ERASMUS SCHOOL OF HISTORY, CULTURE AND COMMUNICATION

THE STATE PATRONAGE OF ARTS IN EMERGING ECONOMIES: A STUDY OF THE BRAZILIAN CASE

Master Thesis – MA Cultural Economics and Entrepreneurship

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Abstract

An extensive literature in the field of culture economics investigates the categorical question of whether government should support the arts. The existing studies, however, were mainly focused on the reality of developed countries, which may drastically differ from the reality of emerging economies. In this sense, this study aims at exploring if the arguments presented by the literature on state patronage of arts can apply to emerging economies. The research is based on the case study of Brazil, especially the Rouanet Law, which is currently the main source of subsidies for the arts in the country. As per this study, the conclusion is that most of the arguments for the public support of arts can be considered highly fragile when analysed under the context of emerging economies. Therefore, this work highlights some important elements to be considered for the formulation of public policies to the arts and culture in emerging economies, particularly corruption, education, infrastructure and inequality.

Keywords: Public Subsidies, Emerging Economies, Government Failure, Market Failure, Cultural Diversity, Arts and Culture.

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1.   Introduction

An extensive literature in the field of economics of arts investigates the categorical question of whether government should support the arts. Such studies, however, were mainly focused on the reality of developed countries (King & Blaug, 1976; Netzer, 1978; Grampp, 1989; Peacock, 1994; Robbins, 1994; Zimmer & Toepler, 1999; Frey, 2003), which represent the minority portion of countries in the globe. Therefore, this study aims at exploring if the arguments presented by the literature on state patronage of arts can apply to emerging economies, herein defined as low and middle-income countries with fragile institutions (North, 1990; Hall & Jones, 1999; Acemoglu, Johnson, & Robinson, 2001; Rodrik, Subramanian, & Trebbi, 2004)[1].

One of the arguments to explain the different quality of institutions around the globe relates to the colonization strategies used in the past. According to Acemoglu et al. (2001), in one extreme, there are the colonies where the colonizers intended to set-up, such as Australia and New Zealand, and in the other, the colonies explored for extraction purposes, such as most

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[1] For purposes of this work, it is worth clarifying that the classification of countries into categories is a controversial theme. For instance, the World Trade Organization (WTO) refers to "developed", "developing" and "least-developed" countries, but presents no definition for such terms. In fact, WTO members announce for themselves whether they are "developed" or "developing" countries, being such self-classification subject to challenge from other members. Additionally, the WTO list of "developed" or "developing" countries is not opened to the public (only the list of least-developed countries is).

The World Bank, on the other hand, in the 2016 edition of World Development Indicators opted to no longer adopt the distinction between "developing countries", defined in previous editions as low and middle-income countries, and developed countries, previously defined as high-income countries.

The countries' classification in the World Economic Outlook, a document released by the International Monetary Fund (IMF), divides the world into two major groups: advanced economies and emerging and developing economies. According to the World Economic Outlook (IMF, 2017), 39 countries are classified as advanced economies, while 153 countries are classified as emerging market and developing economies. The regional breakdowns of emerging market and developing economies are commonwealth of Independent States (CIS), emerging and developing Asia, emerging and developing Europe, Latin America and the Caribbean (LAC), the Middle East, North Africa, Afghanistan, Pakistan (MENAP) and sub-Saharan Africa (SSA). The classification has evolved over time and is not based on strict criteria.

In the literature of economics of development, there are three main stands of thoughts to explain the different levels of economic development among countries. The first line of theory places geography at the centre of the story. According to such argument, geography exerts a significant influence on agricultural productivity and the quality of human resources (Gallup, Sachs & Mellinger, 1998; Sachs, 2001). A second group of explanations emphasizes the role of international trade as a driver of productivity change. This view highlights the market integration as a key to foster economic convergence between wealth and poor regions of the world (Frankel & Romer, 1999; and the pre-geography work of Sachs & Warner, 1995). Finally, a third line of explanation justifies such differences on institutions, and particularly on the role of property rights and the rule of law (North, 1990; Hall & Jones, 1999; Acemoglu et al., 2001).

Rodrik et al. (2004) have conducted a research to estimate the respective contributions of institutions, geography, and trade in determining income levels around the world, using instrumental variables for institutions and trade. The results of the study indicate that the economic development can be better explained based on the quality of institutions.

Such considerations on the classification of countries in terms of development economy are far from being exhaustive, but are sufficient to show the complexity of the matter.

of the African and Latin American countries. The scholars (Acemoglu et al., 2001, p. 29) argue that in the first ones, the colonizers "set-up institutions that enforced the rule of law and encouraged investment", while in the others they "set up extractive states with the intention of transferring resources rapidly to the metropole". The sets of institutions, by their turn, influenced the levels of investments and economic growth (Acemoglu et al., 2001, p. 30).

In view of the above, this study will examine the Brazilian case so as to highlight some important elements to be considered for the formulation of public policies to the arts and culture in emerging economies, such as corruption and social and economic inequality. Despite the fact that corruption and inequality may be claimed to exist in all countries, their levels certainly vary among developed and emerging economies (Olken & Pande, 2012).

For instance, according to the latest data from the World Bank, in 2014 the individuals in Brazil representing the 20% poorest portion of the population accounted for only 3.6% of the total income (or consumption) of the country, while the 20% richest accounted for 56.3% of it.

The income inequality in Brazil is also evidenced by the Gini coefficient, which compares the cumulative proportions of the population against the cumulative proportions of their income, ranging between 0 in case of perfect equality and 1 in case of perfect inequality. While Brazil presented a coefficient of 0.490 (Brazilian Institute of Geography and Statistics – IBGE, 2014), similarly to Chile with 0.465 (OECD, 2014), Australia and New Zealand scored 0.337 and 0.333 (OECD, 2014), respectively.

The high levels of inequality in emerging economies tend to reinforce corruption. According to Jong-sung & Khagram (2005, p. 136), wealthy individuals "have both greater motivation and more opportunity to engage in corruption, whereas the poor are more vulnerable to extortion and less able to monitor and hold the rich and powerful accountable as inequality increases". Likewise, the scholars (Jong-sung & Khagram, 2005, p. 136) argue that "inequality also adversely affects social norms about corruption and people's beliefs about the legitimacy of rules and institutions, thereby making it easier for them to tolerate corruption as acceptable behavior".

The lack of trust in justice is reflected in the IPCLBrasil, an index that measures the perception of legal enforcement in Brazil. The index is based on a statistic research of qualitative nature carried out in eight federal units, based on a representative sample of the population. The IPCLBrasil indicates that in the first semester of 2015 only 33% of the Brazilian individuals trusted the judicial power. The results are even worse for the political spheres: 17% for the federal government, 15% for the national congress and only 5% for the political parties.

The distrust in such institutions is not hard to understand, once Brazilian history is marked by several political coups, resignations, authoritarianism and corruption scandals. The country obtained its independence from Portugal in 1822, and in 1889 the oligarchs, especially

the coffee and dairy magnates, backed a military coup that resulted in the proclamation of the Brazilian republic. Such oligarchs virtually commanded the country for the next thirty years. In 1930 a new coup was carried out, resulting in the removal of the president in charge, the exile of the elected president and the assumption of the provisional government by Getúlio Vargas. The government of Vargas, which was initially provisory, lasted for fifteen years, due to a new coup, which included closing the congress and canceling elections. Since then, Brazil kept struggling with a fragile economy and political instability. In 1964, a dictatorship was initiated by a military coup. The dictatorship lasted until 1985, when indirect elections were conducted to appoint the new president. The current constitution of the country was approved in 1988 and the direct elections were restored in 1989. The first president directly elected at this stage was Fernando Collor who assumed the office in 1990 and resigned the presidency two years later after a corruption scandal and the instauration of an impeachment process. The following two presidents also experienced corruption scandals, but managed to conclude their mandates and get reelected. The next president, Dilma Roussef, was impeached during her second mandate in 2016 and therefore replaced by her former vice-president, Michel Temer, who after less than one year of mandate is already facing a major political crisis due to alleged involvement in corruption schemes.

It is important to keep this scenario in mind, since the two main features of the so-called "welfare state doctrine" that are claimed to justify the governmental support of arts and culture are the classic market failure arguments and the social and cultural equality argument (Zimmer & Toepler, 1999, p. 34). In both cases, there is an implicit assumption that government can act to correct the market failures and to foment equality.

This work emphasizes the urgency of making clear the implicit assumptions and the limitations of the literature on state patronage of arts. The Brazilian case elucidates important differences from developed and emerging economies that have so far been neglected by the literature of cultural economics. Such differences shall be taken into account, once for a public policy to be effective, it must be meaningful in the context it is applied, so that the citizens will be able to benefit from it and to demand the relevant institutions to enforce and develop it (Berkowitz, Pistor & Richard, 2003).

In the legal field, there is a significant debate on the risks of transplanting laws or legal institutions among countries with different legal heritage without assessing their compatibility and making the proper adaptations to local conditions (Pistor, Raiser & Gelfer, 2000; La Porta, Lopez-de-Silanes, Shleifer & Vishny, 1998). A similar caution shall be taken for the transplant of public policies. This work contributes to the debate on public subsidies for arts and culture by examining the theory in view of the differences between developed and emerging economies, and pointing out the limitations arising therefrom.

The contributions of this work are both theoretical and practical. In terms of theoretical contribution, three aspects shall be emphasized. First, this study provides a systematic view on the literature on state patronage of arts by means of a new theoretical framework. Second, the research presents a critical analysis on the literature and points out important limitations that have been ignored by scholars. Third, the case study provides an empirical evaluation of an important emerging economy that has not been particularly studied by the literature, and may contribute to future cross-country studies on the matter. On the practical side, the study provides important insights for the formulation of public policies aiming at cultural inclusion in emerging economies.

This study will be divided into four sections, including this introduction. The second section presents a literature review on the arguments supporting the state patronage of arts. Such section is divided in three blocks: arguments based on efficiency, on equity concerns and on diversity. At the same time that such arguments will be presented, the respective critics to them will be described, taking into account the peculiarities of emerging economies, as applicable.

The third section will consist on the analysis of the Brazilian case study. This section is divided into seven subsections. The first one comprises a brief description of the Brazilian public policies for the support of arts and culture. The second section describes the Rouanet Law, which is currently the main source of subsidies for the arts in Brazil. Thirdly, there will be an explanation on the methodology of the case study and the data analysis. Fourth, there will be provided an overview on Brazilian main social and economic statistics and data. Fifth, the empirical analysis of the Rouanet Law will be conducted. The sixth subsection will consist in the analysis of crowding in and crowding out effects of the state patronage of arts in Brazil. Finally, the last subsection will empirically test the arguments to support arts subsidies based on income distribution purposes. The fourth and last section will present the conclusions of this research.

2.   Theoretical Framework

This section will present three blocks of arguments for the public support of arts, which are based on: (i) efficiency, (ii) equity and (iii) diversity.

The first strand of justifications relates to the notion of efficiency. In short, the idea is that private and social efficiency requires a perfectly competitive economy (Towse, 2010, p. 165), and to achieve so, government shall act to correct market failures.

