the municipalities, especially for the maintenance of the art institutions (theatres and orchestras) and museums played a relatively meagre part in development.<sup>43</sup> The data in Table 1 show that both in the periods of 1977-1986 and 1986-1993 it was the rapid increase in state subsidies that generated new aggregate growth; the municipalities' own expenditure increased at a relatively moderate rate. The real increase of the municipalities' own expenditure (at 1977 prices) stays at seven per cent in the period of 1986-1993. *The state-led increase in public cultural expenditure culminates in the year 1992, cultural expenditure was then at its highest and rose (according to the broader definition of culture used in Table 1), proportioned to the GDP, to over one per cent.* The high value of this ratio can be partly explained by the fact that during 1991-1992 the GDP had decreased by nearly seven per cent.

The story continues in Table 2, in which we move on to a more specific examination of the 1990s and to a narrower definition of culture both in terms of state and municipal expenditure. One reason why it doesn't make sense to use the broader definition for the years after 1993 is the adoption of net budgeting, which diminishes the state's cultural expenditure in certain key sectors, especially in the case of art universities. These, as well as international co-operation, archives and state shares in adult education and basic education in music and art, have been left out of the scope of definition. Adult education, basic education in music and arts, and the municipalities' own cultural services (that is, activity outside the VOS system) have been left out on the municipal side. The narrow definition covers approximately two thirds of the broader one. A comparison of the ratio of expenditure to the GDP between these two definitions shows that the time series are synchronous.<sup>44</sup>

Even using the narrow definition *1992 was a peak year for cultural expenditure for the very reason that state expenditure had increased. A*

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<sup>43</sup> C.f. Mitchell, Ritva, *On the development of the social management of arts-based culture*. A study on publicising the arts sector. Licentiate's dissertation, University of Helsinki, Department of Political Science, September 1977, 192-229.



**Table 2. Indicators of economic development, public expenditures and public cultural expenditure (by tier of government) in Finland in 1992-1997 according to “narrow**

	1992	1993	1994	1995	1996	1997
<i>Public expenditures by the tier of government:</i>						
a) GDP in current price, according to ESA95.	487.2	493.1	521.4	561.4	587.6	632.9
b) Central government (state) expenditure, total	186.2	202.2	196.8	198.3	199.4	187.4
c) Aggregate expenditure of municipalities, total	127.7	123.2	124.6	133.7	137.5	138.4
d) State transfers to municipal and other public services and activities on regional and local levels**	43.0	42.7	40.4	39.5	33.2	30.1
e) State transfers to public services and activities in the municipal accounts	40.1	37.5	35.2	35.4	32.9	26.7
f) Public expenditure of general government operations (state and municipality, b+c-d), total	270.9	282.7	281.0	292.5	303.7	295.7
g) Central government (state) expenditure on the arts and culture***	1.83	1.70	1.58	1.50	1.53	(1.69) 1.57
h) State transfers to subsidize municipal cultural institutions and activities****	0.94	1.01	0.97	0.93	0.89	0.87
i) State transfer to cultural services in the municipal and receiver accounts	0.92	0.98	0.92	0.89	0.83	0.81
j) Municipal expenditure on the arts and culture (state subsidies and earned incomes excluded)	1.67	1.36	1.30	1.42	1.60	1.61
k) Total public expenditure (state and municipalities) on the arts and culture (g+j)	3.50	3.06	2.88	2.92	3.13	3.18
l) Share of state cultural expenditure of the total state expenditure (g/b) in per cent	1.00	0.84	0.80	0.76	0.77	0.84
m) Share of municipal cultural expenditure of the total municipal expenditure (j/c-d) in per cent	1.97	1.69	1.54	1.51	1.53	1.49
n) Share of total public cultural expenditure of the total public expenditure (k/f) in per cent	1.29	1.08	1.02	1.00	1.03	1.08
o) State cultural expenditure/total public cultural expenditure (g/k) in per cent	52.3	55.6	54.9	51.4	48.9	49.4
p) Share of total public cultural expenditure of GDP (k/a) in per cent	0.72	0.62	0.55	0.52	0.53	0.50

1 FIM = 5,95 €

\* In comparison with the definition of Table 1, the expenditure on international cultural co-operation, art universities, music schools and conservatories, archives and adult education are excluded from the central government expenditure. The municipal expenditure covers theatres, orchestras, museums and non-institutional cultural voluntary work. For the detailed contents of the expenditures, see tables 3 and 6 a-d.

\*\* These figures are based on cash flow analysis of the Ministry of Finance and they are used here for calculating total public expenditure, because the municipal accounts do no more comprise certain transfers that go directly to some local/municipal institutions (for the discrepancy, see the next row).

\*\*\* The upper alternative number for the last column ratio (1.69) includes an incidental item: ex post payment of accumulated pension deficit of the National Opera (116 million FIM).

\*\*\*\* The whole amount is not transferred to municipalities or individual local institutions, some of it is being used for collective expenditure of the subsidised domains (public libraries, theatres, orchestras, museums and support of voluntary cultural work).

**Source:** See Tables 1,3 and 6 A - D.

*turning point took place in 1993 when the state's own expenditure on the arts and culture started to decline. The new system of statutory subsidy for theatres and orchestras further increased expenditure transfers from the state to municipalities, but municipal expenditure decreased, when the municipalities decreased their own financing shares. On the following year both the state and the municipalities decreased their shares. A new change of direction, "a turn in the turning point", took place in 1995. The municipalities faced a situation where they had to start increasing their own cultural expenditure to compensate for decrease in statutory state subsidy. This process still continues.*

On the other hand, Table 3 shows that while the state's expenditure transfers started declining in 1995, the state's own expenditure on national level (expenditure on national institutions, film production support, and direct state support to artists) started increasing. *The double turn in 1993-1995 seems to lead back to the situation of the mid-1970s: the state's own expenditure on the arts and culture and the equivalent expenditure by municipalities diverge from each other and start both following their own dynamics of development.*

Two development trends concerning the sources of financing and their use are in the background of the double turn of 1993-1995. The first was *a growing increase in the funds directed from the national lottery to the arts and culture.* The increase of ear-marked funds from this source during 1986-1990 was under 35 per cent, in 1990-1994 nearly 50 per cent, and reached 77.5 per cent in 1994-1999. The table shows how in 1994-1998, after the recession in 1991-1993, the share of lottery funds in the state expenditure on the arts and culture has strongly increased, whereas that of actual budget financing has decreased. Underlying these surface trends *we discover an even deeper finance-administrative development trend: a steady increase in using national lottery funds to cover statutory cultural expenditure, especially expenditure within the VOS system (for theatres, orchestras, museums, libraries and municipal cultural services).* This trend also explains why state and municipal financing started drawing apart to different directions. The state wanted to cut back its own VOS expenditure so it could use lottery funds for realising national artistic and cultural goals.

The Tables 1-3 should be read with certain reservations, which are illustrative of some of the technical problems and material weaknesses in preparing statistics on public financing and cultural expenditure. The decrease in public financing in the 1990s wasn't necessarily entirely due to cut backs in expenditure, but may be partially explained, as discussed earlier on, by the

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<sup>44</sup> One should bear in mind that the broader definition includes the institutions' own income and revenues, but not investments, whereas the narrow definition includes direct state investments, but not the institutions' own income and revenues. The ratio of the expenditure to the GDP is not the same as the value-added impacts, meaning the value-added contribution of the activity to the GDP. Since most of the expenditure under the narrow definition are institutional expenditure and most of the institutions would, according to the 50 per cent rule, fall within the sphere of non-market activity, the GDP share can be roughly estimated on the basis of personnel costs and use of fixed capital (depreciation) at around sixty per cent of the aggregate expenditure (operating cost). We can use as its approximation the sum of public coverage of expenditure plus own income and revenues. In 1997 these amounted (according to the narrow definition) to approximately FIM 3.45 billion, so the value-added contribution of publicly.

**Table 3. Finnish central government expenditure on the arts and culture in 1994-1998, narrow definition of culture\*, (thousand FIM, current costs, net appropriations).**

	1994	1995	1996	1997	1998	Growth 94/98 (%)
<i>Ministry of Education, total</i>	27 107 000	27 202 000	26 635 000	26 188 000	26 581 000	-1.9
- share (%) of the state budget	13,8	13,7	13,4	14,0	13,9	
<i>Outlays for culture, total (%)</i>	1 582 889	1 498 386	1 531 531	1 688 279	1 637 540	3.5
-share (%) financed from the profits of the Veikkaus Oy**	44	52	56	60	69	
<i>National cultural and art institutions:***</i>	262 355	250 859	279 375	301 222	344 639	31.4 (16.6)
- Finnish National Opera****	129 700	122 200	133 700	126 700	134 500	
- Finnish National Theatre	38 400	38 000	37 300	38 000	38 900	
- Finnish National Gallery (FNG)	31 673	24 907	27 337	30 535	51 320	
- to FNG for investment in construction, facilities etc.			5 000	23 000	11 000	
- National Board of Antiquities (NBA)	53 010	61 107	64 966	65 837	70 019	
- to NBA for investment in construction, facilities etc.	9 572	7 945	11 073	17 150	38 900	
<i>Other state agencies and units:</i>	112 510	120 597	122 517	130 446	138 391	23.0
- Finnish Film Foundation	48 110	50 860	47 590	54 240	56 240	
- Administration of Suomenlinna Fortress	18 627	22 659	25 725	26 270	27 637	
- Library for Visually Handicapped	18 910	19 282	21 905	22 018	24 590	
- Finnish Film Archive	11 829	12 875	12 504	12 792	13 733	
- State Board of Film Censorship	2 806	2 640	2 652	2 678	2 760	
- Art Council of Finland (operation costs)	12 219	12 281	12 141	12 448	13 431	
<i>State subsidies to municipalities:</i>	954 917	927 638	894 302	872 291	861 487	-9.8
- public libraries	613 000	595 439	550 209	527 875	504 044	
- museums	87 643	85 788	89 021	91 381	95 175	
- theatres and orchestras	206 693	199 895	210 846	216 646	224 505	
- non-institutional municipal activities	47 581	46 516	44 226	36 389	37 763	
<i>Artists' grants and compensation:</i>	70 973	70 545	69 940	75 024	81 321	14.6
- artists' grants (national)	34 958	35 526	36 074	37 465	41 044	
- for regional support of the arts and artist	21 388	20 949	20 240	20 933	21 995	
- authors' library compensations	14 627	14 070	13 626	13 626	13 300	
-visual artists' display compensation	--	--	--	3 000	4 982	
<i>Discretionary support of the arts and culture</i>	182 134	126 265	165 396	193 296	211 702	16.2

1 FIM = 5,95 €

\* According to the "narrow definition" of culture, see the footnotes of tables 1 and 2 above.

\*\* A state-owned company operating the national lotto and football pools and sports betting.

\*\*\* In the last column within parentheses the rate of growth without construction costs (16.6%).

\*\*\*\* An incidental sum of 116 million FIM for ex post payment of accumulated pension deficit of the National Opera is excluded in 1997 figure.

Source: Closed accounts of the central government.

adoption of net budgeting in the accounts and financial statements of both the state and the municipalities. I must repeat that in Table 1 the cultural and art institutions' own income and other revenues have not been deducted from the municipalities' financing shares.

Despite these reservations, all three tables confirm the double turn in cultural financing. We will later see that analysis on an institutional level also does the same and demonstrates a changing significance of the institutions' own income and other revenues towards the end of the 1990s.

The third reservation concerns investment expenditure. It hasn't been included in Table 1 at all. Tables 2 and 3 include own direct investments within the budget of the Finnish Ministry of Education. As Table 3 reveals, the increase in state cultural expenditure after 1995 can be primarily explained by the national institutions' (National Art Gallery/Kiasma, Board of Antiquities/National Museum and Museum of Cultures and the Administration of the Suomenlinna Fortress), expenditure on construction, renovation and equipment directed through the budget of the Ministry of Education. These expenditure items have been included in order to clearly illustrate the post-recession orientation of the state centring on developing national arts and cultural institutions.

The tables exclude state investments outside the Ministry of Education and municipal investments on the construction and basic repairs of cultural institutions.

The bottom row in Table 1 provides a rough picture of public cultural investments. It contains an indicator on the construction rate of cultural institutions in three decades (1970s, 1980s and 1990s). The construction rate nearly tripled in the 1980s, and then visibly declined in the 1990s. Also the reasons for the peak in construction in the 1980s are apparent. They naturally derive from the good - although eventually seriously overestimated - financing capacity. However, the inevitable need to renovate or substitute the old building infrastructure from the 1920s and 1930s was an important factor as well. In the case of the national cultural and art institutions and the larger city cultural and congress centres, this peak did not occur until the end of the 1980s and the beginning of the 1990s.

## Public expenditure in 1994 and 1997 per domain

In statistical work on public financing of the arts and culture the interest has traditionally fallen on two issues: the overall level of financing and the division of financing between the different domains and art forms. Also the general statistical frame of the EU project on cultural statistics with its domains and functions leads to this direction.<sup>45</sup>

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<sup>45</sup> As previously was discussed, the domains and functions of the EU frame are difficult to sensibly reconcile. In the following table the problem is evaded by using two different classifications of domains: according to cultural activity and per art form.

In **Table 3** state expenditure is, in a way, already presented per domain. It shows, apart from institutions, also the other central end users of public financing, especially individual artists and film production. Furthermore, the actual arts and cultural institutions can be singled out from certain institutions providing national cultural services on the bases of the table. The actual national cultural and art institutions in turn are divided into two groups: those within the sphere of the national budget economy (National Board of Antiquities, National Art Gallery) and those that are private, but fully dependent on public support (National Opera, National Theatre).

**Table 4** takes a step towards a more systematic classification of domains. In it the public (both state and municipal) expenditure in 1994 and 1997 has been classified according to the EU general statistical frame, as far as it has been possible. Direct support to the arts has been included undivided. It was possible to contain some 80 per cent of the aggregate public expenditure (c.f. Table 2, *row k*) within the scope of the classification.

In **Table 5** state expenditure on the arts from the same years has been classified per art form and function (creative work, production, preservation, etc.). The table has been constructed so that from the narrow scope of direct support to the arts and artists (column A) the focus has been extended in column B to cover the financing of “production institutions” (opera, theatres, orchestras, support for associations and supportive measures by the National Film Foundation) and then (in column C) the financing of “preservation institutions” (art museums). Also basic education in music and art has been included in column C. The classification roughly corresponds to the EU classification of functions. The classification managed to contain some 55 percent of aggregate state cultural expenditure from both years. (C.f. Table 2, *row g*; basic education in music and art and coverage for the pension deficit of the National Opera have been left out of the classified expenditure in calculating the percentages).

**Table 4** first clearly shows a priority sphere of - both state and municipal - public financing policy: libraries. Even though it only includes municipal public libraries and the Library for the Visually Impaired, the public subsidy they received in 1997 was some 37 per cent higher than that for performing arts, which in turn was nearly twofold compared to subsidy for the sphere of cultural heritage. According to the data in Table 4, after the “double turn” in 1993-1995 cultural heritage and film have been increasingly prioritised in financing. In the context of film one can actually speak of a deliberate increase of state financing, although the increase is nearly non-existent in terms of aggregate figures. In the case of cultural heritage, the increase can be explained by investment expenditure from the budget of the Ministry of Education; the increase of operating costs would have been only eight per cent. In the case of libraries, orchestras and theatres, the increases are clear transfers of financing responsibility from the state to municipalities; these increases correct, at the same time, the past underdevelopment of municipal financing.

The examination by art form in **Table 5** brings to the fore another domain favoured by public financing in Finland, music. In the table opera has been classified as part of the domain of music, shifting it entirely or partially (without the orchestra) on the side of theatre would lead to a near tie between these two domains. Similarly, financing of basic education in music

**Table 4. Classification of the Finnish public expenditure on the arts and culture by domain and the financing tier in 1994 and 1997, (million FIM, current costs).**

Domain	1994			1997		
	Central government expenditure	Municipal expenditure	Total	Central government expenditure	Municipal expenditure	Total and 94/97 growth (%)
<i>Cultural heritage:</i>						
- National Board of Antiquities	53.0			65.8		
- Maintenance of Suomenlinna Fortress	18.6			26.3		
- National Art Gallery	31.7			30.5		
- museums (including art museums)	87.6	162.7		91.4	207.7	
<b>Total</b>	<b>190.9</b>	<b>162.7</b>	<b>353.6</b>	<b>214.0</b>	<b>207.7</b>	<b>421.7 (19.3)</b>
<i>Libraries:</i>						
- Library for Visually Handicapped	18.9			22.0		
- public libraries	613.0	395		527.9	597	
<b>Total</b>	<b>631.9</b>	<b>395</b>	<b>1 026.9</b>	<b>549.9</b>	<b>597</b>	<b>1 146.9 (11.7)</b>
<i>Performing arts:</i>						
- National Opera	129.7	18.3		126.7	20.2	
- National Theatre	38.4	1.1		38.0	1.2	
- Radio Symphony Orchestra	24.1			30.0		
- other professional theatres and orchestras	206.7	380.8		216.6	404.6	
<b>Total</b>	<b>398.9</b>	<b>400.2</b>	<b>799.1</b>	<b>411.3</b>	<b>426.0</b>	<b>837.3 (4.8)</b>
<i>Cinema:</i>						
- Finnish Film Archive	11.8			12.8		
- State Board of Film Censorship	2.8			2.7		
- Finnish Film Foundation	48.1			54.2		
<b>Total</b>	<b>62.7</b>		<b>62.7</b>	<b>69.7</b>		<b>69.7 (11.2)</b>
<i>Direct support for the arts</i>	71.0	N.A	N.A	75.0	N.A	N.A
<b>Total (central government only)</b>	<b>71</b>			<b>75</b>		<b>75 (5.6)</b>

1 FIM = 5,95 €

Source: See the footnotes of Table 3 above and of tables 6 A-6 D below.

in the last column significantly increases the aggregate financing for music. The increase in support to music in 1994/1997 is almost solely due to the additional financing to the National Opera in 1997 for covering the pension deficit, which has been included in the figures.

The divisions used in **Tables 4 and 5** are effective in the sense that they help us to discover some of the central groups of end users of public financing: individual artists, associations, art museums, etc. At the same time, they do, however, show that sector-specific divisions and changes are impossible to comprehend without taking into account the underlying institutional structure. In other words, art form and function -specific statistics are senseless if they “sum up” end users that are very different from each other - artist, associations and institutions.

The central position of financing for institutions is visible in both tables. They are contrasted by support for “creativity”, that is, the smallness and stagnancy of direct artist support. *In table 5 the share of direct artist support in the state’s aggregate cultural expenditure was only 7.6 per cent in 1994,*

**Table 5. State expenditure on art by art form in 1994 and 1997, (million FIM, current costs).**

Art form	A. Direct support to artists (grants, prizes, projects)*		B. In addition to A: expenditures for current costs of institutions** and discretionary support to organisations, events etc.		C. In addition to A and B: expenditures for current costs of art museums and basic art and music education	
	1994 (%)	1997 (%)	1994 (%)	1997 (%)	1994 (%)	1997 (%)
Visual arts	14.8 (21.5)	16.4 (24.2)	25.7 (4.3)	27.5 (3.9)	87.4 (9.6)	106.7 (9.5)
Industrial art and design	4.3 (6.1)	4.2 (6.2)	9.0 (1.5)	8.0 (1.1)	38.7 (4.3)	37.2 (3.3)
Music***	8.5 (12.4)	7.7 (11.3)	219.9 (37.0)	333.4 (47.4)	419.3 (46.1)	595.1 (52.9)
Theatre	5.4 (7.8)	4.8 (7.1)	208.6 (35.1)	209.8 (29.8)	211.1 (23.2)	212.0 (18.9)
Dance****	2.8 (4.1)	2.8 (4.1)	7.1 (1.2)	7.0 (1.0)	7.7 (0.8)	7.0 (0.6)
Literature, translations	25.6 (37.2)	23.9 (35.2)	35.0 (5.9)	31.6 (4.5)	35.9 (3.9)	31.6 (2.8)
Cinema	2.4 (3.5)	2.7 (4.0)	80.4 (13.5)	79.3 (11.3)	80.5 (8.8)	81.2 (7.2)
Photography	3.0 (4.4)	3.1 (4.6)	4.9 (0.8)	4.5 (0.6)	7.8 (0.9)	7.2 (0.6)
Architecture*****	1.2 (1.7)	1.3 (1.9)	3.2 (0.5)	2.7 (0.4)	9.5 (1.0)	11.0 (1.0)
Other (multi-art, general art education)	0.9 (1.3)	1.0 (1.5)			12.0 (1.3)	35.0 (3.1)
Total	68.8 (100)	67.9 (100)	593.8 (100)	703.8 (100)	909.9 (100)	1124.0 (100)

1 FIM = 5,95 €

\* Artists' special "grant-like" pensions not included.

\*\* Current costs of national art institutions and statutory state subsidies to theatres and orchestras.

\*\*\* The incidental sum of 116 FIM for covering pension deficit of National Opera included.

\*\*\*\* Statutory subsidy to dance theatres included in the theatre expenditure.

\*\*\*\*\* Does not include the financing of the protection of built heritage (historically valuable buildings) channelled through the Ministry of Environment.

**Source:** Oesch, Public Expenditure of the Arts and Culture in 1994; Kulttuuritilastot/Cultural Statistics '99; closed accounts of the central government.

and by 1997 it had diminished to 6.0 per cent.<sup>46</sup> On the other hand, the emphasis of such financing still seems to be more strongly on the visual arts and literature, two sectors on which the actual artistic work nearly entirely takes place outside the publicly supported cultural and art institutions.

The data in tables 4 and 5 also illustrate that the sector-specific priorities in financing seem to remain unaltered in time. *An established institutional structure and the financing stakes it requires are apparently difficult to radically change.* The previously presented remarks, however, also remind us that many of the increases in financing are directed rather randomly to the different domains.

The contents of these tables call into question whether sectorial classifications - be they based on domain, function, or a combination of both - can ever assume such an unambiguous form that they could serve as a basis for international comparisons.

<sup>46</sup> By maintaining institutional systems the state and municipalities also support artists: actors, directors, dancers, orchestra musicians, conductors, playwrights, etc. This doesn't only apply to the permanent (or more or less permanent) personnel of the institutions. The institutions - when there is enough flexibility - provide employment opportunities and production premises not only to their own staff but also to outside artists and groups.

# Institutional income structure 1994-1997

## Institutions within the VOS system and municipal cultural activity

In **Tables 6A-6D** the focus moves on to an end-user level of financing, to statistics concerning the development of public financing for the cultural and art institutions in Finland, their own income/revenues and expenditure in the 1990s after the recession, namely in 1994-1997. The scope of these tables is limited to institutions within the VOS system, jointly financed by the state and municipalities: public libraries, theatres, orchestras and museums. It doesn't extend to national institutions, but it does include municipal public cultural services.<sup>47</sup> The aggregate financing for theatres, orchestras and museums is studied in this context, a deconcentration takes place in the following tables.

First we should note that the data in tables 6A-6D on public coverage of expenditure correspond to the data on public expenditure in Table 2 (c.f. corresponding figures in rows *i* and *j*). At the same time we can see that *the share of the coverage of expenditure for these institutions and municipal cultural activities in the aggregate public expenditure on the arts and culture (applying the narrow definition) was nearly 76 per cent in 1997 - that is, excluding the central national art institutions.*<sup>48</sup> They would raise the share to over 84 per cent. If we include in the scope "other national special institutions" (excluding the Finnish Film Foundation, including national special museums) the share rises to approximately 90 per cent. (C.f. **Table 3**)

The general development trends revealed by institutional statistics are evident. Income, revenues and public coverage of expenditure increased both in 1994-1995 and in 1995-1996 by approximately FIM 100 million, 1996-1997 they stopped increasing. In 1994-1996 tax financing still increased when municipalities (especially in the context of libraries) compensated for the decline in state subsidy, but the increase stops in 1996-1997. *The institutions' own income and other revenues grow slowly in 1994-1996, but*

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<sup>47</sup> The column of public cultural activity in Tables 6A-6D only includes statutory state subsidy, cultural legislation -based activity and the municipalities' support to associations and to production and amateur activity. It excludes - due to the applied narrow definition of culture - music schools and units of basic art education receiving statutory state subsidies. Their public coverage of expenditure amounted to some FIM 340 million in 1997. It can also be estimated that the municipalities directed some FIM 120 million of direct support to the arts, fully municipal arts institutions, artistic amateur activity and adult education in the arts (c.f. Ismo Porna, "Kulttuurilaitosten talous ja osuus kuntien koko kulttuuritoimen kustannuksista" teoksessa Jouni Kaipainen, *Kulttuurilaitosten taloudelliset vaikutukset* ("The finances of cultural institutions and their share in the aggregate municipal expenditure on cultural activity"). Published in Jouni Kaipainen, *The Economic Impacts of Cultural Institutions*). Suomen Kuntaliitto/The Association of Finnish Local and Regional Authorities, 1999, p.7-8).

<sup>48</sup> Here the usefulness of the concept of public coverage of expenditure becomes apparent: it refers to sums of money, which from the perspective of the financier are expenses, and from the perspective of the end users are receipts.



**Table 6 A. Financing of municipal/local cultural and arts institutions and socio-cultural work within the state statutory subsidy system, by the source of receipts in 1994 (million FIM, current costs).**

<i>Source of receipts:</i>	<i>Libraries</i>	<i>Theatres, orchestras, museums</i>	<i>Voluntary socio-cultural work *</i>	<i>Total</i>	<i>Share (%) of the total receipts</i>
<i>Earned income and other revenues in the accounts of institutions</i>		185		185	7.4 %
<i>Earned income in municipal accounts</i>	50		48	98	3.9 %
<i>Earned income and other revenues, total</i>	50	185	8	<b>283</b>	<b>11.3 %</b>
<i>Receipts from the municipalities, net</i>	395	542	364	Municipal taxpayers' contribution total: 1301	52.0 %
<i>Receipts from the state, net</i>	571	299	48	Central government transfers, total: 918	36.7 %
<i>Receipts from public authorities:(“tax money”), total</i>	966	841	412	<b>2219</b>	<b>88.7 %</b>
<b><i>Receipts, total</i></b>	<b>1016</b>	<b>1026</b>	<b>460</b>	<b>2502</b>	<b>100.0 %</b>
<i>Share (%) of earned income and other own revenues of the total</i>	<b>4.9 %</b>	<b>18.0 %</b>	<b>10.4 %</b>	<b>11.3 %</b>	

1 FIM = 5,95 €

**Table 6 B. Financing of municipal/local cultural and arts institutions and socio-cultural work within the state statutory subsidy system, by the source of receipts in 1995 (million FIM, current costs).**

<i>Source of receipts:</i>	<i>Libraries</i>	<i>Theatres, orchestras, museums</i>	<i>Voluntary socio-cultural work *</i>	<i>Total</i>	<i>Share (%) of the total receipts</i>
<i>Earned income and other revenues in the accounts of institutions</i>		201		201	7.7 %
<i>Earned income in municipal accounts</i>	57		53	110	4.2 %
<i>Earned income and other revenues, total</i>	57	201	53	<b>311</b>	<b>11.9 %</b>
<i>Receipts from the municipalities, net</i>	459	579	377	Municipal taxpayers' contribution total: 1415	54.0 %
<i>Receipts from the state, net</i>	556	292	46	Central government transfers, total: 894	34.1 %
<i>Receipts from public authorities:(“tax money”), total</i>	1015	871	423	<b>2309</b>	<b>88.1 %</b>
<b><i>Receipts, total</i></b>	<b>1072</b>	<b>1072</b>	<b>476</b>	<b>2620</b>	<b>100.0 %</b>
<i>Share (%) of earned income and other own revenues of the total</i>	<b>5.3 %</b>	<b>18.8 %</b>	<b>11.1 %</b>	<b>11.9 %</b>	

1 FIM = 5,95 €

**Table 6 C. Financing of municipal/local cultural and arts institutions and socio-cultural work within the state statutory subsidy system, by the source of receipts in 1996 (million FIM, current costs).**

<i>Source of receipts:</i>	<i>Libraries</i>	<i>Theatres, orchestras, museums</i>	<i>Voluntary socio-cultural work *</i>	<i>Total</i>	<i>Share (%) of the total receipts</i>
<i>Earned income and other revenues in the accounts of institutions</i>		218		218	7.9 %
<i>Earned income in municipal accounts</i>	63		61	124	4.5 %
<i>Earned income and other revenues, total</i>	63	218	61	<b>342</b>	<b>12.4 %</b>
<i>Receipts from the municipalities, net</i>	572	596	431	Municipal taxpayers' contribution, total: 1599	57.7 %
<i>Receipts from the state, net</i>	479	305	44	Central government transfers, total: 828	29.9 %
<i>Receipts from public authorities: ("tax money"), total</i>	1051	901	475	<b>2427</b>	<b>87.6 %</b>
<b><i>Receipts, total</i></b>	1114	1119	536	<b>2769</b>	<b>100.0 %</b>
<i>Share (%) of earned income and other own revenues of the total</i>	<b>5.7 %</b>	<b>19.5 %</b>	<b>11.4 %</b>	<b>12.4 %</b>	

1 FIM = 5,95 €

**Table 6 D. Financing of municipal/local cultural and arts institutions and socio-cultural work within the state statutory subsidy system, by the source of receipts in 1997 (million FIM, current costs).**

<i>Source of receipts:</i>	<i>Libraries</i>	<i>Theatres, orchestras, museums</i>	<i>Voluntary socio-cultural work *</i>	<i>Total</i>	<i>Share (%) of the total receipts</i>
<i>Earned income and other revenues in the accounts of institutions</i>		238		238	8.4 %
<i>Earned income in municipal accounts</i>	105		77	182	6.4 %
<i>Earned income and other revenues, total</i>	105	238	77	<b>420</b>	<b>14.8 %</b>
<i>Receipts from the municipalities, net</i>	597	611	405	Municipal taxpayers' contribution, total: 1613	56.7 %
<i>Receipts from the state, net</i>	458	317	36	Central government transfers, total: 811	28.5 %
<i>Receipts from public authorities: ("tax money"), total</i>	1055	928	441	<b>2424</b>	<b>85.2 %</b>
<b><i>Receipts, total</i></b>	1160	1166	518	<b>2844</b>	<b>100.0 %</b>
<i>Share (%) of earned income and other own revenues of the total</i>	<b>9.1 %</b>	<b>20.4 %</b>	<b>14.9 %</b>	<b>14.8 %</b>	

1 FIM = 5,95 €

\* Includes support for citizens' "non-institutional" cultural activities and for maintaining and operating facilities like cultural centres and congress halls. This is a rough estimate.