The second set of arguments relates to equity concerns. Basically, state patronage of arts is considered a necessary measure to promote equality and democratization of arts and culture (Zimmer & Toepler, 1999, p. 34), and therefore, to maximize the welfare of the society.

Finally, the third block of arguments refers to diversity. Concisely, the idea is that governmental intervention would be necessary to protect cultural identity against the homogenizing effects of globalization (Cowen, 2002). It is worth emphasizing that this is not a strictly economic point, but rather an argument from the political spectrum.

2.1. Arguments based on efficiency

As mentioned by Towse (2010, pp. 171-172), several scholars support the case of state patronage of arts as a way to correct market failures and, therefore, increase social welfare. Nonetheless, cultural economists differ in their interpretation of the implications of such market failures and the extents to which governmental intervention is needed.

In this section, there will be presented the main arguments related to market failures that could be claimed to justify the state patronage of arts: (i) external benefits, (ii) art as a public good, (iii) crowding in and crowding out effects (iv) consumer sovereignty failure, (v) Baumol´s cost disease, and (vi) economies of scale.

2.1.1.   External benefits

According to Frey (1999, p. 71) and Towse (2010, pp. 166, 168-169), the state support of the arts has been mainly based on market failures, in particular on the positive externalities culture provides for society. Such approach is strongly supported by Dick Netzer on his classic book, *The Subsidized Muse* (1978), which is widely referred in the literature reviews on the matter (Frey, 1999; Grampp, 1989; Fullerton, 1991; Zimmer & Toepler, 1999).

Netzer presents in his book four major types of external benefits which are relevant to the case for subsidy to the arts (Netzer, 1978, p. 22-23): (i) preservation of cultural heritage, (ii) benefits of failure, (iii) contribution to economic life and (iv) interdependence of art forms. Such arguments will be presented and analysed below in view of the context of emerging economies.

It is worth mentioning that some of the arguments are context independent, and consequently, they will not be the focus of the analysis.

2.1.1.(i) Preservation of cultural heritage

The first alleged external benefit from the arts relates to the preservation of cultural heritage for future generations. According to Netzer, "future generations can benefit from contemporary activities in the arts – but these activities need financing now" (Netzer, 1978, p. 23). Such concern would justify public subsidies for the arts and culture, aiming at preserving "continuity and access in future years to the product of current artistic endeavour" (Netzer, 1978, p. 23).

This view is strongly supported by Peacock (1969/1994, p. 151), who argues that subsidization of arts and culture is important to protect the "welfare of those whose interests cannot be directly expressed at present through the exercise of their own preferences in the market". Additionally, the scholar states that present generations may derive positive satisfaction from preserving arts and culture for posterity, avoiding the "risk of being accused of narrowing the range of choice of cultural activities for future generations" (Peacock, 1969/1994, p. 157).

It is worth noting, however, that this argument could be extended for most long-term investments with potential future benefits. For instance, future generations could benefit from any technology that reduces pollution, increases the nutritional values of food or develops new sources of energy. The lack of public subsidies to these areas could equally be claimed to compromise the range of choices and the quality of life of future generations. Likewise, the evolution of fashion and design could also prevent future generations from having access to certain goods in the future. Nevertheless, it is not common to hear that government shall subsidize the production of vintage clothes or certain ancient architecture styles. In this sense, the argument could apply for several other cases, and it would be not viable to have all of them subsidized.

Another possible critic to this argument is that instead of subsidizing arts for posterity, government should focus on addressing the needs of the underprivileged of the present generation (Tullock, 1964). Peacock (1969/1994, p. 159) argues against this critic and defends that the problem raised by Tullock could be addressed in the short-term by moving support away from the subsidizing of producers of cultural activities towards the subsidizing of individuals (i.e. by means of a voucher system).

However, someone without the proper education and other human capital (Stigler & Becker, p. 79) may never use the voucher, or may use the voucher without consuming the cultural good. For instance, the voucher beneficiary may let the voucher expire, or use it to buy a book that will never be read or that will be given as gift to someone else.

2.1.1.(ii) Benefits of failure

A second alleged external benefit of arts would be the benefits of failure. According to Netzer (1978, p. 24), arts are fundamentally experimental, and as so, are highly subject to failure. The scholar argues that "failure may cause a theatre company to go out of business or a writer to stop writing, but other artists and society at large may learn a lot from the failed experiment and thus profit from it" (Netzer, 1978, p. 24). Such external benefits of failure would then justify the subsidy to the arts.

Such argument could be challenged in two main ways. The first one, would be that all entrepreneurial activities are intrinsically experimental, and as so, highly subject to failure (Schumpeter, 2000; Forbes, 2016). Therefore, if we apply the failure argument to support subsidies, subsidies would apply not only to the arts and culture sector, but also to all entrepreneurial activities, and this would not be practicable considering that public resources are scarce.

Second, according to Frey (2003, pp. 370-371) there is considerable evidence that governments prefer to "support well-established cultural institutions providing generally accepted art, such as, for instance, opera houses performing popular classical pieces by Verdi, Mozart, Puccini or Rossini". The scholar argues that "in contrast, more controversial and experimental art has difficulty in getting public support, because the public decision-makers who depend on public opinion and re-election shun scandals, which are more likely to be provoked by this kind of art" (2003, pp. 370-371). This is also true in cases of tax incentives, where the decision on the allocation of resources is made by private agents. In such cases, the investments tend to be based on a cultural marketing rationale that favours cultural projects with a more commercial appeal and potential of media exposure.

Additionally, "individuals within the political sector, just as in the private sector, base their choices on their private assessment of costs and benefits" (Boettke, 1998, p. 27). Therefore, government agents will probably make their decisions on the allocation of subsidies based on their own interests, which will not necessarily be the promotion of social welfare by means of supporting experiments and failures.

Nevertheless, it is worth clarifying that one thing is to have public agents lawfully acting in a more conservative way – within their discretionary power – and deciding to allocate subsidies to cultural activities that are believed to be a safer choice for them. In this case, such agents are acting in their own interest, but within the limits of law. The scenario may be much worse in countries where there are no strong institutions to enforce the law and promote high quality governance.

As mentioned before, individuals tend to make their decisions based on their private assessment of costs and benefits. In a country where law enforcement is high, the costs of infringing the law are also high. Therefore, in such cases people are more likely not to trespass the limits of law. Conversely, in countries where law enforcement is low, people tend to be more likely to pursue their own interest even if it could require acting against the law. This view is supported by Olken & Pande (2012, p. 4), according to whom "anecdotal and survey evidence suggests that corruption is rampant in the developing world and more prevalent in developing countries than in rich ones".

As a result, in emerging economies, where institutions are weak and law enforcement is fragile, it is even less likely that subsidies will be granted to experimental activities.

2.1.1.(iii) Contribution to economic life

The third alleged external benefit from arts and culture is that they contribute to the flourishing of economic life. In this sense, Netzer (1978, p. 24) argues that "the arts and culture may be an important element of economic life in some large cities, attracting visitors, keeping the affluent attached to the city, and generating income for those in ancillary services – restaurants, hotels, and the like".

Such alleged external benefit is closely connected to the Florida's (2002) so-called creative-class argument, which states that creative class is a major generator of economic growth. Nonetheless, such argument has been strongly criticized by the literature due to the "fuzzy causal logic" between creativity and urban growth (Markusen, 2006, p. 1921).

In this sense, if the aim is to foster economic growth, it would be possible to argue that it makes more sense to have the government investing in industrialization instead of arts and culture, since "virtually every country that experienced rapid growth of productivity and living standards over the last 200 years has done so by industrializing" (Murphy, Shleifer & Vishny, 1989).

According to Schwab (2017), we are currently in the beginning of the fourth industrial revolution, which is characterized by a combination of technologies that blurs the boundaries between the biological, physical and digital dimensions. The scholar (2017, p. 40) argues that similarly to the revolutions that preceded it, "it has the potential to raise global income levels and improve the quality of life for populations around the world". If that is so, one could argue that governments could foster economic development by means of investing in industrialization rather than investing in arts and culture.

Finally, it is worth mentioning that subsidizing large cities in detriment of small cities may reinforce geographic inequalities. This can be even worse in the case of emerging economies, since there is a lack of infrastructure and public transportation to allow people from

small cities to go to large cities. According to Krueger (1990, p. 17), "in many developing countries, the poor quality and limited supply of infrastructure constitutes a major source of high costs for all producers and consumers within the economy".

2.1.1.(iv) Interdependence of art forms

The last external benefit claimed by Netzer relies on the argument that some art forms are interdependent. According to the scholar, "the consumer of one form of music is likely to derive some benefit from the flourishing of another form even if he does not patronize it and may actively dislike it" (Netzer, 1978, p. 23). Therefore, if an art form cannot succeed on its own, it may have a "legitimate claim to public subsidy financed by tax payments from consumers of the other forms" (Netzer, 1978, p. 23).

This alleged external benefit does not seem to be consistent in either contexts (i.e. emerging economies or advanced economies). The fact that one art form may benefit from another art form does not justify the granting of subsidies. Actually, many markets, apart from the arts, may present such characteristics. For instance, the producer of milk may benefit from the production and sale of coffee, but this is not sufficient to justify the granting of public subsidies.

2.1.2. Art as a public good

Another argument for the subsidy of arts is that it is a public good. One of the possible interpretation for that is that arts is characterized by the economic principles of non-excludability (i.e. no one can be denied access to it) and non-rivalry (i.e. one person's use of the good does not prevent others from making use of it). If we think on public goods based on such economic principles, we must admit that there are some art forms that can be considered accessible to both wealth and less privileged individuals. However, as mentioned by Netzer (1978, p. 21), such art forms are exceptions, since "access to most artistic output is through market transactions – tickets of admission to the performing arts or purchase of literary and visual art works – or could be restricted to those who are willing and able to pay (even if now free)".

Examples of non-excludable and non-rival art forms are street art, such as graffiti, and architecture. It is interesting to note, however, that such art forms are normally not claimed by the literature to receive subsidies. In some countries, these kind of arts are significantly restricted by means of regulations or, in the case of graffiti, even considered vandalism.

It is worth mentioning, however, that public goods theory defines public goods in a different way. Such theory "views government as a faithful agent hired by the citizenry to

provide desired goods and services having characteristics such that the market economy provides too little of them" (White, 2012, p. 335). White explains (2012, p. 337) that the public goods theory claims that "in an important set of cases, those of public goods, there is potentially a Pareto-improving role for government". In other words, private transactions fail to achieve Pareto efficiency, described as a scenario where "all potential gains from voluntary trade are captured", so that there would be scope for government to "play a role to which all of us would agree, even taxpayers who foot the bill" (White, 2012, p. 337). The scholar concludes the explanation stating that the benefits of governmental intervention shall equal or exceed the costs of it.

There is no evidence that arts fits such definition of public goods. First, many scholars argue that there is an oversupply of both arts and artists (Menger, 1999; Towse, 2001; Abbing, 2008). In this sense, it would make no sense to say that the market economy would provide too little art without public subsidies. Contrariwise, as explained by Abbing (2008, p. 131) more money spent on the arts per capita – whether from public subsidies or otherwise – may increase the oversupply of art and artists, with the consequent increase of the "number of poor artists per hundred thousand inhabitants".