Source: Finnish Theatre Statistics, Museum Statistics, Association of Finnish Symphony Orchestras, closed accounts of the municipalities 1994-1997.

*take a more dramatic upward turn (nearly FIM 80 million) in 1996-1997. During the whole period the share of tax financing in aggregate financing decreases from 88.7 per cent to 85.2 per cent. The public coverage of expenditure for arts institutions increases only nominally, whereas that for libraries and cultural activity starts declining, due to cut backs in statutory state subsidy.*

*The change may not seem all that dramatic. But if we consider the nature of activity of the cultural and art institutions (difficulties in increasing productivity) and competition with other media and leisure industries with their continuously growing supply, we should ask how the slowly increasing or even diminishing public subsidy effects on the one hand the service and programming policy of the institutions and on the other their possibilities to upgrade their premises, equipment, archives, communications and marketing.*<sup>49</sup>

## Professional orchestras and theatres and museums

**Tables 7AB-9AB** single out the revenues of theatres, orchestras and museums and also include the national art institutions and museums and the special museums. They exclude public libraries and municipal cultural services and focus only on comparing two cross-sectional years, 1994 and 1997.

The VOS system is used as a lever in classifying the institutions. On one side of the base of the institutional system, the institutions within the VOS system, are the national institutions, on the other side the overleft of “others”.

National institutions are divided into two categories: those within the state budget economy operating under an umbrella organisation and those that are formally independent, but rely on public support. Among the former are the National Museum - actually a cluster of museums - operating under the National Board of Antiquities and the three special museums operating under the National Art Gallery; the latter include the National Theatre and the National Opera. The Radio Symphony Orchestra falls in the former category by being part of the state-owned corporation (the National Broadcasting Company) which in turn, according to the previously discussed definitions in national accounts, falls on the side of market production, but is classified as a “state enterprise”<sup>50</sup>.

<sup>49</sup> Usually the institutions have at their disposal very few “free parameters” to increase their own income or to cut back expenses. Public support is normally subject to a condition that prices cannot be freely risen and services have to be provided to special audiences (schoolchildren, youth, pensioners) at a discount. Only in some exceptions (such as theatre musicals) prices have been raised to compensate for an increase in production costs. Increasing personnel costs have also been a factor beyond the institutions’ own control. Institutions usually can only resort to marginal measures, such as cutting back opening hours or numbers of performances or giving up on Sunday performances or services altogether in order to save in personnel costs. These measures often have their own negative impacts both in terms of the quality of service and of sales income.

<sup>50</sup> The RSO is not included in Tables 1-5 because they do not otherwise contain state or state enterprise financing from outside the Ministry of Education. It is included here to supplement the group of national institutions and orchestras and to extend the scope of comparison.

**Table 7 A. Receipts, by source, and total expenditure of Finnish professional orchestras in 1994 (million FIM, current costs and in per cent).**

<i>Type of orchestra:</i>	<i>Receipts by the source</i>						<i>Expenditure</i>
	<b>Earned income and other revenues</b>	<b>The state, net</b>	<b>Municipalities, net</b>	<b>Other public bodies</b>	<b>Receipts from public budgets</b>	<b>Receipts, total</b>	<b>Total expenditure</b>
Orchestras within the statutory subsidy system(N=21)	18 (9.8)	53 (27.9)	118 (62.0)	0.5 (0.3)	171 (90.2)	<b>189 (100.0)</b>	<b>189</b>
Other orchestras (N=4)	0.8 (31.3)		1.4 (55.7)	0.3 (13.0)	1.7 (68.7)	<b>2.5 (100.0)</b>	<b>3</b>
<i>Total (N=25)</i>	19 (10.0)	53 (27.6)	119 (62.0)	0.8 (0.4)	173 (90.0)	<b>192 (100.0)</b>	<b>192</b>
Radio Symphony Orchestra (RSO)	2 (9.0)	24 (90.2)		0.2 (0.8)	24 (91.0)	<b>27 (100.0)</b>	<b>27</b>
<b>Total (N=26)</b>	<b>22 (9.9)</b>	<b>77 (35.2)</b>	<b>119 (54.4)</b>	<b>1 (0.5)</b>	<b>197 (90.1)</b>	<b>219 (100.0)</b>	<b>219</b>

1 FIM = 5,95 €

**Table 7 B. Receipts, by source, and total expenditure of Finnish professional orchestras in 1997 (million FIM, current costs and in per cent).**

<i>Type of orchestra:</i>	<i>Receipts by the source</i>						<i>Expenditure</i>
	<b>Earned income and other revenues</b>	<b>The state, net</b>	<b>Municipalities, net</b>	<b>Other public bodies</b>	<b>Receipts from public budgets</b>	<b>Receipts, total</b>	<b>Total expenditure</b>
Orchestras within the statutory state subsidy system (N=23)	28 (12.6)	57 (25.7)	135 (61.0)	1.5 (0.7)	194 (87.4)	<b>222 (100.0)</b>	<b>221</b>
Other orchestras (N=4)	0.4 (28.4)		0.9 (58.9)	0.2 (12.8)	1.1 (71.6)	<b>1.6 (100.0)</b>	<b>1.8</b>
<i>Total (N=27)</i>	28 (12.7)	57 (25.6)	136 (61.0)	1.7 (0.7)	195 (87.3)	<b>223 (100.0)</b>	<b>223</b>
Radio Symphony Orchestra (RSO)	3 (9.5)	30 (89.5)		0.3 (1.0)	30 (90.5)	<b>33 (100.0)</b>	<b>33</b>
<b>Total (N=28)</b>	<b>32 (12.3)</b>	<b>87 (33.9)</b>	<b>136 (53.0)</b>	<b>2 (0.8)</b>	<b>225 (87.7)</b>	<b>257 (100.0)</b>	<b>257</b>

1 FIM = 5,95 €

Source: Association of Finnish Symphony Orchestras 1994 and 1997.

**Table 8 A. Receipts, by source, and total expenditures of Finnish professional theatres in 1994 (million FIM, current costs and in per cent).**

Type of theatre:	<i>Receipts by the source</i>						<i>Expenditure</i>
	<b>Earned income and other revenues</b>	<b>The state, net</b>	<b>Municipalities, net</b>	<b>Other public bodies</b>	<b>Receipts from public budgets</b>	<b>Receipts, total</b>	<b>Total expenditure</b>
Theatres within the statutory subsidy system (N=53)	119 (22.1)	151 (28.3)	261 (48.8)	4 (0.8)	417 (77.9)	<b>535 (100.0)</b>	<b>533</b>
National Opera	48 (24.6)	130 (66.1)	18 (9.3)		148 (75.4)	<b>196 (100.0)</b>	<b>170</b>
National Theatre	15 (27.5)	38 (70.4)	1 (2.0)		40 (72.5)	<b>55 (100.0)</b>	<b>53</b>
Other theatres (N=8)	1.3 (41.1)	0.8 (26.4)	0.5 (17.0)	0.5 (15.5)	1.8 (58.9)	<b>3 (100.0)</b>	<b>3</b>
<b>Total (N=63)</b>	<b>183 (23.2)</b>	<b>320 (40.6)</b>	<b>281 (35.6)</b>	<b>5 (0.6)</b>	<b>606 (76.8)</b>	<b>789 (100.0)</b>	<b>760</b>

1 FIM = 5,95 €

**Table 8 B. Receipts, by source, and total expenditures of Finnish professional theatres in 1997 (million FIM, current costs and in per cent).**

Type of theatre:	<i>Receipts by the source</i>						<i>Expenditure</i>
	<b>Earned income and other revenues</b>	<b>The state, net</b>	<b>Municipalities, net</b>	<b>Other public bodies</b>	<b>Receipts from public budgets</b>	<b>Receipts, total</b>	<b>Total expenditure</b>
Theatres within the statutory subsidy system (N=54)	136 (23.9)	157 (27.7)	268 (47.3)	6 (1.0)	432 (76.1)	<b>568 (100.0)</b>	<b>561</b>
National Opera	49 (23.9)	127 (61.3)	20 (9.8)	10 (5.0)	157 (76.1)	<b>207 (100.0)</b>	<b>204</b>
National Theatre	14 (26.9)	38 (70.9)	1 (2.3)		39 (73.1)	<b>54 (100.0)</b>	<b>52</b>
Other theatres (N=1)	7 (96.4)	0.2 (2.8)	0.1 (0.7)	0.0 (0.1)	0.3 (3.6)	<b>7 (100.0)</b>	<b>6</b>
<b>Total (N=57)</b>	<b>206 (24.7)</b>	<b>322 (38.6)</b>	<b>290 (34.7)</b>	<b>16 (1.9)</b>	<b>628 (75.3)</b>	<b>835 (100.0)</b>	<b>824</b>

1 FIM = 5,95 €

Source: Finnish Theatre Statistics 1994 and 1997.

**Table 9 A. Receipts, by source, and total expenditures of Finnish professionally managed museums in 1994 (million FIM, current costs and in per cent).**

Type of museum:	<i>Receipts by the source</i>						<i>Expenditure</i>
	<b>Earned income and other revenues</b>	<b>The state, net</b>	<b>Municipalities, net</b>	<b>Other public bodies</b>	<b>Receipts from public budgets</b>	<b>Receipts, total</b>	<b>Total expenditure</b>
Museums within the statutory subsidy system (N=105)	31 (10.5)	92 (31.6)	161 (55.0)	9 (3.0)	261 (89.5)	<b>292 (100.0)</b>	<b>292</b>
Local museums receiving discretionary subsidies (N=7)	2 (20.2)	2 (24.0)	2 (21.2)	4 (34.7)	8 (79.8)	<b>10 (100.0)</b>	<b>10</b>
<i>Total (N=112)</i>	<i>33 (10.8)</i>	<i>95 (31.3)</i>	<i>163 (53.9)</i>	<i>12 (4.1)</i>	<i>269 (89.2)</i>	<b>302 (100.0)</b>	<b>302</b>
Finnish National Museum*	3 (18.1)	15 (81.9)			15 (81.9)	<b>19 (100.0)</b>	<b>19</b>
Finnish State Gallery	6 (15.4)	32 (82.3)		1 (2.4)	33 (84.6)	<b>39 (100.0)</b>	<b>32</b>
Other museums* (N=16)	5 (15.2)	23 (75.3)		3 (9.4)	26 (84.8)	<b>31 (100.0)</b>	<b>31</b>
<b>Total (N=130)</b>	<b>47 (11.9)</b>	<b>165 (42.3)</b>	<b>163 (41.6)</b>	<b>16 (4.1)</b>	<b>344 (88.1)</b>	<b>391 (100.0)</b>	<b>384</b>

1 FIM = 5,95 €

**Table 9 B. Receipts, by source, and total expenditures of Finnish professionally managed museums, in 1997 (million FIM, current costs and in per cent).**

Type of museum:	<i>Receipts by the source</i>						<i>Expenditure</i>
	<b>Earned income and other revenues</b>	<b>The state, net</b>	<b>Municipalities, net</b>	<b>Other public bodies</b>	<b>Receipts from public budgets</b>	<b>Receipts, total</b>	<b>Total expenditure</b>
Museums within the statutory subsidy system (N=117)	52 (14.2)	101 (27.4)	204 (55.4)	11 (3.1)	317 (85.8)	<b>369 (100.0)</b>	<b>387</b>
Local museums receiving discretionary subsidies (N=7)	2 (26.3)	2 (27.2)	3 (37.5)	0.8 (9.0)	6 (73.7)	<b>9 (100.0)</b>	<b>10</b>
<i>Total (N=124)</i>	<i>54 (14.4)</i>	<i>103 (27.4)</i>	<i>208 (55.0)</i>	<i>12 (3.2)</i>	<i>323 (85.6)</i>	<b>378 (100.0)</b>	<b>397</b>
Finnish National Museum *	6 (22.3)	20 (77.0)		0.2 (0.6)	21 (77.7)	<b>27 (100.0)</b>	<b>27</b>
Finnish State Gallery	11 (27.2)	31 (72.8)			31 (72.8)	<b>42 (100.0)</b>	<b>43</b>
Other museums* (N=19)	3 (6.8)	45 (89.0)		2 (4.3)	47 (93.2)	<b>50 (100.0)</b>	<b>50</b>
<b>Total (N=145)</b>	<b>75 (15.2)</b>	<b>199 (40.1)</b>	<b>208 (41.8)</b>	<b>14 (2.9)</b>	<b>421 (84.8)</b>	<b>496 (100.0)</b>	<b>516</b>

1 FIM = 5,95 €

\* The receipts of Finnish National Museum's and "other museums" from the state and other public body are estimated on the basis of their total expenditure assuming that deficits are covered by these sources

Source: Museum Statistics 1994 and 1997, state final accounts 1994 and 1997.

The different institutional types within the VOS system have not been more specifically classified, especially since general statistics showed that they were a relatively consistent group in terms of their income and expenditure structure. The need to specify classifications (especially in the case of institutions with national or regional responsibilities and receiving support from private foundations) will be illustrated in model cases presented later on.

The category of “others” includes on one hand a group of local institutions receiving only municipal support and on the other a group of privately founded institutions, most of which aspire to seek their way into the VOS system.

*Tables 7AB-9AB* first of all show that the changes in income structure shown in Tables 6AD have occurred in all the three institutional systems: as own income and revenues increase, public coverage of expenditure stagnates, in other words, its share in income and revenues declines. This development is the most apparent in the museum system.

Looking at the institutional groups, the development is the most evident in the institutions within the VOS system: public support has nominally grown, but it obviously hasn't been enough to compensate for cost development: increasing own income and revenues has become inevitable. In the case of the category of “others”, the changes can largely be explained by changes in the size of the group, which in turn are due to closing of institutions or their transfer into the VOS system.

In national institutions, the development seems to be inconsistent or even random, regardless of whether they are formally non-public (National Opera), corporations (National Theatre) or within the budget economy of the state/state enterprises (National Board of Antiquities/National Museum, National Art Gallery, Radio Symphony Orchestra). One reason for this has been functional interruptions due to construction or removals (National Art Gallery/Kiasma 1997, National Museum 1997). However, since development contrary to the prevailing general trend has been most apparent in the cases of the National Opera and the National Theatre, there is reason to consider the issue more widely.

The functional inconsistency of and differences between the group of national institutions must be primarily due to the factor which in national accounts distinguishes public from private: outside control exerted on the institutions' management of finances. Here the differences between institutions within and outside the VOS system are obvious. In this context I will not venture to discuss administrative control<sup>51</sup>, in which respect the differences are also great, but will consider the issue from the perspective of national accounts, which is more expedient in terms of statistical solutions and interpretations.

In the case of the National Theatre and the National Opera, the actual artistic production implements the practices of independent ensemble/repertoire institutions, within the externally placed financial boundaries. The production

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<sup>51</sup> Cf. p. 25 of this publication, Pirkko K. Koskinen, *Selvitys Valtion Taidemuseosta* (Evaluation of the National Art Gallery), 1999, op.cit. p. 18-22, and Risto Ruohonen, *Muistio koskien Suomen Kansallisoopperan taloutta, hallintoa ja tulevaisuuden rahoitustarpeita* (PM on the finances, administration and future financing need of the Finnish National Opera), Helsinki 31 March 2000, p.12-14.

is a financially integrated whole, in which public subsidy (= coverage of expenditure, c.f. Appendix 2 B) are directed to all operations as distinct maintenance and cost support.<sup>52</sup>

Changes at the end of the 1990s in the state's processes for assessing income and expenditure and in its finance administration have radically altered the financial settings and operating conditions of the National Art Gallery and the National Museum. These changes are the most apparent in the guidelines of legislation on payment basis, in the result management practices and in the net budgeting and in the auditing practices of the State Audit Office<sup>53</sup>. The institutions have been forced to pay more attention to increasing the efficiency of paid services cost-subsidised for cultural-political reasons (maintenance of museum services, exhibitions). This is projected in the statistics as increased own income and revenues.

In the case of the National Art Gallery own income and revenues also increased in 1997 due to the sponsorship agreements the Museum of Contemporary Art Kiasma had entered. For the technical aspects of preparing statistics this is a question of how the sponsorship - and in general own income from different types of "sidelines" (such as museum restaurants) and funding from foundations or associations - is entered in the institutions' accounts and how it should be classified and considered in statistics on financing.<sup>54</sup>

The brief comparison presented above shows that simply shifting the "non-turnover" foundations or enterprises engaged in non-market activity among public bodies would not in itself clarify the situation. At least in the sphere of the arts and culture it would leave this group exceedingly heterogeneous in terms of finance management and financial operating principles. Also the average indicators describing it (for instance, expenditure proportioned to revenues) would turn out misleading. The question whether this group should be standardised similarly to VOS institutions no longer falls in the scope of this publication. Incorporating actual artistic and cultural activities or some other type of shift leading to independent accounting would, however, certainly facilitate statistical work and the development of indicators on economic activity - and apparently also the cultural-political monitoring of the institutions.

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<sup>52</sup> Naturally an exception here are special subsidies for such activities as foreign tours, or "crisis coverage", such as coverage of pension deficit, c.f. Appendix 2 B.

<sup>53</sup> The best picture of these changes and their impacts on the institutions' operating policy is presented in the audit reports of the State Audit Office; c.f., for example, *Museoviraston tilintarkastuskertomus 1997* (1997 Audit Report on the National Board of Antiquities) or *Valtion taidemuseon tilintarkastuskertomus 1997* (1997 Audit Report on National Art Gallery).

<sup>54</sup> Especially problematic is the "extra income" (such as sales income from a restaurant or a book/souvenir store) of the institutions relying on public support but legally registered as private. The problems concerning the right of budget-financed public bodies to enter sponsorship agreements and the ways in which they use the sponsorship funds or enter them in accounts still were not solved by the time of writing this report. A working group which was assigned to consider the issue left its report to the Ministry of Finance on 22 May 2000. The report focuses, however, on developing only general rules of the game for obtaining sponsorship funds, the relevant principles of managing finances were still left open to wait for the results of a further assessment, c.f. *Sponsorointi valtionhallinnossa, Valtionvarainministeriön työryhmämuistioita, 5/2000* (Sponsorship in State Administration. Working papers of the Finnish Ministry of Finance, 5/2000, p.21).



*Table 10A1* summarises the statistical data of the previous group of tables into one table. Furthermore, it proportions own income to operating costs. As noted in the methodological part of this report, according to the European system of national accounts (ESA95) all units engaged in production with an own sales income equalling less than 50 per cent of their expenses are allocated in the sphere of non-market (non-profit) activity; and those units that are primarily financed and clearly overseen (through management appointments) by public administration are regarded as belonging in the public sphere.

The data in Table 10A1 indicate that very few institutions fall in the sphere of market activity or are truly “private” based on their sales income and the financing criteria. As we will see from later case models, even when these criteria are met, the situation is usually exceptional: perhaps due to recently started operations, low (subsidised) property costs or coverage of expenditure from outside the public sector (supporting foundation). If we wish to make classification decisions which are sensible in terms of national accounts, then public libraries would clearly appear as part of the public sector (municipal administration), of the other VOS institutions the ones that are foundation or association-based would fall in the sphere of non-profit activity and the rest should be classified individually according to their ownership and the control criterion.

The percentages in the following table (*Table 10A2*) have been calculated to reveal the relative emphases in monetary allocations to finance the institutional sector. The bottom row shows again clearly the general development trends in the sector as a whole: the decline in statutory state subsidy, the increase in the municipal financing responsibility compared to the state and the increase in the share of financing from own income and revenues. Theatres evidently consume the largest share of financing, but we should bear in mind that the National Opera has been grouped among them. In 1994/1997 their “market share” has, however, decreased in the institutional sector as a whole. Their own income and other revenues are also clearly highest - nearly twice as high as the own income shares of the museums and orchestras put together.

## The expenditure and personnel structure of institutions in 1994 and 1997

### Institutional expenditure structure

*Tables 10B1 and 10B2* present an overview of the expenditure structure of art institutions and museums in 1994 and 1997. In viewing the expenditure structure one should bear in mind that public coverage of expenditure for the institutions in tables 10 B1 and 10 B2 consumes 84 per cent of the aggregate public expenditure (according to the narrow definition, see page 49).

As a whole, the data on the institutional expenditure structure distinctly illustrate the distribution of the aggregate public expenditure per expenditure item, that is the distribution that, according to Figure 1 in the methodological part of this report, should be the basis for statistics on public financing.

**10 A 1. Receipts (million FIM, current costs) of Finnish professional theatres, orchestras, and professionally managed museums by source\* and type of institution in 1994 and 1997.**

1994		1997									
Type of institution: (VOS = financed within the statutory subsidy system)	Receipts, total *	Own income	Receipts from the state	Receipts from municipalities	Own in- come as % of current costs**	Type of institution: (VOS = financed within the statutory subsidy system)	Receipts, total	Own income	Receipts from the state	Receipts from municipalities	Own in- come % of current costs**
VOS-theatres (N=53)	535.4	118.5	151.4	261.4	27.3	VOS-theatres (N=54)	567.6	135.8	157.4	268.5	28.7
Other professional theatres (N=8)	3.1	1.3	0.8	0.5	47.0	Other professional theatres (N=1)	7.1	6.8	0.2	0.1	119.1
National Opera	196.4	48.3	129.7	18.3	30.1	National Opera	206.5	49.3	126.7	20.2	25.7
National Theatre	54.5	15.0	38.4	1.1	31.4	National Theatre	53.6	14.4	38.0	1.2	30.3
Theatres total (N=63)	789.4	183.1	320.3	281.4	28.4	Theatres total (N=57)	834.8	206.3	322.3	290.0	28.8
VOS-orchestras (N=21)	189.4	18.5	52.9	117.5	10.7	VOS-orchestras (N=23)	221.5	28.0	57.0	135.1	13.6
Other orchestras (N=4)	2.5	0.8		1.4	27.6	Other orchestras (N=4)	1.6	0.4		0.9	25.5
Radio Symphony Orchestra (RSO)	26.7	2.4	24.1		9.0	Radio Symphony Orchestra (RSO)	33.5	3.2	30.0		9.5
Orchestras total (N=26)	218.7	21.7	77.0	118.9	10.7	Orchestras total (N=28)	256.6	31.6	87.0	136.0	13.2
VOS-museums (N=105)	291.9	30.5	92.1	160.5	14.9	VOS-museums (N=117)	369.0	52.2	101.0	204.4	18.3
Other municipal museums (N=7)	10.1	2.0	2.4	2.1	27.7	Other municipal museums (N=7)	8.6	2.3	2.3	3.2	29.2
National Museum***	18.9	3.4	15.5		20.7	National Museum***	26.5	5.9	20.4		28.8
State Gallery	38.5	5.9	31.7		23.3	State Gallery	42.0	11.4	30.5		32.5
Other museums (N=16)***	31.2	4.7	23.5		19.1	Other museums (N=19)***	50.2	3.4	44.7		9.9
Museums total (N=130)	390.5	46.6	165.2	162.7	16.7	Museums total (N=145)	496.3	75.2	199.0	207.7	19.6
<b>Institutions total (N=219)</b>	<b>1398.6</b>	<b>251.4</b>	<b>562.5</b>	<b>563.0</b>	<b>22.3</b>	<b>Institutions total (N=230)</b>	<b>1587.7</b>	<b>313.2</b>	<b>608.4</b>	<b>633.7</b>	<b>23.4</b>

1 FIM = 5,95 €

\* The total includes also receipts from "other public bodies" (see Tables 7 A – 9 B above)

\*\* Current costs = personnel costs + other operating costs (see Table 10 B 1 below).

\*\*\*The receipts of Finnish National Museum's and "other museums" from the state and other public bodies are estimated on the basis of their total expenditure assuming that deficits are covered by these sources

Source: Finnish Theatre Statistics, Museum Statistics, Association of Finnish Symphony Orchestras 1994 and 1997, state final accounts 1994 and 1997.

**10 A 2. Receipts as shares (%) of the total financing of Finnish professional theatres, orchestras, and professionally managed museums by source\* and type of institution in 1994 and 1997.**

1994				1997					
Type of institution (VOS = financed within the statutory subsidy system)	Own income	Receipts from the state	Receipts from municipalities	Receipts, total*	Type of institution (VOS = financed within the statutory subsidy system)	Own income	Receipts from the state	Receipts from municipalities	Receipts, total*
VOS-theatres (N=53)	8.5	10.8	18.7	38.3	VOS-theatres (N=54)	8.6	9.9	16.9	35.7
Other professional theatres (N=8)	0.1	0.1	0.0	0.2	Other professional theatres (N=1)	0.4	0.0	0.0	0.4
National Opera	3.5	9.3	1.3	14.0	National Opera	3.1	8.0	1.3	13.0
National Theatre	1.1	2.7	0.1	3.9	National Theatre	0.9	2.4	0.1	3.4
Theatres total (N=63)	13.1	22.9	20.1	56.4	Theatres total (N=57)	13.0	20.3	18.3	52.6
VOS-orchestras (N=21)	1.3	3.8	8.4	13.5	VOS-orchestras (N=23)	1.8	3.6	8.5	14.0
Other orchestras (N=4)	0.1		0.1	0.2	Other orchestras (N=4)	0.0		0.1	0.1
Radio Symphony Orchestra (RSO)	0.2	1.7		1.9	Radio Symphony Orchestra (RSO)	0.2	1.9		2.1
Orchestras total (N=26)	1.6	5.5	8.5	15.6	Orchestras total (N=28)	2.0	5.5	8.6	16.2
VOS-museums (N=105)	2.2	6.6	11.5	20.9	VOS-museums (N=117)	3.3	6.4	12.9	23.2
Other municipal museums (N=7)	0.1	0.2	0.2	0.7	Other municipal museums (N=7)	0.1	0.1	0.2	0.5
National Museum**	0.2	1.1		1.4	National Museum**	0.4	1.3		1.7
State Gallery	0.4	2.3		2.8	State Gallery	0.7	1.9		2.6
Other museums (N=16)**	0.3	1.7		2.2	Other museums (N=19)**	0.2	2.8		3.2
Museums total (N=130)	3.3	11.8	11.6	27.9	Museums total (N=145)	4.7	12.5	13.1	31.3
<b>Institutions total (N=219)</b>	<b>18.0</b>	<b>40.2</b>	<b>40.3</b>	<b>100.0</b>	<b>Institutions total (N=230)</b>	<b>19.7</b>	<b>38.3</b>	<b>39.9</b>	<b>100.0</b>

1 FIM = 5,95 €

\* The total includes also receipts from "other public bodies" (see Tables 7 A – 9 B above)

\*\*The receipts of Finnish National Museum's and "other museums" from the state and other public bodies are estimated on the basis of their total expenditure assuming that deficits are covered by these sources

Source: Finnish Theatre Statistics, Museum Statistics, Association of Finnish Symphony Orchestras 1994 and 1997, state final accounts 1994 and 1997.

**10 B 1. The expenditure (million FIM, current prices) by type of costs and the structure of personnel\* of Finnish professional theatres, orchestras and professionally managed museums in 1994 and 1997.**

1994		1997											
Type of institution (VOS = financed within the statutory subsidy system)	Total expenditure	Personnel costs	Artistic staff/museum professional personnel*	Other personnel	Current capital costs	Other operating costs	Type of institution (VOS = financed within the statutory subsidy system)	Total expenditure	Personnel costs	Artistic staff/museum professional personnel	Other personnel	Current capital costs	Other operating costs
VOS-theatres (N=53)	533.3	344.5	834+335	985.5+149	99.4	89.4	VOS-theatres (N=54)	561.4	378.0	786+460	1022.5+170	88.9	94.5
Other professional (small) theatres (N=8)	3.2	1.7	9+7	2+1	0.5	1.0	Other professional (small) theatres (N=1)	6.2	4.3	1+31	5+5	0.5	1.4
National Opera	170.3	128.4	259+107	231+22	9.8	32.1	National Opera	204.3	159.5	290+117	271+25	12.7	32.1
National Theatre	52.7	35.9	55.5+25	117.5+22	4.8	12.0	National Theatre	51.8	38.9	51+35	121.5+22	4.2	8.7
Theatres total (N=63)	759.6	510.5	1157+475	1336+194	114.6	134.5	Theatres total (N=57)	823.8	580.7	1128+644	1420+222	106.3	136.8
VOS-orchestras (N=21)	189.5	145.9	738+495	70+24	16.6	27.0	VOS-orchestras (N=23)	221.5	172.0	742+555	78+26	16.5	32.9
Other orchestras (N=4)	2.9	1.7	5+212	1+2	0.1	1.2	Other orchestras (N=4)	1.8	1.1	0+232	0+7	0.0	0.7
Radio Symphony Orchestra (RSO)	26.7	21.9	99+0	10+0		4.8	Radio Symphony Orchestra (RSO)	33.5	25.7	101+0	10+0		7.8
Orchestras total (N=26)	219.1	169.4	842+707	80+26	16.7	33.0	Orchestras total (N=28)	256.7	198.8	843+787	88+33	16.5	41.4
VOS-museums (N=105)	291.5	141.1	444	411+190	86.8	63.7	VOS-museums (N=117)	387.0	172.4	510	410+257	101.3	113.3
Other municipal museums (N=7)	10.2	4.6	11	15+13	2.8	2.7	Other municipal museums (N=7)	9.5	5.5	13	15+12	1.8	2.3
National Museum	18.9	14.1	17	62+17	2.4	2.4	National Museum	26.5	17.7	32	58+27	6.0	2.8
State Gallery	32.0	16.6	30	59+5	6.6	8.8	State Gallery	43.0	20.7	24	92+45	7.8	14.4
Other museums (N=16)	31.2	16.0	81	37+10	6.3	8.9	Other museums (N=19)	50.2	25.6	96	38+21	16.0	8.6
Museums total (N=130)	383.7	192.4	583	584+235	104.9	86.4	Museums total (N=145)	516.3	241.9	675	613+362	133.0	141.4
<b>Institutions total (N=219)</b>	<b>1362.4</b>	<b>872.3</b>	<b>2582+1182</b>	<b>2000+455</b>	<b>236.2</b>	<b>253.9</b>	<b>Institutions total (N=230)</b>	<b>1596.8</b>	<b>1021.4</b>	<b>2646+1431</b>	<b>2121+617</b>	<b>255.8</b>	<b>319.5</b>

1 FIM = 5,95 €

\* Artistic staff includes theatre directors, orchestra conductors and general managers, other personnel comprises technical and administrative staff. The first figure refers always to permanent, second figure temporary staff. In the case of theatres the figures are based on the estimates of full-time equivalent (FTE) of man power years; in the case of orchestras to the number of salaried posts. In the case of the museums the other permanent staff has been estimated as the difference between estimated man power years and the professional permanent staff.