Second, the public goods theory assumes that government would be more efficient than private agents for the provision of arts. Even if we accept this argument, it would only justify direct subsidies to the arts. In other words, if the argument is based on the idea that government is more efficient to provide cultural activities, it would make no sense to have indirect aid, such as tax-based incentives, since indirect subsidies imply that the private agent will decide "where the subsidy is spent as well as how much, taking much of the control of the finance of arts policy out of the hands of the policy-maker" (Towse, 2010, p. 276).

Another problem of public goods is that the high levels of corruption in emerging economies (Olken & Pande, 2012, p. 4) may prevent the public funds to end up where they were supposed to. In other words, corruption and favouritism tend to distance policy execution from the ideal resource allocation goals originally envisaged. As a consequence, government subsidies can be highly inefficient and wasteful.

2.1.3. *Crowding in and crowding out effects*

The decision of providing arts and culture by means of public support or private support shall also take into account the potential side effects of public subsidies, including the so-called crowding-in and crowding-out effects. According to Brooks (2000, p. 211) there is an important debate in the public economics literature regarding the relationship between governmental subsidies and private donations to the non-profit sector. On one hand, it is argued that public funding somehow displaces private giving – this would be the crowding out effect. On the other

hand, there are those who defend the crowding in effect, it is to say, that public subsidies leverage philanthropy. There is also an alternative hypothesis that there is no relationship between such funding sources.

Brooks presents some arguments to defend the crowding out effect and others to defend the crowding in effect (2000, p. 212). The analysis of such arguments is helpful to illustrate that in emerging economies the crowding out effect tends to prevail.

To begin, it is worth emphasizing why the main crowding in arguments presented by Brooks (2000) do not apply to emerging economies. One of such arguments is that subsidies might be viewed as proof of quality or reputability especially for organizations that are not well known. The second argument in favour of the crowding in effect states that "government involvement might be seen as a guarantee of due diligence on the part of the non-profit" (Brooks, 2000, p. 212). Both arguments implicitly assume that government is seen as a reliable party, and its investment would attract private investors because they would rely on the government's opinion in relation to the invested entity. Nonetheless, in emerging economies, as mentioned before, government and its institutions tend not to be perceived as reliable parties (Olken & Pande, 2012, p. 4). In this sense, it would make no sense to expect that public investment would bring good reputability to the invested organization or guarantees to private investors.

On the other hand, most of the crowding out effects mentioned by Brooks (2000, p. 212) seem to apply to emerging economies. The first of such arguments is that non-profit organizations funded by the government may be seen by the private sector as quasi-public agencies, and this could reduce the motivation of donors and private companies to support such organizations. This crowding out effect tends to be even greater in case of emerging economies, where the poor reputability of government may seriously discourage contributions to governmental social programs. A second argument would be that donors may continue to fund non-profit only as long as they can control and keep this control over the organizations. In this sense the presence of government investment may inhibit private donations once government will probably have voice on the management of such organizations.

As per the above, the crowding in and crowding out effects emerging from the relationship between governmental subsidies and private donations to the non-profit sector are impacted by the poor reputation of the government of emerging economies. Therefore, the perception of government as corrupt may jeopardize the alleged possible crowding in effects and intensify the crowding out effects of public subsidies in the arts.

2.1.4. Consumer Sovereignty Failure

This section will explore two arguments for the public support of arts that challenge the notion

of consumer sovereignty and the "fundamental basis of social welfare as being based solely on individual welfare and voluntary exchange" (Towse, 2010, p. 171): the merit good and the acquired taste arguments.

The concept of merit good was first introduced by Musgrave (1957, 1958) in the late 1950s. Basically, the merit good argument states that government should subsidize the arts because arts are desired to be provided in larger quantities than the individuals would wish to purchase in the market (Frey, 2003, p. 372). This could be explained by the fact that arts "have some sort of 'inherent worth' or 'intrinsic merit' that distinguishes them from ordinary consumer goods" (Heilbrun & Gray, 2001, p. 243). For instance, Netzer (1978, p. 166) mentions as an example the case of the Metropolitan Opera (Met). According to the scholar, "the case for public subsidy for the Met is simply that it is a good thing that cannot survive without subsidy – a pure merit-good".

As explained by Heilbrun & Gray (2001, p. 243), the merit good argument is not very much based on the realm of economic discourse, being closer to a value judgement. This view basically refutes "the ability of consumers to judge their own welfare, although that is fundamental to the notion of social welfare, in the first place" (Towse, 2010, p. 171). In other words, the merit good argument is based on a notion of pathology of individual choice (Besley, 1988, p. 372).

In addition, as mentioned before, the idea that government would know better than the individuals what is good for society could be challenged by the government failure argument, which applies for both developed countries and emerging economies. The merit good argument implicitly assumes that government is a reliable party, and that individuals should trust it. Nonetheless, public agents, similarly to private agents, may be guided by their own interest. In emerging economies, government and its institutions are not rarely seen as corrupt and untrustworthy (Olken & Pande, 2012, p. 4). In this sense, it would be difficult to argue that society would be better off by letting the government decide what is better for individuals.

Likewise, the acquired taste argument also implies that government knows better what is good for individuals. According to Netzer (1978, p. 25), "because enjoyment of the arts tends to be an acquired taste, efforts to expand both the potential market of paying consumers and the pool of future performers or other participants in the production process involve giving a great many people an opportunity to sample the arts". There is, therefore, a hidden assumption that government knows which tastes are worth to be acquired (i.e. the taste for the artworks and cultural activities subsidized by the state). Based on this knowledge, government encourages the formation of taste by providing subsidies to the "good" arts.

This argument does not seem to stand up to scrutiny. The effect of exposure to arts on the accumulation of cultural capital will depend on the individuals' level of education and other human capital (Stigler & Becker, 1977, p. 79). Therefore, without good education to

individuals, the subsidies for arts will not be able to promote the acquisition of taste for the arts. This issue is especially problematic in emerging economies, where public education tends to be weaker (Krueger, 1990, p. 16).

2.1.5. Baumol´s cost disease

According to Towse (1997), Baumol's cost disease is described as the unescapable rise of the real costs that occur in labour-intensive industries such as the arts, education and health care. In short, the Baumol´s cost disease theory states that certain sectors, such as live performing arts, cannot "increase labour productivity, but they have to pay similar wage increases to those in the rest of the economy" (Frey, 2003, p. 373). Consequently, the increase of deficits overtime compromises the performing arts, making it only viable if subsidized by the government.

An emblematic example of Baumol´s cost disease is the string quartet case. In 1780 the quartet players would need forty minutes to play a Mozart composition, and today the same amount of labour is still required (Cowen, 1996, p. 208). The labour productivity has not increased overtime.

There are several critics to this position. First, as mentioned by Grampp (1989, p. 262) "there is nothing in economics that says an increase in relative cost and price is itself a condition that calls for a subsidy". Contrariwise, the "increase could indicate that production should be reduced rather than maintained or enlarged" (Grampp, 1989, p. 262). For instance, Grampp illustrates so by means of the handmade shoes case. The scholar argues that "handmade shoes become relatively expensive as time goes on, but that is no reason to subsidize them" (Grampp, 1989, p. 262).

Second, as mentioned by Cowen (1996, p. 208), the technology of electronic reproduction brought by the digital age has significantly increased the productivity of the quartet, which can now reach a much larger audience. As a consequence, "the quantity of performance output, measured in consumption units, has skyrocketed" (Cowen, 1996, p. 208). This argument would mainly apply to the artistic fields impacted by digitalization.

Third, Cowen (1996, p. 208) shows empirical evidence that "live performance has not declined in general, even if specific kinds of live performance have fallen out of favour". According to the scholar, cost-disease studies usually display a bias towards "high culture", without considering the boom of other art forms, such as rave, techno and rap. But even performance of classis music has risen overtime: from 1965 to 1990 the number of symphony orchestras in the U.S. grew from 58 to nearly 300, and the number of opera companies rose from 27 to more than 150 (Bolton, 1992, p. 266). It is worth mentioning that, according to Cowen (1996, p. 208), such expansion has been mainly financed by the private sector.

2.1.6. Economies of scale

The subsidies for arts are also defended on the grounds of production costs arguments. According to Netzer (1978, p. 25), "private markets work efficiently, in economic terms, only if the costs of production meet certain criteria". One of such criteria is the absence of economies of scale in production, that is, the cost per unit of output should not decrease due to the increase of total output. Nevertheless, museums, for instance, typically operate under such conditions. Therefore, the concern for economic efficiency would justify the use of subsidies "to make museum admission free or nearly so, even if museum visitors are not necessarily poor" (Netzer, 1978, p. 25).

This argument does not seem to justify public patronage of arts, neither in developed countries, nor in emerging economies. There are many industries which operate under economies of scale. Since it is not an exclusive characteristic of the arts, subsidies should be extended to all industries that present economies of scale, which would not be viable.

Additionally, even if this argument was to be accepted, it would only support subsidies "to reduce the price of admission to a museum or arts performance", and not to "increase spending on what is shown or performed and certainly should not be used to increase the size of the arts organization" (Grampp, 1989, p. 261), as commonly happens. Otherwise, this would make "the decreasing cost problem greater, because it raises costs and increases the seats and space to be filled" (Grampp, 1989, p. 261).

2.1.7. Systematic view on the arguments based on efficiency

All the arguments above in favour of the state patronage of arts are based on the assumption that the existence of market failures justifies government intervention. In other words, there is a belief that government should act to compensate for market failures. Krueger (1990, p. 9) argues that this was "regarded as being much more extreme in developing countries" since it was believed that markets failures were more abundant in such countries.

Nonetheless, as mentioned by Krueger (1990, p. 20) "it is grossly insufficient for economists to assert that the existence of market failure implies that there is a case for government intervention". This could be explained by the fact that "real-world governments are not like the ideal and may not be able to – or, worse, may not even want to – correct for market failures" (Chang, 2014, p. 388). Such view is strongly connected to the government failure argument or sometimes the public choice theory (Chang, 2014, p. 388).

The table below provides a systematic view on the arguments for the state patronage of arts based on efficiency. Basically, each of the efficiency-based arguments is briefly presented and classified according to its level of context dependency. The arguments may be considered

(i) context independent, it is to say, they are equally applicable to developed countries and emerging economies, (ii) context dependent, meaning that their applicability differs among developed countries and emerging economies, and (iii) partially dependent, for the cases where there are both context dependent and context independent arguments in the relevant block. Finally, their respective limitations or counter arguments are described in the last column.