Source: Finnish Theatre Statistics, Museum Statistics, Association of Finnish Symphony Orchestras 1994 and 1997.

**10 B 2. The costs of Finnish professional theatres, orchestras and professionally managed museum as shares (%) of total expenditure in 1994 and 1997.**

1994		1997		1997		1997		1997	
Type of institution (VOS = financed within the statutory subsidy system)	Person- nel costs	Current capital costs	Other operat- ing costs	Total expend- iture	Type of institution (VOS = financed within the statutory subsidy system)	Person- nel costs	Current capital costs	Other operat- ing costs	Total expend- iture
VOS-theatres (N=53)	25.3	7.3	6.6	39.1	VOS-theatres (N=54)	23.7	5.6	5.9	35.2
Other professional (small) theatres (N=8)	0.1	0.0	0.1	0.2	Other professional (small) theatres (N=1)	0.3	0.0	0.1	0.4
Finnish National Opera	9.4	0.7	2.4	12.5	Finnish National Opera	10.0	0.8	2.0	12.8
Finnish National Theatre	2.6	0.4	0.9	3.9	Finnish National Theatre	2.4	0.3	0.5	3.2
Theatres total (N=63)	37.5	8.4	9.9	55.8	Theatres total (N=57)	36.4	6.7	8.6	51.6
VOS-orchestras (N=21)	10.7	1.2	2.0	13.9	VOS-orchestras (N=23)	10.8	1.0	2.1	13.9
Other orchestras (N=4)	0.1	0.0	0.1	0.2	Other orchestras (N=4)	0.1	0.0	0.0	0.1
Radio Symphony Orchestra (RSO)	1.6		0.4	2.0	Radio Symphony Orchestra (RSO)	1.6		0.5	2.1
Orchestras total (N=26)	12.4	1.2	2.4	16.1	Orchestras total (N=28)	12.5	1.0	2.6	16.1
VOS-museums (N=105)	10.4	6.4	4.7	21.4	VOS-museums (N=117)	10.8	6.3	7.1	24.2
Other municipal museums (N=7)	0.3	0.2	0.2	0.7	Other municipal museums (N=7)	0.3	0.1	0.1	0.6
Finnish National Museum	1.0	0.2	0.2	1.4	Finnish National Museum	1.1	0.4	0.2	1.7
Finnish State Gallery	1.2	0.5	0.6	2.3	Finnish State Gallery	1.3	0.5	0.9	2.7
Other museums (N=16)	1.2	0.5	0.6	2.3	Other museums (N=19)	1.6	1.0	0.5	3.1
Museums total (N=130)	14.1	7.7	6.3	28.2	Museums total (N=145)	15.2	8.3	8.9	32.3
<b>Institutions total (N=219)</b>	<b>64.0</b>	<b>17.3</b>	<b>18.6</b>	<b>100.0</b>	<b>Institutions total (N=230)</b>	<b>64.0</b>	<b>16.0</b>	<b>20.0</b>	<b>100.0</b>

1 FIM = 5,95 €

Source: Finnish Theatre Statistics, Museum Statistics, Association of Finnish Symphony Orchestras 1994 and 1997.

The most reliable data in the tables are found among the items of “personnel costs” and “other (operating) costs”, the least reliable are the data on “property costs”. The reasons for the unreliability of the latter were already previously discussed while examining the relation between property and operating costs: public financiers increase their support by letting premises to the institutions at a nominal rent or at no rent at all. This is why it is difficult to itemise the institutions’ aggregate expenditure as such or to use it as a radix in calculating the relative shares of different expenditure items.

One way of solving the problem of property costs and aggregate expenditure is to determine a “reasonable” property cost percentage for each institutional type. Through searching for “model cases” in statistics and surveys where we can assume that property costs are close to the prevailing real rent and property cost levels, we can use the following figures (according to cost level in 1997) as a rough value of property cost percentages (mode, rent and other capital costs without depreciations): theatres 20 per cent, orchestras 12 per cent and museums 32 per cent.<sup>55</sup>

Applying these percentages would increase the aggregate property costs in Table 10B1 by nearly FIM 140 million and the “real” distribution of operating costs (the calculation of which the EU model in Figure 1 suggested) for 1997 would appear as follows:

**Figure 4. Estimated distribution of the operating costs of institutions in 1997 (million FIM and in per cent).**

	Personel costs Mmk (%)	Current capital costs Mmk (%)	Other operating costs Mmk (%)	Total Mmk (%)
Theatres incl. Opera	580.7 (64.7) 136.8 (15.3)	159.5 (66.6) 32.1 (13.4)	179.4 (20.0) 896.9 (100)	47.9 (20.0) 239.5 (100)
Orchestras	198.8 (72.8)	32.8 (12.0)	41.4 (15.2)	273.0 (100)
Museums	241.9 (42.9)	180.4 (32.0)	141.4 (25.1)	563.7 (100)
Total	1021.4 (58.9)	392.6 (22.7)	319.6 (18.4)	1733.6 (100)

1 FIM = 5,95 €

The calculations in Figure 4 are extremely rough, they could have been made more exact by weighing the expenditure per institutional type and according to the institutions’ size and location. This would have, however, presupposed that we had acknowledged, for example, the quality and locality -specific variations in the real rent and property cost levels. As aggregated data on a national level, the data in Figure 4 do, nonetheless, comply with common sense.<sup>56</sup>

<sup>55</sup> Capital costs could of course be calculated either to correspond to the prevailing level of rent costs or according to the annuity principle. By applying the latter, for instance in the case of the opera, using the rent entered in the table and including FIM 890 building investment, the discount rate would remain under five per cent. On the post-recession municipal “boom” to raise the capital costs of art and cultural institutions see, for example, Jarmo Mäkinen, *Baumolin tauti ja sinfoniaorkesterit* (Baumol’s Disease and Symphony Orchestras), University of Jyväskylä, Department of Social Sciences and Philosophy, Social policy working papers, No 104, Jyväskylä 1999, p.62.

<sup>56</sup> The calculatory rent of the Opera, which is determined on the basis of realty (3 %) and building (7 %) discount rates, has been entered in the National Opera’s accounts since 2000. In this first year it was FIM 59.2 Million, equalling some 22 per cent of the operating costs.

The general development - both in accounting and statistics and in actual costs - can be expected to lead to an expenditure distribution as shown in Figure 4 as soon as in a couple of years. Then it will also be possible to analyse the expenditure structure by applying a sensible regional classification system.

The property costs in Table 10 B1 could have been corrected as a whole and a comparison could have been made between the different institutional types. At this stage of developing statistics it is, however, more meaningful to leave it in its present form, in which the institutions within the VOS system are used as a lever.

A comparison between tables 10 A1 and 10 B1 shows that public coverage of expenditure rose a little over 10 per cent in 1994-1997, whereas costs rose over 17 per cent. This in turn has forced the institutions to "gainful work". Filling the gap has required increasing own income and revenues by nearly 25 per cent. However, it does not seem as though personnel costs are a crucial factor in the rising expenses: they have increased by the same 17 per cent as have other aggregate expenses. A full-scaling of property costs doesn't seem to have taken place either, the other operating costs seem to be the main source of cost development. Studying aggregate expenditure on an average does not, however, tell the whole truth. The wage trend has been held back by the moderate development of wages in VOS, theatres and the inclusion of twelve new museums within the VOS system in turn has increased the other costs. The real situation is better illustrated by the fact that the share of personnel costs in the cost increase is clearly more than fifty per cent, nearly 64 per cent.<sup>57</sup>

The ratios presented in *Table 10B2* tell to a large degree the same story as the previously presented corresponding table on income structure (10 A2, page 67). Theatres and museums consume some 84 per cent of the total expenditure on the public/publicly funded institutional sector. Personnel costs of theatres were the largest single item of expenditure, accounting for over a third of the total public cultural expenditure on institutions. Theatres and orchestras, however, seem to be losing their special standing, museums are strengthening their foothold - and this growth is mainly covered by municipal subsidy and increased own income and revenues.

A comparison of Table 10B2 and Figure 4 shows how undervalued property costs distort the expenditure shares of other costs. For example, they increase the share of personnel costs by approximately three per cent.

The ratios in Table 10B2 show that - at least thus far - it is the VOS system and its fully municipal institutions that mark out the direction to which the entire institutional system is developing. On the other hand, a number of factors are undermining the credibility of this system, such as its inflexibility of the system (as bound to manpower-years), the inadequacy

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<sup>57</sup> In this context we should remember that inflation in 1994-1997 was rather nominal: the annual increase of consumer prices was around one per cent, producer prices remained stable or even showed a slight decline. Thus it would not have made sense to make inflation corrections in a comparison between expenditure in 1994 and in 1997. On the other hand, one should bear in mind that no general indices take into account the distinctive features of cultural and art institutions, particularly their labour-intensive nature and the irreplaceableness of their personnel costs, on which Baumol grounded his own theory on the perpetual cost crisis these institutions are in.

of aggregate financing (not compensating for concurrent escalations of the wage level and inclusion of new institutions) and submitting the financing to management through the revenue goals of municipal finance administration.<sup>58</sup>

## Institutional personnel structure

Preparing statistics on financing structure and public cultural expenditure would become considerably easier if expenditure could be proportioned to the amount and quality of personnel, operating premises and purchased products or services. Tables 10 B1 and 10 B2 provide a setting for reflecting on this side of statistical work in the context of the institutions' personnel.

The data in these tables (and in Figure 4) demonstrate that among the three examined institutional systems the costs of the orchestra are the most personnel-led, whereas those of the museum are the least. This seems natural, since the personnel of orchestras comprises mostly of musicians, who have received relatively consistent and high professional training, whereas the share of "other personnel" is relatively low. In theatres and museums the share of other personnel (than those who have received professional training in the arts/in museum work) already equals or is higher than the share of professionally trained personnel. Especially in theatre the share of "other personnel" has steadily increased.

If we roughly calculate data on average wages on the basis of data in Table 10 B1, we notice, however, that despite the high share of professionally trained personnel, the average wages in the orchestras are left the lowest. This observation leads us to reflect on the problem of defining personnel - and more generally, units in labour force statistics.

International statistical practices distinguish three measures of classifying units in labour force statistics: by jobs, by number of hours actually worked and by full-time equivalents, such as weekly working hours.<sup>59</sup> Statistics based on the first measure are best-suited for describing the nature of the production process, those based on the second for describing the aggregate of amount of work done and those based on the third for describing productivity.

In Table 10B1 the data on orchestras' personnel are based on jobs, including those that are secondary or non-recurrent. The average annual wages (including social security payments) of permanent, full-time professional musicians, the artistic management and administrative personnel reached nearly FIM 190 000 in 1997, those of part-time employees, non-recurrent staff, auxiliary personnel, etc. was only FIM 53 000.<sup>60</sup>

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<sup>58</sup> The criticism on the inflexibility of the VOS system should be softened with a couple of remarks. The system allows - on the basis of legislation - compensation for the special services produced by the institutions, which has been done in the case of national institutions and those assigned regional duties. Moreover, nothing hinders the granting of special subsidies - which have been allocated, for example, to national or regionally important orchestras.

<sup>59</sup> C.f. OECD, "Employment measures in the OECD national accounts: Comparison between national accounts and labour force statistics", *OECD Meeting of National Accounts Experts, Paris, 22-25 September, 1998*, p.2.

<sup>60</sup> C.f., Suomen Sinfoniaorkesterit ry, *Toimintakertomus 1997/Tietoja jäsenorkestereista kalenterivuodelta 1997* (Annual Report of the Association of Finnish Symphony Orchestras 1997/data on member orchestras), p.37.



The corresponding data on theatres and museums in turn is based on manpower-years, their “personnel” has been calculated on the basis of the staff amounts entitling statutory state subsidy. The VOS system requires that the amount of temporary personnel is calculated as manpower-years, by dividing the amount of wages used to hire it with the average wages of the institution’s permanent staff. This procedure inevitably renders the average wages of all the employees higher than any calculations based on jobs.

In interpreting personnel statistics on theatres and museums, the discussion has stagnated on the cut-backs, on the backwardness of manpower-year-based VOS system and on the insufficiency of numbers of required manpower-years, while such aspects as the amounts of permanent personnel and its use in productions (for example, per hour) have been overlooked. And since the VOS system-based concept of manpower-years is not factual - in other words it is not based on weeks actually worked - it is hard to develop on the basis of the data in Table 10B1 any indicators of productivity or use of personnel that would be suitable for comparisons between different institutional systems. Apparently their development would require monitoring of the institutions’ product-specific use of personnel and personnel costs <sup>61</sup>.

Despite their present weaknesses, even the existing personnel statistics project certain changes that have taken or are taking place in the use of personnel resources in the cultural and art institutions in Finland. By comparing the figures on the wages of permanent and full-time personnel to figures on wages that are job-based - as was done in the context of orchestras - we can see changes in the inflexibility, or inversely in the flexibility, in personnel administration or on the job market.

The personnel figures in Table 10 B1 seem to support the general assumption that flexibility has strongly increased in the 1990s both in the personnel policy of the cultural and art institutions and on the job market. This flexibility may appear as an efficient “multi-use” of highly trained and sought-after personnel, which is illustrated in our later case models centring on orchestras. On the other hand, it may be due to an increase in freelance work and short-term assignments. Be it as it may, special studies have convincingly proved the increasing trend of flexibility in personnel administration and on the job market. This can be illustrated by an example. According to data compiled by the Actors’ Union, in 1990 68 per cent of its active members working in Finland had a permanent contract, 32 per cent worked on a freelance basis. In 1999 the figures were almost reversed, 44 per cent had a permanent contract, 54 per cent were freelancers. <sup>62</sup>

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<sup>61</sup> On product-specific calculation of personnel cost, see p. 28 of this publication. Mäkinen, 1999, has made a courageous attempt to assess the development of the productivity of Finnish symphony orchestras in 1974-1997. His indicators on productivity are mainly based on the comparison between the numbers of given concerts, the sizes of the orchestras and accumulated costs, he does not extend his observations to the level of personnel use and costs. His analyses show how important it would be to distribute the output - and also the costs of producing it - into market-led supply and supply led by public demand. This would, however, require calculations on a product-specific level.

<sup>62</sup> Lotte Vaalo, *A Note to Transmission Project Participants*, 2 November 1999. In considering “flexibility” one should bear in mind at least two factors affecting it and shaping its impacts. First, job opportunities and labour demand outside the institutional system (for instance, in the sphere of audiovisual cultural industries) have strongly increased in recent years. Second, there is now a more evident regional unbalance on the job market: jobs open out, are created and applied for in the southern towns in Finland, especially around the greater Helsinki region, where also the “flexibility” concentrates. The existing statistical registers and associations’ crude statistics provide very little data on these issues.

# Audience figures and indicators based on them in 1994 and 1997

*Table 10 C* tests the option of using indicators based on audience figures to measure the proportioned amount of costs and public support.