Table 1 - Arguments based on efficiency

	Main Argument	Context dependent?	Counter arguments / Limitations
External Benefits	***Cultural Heritage***: public subsidies to preserve continuity and access for future generations	Partially	*Context independent*: argument applicable to virtually all long-term investments with potential benefits in the future *Context dependent*: present and future generations would only benefit of arts and culture if they are provided with adequate education to form their human capital
	Benefits of failure: other artists and society at large may learn a lot from the failed experiment of an artist	Partially	*Context independent*: (i) other activities, such as entrepreneurial activities, are intrinsically experimental and are not subsidized; (ii) public decision-makers prefer to invest in generally accepted art to avoid controversies and seek re-election *Context dependent*: in emerging economies the lack of law enforcement creates more incentives to the public agents to pursue their own benefits in detriment of public legitimate interests
	Economic life: arts and culture foster economic life by attracting visitors, keeping the affluent attached to the city, and generating income for those in ancillary services	Partially	*Context independent*: (i) subsidizing large cities in detriment of small cities may reinforce geographic inequalities; (ii) economic growth could be better achieved by means of investments in industrialization instead of in arts and culture *Context dependent*: the scenario can be worse in the case of emerging economies, since there is a lack of infrastructure and public transportation to allow people from small cities to go to large cities
	Interdependence of art form: the consumer of a certain art form is likely to derive some benefit from the flourishing of another form even if he does not patronize it/actively dislike it	No	Many markets, apart from the arts, may present such characteristics and are not claimed to receive subsidies
Public Good	Arts is a public good, and the private provision of it fails to achieve Pareto efficiency, so that there is potentially a Pareto-improving role for government	Partially	*Context independent*: (i) there is an oversupply of arts, government shall not encourage the increase of it; (ii) if government is more efficient than private agents to supply arts, all subsidies should be provided directly by the state, with no tax-based incentives or other forms of indirect aid; *Context dependent*: (i) in emerging economies, due to the lack of education and the significant social and economic inequalities, the number of losers may be way larger than the number of gainers; and (ii) rampant corruption in emerging economies may prevent public funds to end up where they were supposed to
Crowding in/out	Public subsidies can leverage private investments	Yes	In emerging economies, the perception of government as corrupt may jeopardize the alleged possible crowding in effects and intensify the crowding out effects of public subsidies
Consumer Sovereignty	Government knows better what is good for the individuals	Partially	*Context independent*: (i) overrides consumer sovereignty which is the fundamental basis of social welfare; (ii) government failure; *Context dependent*: (i) corruption in emerging economies makes the government failure more likely to happen; (ii) without good education, the subsidies for arts will not be able to promote the acquisition of taste for the arts
Baumol´s Cost Disease	Subsidies are necessary to cover the deficit of labour-intensive activities, such as performing arts, caused by the unbalance between labour productivity and wages adjustments	No	(i) there is nothing in economics that says an increase in relative cost and price justifies subsidies; (ii) digitalization increases the productivity of labour-intensive activities; and (iii) bias towards "high culture"
Economies of Scale	Subsidies are needed to correct inefficiencies generated by economies of scale in cultural organizations	No	(i) many industries which operate under economies of scale do not receive subsidies; (ii) the argument only support subsidies to reduce the price of tickets and not to increase the size of the arts organization

2.2. Arguments based on equity concerns

In addition to the efficiency arguments presented above, another source of arguments in favour of the state patronage of arts is based on equity concerns (Zimmer & Toepler, 1999, p. 34; Netzer, 1978, p. 156; Frey, 2003, p. 373). Such arguments will be presented in this subsection and empirically examined in section 3.7 in light of the Brazilian case.

According to Netzer (1978, p. 156), the equity argument has at least three components: (i) geographical concentration, (ii) admission price and (iii) family financial support.

2.2.1 Geographical concentration

According to Towse (2010), the geographical distribution of arts and cultural goods and services is an important aspect for the promotion of equity. According to the scholar (Towse, 2010), the geographical concentration of arts organizations and facilities can make access very expensive for individuals living far from the cultural amenities. As a consequence, governmental intervention would be justified as a way to promote equity in terms of geographical distribution (Towse, 2010, p. 181).

Similarly, Netzer argues that "in the absence of public subsidy, the arts tend to be provided in places that are remote, physically and/or psychologically, from many low-income people" (Netzer, 1978, p. 156). In this sense, subsidies would be valuable to promote arts in places where private actors would probably not invest.

It is right that subsidies can potentially contribute for the decentralization of arts and culture, but to make this potential come true, there are other factors, apart from subsidies that are crucial. For instance, in case of indirect aid, such as tax based incentives, the granting of subsidies shall expressly require that a certain amount of resources is invested in less privileged areas. Otherwise, if the decision on the allocation of resources is delegated to the private sector, the investments will tend to be allocated based on a market oriented approach, probably reinforcing the cultural and artistic exclusion of poor areas.

Despite the fact that concentration of cultural production is a phenomena observable in many countries (e.g. France, with concentration in Paris – Zimmer & Toepler, p. 38; England, with concentration in London – Peacock, 1994, p. 158; Sweden, with concentration in Stockholm – Zimmer & Toepler, p. 41), the exclusion effect may be greater in emerging economies, since they face a lack of infrastructure and public transportation (Krueger, 1990, p. 17). The scenario is even worse in large countries due to the great distance between the cities. For instance, the distance from Maranhão, the capital of the poorest Brazilian state, to São Paulo, the capital of the state that received the largest portions of funds by the Rouanet Law, is 2,931 kilometres, which corresponds to more than six times the distance from Paris to London.

2.2.2. Admission Price

A second component of the equity argument is the idea that "admission prices themselves may constitute a barrier to the availability of the arts" (Netzer, 1978, p. 156). Therefore, subsidies would be useful to reduce admission prices and make arts and culture more available for people.

As mentioned in the previous subsection, subsidies may potentially contribute to increase the access to arts and culture, but to effectively do so, there should be a clear public policy limiting the price of the subsidized cultural products and services. Government shall assess what a reasonable price would be to democratize arts and make sure that the subsidized goods and services will not exceed a certain value.

Besides, it is important to emphasize that it is not only the admission price that matters for democratization of arts and culture. As pointed out by the literature, the consumption of arts and culture is highly impacted by the price of leisure time (Throsby, 1994, p. 7; Zieba, 2009, p. 105; Burton, 2010, pp. 185-186) as well as by the level of human capital (Stigler & Becker, 1977). Additionally, there are several empirical studies which indicate that arts present low price sensitivity (Withers, 1980; Lange & Luksetich, 1984; Throsby & Withers, 1987; Felton, 1992; Seaman, 2006), so that the reduction of price would not be enough to foster consumption.

In emerging economies, the price of leisure time tends to be greater, due to the poor labour conditions, low wages and lack of enforcement of labour laws. A significant portion of individuals in many emerging economies work beyond the applicable weekly hours limits, in some cases more than 40 per cent of the workforce (Messenger, Lee & McCann, 2007). In addition, according to Messenger et al. (2007, p. 121), the experience of emerging economies shows that "overtime payments often constitute a regular and substantial element of wage packages and are relied on to ensure a decent standard of living". In this sense, the decrease of admission prices will not suffice if the leisure price is still high.

2.2.3. Family financial support

The third component of the equity argument refers to family financial support. The idea is that "the necessity of lengthy and costly training and the very modest earnings prospects of artists, at least in the early years of their careers, are more likely to deter talented youngsters from low-income families than those who can rely on family financial support from pursuing careers in the arts" (Netzer, 1978, p. 156).

Nevertheless, subsidies for the arts do not necessarily solve the problem. For instance, the lack of a well-structured public policy may result in public funds being allocated to support

superstar artists and blockbuster events instead of low-income artists, as it happens in the case of Rouanet Law (Calabre, 2007, p. 8).

2.2.4. Systematic view on the arguments based on equity concerns

As mentioned by Towse (2010, p. 180-181), many cultural policies are motivated by equity concerns. Such concerns include (i) geographical distribution of arts and culture, (ii) the reduction of admission prices for artistic and cultural services and goods and (iii) equality of opportunity in access to arts training. A systematic view on the arguments based on equity concerns is provided by the table below.

Table 2 - Arguments based on equity concerns

	Main Argument	Context dependent?	Counter arguments / Limitations
Geographic Concentration	In the absence of public subsidies arts tend to be provided in places that are remote from many low-income people	Partially	Although this argument may apply in both contexts, the exclusion effect tend to be greater in emerging economies since they face a lack of infrastructure and public transportation
Admission Price	Admission prices may constitute a barrier to the availability of the arts	Partially	Although this argument may apply in both contexts, the exclusion effect tend to be greater in emerging economies since they present higher levels of social and economic unequality and the price of leisure time is higher due to poor labour conditions
Family Financial Support	The necessity of lengthy and expensive training and the very low earnings of artists, at least in the early stage of their careers, are more likely to deter talented poor youngsters than those who can rely on family financial support	Partially	Although this argument may apply in both contexts, the exclusion effect tend to be greater in emerging economies since they present higher levels of social and economic unequality

2.3. Diversity Arguments

In addition to the arguments based on efficiency and equity concerns, public subsidies for the arts are also defended as a way to protect cultural identity against the homogenizing effects of globalization.

Cowen (2002) mentions that many countries endeavour great efforts to protect their national content against the effects of cross-cultural trade. For instance, he mentions (Cowen, 2002, p. 2) that the French government has spent around US$3 billion annually on culture and employed "12,000 cultural bureaucrats in an effort to preserve its vision of a uniquely French culture". Likewise, Spain, South Korea and Brazil placed "binding domestic-content requirements on their cinemas" (Cowen, 2002, p. 2).

The idea that markets tend to destroy culture and diversity is defended by political scientists such as Fredric Jameson (2000, p. 51) who argues that "the standardization of world

culture, with local popular or traditional forms driven out or dumbed down to make way for American television, American music, food, clothes and films, has been seen by many as the very heart of globalization".

Robertson (2012, p. 199), on the other hand, challenges the definition of globalization in terms of homogenization. The scholar argues that "it makes no good sense to define the global as if the global excludes the local". In this sense, "in order to make very explicit the 'heterogenising' aspects of globalisation" Robertson (2012, p. 191) proposes the use of the term "glocalization" instead of "globalization". According to the scholar, the suggested term transcends "the tendency to cast the idea of globalisation as inevitably in tension with the idea of localisation".

The concept of glocalization comprises the development and advertising of goods and services in global scale, but fashioned to accommodate the consumer in a local market (Robertson, 2012, p. 194). Therefore, according to such view, there would make no sense to believe that there is a risk of a world dominated by a single culture.

In addition, it is worth noting that the concept of cultural diversity may have different dimensions: the across variety and the within variety, which often move in opposite directions. As explained by Cowen (2002), when one country trades an artwork to another, diversity within the receiving country increases (i.e. individuals have more options), but diversity across the two countries diminishes (i.e. they become more alike).

Therefore, considering the different dimensions of cultural diversity, the issue is not whether there is more or less diversity due to globalization but rather what kind of diversity results from it. In other words, it is a question of choosing between diversity of options or diversity in terms of uniqueness and differentiation.

As mentioned by Cowen (2002), if cultural diversity is understood as the multiplicity of options within a particular society, it would be possible to say that globalization has brought a great increase in freedom and diversity. The individuals are no more restricted by geographical barriers. As a consequence, Cowen (2002) affirms that instead of disappearing, many local art forms are flourishing as never before in the new global market, since they are now able to find several new patrons. If that is so, preservation of cultural heritage by means of public subsidies makes even less sense.

The idea of preserving cultural identity may also conflict with one important characteristic of culture, which is its dynamic and hybrid nature and consequently, its transformation over time. As explained by Cowen (2002, p. 11), "cultural growth, like economic development, rarely comes as a steady advances on all fronts at once". The scholar argues that culture has always been a process of creative destruction. In the case of emerging economies, it is even more evident, since "most 'Third World' cultures are fundamentally hybrids – synthetic products of multiple global influences" (Cowen, 2002, p. 7). In this sense, if

culture is a product of creative destruction, the subsidy of arts for the preservation of cultural heritage would be at least paradoxical.

Additionally, it is worth mentioning that subsidies do not necessarily guarantee protection to cultural identity or cultural diversity. For instance, the subsidies from the Rouanet Law, which will be explained in more detail in sections 3.2 and 3.5, have been used to support some blockbuster events that strongly relied on the participation of foreigner artists, such as Cirque du Soleil and the music festivals Rock in Rio and SWU. Therefore, the protection of cultural identity requires a public policy to encourage investments in art forms with national content.

In this sense, it is important to mention the difficulty of defining national culture, especially in emerging economies where arts are fundamentally hybrids. In the Brazilian case, for instance, there is a mix of indigenous, African and European influences, among others. This is also true for many former colonies that combined a set of different roots to form their identities.

In view of such considerations it makes sense to ask: what national culture would be? For instance, using the example of Brazilian music, a music produced by a Brazilian citizen in a foreign language would be entitled to subsidies? Is it important to the protection of cultural identity that the music is performed in the Brazilian dialect, or any variation of Portuguese language would be accepted? Additionally, if language is an important aspect of cultural identity, why the Community of Portuguese Language Countries (CPLP) agreed on the reform of the Portuguese orthography to unify the standards used by Brazil and the remaining Lusophone countries? Likewise, would any music genre, such as reggae and blues, be entitled to subsidies or just the genres originated in Brazil would deserve public support? Many other questions could be asked, but these are mere examples to illustrate the complexity of designing a public policy to protect national culture against homogenization.

Finally, one should take into account that if there is a policy establishing that subsidies will be granted to preserve cultural identity, artists may be discouraged to create new hybrids and innovate. Consequently, subsidies could end up promoting conservative practices and deterring experimentations. In this sense, as alerted by Sawers (1993, p. 40), state patronage of arts may, voluntarily or not, impose some degree of standardisation on the character of the subsidised works.

2.3.1 Systematic view on the diversity argument

The diversity argument is certainly less common than those based on efficiency and distribution concerns. Nevertheless, it brings interesting insights on the effects of globalization and the need or not of subsidies to protect cultural identity.

A systematic view on the arguments based on diversity is provided by the table below, which presents the potential benefits and downsides of globalization to arts and culture, and specify if they are context dependent. Basically, the argument is structured in three blocks. The first relates to the duality between diversity within and across countries. The second explores the conflict of having a chance to reach a greater audience and the risk of facing more competition. Finally, the third row contrasts the notions of identity and innovation.

Table 3 - Arguments based on diversity

	Benefits of Globalization for cultural diversity	Downside of Globalization for cultural diversity	Context dependent?
Diversity within *vs* across countries	When a country trades an artwork to another, diversity within the receiving country increases (i.e. individuals have more options)	Globalization reduces the diversity across the countries (i.e. they become more alike)	No
More potential audience *vs* more competition	No more restriction by geographical barriers and, consequently, more chances to find new patrons	More competition for national arts and culture and greater risk to be neglected or abandoned due to loss of status to Western goods	No
Identity *vs* inovation	The increase of options due to the overcome of geographical barriers encourages the creation of new hybrid forms, and therefore, more inovation	Homogenization may compromise local authenticity	Partially: (i) emerging economies are fundamentally hybrid, therefore it is especially difficult to define national culture (ii) due to government failure and lack of skilled people, designing a good public policy in emerging countries in even more difficult

3. Case study: state patronage of arts in Brazil

This section turns to a closer look at the state patronage of arts in Brazil. As Stake (1995) observes, case study research is concerned with the complexity and particular nature of the case in question. The Brazilian case can be classified as an exemplifying case, since it exemplifies a broader category of countries – emerging economies – of which it is a member (Bryman, 2004, p. 70).

The choice of examining the Brazilian case is explained by the fact that it is one of the most important emerging markets in terms of economic and strategic importance. Such importance is evidenced by being a member of the G-20, "a forum of 19 countries plus the European Union, representing both developed and emerging economies whose size or strategic importance gives them a particularly crucial role in the global economy" (OECDE, 2016).

The study of the Brazilian case will contribute to a deeper understanding of the arguments in favour of the state patronage of arts and their possible limitations. The analysis herein may be replicated in future researches on other emerging economies.

Additionally, the understanding of the peculiarities of demand and supply of cultural goods and services in emerging economies, as in the case of Brazil, may provide important insights for the formulation of public policies aiming at social and cultural inclusion (Diniz & Machado, 2011, p. 2).

3.1. Brazilian policies for arts support

The development of far-reaching public policies for arts and culture is a recent phenomenon in Brazil dated as of the twentieth century. Likewise, the study of such policies is also recent, mostly originated within the decades of 1930 and 1940 (Calabre, 2007).

During the Brazilian colonial period, the Portuguese monarchy strongly denied the indigenous and African cultures, and restricted the access to Western culture by, for example, prohibiting the installation of presses, censuring books and newspapers from abroad and interdicting the development of education, especially in the university level (Rubim, 2006). The decline of colonial power has begun in 1808 when the Portuguese Royal family moved to Brazil to escape from Napoleon Bonaparte.

Nonetheless, it was only in the twentieth century that the first public policies in the cultural sector have been implemented. For instance, in 1937 there was created the so-called *Serviço do Patrimônio Histórico e Artístico Nacional* (SPHAN), whose purpose was to preserve the national historical and artistic heritage. In the following year the first National Council of Culture was created (Calabre, 2007, p. 2), aiming at coordinating the activities related to cultural

development carried out by the Ministry of Education and Health (Costa, 2011, p. 2).

According to Durand (2000, p. 10), the information on the cultural sector in the following period, between 1945 and 1964, is scarce. It is known, however, that the referred period experienced a significant development of the cultural sector supported by the private initiative (Durand, 2000; Calabre, 2007). Some important private institutions have been created at the time, such as the museum of modern art of Rio de Janeiro (Museu de Arte Moderna do Rio de Janeiro), the museum of arts of São Paulo (MASP) and the Biennale Foundation. The period was also important for the consolidation of the production of mass media, especially radio and television. In contrast with the developments promoted by the private sector, no great actions in the cultural field were promoted by the government at that moment.

From 1964 until 1985, Brazil has been governed by a dictatorial government. The main concern at the time was to create a national cultural policy. In 1966 the National Council of Culture, whose activities have been paralyzed since 1964, was replaced by the Federal Council of Culture that remained in force until 1990. The military regime, not surprisingly, imposed a high level of censorship and authoritarianism over arts and culture, with the crescent imposition of a controlled media culture focused on the reproduction of the current official ideology (Rubim, 2006, p. 8-9).

In 1985, with the end of the military regime, the Ministry of Culture was created. The ministry faced many problems, both in terms of finance and management. In 1986, the first law establishing tax incentives for culture was promulgated, the so-called Lei Sarney. The purpose of the law was to overcome the financial difficulties that the field of federal public administration of culture always faced. Most of the budget was normally allocated to the administration of the ministry and its related bodies. At the end, the creation of a separate ministry for culture resulted in less funds to arts and culture (Calabre, 2007, p. 7).

In 1988, the current Brazilian Federal Constitution was approved. The new legal apparatus promoted political-administrative decentralization by altering the previous rules, distributing competencies among federal, state and municipal levels and assuring, at least in theory, administrative and fiscal autonomy. According to the new constitution, the federal level would be responsible for national issues of general interest, the state level would be responsible for matters of regional interest, and municipalities would deal with matters of local interest.

In 1990, under the government of president Collor, the Ministry of Culture and its several related bodies were extinguished. Subsequently, the Lei Sarney was revoked and the federal government stopped its investments in culture from March, 1990 until December, 1991. Such measures were taken based on Collor's belief that the private sector would replace the government in the promotion of arts and culture. At this moment, most of the cultural activities

have been funded by the states and municipalities.

In 1991, after being pressured by producers, cultural agents and artists, Collor approved the Brazilian federal law No. 8,313, widely known as Rouanet Law Ponte (Ponte, 2012, p. 47). The referred law created the National Program for Support of Culture (PRONAC), which established the rules to guide how the federal government should provide funds to foment culture in the country.

In 1992, Collor resigned as President of Brazil only minutes after the Brazilian Senate had begun an impeachment trial he was all but certain to lose. In the same year, under the government of the former vice-president, Itamar Franco, the Ministry of Culture was recreated. In addition, a specific law was promulgated to encourage incentives in the audio-visual sector. According to Calabre (2007, p. 8), it was the beginning of a new policy focused on the market rules, with a decreasing influence of the ministry.

In terms of organizational structure, according to the most recent research conducted by the Brazilian Institute of Geography and Statistics – IBGE, in 2014 almost 78% of the federal units (state level) had exclusive secretaries for culture (IBGE, 2015, p. 33). Nonetheless, only three out of the 27 federal units had in 2014 a formal plan for the cultural sector (IBGE, 2015, p. 39). In relation to the municipalities, only 20.4% of them had an exclusive secretary for culture, in the other cases the secretary is normally together with education, tourism, and leisure. In addition, only 13.1% of the municipalities have a computerized system for culture (in the state level the percentage is close to 67%) (IBGE, 2015, p. 33).

3.2. Rouanet Law

The public support for the arts can be carried out by different ways depending on (i) who makes the decision on the allocation of public subsidies (i.e. the direct supporter) and (ii) to whom the public subsidy is going (i.e. the direct beneficiary).

In relation to the first point, the direct supporter can be the government or private actors. If the government decides to directly support the arts, it becomes responsible for making the decisions regarding the allocation of funds (e.g. deciding on the amounts of subsidies to be provided, the projects to be supported and the goals to be achieved by means of the public support). Alternatively, the state patronage of arts can be made by means of indirect aid, such as tax-based incentives, where "the support decision is delegated to individuals or firms" (Frey, 2003. p. 370).

In addition, the public support for the arts, whether direct or indirect, can be addressed to the supply or to the demand side of the market. In other words, the subsidies may be granted to artists and producers of cultural activities or to the potential consumers.

This study will be based on the analysis of the Rouanet Law, which establishes a tax-

based incentive to the supply side of the Brazilian arts market. Although there are other laws (in the federal, state and municipal level) to foment culture in Brazil, Rouanet Law is the most important one in terms of volume of resources invested in the cultural sector (Arruda, 2003, p. 188).

According to the official data provided by the Ministry of Culture at the website of Salic (*Sistema de Apoio às Leis de Incentivo à Cultura*), from 1993 to 2016 more than R$ 18 billion (approximately USD 5.75 billion) have been invested in culture by means of Rouanet Law. During the period, almost 200,000 projects have been proposed, out of which 55% have been approved by the governmental bodies and 25% have been actually supported by sponsors and donors via Rouanet Law. The graph below illustrates the evolution of projects proposed, approved and supported from 1993 to 2016.