One can assume that the need that emerged after the 1995 turning point to increase the institutions' own income will also be reflected as a growth in the audience figures of art institutions and museums. The bottom row of Table 10C does in fact imply development in this direction: the total audience figures and ratio of own income per visitor of all the institutions have clearly increased. Also indicators based on audience figures bear evidence to the same tendency we already noted: *the share of own income has increased more rapidly than operating costs, still an increase of public support has been needed to cover for the increasing operating costs (especially personnel costs).*

Table 10 C clearly shows how the VOS system-financed institutions stabilise the whole institutional sphere. They "produce" nearly 78 per cent of the audience/visitor figures and serve as a kind of model of cost development. The audience figures of national and other institutions - often still seeking to enter the VOS system - have fluctuated for many reasons. In the case of national institutions the building and renovation boom of the 1990s causes variation. In Table 10 C this is expressed as a decline in the visitor figures of the National Museum and the National Gallery: the basic renovation of the former began in 1997, the regular operations of the latter were disturbed when some of its collections were moved to a third recently built main museum, the Kiasma. The renovation of the Finlandia Music House in 1997 are also reflected in the concert audience figures. In the context of orchestras, the amount of free open-air concerts also makes the annual audience figures unreliable. The decrease in free concerts in 1994/1997, as shown in Table 10 C, is clearly visible in the Radio Symphony Orchestra: audience figures decrease and own income and public subsidy per listener take a strong upward turn. Without these random variations, the total audience figures of the institutions in 1997 would have been higher by some two hundred thousand.

The stabilising effect of the VOS system is also apparent in how the audience figures, own income per audience/visitor, and public coverage for expenditure per audience/visitor have shifted to the "right direction". All these indicators are shown as higher in 1994/1997, although the last of them only moderately. In all the other institutional groups the development of these indicators has been inconsistent. In some of them the increase of audience/visitor figures has lowered the own income per audience/visitor. This implies that additional income - and potentially also admittance into the VOS system - is sought by appealing to marginal audiences, through discount or free performances/exhibitions, etc. The inconsistency of this development is further increased by the few cases where attempts have been made, for example, to shift museum services in the more commercial direction of heritage industry. I will later return to these cases.

**10 C. Audiences/visitors\* of the Finnish theatres, orchestras and museums in 1994 and 1997, and some attendance and economic indicators.**

1994		1997								
Type of institution (VOS = financed within the statutory subsidy system)	Spectators / audiences / visitors	Current expen- diture / visitor (FIM)	Own income / visitor (FIM)	Public financing / visitor (FIM)	Type of institution (VOS = financed within the statutory subsidy system)	Spectators / audiences / visitors	Current expen- diture / visitor (FIM)	Own income / visitor (FIM)	Public financing / visitor (FIM)	Change in audiences (%) 94/97
VOS-theatres (N=53)	2 307 417	188	51	181	VOS-theatres (N=54)	2 303 927	205	59	187	-0.2
Other professional (small) theatres (N=8)	68 195	40	19	27	Other professional (small) theatres (N=1)	50 318	113	135	5	-38.5
Finnish National Opera	290 132	553	167	510	Finnish National Opera	274 337	698	180	573	-5.8
Finnish National Theatre	210 851	227	71	187	Finnish National Theatre	209 941	227	69	187	-0.4
Theatres total (N=63)	2 876 595	224	64	211	Theatres total (N=57)	2 838 523	253	73	221	-1.3
VOS-orchestras (N=21)	659 181	262	28	259	VOS-orchestras (N=23)	716 579	286	39	270	+8.0
Other orchestras (N=4)	13 080	220	61	133	Other orchestras (N=4)	9 487	184	47	118	-37.9
Radio Symphony Orchestra (RSO)	51 463	519	46	472	Radio Symphony Orchestra (RSO)	40 817	821	78	742	-26.1
Orchestras total (N=26)**	723 724	280	30	272	Orchestras total (N=28)**	766 883	313	41	293	+5.6
VOS-museums (N=105)	2 668 004	77	11	98	VOS-museums (N=117)	2 898 037	99	18	109	+7.9
Other municipal museums (N=7)	101 402	73	20	80	Other municipal museums (N=7)	121 570	64	19	52	+16.6
Finnish National Museum***	407 299	40	8	38	Finnish National Museum****	383 048	54	15	54	-6.3
Finnish State Gallery	247 591	102	24	132	Finnish State Gallery	161 102	218	71	190	-53.7
Other museums (N=16)***	253 538	98	19	104	Other museums (N=19)****	450 533	76	8	104	+43.7
Museums total (N=130)	3 677 834	76	13	94	Museums total (N=145)	4 014 290	95	19	105	+8.4
<b>Institutions total (N=219)</b>	<b>7 278 153</b>	<b>155</b>	<b>35</b>	<b>158</b>	<b>Institutions total (N=230)</b>	<b>7 619 696</b>	<b>176</b>	<b>41</b>	<b>167</b>	<b>+4.5</b>

1 FIM = 5,95 €

\* Some of the audience figures of orchestras may have been boosted by joint concerts and free open air concerts.

\*\* Audience figures of the Orchestra of the Finnish National Opera not included.

\*\*\* The financing/visitors indicators for the National Museum and "other museums" have been calculated by using the expenditure figures, see the footnotes of Table 10 A above.

Source: Finnish Theatre Statistics, Museum Statistics, Association of Finnish Symphony Orchestras 1994 and 1997.

All in all Table 10 C shows how shaky the foundation for end-user statistics even on an institutional level still is. There is especially need for statistics through which one could examine the relation between pricing and audience figures. This can only be accomplished by further developing the own monitoring and accounting systems of the institutions - and perhaps even then it would ultimately require that the institutions themselves start systematically monitoring prices, audience figures and income on a product-specific level.

## Institutional diversity, constancy and change. Statistical model cases

The statistics and interpretations presented in the previous chapters underscore on the one hand the stability of the Finnish institutional system for the arts and culture and on the other the dependency of the institutions on public financing. The latter tendency restricts the institutions' degree of freedom: it is hard for them to steer their own destinies and affect the functioning of the system itself with the parameters at their disposal. The following *Tables 11A - 11C* present a comparison between a selection of individual institutions of the development of their income, expenditure and personnel structures in 1994/1997 using the same indicators as in the previous overview of institutional groups. The aim is to present statistical case models so as to diversify the general picture and to bring to disclose some of the development trends that have been hidden behind the integrated data. The analysis will hopefully also serve as groundwork for a new institutional classification system, which is, as I have repeatedly stressed, one of the essential touchstones of developing cultural statistics.

The first case model group includes two national art institutions (the National Opera and the Radio Symphony Orchestra), one national special museum (the Finnish Glass Museum) and a sample of institutions within the VOS system. Among the latter some have a clearly regional responsibility for services and development work (the Pori Art Museum, the Savonlinna Regional Museum, the Oulu City Symphony Orchestra); the locations are scaled (apart from Helsinki) into two size groups: the cities of Lahti, Oulu and Pori, and those of Kokkola, Savonlinna, Rovaniemi and Mikkeli. Also included are two small institutions operating in the greater capital area (KOM Theatre, Dance Theatre Hurjaruuth). The aim has been to set the dispersion on the axes of south-north and east-west. In addition to national and VOS institutions, the group includes two association-based institutions operating on a project-to-project basis (the orchestras Vivo/1994 and Avanti/1997) and two distinctly "private" (foundation-based) institutions (Amos Andersson/1994 and Aboa Vetus & Ars Nova/1997).

The sample has not been selected to serve as a basis of comparison between institutions with similar backgrounds and operations, but rather to represent a sufficient amount of "successful" and "less-successful" institutions in terms of financial footing and audience figures. The aim has not by any means been to seek for keys to success, but rather to ask to what degree

**11 A. Financing\* (in million FIM, current costs) of some typical Finnish art institutions and museums in 1994 and 1997.**

1994		1997									
English name and type of the institution	Receipts, total	Own income	Receipts from the state	Receipts from municipalities	Own income, % of current costs**	Institution	Receipts, total	Own income	Receipts from the state	Receipts from municipalities	Own income, % of current costs**
Finnish National Theatre	54.5	15.0	38.4	1.1	31.4	Finnish National Theatre	53.6	14.4	38.0	1.2	30.3
Lahti City Theatre	34.8	6.3	9.3	19.2	26.5	Lahti City Theatre	37.5	8.7	8.1	20.7	30.3
Group ensemble KOM Theatre	4.2	1.1	0.6	2.4	35.0	Group ensemble KOM Theatre	5.3	1.6	1.1	2.3	37.5
Dance theatre Hurjaruuth	1.5	0.4	0.8	0.3	24.0	Dance theatre Hurjaruuth	3.0	1.5	1.0	0.3	60.0
Radio Symphony Orchestra	26.7	2.4	24.1		9.0	Radio Symphony Orchestra	33.5	3.2	30.0		9.5
Oulu City Symphony Orchestra	12.8	0.8	4.2	7.8	7.5	Oulu City Symphony Orchestra	16.3	1.8	3.9	10.5	12.5
Ostrobothnian Chamber Orchestra	5.1	0.6	2.0	2.4	12.9	Ostrobothnian Chamber Orchestra	5.8	0.6	2.0	3.1	11.2
Vivo Symphony Orchestra	0.7	0.5			58.2	Avanti! Chamber Orchestra	3.2	1.8	1.1	0.2	57.7
Pori Art Museum	4.2	0.4	1.3	2.5	11.8	Pori Art Museum	5.4	0.4	1.3	3.7	9.4
Savonlinna Regional Museum	2.6	0.3	0.9	1.4	16.2	Savonlinna Regional Museum	3.4	0.4	0.7	2.3	16.3
Finnish Glass Museum	3.9	0.6	1.4	1.8	25.9	Finnish Glass Museum	3.5	0.8	1.1	1.6	36.5
Amos Anderson Art Museum	1.6	0.8	0.6		21.7	Aboa Vetus & Ars Nova	3.8	2.9	0.7		82.8

1 FIM = 5,95 €

\* The total includes also receipts from "other public bodies" (see Tables 7 A – 9 B above)

\*\* Current costs = personnel costs + other operating costs (see Table 11 B 1 below).

Source: Finnish Theatre Statistics, Museum Statistics, Association of Finnish Symphony Orchestras 1994 and 1997.

### 11 B. Expenditures (million FIM, current costs) and personnel\* of some typical Finnish art institutions and museums in 1994 and 1997.

1994		1997											
Institution	Expend- iture total	Person- nel costs	Artistic staff/ museum prof. personnel	Other personnel	Prop- erty costs	Other costs	Institution	Expend- iture total	Person- nel costs	Artistic staff/ museum prof. personnel	Other personnel	Prop- erty costs	Other costs
Finnish National Theatre	52.7	35.9	55.5+25	117.5+22	4.8	12.0	Finnish National Theatre	51.8	38.9	51+35	122+22	4.2	8.7
Lahti City Theatre	34.8	20.5	43+12	63+12	11.2	3.1	Lahti City Theatre	37.5	24.9	36+39	65+16	8.6	4.0
Group ensemble KOM Theatre	3.9	2.2	9+3	4+0	0.8	0.9	Group ensemble KOM Theatre	5.2	3.0	10+3	5+0	0.9	1.3
Dance theatre Hurjaruuth	2.0	1.2	5+7	3+0	0.2	0.6	Dance theatre Hurjaruuth	2.7	1.6	4.5+6	4.5+1	0.1	0.9
Radio Symphony Orchestra	26.7	21.9	99+0	10+0		4.8	Radio Symphony Orchestra	33.5	25.7	101+0	10+0		7.8
Oulu City Symphony Orchestra	12.8	9.7	55+15	3.5+2	2.2	0.9	Oulu City Symphony Orchestra	16.3	12.4	55+15	3.5+2	2.0	1.9
Ostrobothnian Chamber Orchestra	5.1	4.3	22+40	1+0	0.0	0.8	Ostrobothnian Chamber Orchestra	5.8	4.7	22+39	2+0	0.1	1.0
Vivo Symphony Orchestra	0.9	0.1	0+101	0+1	0.0	0.8	Avanti! Chamber Orchestra	3.3	2.1	1+38	1+0	0.1	1.1
Pori Art Museum	4.2	1.8	5	8+1	1.0	1.4	Pori Art Museum	5.4	2.4	5	10+2	1.0	2.0
Savonlinna Regional Museum	2.6	1.3	6	2+1	0.7	0.7	Savonlinna Regional Museum	3.4	1.4	7	1+1	1.2	0.8
Finnish Glass Museum	3.9	1.6	4	7+2	1.5	0.8	Finnish Glass Museum	3.5	1.6	4	6+2	1.2	0.7
Amos Anderson Art Museum	4.6	1.5	3	9+2	0.9	2.2	Aboa Vetus & Ars Nova	11.8	1.4	5	4+3	8.3	2.1

1 FIM = 5,95 €

\* For the calculating of the personnel figures, see the footnotes of Table 10 B 1 above.

Source: Finnish Theatre Statistics, Museum Statistics, Association of Finnish Symphony Orchestras 1994 and 1997.

**11 C. Audiences/visitors\* of some typical Finnish art institutions and museums in 1994 and 1997, and some attendance and economic indicators.**

Institution	1994				1997				
	Spectators/ audiences/ visitors	Current expend- iture / visitor (FIM)	Own income / visitor (FIM)	Public support / visitor (FIM)	Institution	Spectators/ audiences/ visitors	Current expend- iture / visitor (FIM)	Own income / visitor (FIM)	Public support / visitor (FIM)
Finnish National Theatre	210 851	227	71	187	Finnish National Theatre	209 941	227	69	187
Lahti City Theatre	114 923	206	54	248	Lahti City Theatre	121 015	239	72	238
Group ensemble KOM Theatre	20 117	156	55	155	Group ensemble KOM Theatre	27 525	155	58	135
Dance theatre Hurjaruuth	20 110	91	22	51	Dance theatre Hurjaruuth	45 428	55	33	32
Radio Symphony Orchestra	51 463	519	46	472	Radio Symphony Orchestra	40 817	821	78	742
Oulu City Symphony Orchestra	42 296	249	19	283	Oulu City Sym-phony Orchestra	34 330	416	52	422
Ostrobothnian Chamber Orchestra	13 131	384	49	338	Ostrobothnian Chamber Orchestra	15 013	382	43	342
Vivo Symphony Orchestra	6 769	139	81	24	Avanti! Chamber Orchestra	10 720	297	172	128
Pori Art Museum	24 979	128	15	153	Pori Art Museum	25 737	170	16	194
Savonlinna Regional Museum	28 338	70	11	81	Savonlinna Regional Museum	27 744	79	13	109
Finnish Glass Museum	25 644	92	24	128	Finnish Glass Museum	40 265	56	20	66
Amos Anderson Art Museum	53 309	69	15	14	Aboa Vetus & Ars Nova	74 100	47	39	12

1 FIM = 5,95 €

\* Some of the audience figures of orchestras may have been boosted by joint concerts and free open air concerts.  
**Source:** Finnish Theatre Statistics, Museum Statistics, Association of Finnish Symphony Orchestras 1994 and 1997.

can the existing statistics and indicators be used as a basis for assessing institutional activity.

Table *11 A* shows how half of the institutions comply with the overall development trend of VOS institutions in 1994/1997: state financing has slightly declined, municipal financing has increased to some extent and the institutions themselves have attempted to compensate for rising costs by increasing their own income and revenues. From *Table 11 B* we can see in two cases (Lahti City Theatre and the Finnish Glass Museum) the increase of municipal subsidy accompanied with lowering unusually high property costs, and in one an “unreasonable” hiking of these costs (Savonlinna Regional Museum). The indicators of the Pori Art Museum, the museums in Mikkeli (including the regional art museum) and the Savonlinna Regional Museum seem to support the often suggested notion that *dynamic regional development cannot be maintained with the existing income and cost structure*. Apparently the city theatres of Lahti and Rovaniemi and the Finnish Glass Museum have most clearly drifted to the Bermuda triangle of the VOS system: the increase of municipal financing is not sufficient to compensate for the stagnation/cut-backs of statutory state subsidy and the audience supply is not large enough to increase own income. Obviously the problem cannot be solved by changing the personnel structure (Lahti City Theatre) or through savings in other operating costs (Rovaniemi City Theatre). In the case of the museums, the income increase brought by each additional visitor (for the Finnish Glass Museum FIM 14) is so insignificant that even a strong increase of visitors would not save them from cut-backs in costs.

Both of the national institutions seem to have settled in their own development tracks. They both seem to maintain a “correct” balance between public subsidy and own income; Table 11 B does, however, show one clear distinction: the National Theatre has managed to freeze its costs - at least in the period 1994/1997. The RSO in turn has not - apparently for competitive and wage policy reasons - done the same. This is clearly visible in the values it shows in cost and audience indicators (Table 11 C). The cost development for the Oulu City Symphony Orchestra has been similar to that of the Radio Symphony Orchestra, but its increasing expenditure has been covered mainly by the city and other (non-concert) income.

It has been claimed that public financing in the context of major national and municipal institutions cannot compensate for all cost pressures, and that in the future these institutions will be forced to seek for more private (sponsorship) funding and to more explicitly determine their expenditure/income goals on the level of special programmes and individual productions. Such claims seem to be supported by Tables 11 A-11 C.

Tables 11 A - 11 C do, however, also imply that the dynamics of change take place somewhere else than in the national or major VOS institutions. Two cases in this institutional sample, the KOM Theatre and the Ostrobothnian Chamber Orchestra, show that small or medium-sized institutional units which have found their own “market share” can even within the VOS system steer their way to not only a stable but even a growth-led path of development. The same is indicated by the figures for Dance Theatre Hurjaruuth. New groups and institutions keep seeking their way into the VOS system and its steadfast financing. *The continuing inclusion of new institutions into the system however presupposes either a strong increase of financing or*



*tendering and fixing the terms of public subsidy.*

The rest of the institutions in the sample reflect the new development dynamics most distinctly on two dimensions: in making use of creative resources and cultural heritage. The cases of Vivo and Avanti! illustrate how the high-quality supply of musicians constantly produced by Finnish music education can be organised from an association and project basis to expand the supply of music. Similar development is taking place within the theatre circuit and in the spirit of the ensemble tradition more clearly in the sphere of commercial productions. However, one should bear in mind that this development would not be possible without the system of publicly subsidised institutions and its steadfast structures as its cornerstone - or without the extensive Finnish network of cultural events and festivals as well as the performance opportunities and additional public or private funding it provides.

The last pair of the sample, two private, foundation-based art museums, illustrates the emerging division between traditional art museums and the new heritage industry.

In both cases the core of operations is a donated art collection. One of them, the Amos Andersson Art museum, established in honour of its donor, is grounded on a (association-based) foundation (Föreningen Konstsamfundet) engaged in financing activities on the large (Finnish-Swedish) cultural circuit, and operating in the form of a traditional art museum (exhibitions, expanding collections, etc.). The other, Aboa Vetus & Ars Nova, is in turn grounded on a recently established foundation (Matti Koivurinta Foundation). It aims to operate as largely as possible on the basis of self-financing, appeals to the audiences with its singularity (a modern art collection and archaeological excavation as its affiliates) and sells a great amount of different products and services.

According to tables 11B and 11C, they both appear to be successful museums: a high number of visitors, low level of public support, low operating costs per visitor, and a high ratio of own income per visitor. However, the data also reveal an unbalance in income and expenditure: their revenues (including receipts from public bodies) cover only half of the expenditure, the rest is covered by support from the foundation. In the property costs of Nova in 1997 there was an extra item of expenditure of some FIM 6.6 million (calculated at 32 per cent), the Amos Andersson Museum in turn was granted a “discount” by the foundation in property costs of approximately FIM 0.7 million. In principle, support from the non-profit sector - in this case from foundations - should be entered in the column of “own income”.

An overall look at the institutional model cases shows that even present institutional statistics can be used for assessing end-user level problems and development trends according to the logic of the EU statistical model in Figure 2. Of course this essentially has to be aided by the financing data required by the EU model in Figure 1.

What do our case models tell about the institutional classification system, the key problem in statistics on expenditure and financing?

Undoubtedly we need traditional classifications that are based on ownership and legal form (government unit, enterprise, association, foundation, etc. ), the level of operations and administration (national/regional/local), geographical location and specialty. Beside these - or even as their basis - we need to

have a classification based on the “commissioners” of the output, along the lines suggested by the designers of the SNA satellite system for taxation and public support. In the statistical cases in this publication this classification has been expressed as a rough division between national institutions, VOS institutions and “others”. The division is not however in itself enough for expedient cultural-political monitoring - as would not be any new classification based only on a bisection into production serving the public or that serving market-led demand. Statistics on financing - and in principal, all cultural statistics - should aim to sound three dimensions of tension: the one prevailing between public supply and private demand, the one between public financing and the self-financing shares required from the financed unit and the tension between the financiers need to control and the autonomy of the financed unit. This can also be also seen as the need to monitor and know what the financier commissions, what the end user produces and to whom, and at what price does the product sell. As our institutional cases - especially the foundation-based museums - indicate, one should also include the foundations and private sponsors among the commissioners of public demand.

Discussion on classification - and also discussion on the distribution of financing - should thus not end at the level of commissioner, namely the financier. It is also essential to know what kind of a demand the financing is distributed for - and what it is supposed to achieve. Often on opposite sides here are traditional non-profit “artistic” activity and the new “leisure” activity. An example of this is the ensuing contrast if a same opera is shown in the opera house as an ensemble performance or in the ice stadium as a visiting grand production. Do statistics tell where the line really should be drawn, how far into the side of so called “entertainment” products does public demand (in form of direct or indirect public support) extend?

In the public sphere an increasingly distinct division is forming between national culture and public and regional special services directly supported by the state on the one side and the basic art and cultural services maintained by the municipalities (and especially by the urban municipalities) on the other. Another important dimension to which statistical monitoring should extend to is the division between “traditional” and already established artistic and cultural activity and cultural activity that is innovative and/or draws on creative resources in a new manner. The emergence of new groups and institutions is often seen as a reflection of the latter. Of course we can ask whether this holds true in Finland where a central aim of new institutions is to enter the VOS system. Generating new institutions - or more generally end users of financing - and shifting them into the sphere of continuous public financing is not cheap either, as Table 10 B1 (in VOS museums) indirectly implies.

One should bear in mind that the development of conceptually specified institutional and end-user classifications is important mainly in terms of international comparisons. Tables 11A-11C show that in a small country even statistics using rougher classifications suffice, if they appropriately combine financier level and-user level data for assessing general development tendencies. There is however reason to further develop statistics on end-user level. In Finland this would be best achieved by creating closer collaborative links between the registers of Statistics Finland and the associations and bodies compiling and preparing institutional statistics.

## A broader definition of culture: does it change the general view?

In all the more-detailed statistics on financing presented in this report we have used the narrow definition of culture centring on state cultural administration. A broader definition of culture was however, applied in the first table in the statistical part (Table 1) which included - beyond the actual cultural administration - international cultural co-operation, basic education and professional training in the arts and music, art universities, and those sections of adult education which clearly fall in the sphere of the arts and culture.

On the basis of tables 1 and 2 we can estimate that these extensions would raise the amount of public cultural expenditure by some 35 per cent, for 1993 that would mean approximately FIM 4.3 billion. We can also estimate that the municipalities' own direct support to the arts and culture would similarly increase public cultural expenditure by some 4 per cent. Financing from other ministries (than the Ministry of Education) would bring in yet another 10 per cent and the inclusion of scientific and academic libraries some 12 per cent. By the broadest definition of culture public expenditure in 1997 would rise to some FIM 5.1 million, which proportioned to the GDP would equal 0.82 per cent.

Some private financing has already been included in the tables on income structure - financing from foundations and sponsorship - classified as "own income". As our look at foundation-based museums revealed, institutions may have "forgotten" in passing on data to statistics that some private financiers may compensate for losses, consequently, the coverage of expenditure allocated by private funds or sponsors does not always show in the "own income" column.

Two sources of financing that in recent years have gained in significance are missing from the statistics on financing: collectively used copyright compensations and cultural financing received from the European Union structural funds. This defect is reflected on and illustrated in Appendix 1.

There is no need to ponder on whether a narrower or a broader definition - or something in between them - would give a better picture of cultural life in Finland. As I have stated in many contexts of this report, the cultural and cultural-political significance of extending the definition would not become fully apparent without developing for each extension separate and sensible classifications of end users and income and expenditure structures. Only then could we find out, apart from purely economic issues, what kind of culture is in question and who is it "commissioned" by in such contexts, for example, as scientific libraries, adult education, the new art and media studies in professional training and municipal cultural and congress centres. This development and research work cannot be done by only correcting the existing frames for cultural statistics. It would best be served by *the development of a new satellite system for the arts and culture into the system of national accounts.*

# Extending the use of the end-user approach

Previously in this publication the adoption of an end-user approach has only been illustrated in the context of art and cultural institutions - and only partially even then. Preparing systematic, precise and internationally comparative statistics on end-user level would have required the development of a better-grounded classification system and material providing more-detailed data on personnel and production costs. I will however keep my promise and attempt to conclude by briefly reflecting on to which areas and how could the end-user approach be extended in developing cultural statistics.

Tables 4 and 5 show us the central “non-institutional” target areas of public support. They are 1) cinema art and film production and 2) direct support for the artists. Their share of the financing for (narrowly defined) culture was some 4.5 per cent in 1997. The figures in Table 5 also include 3) central public support to associations (second column) and 4) basic art and music education (third column). Due to the narrow definition *they exclude* 5) budget data on art universities and 6) support for audiovisual media or cultural industries, which should be included as well if the aim is to sensibly expand the scope of cultural activity.

What kind of data should be acquired on end-user level from the six target areas of public cultural expenditure listed above, and what kind of data have we already acquired or should we acquire here in Finland?

In principle, data on end-user level should contain similar data to those that were previously presented on the institutional income structure in Tables 7 AB - 9 AB and 10 A1 - 10 A2 and on the institutional expenditure structure in tables 10 B1 - 10 B2. To achieve this, the end users should also be sensibly classified according to a similar (or preferably an even more generally applicable but at the same time more detailed) classification system than the one we applied to institutions. A comparison of cost structures would further require statistical data which can serve as a basis for construing similar - but more reliable - performance-based cost indicators to those presented in tables 10 C and 11 C.

Obtaining data on the income and expenditure structures of associations and basic art and music education is not a difficult task as such. The same applies to art universities. In the basic education and university sector specific performance-based information and indicator systems have been developed for cost monitoring, which also extend to the institutions providing education in art and culture.<sup>63</sup>

Data are also available on the sector of publicly supported associations, on which the statistics sounding the income and expenditure structure can be based. These data have been recently collected and compiled into statistics in a project funded by the Arts Council of Finland.<sup>64</sup>

<sup>63</sup> C.f. the guidelines issued by the Finnish Ministry of Education to university units for producing performance range- specific cost data to the KOTA database.

<sup>64</sup> Pekka Oesch, Kulttuuri- ja taideyhdistysten rakennemuutos 1990-luvulla (Finnish Cultural and Arts Associations in Transition in the 1990s), Arts Council of Finland, *Facts about the Arts series*, No 24, 2000. According to the study, even in the association sector the share of public support has declined, self-financed activities have increased. This development is even stronger on the association sector than on the institutional sector.

Preparing statistics on direct artist support from an end-user perspective is much more complicated. On the income side separating the artistic work of an individual artist from his/her potential non-artistic work is often difficult, on the expenditure side dividing the use of subsidies to covering for the costs of artistic work and to daily subsistence is hard. Problems are also caused by different practices of entering public support to individual artists in accounts when the artistic work takes place in the form of an own enterprise. In Finland it has been customary in statistics and research to regard artists only from the perspective of income level and subsistence. Very little attention has been paid to how the public support interlinks with the artists' own income and other revenues, how large a share of the costs of artistic work might this cover and how does it affect the productivity and cost development of artistic work.

In the 1980s and at the beginning of the 1990s the Arts Council of Finland carried out an extensive survey on the financial situation and income of artists which covered most of the central art forms and also assessed the significance of direct support to artistic work.<sup>65</sup> However, the survey mainly focussed on what significance did the support have in terms of artists' income; its relative significance a resource was not assessed compared to market revenues or other types of support for artistic work. In 1997 the Arts Council of Finland carried out a questionnaire-based survey on how the artists themselves regarded the significance of public support to their work. The questionnaire did not however include a question on the specific amounts of support received by the artists individually, or its relative share in covering the total costs of artistic work. Nonetheless, it proved that financing of individual artistic work is considerably more multi-sourced compared to institutions.<sup>66</sup>

Statistics Finland regularly produces statistical data on public support for cultural industries in the context of statistics on the mass media.<sup>67</sup> Naturally the problem with these statistic is how to draw the line between communications on the one hand and artistic work and cultural activity on the other. Regardless of this, we can note that the itemisation of the support does not extend to the end-user level, that is to businesses and their income and expenditure structures. The Finnish Film Foundation files basic data on the financing and expenditure structures of the subsidised films, but these have never been processed into statistics or proportioned to business data on the field.

These observations can be concluded along the same lines as the reflections in the previous section on the use of a broader definition of culture. Extending the definition closer to the end-user perspective would surely best be served in a project aiming to develop a separate satellite system into national accounts for the sphere of the arts and culture.

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<sup>65</sup> A brief summary of these earlier results is presented in the "National Report", see Merja Heikkinen, "Promotion of Creativity", *Cultural Policy in Finland. op.cit.* p.282. The problems linked to an income-based approach are well revealed in a survey mapping the film sector. In it a black hole is left between production support for film and the income of the "makers" of films: the actual production process of films and commercial activity linked to it, see Pekka Oesch, *Elokuvantekijöiden toimeentulo (The Economic Situation of Filmmakers in Finland)*, *Arts Council of Finland Publications series*, No 18, 1995.

<sup>66</sup> Virpi Minkkinen, *Taiteellinen työ ja apurahat. Tutkimus valtion apurahan saajista (Artistic Work and Grants. A Survey of State Grant Recipients)*. Arts Council of Finland. *Facts about the Arts series*, No 22, 1999, p.24.

## IV CONCLUSIONS

This report started with *the suggestion that a new perspective, an end-user approach, should be opened out in preparing statistics on public expenditure on the arts and culture*. This is where it also ends, at reflecting on how widely this approach could be used. The pages in between contain a rather extensive analysis of the theoretical and technical problems in statistics on cultural expenditure and financing and an update, analysis and interpretation of the relevant Finnish data from the 1990s.

*At the core of the analysis of statistical problems appeared the question of the classification of art and cultural institutions - or more generally that of the end users. Traditional classifications based on ownership or legal form could no longer be considered sufficient.*

One option considered for solving the problem was a division based on the amount of public support, *whereby public support could be regarded as an expression of public demand*. However, the simple classification of institutions under “public” and “market-led” did not prove itself applicable in reality - at least not without a product-specific itemisation of expenditure and income. Thus, the statistical part of this report ended up applying a classification system in which the traditional VOS system was used as a lever.

The model cases in the last tables of the statistical part showed that this type of classification based on the major financing systems can suffice for national purposes. International comparisons would require a classification system which is more general by nature, but at the same time more detailed in content. The institutional classification system in national accounts could indeed serve as basis for it, but it needs to be specified and made more detailed both on the financier level and on the level of end-users of financing.