Graph 1 - Projects proposed, approved and supported by Rouanet Law (1993 - 2016)
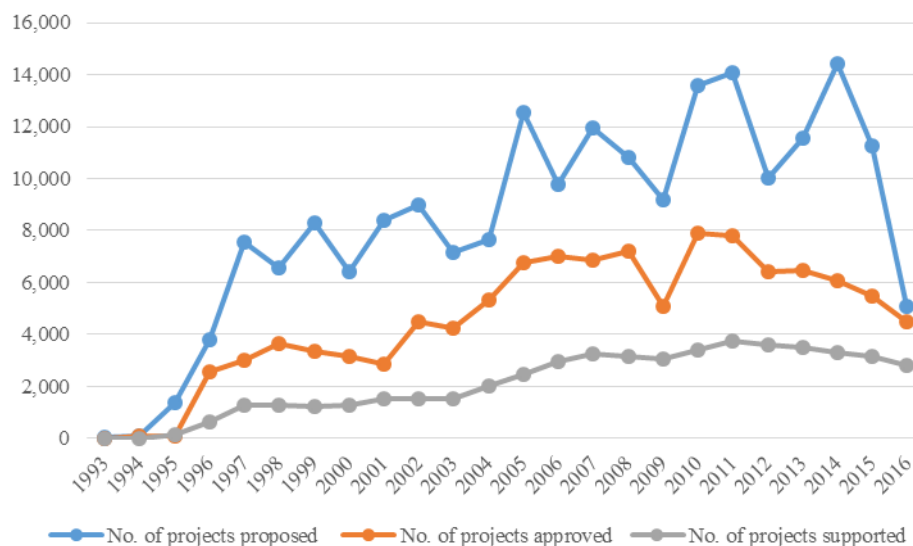
Source: prepared by the author based on the Salic database, 1993-2016

The most important mechanism created by the Rouanet Law was the "incentive to cultural projects", also called as tax incentive, which is a mechanism by means of which the federal government allows individuals and legal entities to apply portions of the income tax (up to 6% or 4%, respectively) as donations (i.e. anonymous contribution) or sponsorships (i.e. contribution with publicity for the supporter) to directly support cultural projects. The value of the donation or sponsorship can be partially or fully deducted from the due income tax (depending on the invested cultural sector, the nature of the support – donations or sponsorships – and/or the category of the supporter taxpayer – i.e. individuals or legal entities).

Section 18, § 3º of the Rouanet Law lists the art categories that entitle the deduction of the full amount invested by the taxpayers in approved cultural projects, regardless of the nature

of the support or the category of the supporter taxpayer. The list includes (i) performing arts, (ii) books of artistic, literary or humanistic value, (iii) classical or instrumental music, (iv) exhibition of visual arts, (v) donations to collections of public libraries, museums, public archives and film libraries, as well as training of personnel and acquisition of equipment for the maintenance of those collections, (vi) production of cinematographic and video-phonographic works of short and medium length and preservation and diffusion of the audio-visual collection, (vii) preservation of material and immaterial cultural heritage, and (viii) construction and maintenance of theatres and movie theatres, which may also function as community cultural centres, in municipalities with less than 100,000 inhabitants. All other art forms entitle only a partial deduction from income tax.

The amount of partial deduction varies as follows: up to (i) 80% for donations made by individuals, (ii) 60% for sponsorships carried out by individuals, (iii) 40% for donations made by legal entities and (iv) 30% for sponsorships carried out by legal entities. The table below summarizes the thresholds of the tax incentives:

Table 4 - Percentages of tax deduction via Rouanet Law

	Art forms listed in section 18		Other art forms	
	Individuals	*Legal Entities*	*Individuals*	*Legal Entities*
Deductible portion of income tax	6%	4%	6%	4%
Deductible portion of donation/sponsorship	Donations: 100% Sponsorships: 100%	Donations: 100% Sponsorships: 100%	Donations: 80% Sponsorships: 60%	Donations: 40% Sponsorships: 30%

Source: prepared by the author

The possibility of full deduction of the donation or sponsorship amount in connection with the art forms listed in section 18 is strongly criticized. The literature argues that such possibility seems unbalanced, since private supporters are not required to share costs with the government, but are allowed to solely decide on the allocation of public money (Belem & Donadone, 2013).

In this sense, Moreira (2012, p. 18) proposes an interesting question: why would a private company that is allowed to finance its cultural marketing with public money – in the form of due taxes – prefer to use its own money instead? If the aim of tax incentives is to encourage the private investment in the cultural sector, there would make no sense to have only the public sphere investing in cultural projects (Rubim, 2011, p. 17).

To better understand how the tax deduction works in such cases, it is worth to give an example. To illustrate, suppose that a legal entity is required to pay an amount of income tax of R$10 million in a certain year. This legal entity can invest by means of sponsorship up to R$400 thousand in cultural projects classified in the categories listed in section 18 of the Rouanet Law.

Such amount will be deducted from the due income tax of the relevant year. As a result, instead of paying an amount of income tax equal to R$10 million, the referred legal entity will pay a total amount of income tax of R$ 9.6 million.

In relation to the application process, in short, it is initiated by the artist, producer or cultural agent (i.e. applicants) who shall present the project they want to be supported by Rouanet Law. Such project is submitted to evaluation by several governmental bodies which will approve or reject the projects. In case of approval of the project, the applicants shall seek the support of taxpayers (individuals or legal entities), who may discretionarily select which project they want to support.

It is worth mentioning that in 2010 a bill has been proposed to repeal the Rouanet Law and to establish new rules for culture and arts funding. The approval of the referred bill – PL 6,722/2010 – is still pending and subject to amendments or rejection. The main innovations proposed by the bill comprise the abolishment of full tax deduction provided by section 18 (only partial deductions would apply) and the empowerment of the government, which would have a more significant role in terms of deciding on the allocation of subsidies.

Nevertheless, considering the uncertainty on the approval of the bill, the analysis of the proposed new rules will not be part of this work.

3.3. Methodology and data analysis[2]

This study will be based on a qualitative and quantitative strategy and a case study design, based on multiple sources, including secondary data from Brazilian official databases and anecdotal evidences obtained in conversations with former policy makers and tax lawyers.

According to Yin (2009, p. 4), "the distinctive need for case studies arises out of the desire to understand complex social phenomena". In this sense, the option of this work for case study methodology has to do precisely with differences on the social context of developed and emerging economies.

The literature on state patronage of arts has been mainly developed based on the social and economic reality of developed countries (e.g. United Kingdom: King & Blaug, 1976 and Peacock, 1969/1994; Europe, North America, and Japan: Cummings & Katz, 1987; France, Germany, Norway, and Canada: Mulcahy, 1998; Europe: Frey, 1999; United States – Netzer, 1978, Brooks, 2001 and Caves, 2000; France, United States and Sweden – Zimmer & Toepler, 1999), which may drastically differ from the reality of emerging economies.

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[2] For ease of reference, this work may mention approximate values converted from Brazilian Reais to U.S. Dollars (USD). In this case, such values will be calculated based on the average exchange rate of U.S. dollars in April, 2017, according to the Ato Declaratório Executivo COSIT No. 18, dated May, 4th, 2017 (i.e. USD 1 corresponds to approximately R$3.13).

Therefore, the application of case study method will be helpful to understand the consequences of different levels of education, corruption and social and economic inequality among developing and emerging economies, as well as their impact on key assumptions under which the literature builds its arguments on state patronage of arts.

Such analysis will be made based mainly on official data from the Brazilian Ministry of Culture (MinC), Brazilian Population Census (IBGE), the World Bank and Unesco Institute for Statistics on public education and levels of income, as well as on the corruption perceptions index (CPI), prepared by the international non-governmental organization named Transparency International, and widely used by the literature (Wilhelm, 2002; Saisana & Saltelli, 2012; Jong-sung & Khagram, 2005).

3.4. Overview of Brazil

According to the World Bank database, Brazil was ranked among the ten countries with highest gross domestic products in 2015, being the best ranked Latin American country, as detailed below:

Table 5 - Top 10 highest gross domestic product 2015

	Ranking	Economy	*(millions of US dollars)*
USA	1	United States	17.946.996
CHN	2	China	10.866.444
JPN	3	Japan	4.123.258
DEU	4	Germany	3.355.772
GBR	5	United Kingdom	2.848.755
FRA	6	France	2.421.682
IND	7	India	2.073.543
ITA	8	Italy	1.814.763
BRA	9	Brazil	1.774.725
CAN	10	Canada	1.550.537

Source: http://data.worldbank.org/data-catalog/GDP-ranking-table

Nonetheless, in terms of GDP per capita Brazil was more than 14% below the global average in 2015. Therefore, according to the World Bank's database, in 2015 Brazil was ranked as the 9th economy of the world in terms of GDP and 74th economy in terms of GDP per capita.

Despite of its relevance, the country presents high levels of corruption and social and economic inequality. As mentioned in the introduction of this work, individuals representing the 20% poorest responded for only 3.6% of the total income of the country, while the 20% richest responded for 56.3% of it. The graph below illustrates the distribution of income (or consumption) during the years:

Graph 2 - Country Inequality trend: distribution of income
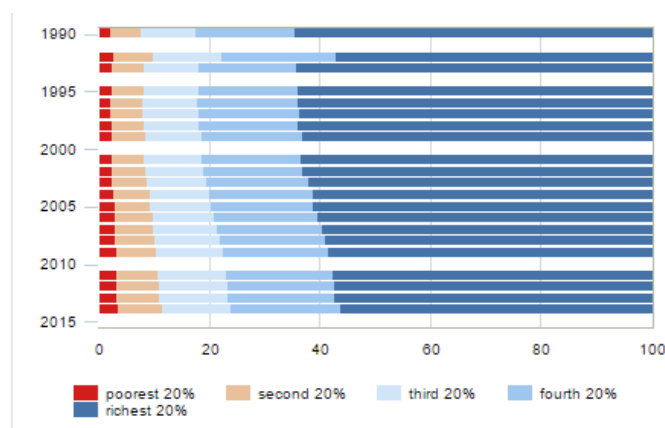
Source: Poverty & Equity Databank and PovcalNet

The economic inequality is also reflected geographically. According to IBGE, in 2016 the difference between the amount of average income per capita between the richest and poorest federal units was greater than 400%. The map below illustrates the regional discrepancies. The areas in red represent the federal units with income per capita 25% or more below the national average, while the areas in blue represent the federal units with income per capita 25% or more above the national average.