On the financier level it is essential that the classification includes the contribution of the non-profit sector - and also a classification that is based on the financiers’ non-market and the non-public collective “commission goals”. Similar sharpening of classifications has to be done also on end-user level, where questions need be solved concerning such issues as drawing the line between public and non-profit activity, or especially the decision on where enterprise-based “non-market” production should be placed. At the same time we noted that unless these lines are drawn or unambiguously applied in the statistical units or business registers, the statistical systems maintained by national statistical agencies using international classification systems are not very helpful in compiling and preparing cultural statistics.

Our analyses concluded in noting that *internationally comparable and cultural-politically relevant statistics cannot be achieved through adjusting the existing statistical frames or integrating and reconciling their classifications*. A sensible development of cultural statistics would require linking them more closely to the system of national accounts. *This would best be served by the development of a separate SNA satellite system for the arts and culture, which would guarantee a coherent approach in assessing the economic impacts and employment effects of activity in these spheres*. By applying this approach, we could at the same time seamlessly solve all the technical

problems in preparing statistics as described in the methodological part of this report, so that the observed conflicts would disappear and the whole system would serve all the actors in the art and cultural sector from the highest financier level to the level of the ultimate end-users and the productions they are engaged in.

The statistical part of this report can also be regarded as a *test, on the one hand applied to the two-models of accounting for financing and public expenditure developed in the EU/LEG organisation, and on the other to the adequacy of the statistical material available in Finland*. Testing the accounting models revealed a number of faults in them, but also proved that they really do systematise statistical work and make statistics more meaningful as instruments of cultural policy or the administration and management of the institutions themselves. The available statistical material - especially on an institutional level - fared in the test to a large extent equally well. With good will and numerous supplements and reservations it could serve as a basis for clear statistical descriptions and interpretations based on them.

The statistical part of this report mainly focussed on only one group of end users, although central in terms of public expenditure, the Finnish cultural and art institutions. The statistical updates and interpretations clearly indicated that *it is perfectly possible to maintain a practical statistical system also on a financier level, which could be used to identify crucial turning points in the public financing of cultural and art institutions*. An example of this can be found in “the double turn” that took place in 1993-1995 which on the one hand led to a standstill and actual decline in public coverage of expenditure, and on the other started - regardless of the jointly funded VOS system - diverging the financing policies of the state and the municipalities. The detachment of the state is most clearly visible in state investments of the end of the 1990s in renewing and improving the physical infrastructure of national institutions.

Institutional statistics bore evidence to the reliability of these interpretations on the financier level. They also showed *how stabilising the effect of the VOS system has been - and still is - on the function of the entire institutional sector*. On the other hand, a closer look also showed that the VOS system has provided the state with a useful opportunity to use the system of manpower-years as a kind of slicer for cutting its own financing shares. The municipal sector has for its own part developed accounting practices and income goals through which they can efficiently cut back their own expenditure on the art and cultural sector when necessary or force the institutions or other end users to savings or increase to their own income. *This has led to a situation which many institutions operating in a poor audience and cost environment probably experience as repressive: expenditure has to be decreased and own income increased, even if their operating environment provides no opportunities for doing so.*

Together the financier and institutional -level statistics clearly demonstrate *why the institutions have during the past decade been in the focus of public financing policy. In terms of the aggregate financing of the arts and culture they have clearly been a large “black hole”. Institutions financed within the VOS system and municipal cultural services alone “soaked in” 76 per cent of the aggregate public financing for the (narrowly defined) cultural sector. If among them are included the national cultural and art institutions, the share*

*rises to 84 per cent; and if we further add to these certain national archives and services, the share of expenditure rises to 90 per cent. This leaves the associations, direct artist support and support to film only 10 per cent of the jackpot.* Of course, the overall picture changes if the definition of culture is extended and we include in it general education, adult education and international cultural co-operation. However, even then the share of institutions remains high, since education - and partly also international cultural co-operation - tends to be institution-based.

The expedience and reliability of statistics on expenditure is largely dependent on how well the expenditure items are specified. One of the key problems in institutional statistics is caused by the fact that the practices of entering property costs are - or were still in 1997 - inadequate both in state and municipal, as well as institutional, accounts. *A rough estimate was presented according to which public "discounts on property costs" were around FIM 140 million in 1997.* Public financiers have gradually started entering estimates of real property costs in their accounts, and this will soon become common and hopefully coherent practise. This development, like the development of accounting systems and changes in the practice of closing accounts will, however, cause an interruption in the time series of statistics on cultural expenditure.

*The development of appropriate indicators for measuring institutional activity (productivity and output) presupposes the existence of reliable data on personnel and audience/visitor figures. Data on an institutional level showed that the existing crude statistics do not provide much possibility for the development of such indicators.* They cannot be developed on the basis of institutional accounts alone. *What they also require is a more systematic and specific monitoring of activity, costs, audiences and income on a product-specific level.* Monitoring on a product level may still seem utopian at this stage of statistical development. However, it may be the only viable alternative for developing statistics which can effectively be used in the planning and implementation of cultural policy - especially if we wish to extend the development of end-user statistics beyond the institutional level to associations, cultural enterprises and the work of individual artists.

Considering the problems presented here may be a fatal blow on the attempts that have been and still are optimistically made to develop and prepare internationally comparable statistics on the financing of the arts and culture. International harmonisation of classifications and statistical systems may seem so hard that it may easily result in defeatism: if the statistics are so faulty and incomparable, why bother compiling them at all? On the other hand, as the update and interpretation of Finnish cultural statistics in this report hopefully shows, even weaker statistics, especially those on end-users, can in their country-specific context offer some new and even surprising information and open out new, essential perspectives to cultural policy. The same end can be served even by less informative statistics containing data for international comparisons, especially if they were reconciled under a sensible separate system of SNA satellite accounts.



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## Appendix 1

### Problems of classifying institutional units in national accounts and a case model of the significance of “foreign” in cultural financing

The following table (Table 1) is presented to elaborate and supplement Figure 1 in the methodological part of this report. It shows the spheres of production and financing activity, each with different operating principles, in which classifying institutional units has proved problematic or complex in practise.

As was noted in the methodological part of this report, also in the context of cultural statistics the problems in classifying institutional units centre on the areas demonstrated in Table 1. They pertain to how the line is drawn between production enterprise, non-profit activity and public sector activity. The issue that brings forth problems in the classification is so called “non-turnover business activity” (cell 7). This refers to units that regardless of their legal form as business receive massive public support and do not meet with the 50 per cent rule, that is their turnover covers for less than half of their expenses. Many major national institutions (operas, theatres and museums) fall in this category. In principle, they should be allocated either among non-profit units or public bodies. In preparing statistics it is essential that these units are not identified in national accounts or cultural statistics as engaged in normal business activity.

Cultural statistics are usually prepared from a national perspective. Table 1 reminds us that also in the sphere of culture international actors have to be taken into account both as financiers and as functional (institutional) units.

**Table 1. Problem areas in classifying institutional units**<sup>68</sup>

	Production businesses	Financial and insurance corporations	Public administration units	Households	Non-profit units
Production businesses					
Finance and insurance institutions	1. x				
Public administration units	2. X	3. x			
Households	4. x	5. x	6. 0		
Non-profit units	7. X	8. 0	9. X	10. 0	
Foreign countries	11. x	12. X	13. 0	14. x	15. 0

0 = easily classified, x = some problems in classification, X = often hard to classify

In national accounts “foreign” is divided in two general categories, other countries and international organisations. In the case of European Union member states this division is specified with a further division into the European Union on the one side - its bodies, its member states and their common European international organisations - and into other countries and international organisations on the other. Since the European Union is an

<sup>68</sup> Source: OECD, “Institutional Sectoring”, Agenda item 5, Joint OECD/ESCAP Meeting on .....National Accounts, Bangkok, 4-8 May, 1998.

increasingly significant source of financing and guidance for its member states, its contribution has to in one way or another be taken into account in their cultural statistics.

The following table (Table 2) illustrates the growing significance of EU financing in Finnish cultural life. It shows how this financing, which in this case means financing of cultural projects from the EU structural funds, combined to the national financing shares, has become a significant source of financing for the arts and culture in Finland, especially in the sphere of project-based activity. This financing is “movable money” which project work in particular requires, as it is not tied to established goals or administrative routines.

**Table 2. Projects financed from the structural funds prepared and decided on by the cultural unit at the Finnish Ministry of Education, Department of Cultural, Sport and Youth Policy in 1995-1999<sup>69</sup>**

Year	Number of financing decisions*	EU financing FIM	National financing FIM	Total FIM	Average size of project FIM
1995	6	2 702 624	1 367 000	4 069 624	678 271
1996	17	18 260 000	19 218 800	34 478 800	2 028 165
1997	32	11 166 100	7 416 630	18 582 730	580 710
1998	39	23 674 400	15 894 650	39 569 050	1 014 591
1999	64	39 054 866	34 902 143	73 957 009	1 115 578

\* including decisions on additional financing

1 FIM = 5,95 €

The table only shows projects that have received financing through the Finnish Ministry of Education. If it included cultural projects financed from the structural funds which have received their national financing shares from some other source, the aggregate EU-led project financing would in 1998 have been five times more, rising to nearly FIM 200 million.<sup>70</sup> This is already such a significant financial instalment - as are the other forms of EU cultural financing - that it should definitely be taken into account in planning and collecting data for statistics on financing. These statistics should include, apart from project-specific data on income and expenditure, also data on the domestic units financing and implementing the projects and their foreign partners.

In the development of statistics on “foreign” financing focus should be placed on, first, a country/region-specific “geopolitical classification” of the foreign financing sources, second, a organisation-based classification (state, international organisations, etc. ), and third, a sectorial institutional classification shown in Table 1, which has been introduced in this report.

This third classification has been as important in the development of trans-national cultural statistics as it has been in the development of the national ones. In terms of statistics on financing, it clarifies the nature of demand and supply: who “commissions” art and culture in Finland and for what purpose. Even in the context of trans-national financing, these questions can be regarded by monitoring it on an end-user level.

<sup>69</sup> Source: Pirkko Rainesalo, PM, no date, Finnish Ministry of Education 1999, see also Tilastokeskus/Statistics Finland, Kulttuuritilastot/Cultural Statistics 1999, op.cit., p.11.

<sup>70</sup> Source: University of Jyväskylä. project on structural funds, preliminary assessment from Professor Anita Kangas.

**APPENDIX 2A. An annual financial statement of a medium-sized Finnish municipality (about 11 000 inhabitants) 1997.**

<i>Revenues:</i> .....	<b>31 813 592,90</b>
revenues from sales.....	14 356 667,36
revenues from fees.....	10 844 336,95
subsidies and grants-in-aid .....	3 491 619,72
rent income .....	2 875 608,55
other revenues .....	243 282,62
correction for sales.....	2 077,70
<i>Expenses:</i> .....	<b>-178 729 503,79</b>
wages and social security payments .....	-75 975 998,34
purchase of services.....	-75 547 369,14
purchase of goods .....	-12 567 153,82
grants-in-aid .....	-12 558 161,80
rent .....	-1 058 151,88
other expenses.....	-1 022 668,81
<i>Revenues minus expenses =</i>	
<i>Balance of business operations</i> .....	<b>-146 915 910,89</b>
<i>Receipt to cover deficit:</i>	
Municipal taxation .....	97 461 089,02
Statutory state subsidies.....	62 433 227,40
Balance of VAT payments.....	-8 323 151,00
<i>Balance of business operations plus received public transfers =</i>	
<i>Balance of operations</i> .....	<b>4 655 254,53</b>
<i>Finance revenues and expenses:</i> .....	1 272 460,95
Interest revenues .....	2 996 620,12
Other finance income.....	169 309,95
Interest expenses .....	- 1 625 921,99
Other finance expenses .....	- 267 547,13
<i>Balance of operation plus finance revenues and expenditure =</i>	
<i>Annual balance</i> .....	<b>5 927 715,48</b>
<i>Depreciations and extraordinary revenues and expenses:</i> .....	-7 442 442,80
<i>Depreciations</i> .....	-7 647 282,60
<i>Extraordinary revenues and expenses</i> .....	204 839,80
Extraordinary revenues .....	235 736,80
Extraordinary expenses.....	-30 897,00
<i>Annual balance minus depreciations and extraordinary expenditure</i>	
<i>plus extraordinary revenues = Annual surplus/deficit</i> .....	<b>- 1 309 887,52</b>
<b>INDICATORS:</b>	
<b>Operating revenues/operating expenditure, per cent</b> .....	<b>17,8</b>
<b>Annual balance, FIM/inhabitant</b> .....	<b>586</b>

**Appendix 2B. An annual financial statement of a major national institution (and the foundation responsible for its upkeep) 1997.**

<i>Revenues:</i> .....	<b>46 918 446,78</b>
revenues from sales .....	40 848 131,33
rent income .....	1 554 459,02
other operating revenues.....	4 060 859,43
revenues from sales of capital assets .....	455 000,00
<i>Expenses:</i> .....	<b>-204 324 454,41</b>
wages and social security payments.....	-163 614 616,43
rent and leasing payments .....	-2 745 708,11
purchase of services, fees, administrative costs, other visitor expenses .....	- 7 239 501,89
marketing expenses.....	-9 882 907,66
production expenses .....	-11 016 450,93
realty and equipment expenses.....	- 8 619 465,96
other operating expenses .....	-1 022 668,81
<b><i>Revenues minus expenses = Balance of business operations</i></b> .....	<b>-157 406 007,63</b>
Receipt to cover deficit .....	<b>157 209 783,00</b>
State/Veikkaus Oy .....	136 867 400,00
municipal subsidies .....	20 342 383,00
<b><i>Balance of business operations plus received public transfers = Balance of operations</i></b> .....	<b>-196 224,63</b>
Finance revenues and expenses: .....	2 396 664,02
Interest revenues .....	905 137,48
Sponsorship revenues .....	1 500 000
Interest expenses.....	-289,50
Difference on exchange .....	-8 183,96
<b><i>Balance of operations plus finance revenues and expenditure=Annual balance</i></b> .....	<b>2 200 439,39</b>
Depreciations and extraordinary revenues and expenses .....	- 1 852 531,13
Depreciations.....	- 1 852 531,14
Extraordinary revenues and expenses:	
Extraordinary revenues* .....	106 000 000,00
Extraordinary expenses**.....	-106 000 000,00
<b><i>Annual balance minus depreciation and extraordinary expenditure plus extraordinary revenues = Annual surplus/deficit</i></b> .....	<b>347 908,25</b>
<b>INDICATORS:</b>	
Operating revenues/operating expenditure, per cent .....	<b>23,0</b>
Annual balance, FIM/employee.....	<b>3 130,1</b>

\*Public coverage for deficit in pension fund

\*\* Transfer of public coverage to pension fund/reservation for future pension payments



Ilkka Heiskanen

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

## Methodological Issues and Identification of the 1990s Turning Points that ReShaped the Conditions of Cultural and Art Institutions

### 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 here were the first stage of the project exploring *the overall changes of economic and financial condition 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 public expenditure on the arts and culture peaked in Finland. In terms of the ratio of the total public expenditure<sup>1</sup> 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 culture<sup>2</sup>.

The subsequent decline is 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 as an opportunity 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.

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<sup>1</sup> Comprising the financing from the two main sources, central government and municipalities.

<sup>2</sup> 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. 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.

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