Figure 1 - Income per capita in Brazil (2016)

Above national average (25% or more)

Below national average (25% or more)
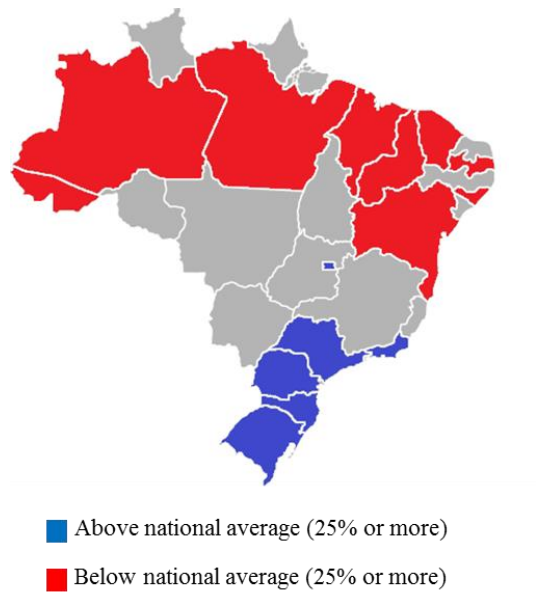
Source: prepared by the author based on the IBGE database, 2016

As per the map above, it is possible to notice that the North and Northeast areas of the country are the poorest ones, while the highest level of incomes are mostly concentrated in the South and Southwest areas. This pattern is also present in terms of education. According to the database of Atlas do Desenvolvimento Humano no Brasil, produced by the United Nations Development Programme (UNDP) in cooperation with some Brazilian entities, illiteracy is concentrated in the North and Northeast areas, as illustrated by the map below.

Figure 2 - Illiteracy rate – 25 to 29 years (2010)

Source: http://www.atlasbrasil.org.br

According to the World Bank, despite the poverty reduction over the last decade, there is still a high level of inequality in Brazil. The country managed to achieve universal coverage in primary education, but is struggling to improve the outcomes of the lower and upper secondary levels of education.

The concentration of income and precariousness of education are reflected in the consumption of artistic-cultural goods and services in Brazil. According to an empirical research conducted by Diniz & Machado (2011, p. 17), there are evidences that the consumption of arts and culture in Brazil is "unequally distributed among the population, being determined mainly by education and income".

This is also the conclusion of the report released by IBGE in 2013 on the information and indicators of culture. The report named *Sistema de Informações e Indicadores Culturais* presented its most recent results referring to the period from 2007 to 2010. According to the research, the poorer the Brazilian family, the lower its expenditures with culture. Families with an income greater than R$ 6,225.00 spend approximately 17 times more in culture than families with an income up to R$ 830.00 (IBGE, 2013, p. 126). Likewise, families whose householder has university level spend in average six times the amount spent by families whose householder has no education or incomplete elementary school level (IBGE, 2013, p. 126).

In relation to corruption, in 2016 Brazil has scored 40 points according to the corruption perceptions index 2016, considering a scale from 0 to 100 points, where 0 represents the highest level of corruption and 100 represents the highest level of cleanness. As per the map below,

Brazil, as well as the other emerging economies, presents much higher levels of corruption than developed countries:

Figure 3 - Corruption Perception Index (2016)
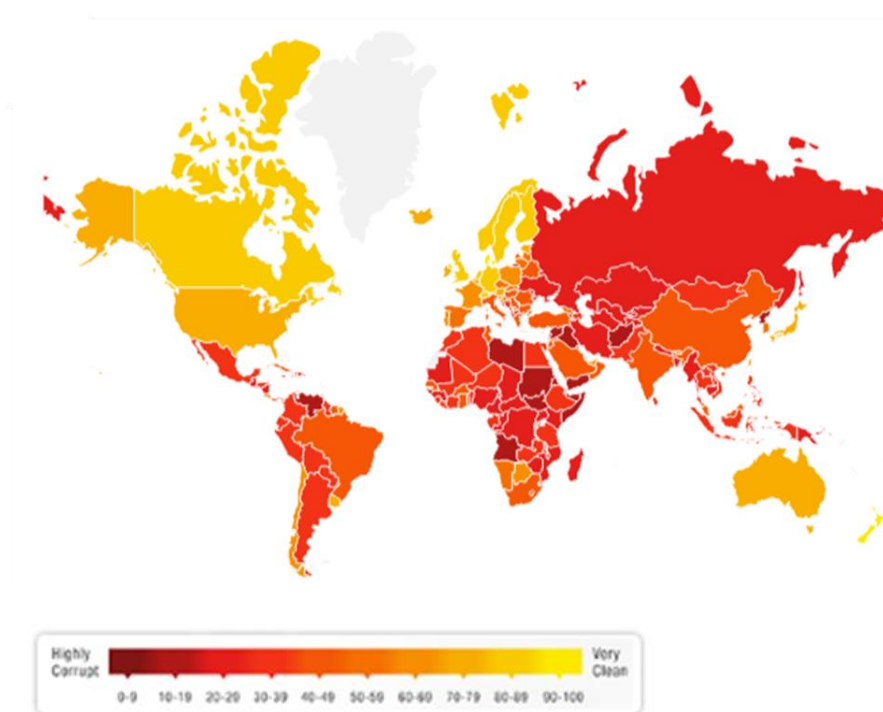
Source: https://www.transparency.org/news/feature/corruption_perceptions_index_2016

According to Filgueiras (2009), in Brazil it is rare to open the newspaper and not find news on political scandals. The scholar argues that despite the significant number of scandals in the country, the Brazilian society feels impotent in face of all corruption cases. As a result, corruption becomes trivial and tolerated instead of punished.

According to a survey called "Interesse Público e Corrupção"[3] conducted in the years of 2008 and 2009 by a centre of research of the federal university of the state of Minas Gerais in cooperation with Instituto Vox Populi, a Brazilian company specialized in survey researches, 73% of the Brazilian citizens considered corruption as a very serious issue in the country, whereas 24% consider it serious.

The literature argues that corruption in Brazil can be explained by its historical origins, particularly by the Portuguese colonialism (Mello, 2008; Faoro, 2000). According to Faoro (2000), during the colonization Brazil has inherited the Portuguese patrimonialism, which was

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[3] As explained by Filgueiras, Montandon, & Abreu (2010), the surveys were based on samples by quotas, referring to the national territory, of 2,421 individuals in the survey of 2008 survey and 2,400 individuals in the survey of 2009. The quotas were established based on data from the Census of 2000 and PNAD 2006, (Rural and urban), family income, region, age groups, schooling and economic activity. The confidence level obtained in the samples was 95.5%, with a margin of error of +/- 2.0%.

characterized by three main aspects: the lack of separation between the public and private spheres, the detachment of public agents from society, and the capitalism direct by the state.

According to Baquero (2015, p. 147), "the history of Brazilian political culture marked by patrimonialism and individualism obstructed the differentiation between public and private spheres, facilitating corruption practices within and without public institutions". The recurring cases of corruption evidence the instability of the Brazilian political and economic scenarios, which are marked by permissiveness, impunity and the inaction of society (Barros Jr., 1982, p. 9). Taylor (2010) emphasizes that corruption is one of the main problems of Brazil, since it affects not only the country's economy performance, but also the level of institutional trust.

To illustrate the above, it is worth mentioning three recent examples of corruption scandals. The first case illustrates the perception that society is tolerant towards corruption. The second case emphasizes the perception of impunity. Finally, the third case may be considered a first step to fight corruption.

As mentioned in the introduction to this work, one of the most notorious case of corruption involved Collor, the first president directly elected after the end of the military regime. It is worth mentioning that, despite the initiation of an impeachment process based on corruption evidences and his resignation from the presidency, Collor returned to politics in 2007, after being democratically elected as senator of the state of Alagoas and re-elected in 2014.

In 2005, another case caused global repercussion and became widely known as "Mensalão", a vast vote-buying scheme during the presidency of Luiz Inacio Lula da Silva. At the time, investigators discovered a scheme run by Lula's chief-of-staff, José Dirceu, to pay off congressmen in exchange for their support of the president's agenda. Dirceu has been condemned for active corruption and arrested in 2013. Nonetheless, in 2016 the Brazilian Supreme Court granted him a judicial pardon based on a decree approved by the current president at the time, Dilma Roussef, who belonged to the political party to which Dirceu worked for.

More recently, the case known as "Lava Jato" investigated the deviation of funds from Petrobras, the largest state-owned company in Brazil. As noted by Baquero (2015, p. 149), the investigations produced for the first time in Brazil, "a series of arrests and jailing of public figures and CEO of private construction companies". Such case, however, is far from being concluded and is also subject to critics, so it is too soon to draw any conclusions therefrom.

3.5. Empirical analysis of Rouanet Law

The empirical analysis of Rouanet Law is structured in six parts. The first one examines which are the main sources of Rouanet Law funds. The second subsection analyzes what motivates

supporters to invest in cultural projects. The third subsection explains where the subsidies go in terms of geographical distribution. The fourth subsection presents the artistic genres which benefit the most from Rouanet Law. The fifth part provides an overview on corruption issues in connection with the subsidies granted via Rouanet Law. The last block presents the main changes to the Rouanet Law introduced by a normative instruction created by the Ministry of Culture.

3.5.1.   *Where does the money come from?*

The investments in cultural projects via Rouanet Law can be supported by (i) individuals or (ii) by companies that pay income taxes based on their actual net income (i.e. Lucro Real). In Brazil, there are different tax regimes to calculate the due income tax of legal entities and they vary mainly based on the value of gross revenue.

The calculation of income tax based on the Lucro Real method is mandatory for companies whose total gross revenues exceed R$ 78 million per year (around USD 25 million). Consequently, most companies whose total gross revenues is lower than R$ 78 million are not entitled to the tax deductions provided by Rouanet Law.

As a result, Rouanet Law creates a subsidy that applies mainly to large companies. According to Augustin (2011, p. 13), in 2009 only thirty companies were responsible for half of the total amount invested via Rouanet Law. Such companies were mainly from the most concentrated sectors, such as the finance, steel and energy.

The predominance of support of cultural projects from large corporations is also highlighted by Cavalcanti (2006). The author estimated the average revenues of the supporting companies in 2005. To do so, the total amount of investments via Rouanet Law in 2005 (i.e. R$677 million) was divided by the total number of supporting companies (i.e. 1,956). The result (i.e. R$ 346,000.00) indicated the average amount invested per supporter. The scholar considered that companies can deduct up to 4% of the due tax income, so that he was able to estimate the average amount of due income tax per company (i.e. R$ 8.65 million). Considering that the due income tax corresponded to 15% of the total profit, the total net profit would correspond to R$ 57 million. The author considered a mark-up of 20% over the revenues, which indicated a total revenue of R$ 288 million.

It is worth noting that such calculation is simplified and presents some limitations. First, it ignores the fact that the total amount of investments via Rouanet Law comprises not only the support from legal entities, but also the amounts invested by individuals. As per the analysis of the Salic database, in 2005 around R$ 4 million were invested by individuals. If we adjust the calculation to reflect this data, the total revenue would be slightly lower (i.e. a difference of R$1.7 million). Second, as explained in section 3.2, the amount of tax deduction may vary, it is

not necessarily a full deduction. This seems not to be a problem for the argument, since it represents a more conservative approach. In other words, if the calculation is made considering partial deductions, the final value of the total revenue will be even greater. Third, there is no explanation to justify why the mark-up over revenue was set as 20%. Despite the limitations mentioned above, the literature has presented no alternative methodology to estimate the revenues of supporter companies in a more accurate way.

Therefore, if we replicate the methodology above for the last five years (i.e. 2012 to 2016), with the adjustment to consider only the support provided by legal entities, the results will indicate an average revenue above R$ 300 million, as detailed in the table below:

Table 6 - Estimated average revenue of supporter companies (2012 – 2016)

	2012	2013	2014	2015	2016
Support by Legal Entities	R$ 1,254,847,198.25	R$ 1,238,482,632.36	R$ 1,309,977,058.83	R$ 1,158,123,214.95	R$ 1,110,532,508.84
No. of Legal Entities	3,230	3,472	3,506	3,384	3,060
Average amount of support	R$ 388,497.58	R$ 356,705.83	R$ 373,638.64	R$ 342,234.99	R$ 362,919.12
Due Income Tax	R$ 9,712,439.61	R$ 8,917,645.68	R$ 9,340,965.91	R$ 8,555,874.81	R$ 9,072,978.01
Net Profit	R$ 64,749,597.43	R$ 59,450,971.22	R$ 62,273,106.05	R$ 57,039,165.43	R$ 60,486,520.09
Gross Revenue	R$ 323,747,987.16	R$ 297,254,856.08	R$ 311,365,530.24	R$ 285,195,827.16	R$ 302,432,600.45

Source: prepared by the author based on the database of Selic, 2012-2016

It is worth to highlight that according to Brazilian Law 11,638/07, companies with a gross revenue higher than R$ 300 million are classified as large-sized companies. In this sense, it would be possible to conclude that most of the funds raised by Rouanet Law seems to come from large-sized companies.

Additionally, it seems that the Rouanet Law primarily benefit highly profitable corporations. First, tax incentives are only applicable to profitable companies (if there is no profit, there is no due tax income), and considering that the incentive is calculated as a percentage of the income tax, the higher the profits, the higher the tax incentive. Consequently, the biggest companies with the highest profits are the ones that receive more public incentives to boost their marketing strategies. Therefore, the tax incentive generated by Rouanet Law, subsidizes not only cultural projects, but also the cultural marketing of major for-profit corporations, as explained in more detail in section 3.5.2.

Another important remark on the Rouanet Law is the strong presence of state-controlled companies and quasi-governmental companies as the main supporters of the projects. According to a report prepared by SEBRAE - *Serviço Brasileiro de Apoio às Micro e Pequenas Empresas* (Brazilian service of assistance to micro and small enterprises), an institution supporting the development of small and micro companies in Brazil, 2,462 projects (more than 80% of the projects of the table below) were supported by state-controlled companies.

Table 7 - Major supporters in number of Rouanet Law projects (2008-2013)

Ranking	Supporters	Projects
1	Petrobras	726
2	Banco do Brasil	587
3	Cemig	287
4	Eletrobras	257
5	Vale	249
6	CBMM	196
7	Tractebel	193
8	BNDES	180
9	Petrobras Distribuidora	176
10	Souza Cruz	175

Source: http://www.mapafinanciamentocultural.org.br/imagens/catalogo.pdf

This scenario reflects the entangled relationship between politics and markets, which act as "overlapping subsystems of human interaction within a society" (Tuszynski & Wagner, 2015, p. 106). For instance, an analysis of the Bovespa Index (Ibovespa), composed by the more actively traded and better representative stocks of the Brazilian stock market, shows that most of the participation in the Ibovespa (i.e. 52.6%) is held by companies that have at least a minority shareholding held directly or indirectly by a governmental or governmental-related entity. The table below provides more detail on the matter:

Table 8 - Composition of the Ibovespa Index in 2017

	Company	% Ibovespa	Governmental participation?
1	Ambev	7.548	No
2	Banco do Brasil	3.755	Yes
3	Banco Bradesco	9.856	No
4	BB Seguridade	1.873	Yes
5	Bradespar	0.369	No
6	BRF *	2.911	Yes
7	Braskem	0.764	Yes
8	BR Malls	0.851	No
9	BM&FBovespa	3.698	No
10	CCR	1.871	No
11	Cielo	2.315	Yes
12	Cemig	0.647	Yes
13	CPFL Energia	1.063	Yes
14	Copel	0.272	Yes
15	Cosan	0.528	No
16	CSN	0.413	No
17	Cyrela Realty	0.292	No
18	Ecorodovias	0.192	No
19	Engie Brasil	0.627	No
20	Eletrobras	0.789	Yes
21	Embraer	1.022	Yes
22	Energias BR	0.281	No
23	Equatorial	0.959	No
24	Estácio Participações	0.504	No
25	Fibria	0.595	Yes
26	Gerdau	0.782	No
27	Gerdau Metalúrgica	0.256	No
28	Hypermarcas	1.104	No
29	Itaúsa*	3.497	Yes
30	Itaú Unibanco*	11.191	Yes
31	JBS	1.349	Yes
32	Klabin	0.624	Yes
33	Kroton	1.97	No
34	Lojas Americanas	1.006	No
35	Lojas Renner	1.793	No
36	Marfrig	0.252	Yes
37	MRV	0.362	No
38	Multiplan	0.51	No
39	Natura	0.535	No
40	CBD	1.046	No
41	Petrobras	9.573	Yes
42	Qualicorp	0.57	No
43	Raia Drogasil	1.227	No
44	Rumo	0.694	Yes
45	Localiza	0.658	No
46	Santander	0.958	No
47	Sabesp	0.968	Yes
48	Smiles	0.358	No
49	Suzano Papel	0.438	Yes
50	Tim Participações	0.732	No
51	Ultrapar	2.642	No
52	Usiminas	0.191	No
53	Vale	7.979	Yes
54	Telefônica	1.761	No
55	Weg	0.979	No

Source: *prepared by the author based on the databases of BM&FBovespa and Brazilian Securities and Exchange Commission (CVM) on May 17, 2017*

* These companies have a minority shareholding held directly or indirectly by Fundação Petrobras de Seguridade Social – Petros, a pension fund created by Petrobras

3.5.2. What are the motivations to support cultural projects?

A research conducted by Fundação João Pinheiro, under the request of the Ministry of Culture, has revealed based on a survey applied to a sample of 111 companies their main motivations to support cultural projects. According to the results, based on multiple and non-exclusive answers, companies are mainly motivated by publicity strategies, rather than social purposes. The main motivation for companies to invest in cultural projects was the promotion of institutional image. Such motivation has been mentioned by more than 65% of the companies, while less than 24% mentioned the reinforcement of the company´s social rule as a reason for the support. The table below presents more details on the matter.

Table 9 - Motivations for supporting arts and culture

Motivation	%
Promoting institutional image	65.04
Adding value to the brand	27.64
Reinforce the social role of the company	23.58
Tax benefits	21.14
Midia return	6.5
Approaching the target public	5.69
Others	3.25
Not mentioned	11.38

Source: Fundação Fundação João Pinheiro (1998)

In this sense, Barbalho (2007) explains that a common critic from the artists and cultural producers to the Rouanet Law is that companies are only interested in projects that have media visibility and audience appeal. Therefore, projects in areas that traditionally get less exposure to the media and large audiences struggle much more to raise funds by Rouanet Law. The scholar argues that as a result, artists and cultural producers tend to adequate their creations more and more to the market rationale.

This view is corroborated by Ponte (2012, p. 35) who argues that the fact that the decisions on public investment in arts and culture are taken by the marketing departments of large companies can directly interfere in the artistic purpose or in the format of the cultural project.

According to Mega (2015, p. 57), the sponsorship guidelines of some supporters – including private and state-owned companies – such as Santander, Eletrobras, Natura, Correios and Volkswagen explicitly impose restrictions to the freedom of artistic expression and creativity by means of prohibiting cultural projects that are connected with polemic issues such as violence, drugs, weapons and pornography.

In an interview conducted by Mega (2015, p. 78), the person in charge for the cultural initiatives of Santander mentioned that the bank is not likely to support an artistic production connected to controversial issues since the association of the image of the brand with themes that are contrary to the values of its clients brings risks to the company's business and income.

The scholar (Mega, 2015, p. 63) argues that by means of such restrictions, the Brazilian elite classifies the behaviour, lifestyle and speeches from the urban peripheries as vulgar and profane with the purpose of monopolizing the artistic productions according to its language considered erudite and sacral.

3.5.3. *Where does the money go?*

For the purposes of this analysis, there has been collected in the website of Salic official information on the amount of tax expenditures invested in culture by means of the Rouanet Law during the last five years (i.e. 2012 - 2016).

The analyzed data indicates a substantial geographical disparity on the amount of funds invested by means of the Rouanet Law. As per the graph below, there is a huge concentration of investments in the Southeast area of the country, while the Northeast and North receive much more modest sums.

Graph 3 - Rouanet Law funds per region (2012 - 2016)
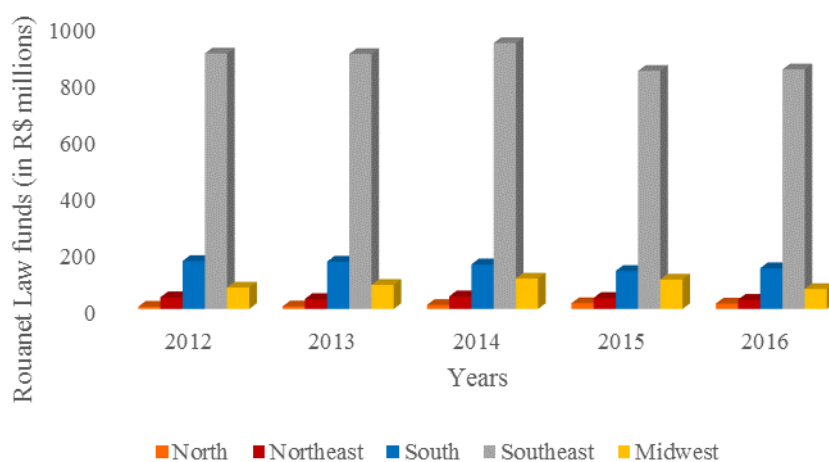
Source: prepared by the author based on the Salic database, 2012-2016

The data also indicates that there is an enormous concentration of resources in the richest federal units. The five richest federal units (out of 27) in terms of average income per capita (i.e. Distrito Federal, São Paulo, Rio Grande do Sul, Santa Catarina and Rio de Janeiro) respond for approximately 84% of all Rouanet Law funds invested in 2016. On the other hand, the five

poorest federal units (i.e. Maranhão, Alagoas, Pará, Amazonas and Piauí) respond for less than 1.5% of such funds.

One possible argument that could be claimed to explain such disparities is that the concentration of Rouanet Law funds reflects the concentration of population. Nonetheless, the disparity in the allocation of subsidies is much higher than the discrepancies in population density (projected by IBGE). For instance, the state of São Paulo, the most populous one, concentrates around 21% of the total population of the country and received in 2016 almost 50% of all the resources obtained via Rouanet Law. Likewise, the state of Rio de Janeiro concentrates around 8% of the population and received in 2016 more than 20% of the subsidies from Rouanet Law. The graph below illustrates the levels of population and concentration of Rouanet Law funds in each of the five Brazilian federal units most benefited by Rouanet Law in 2016.

Graph 4 - Five federal units most benefited by Rouanet Law in 2016
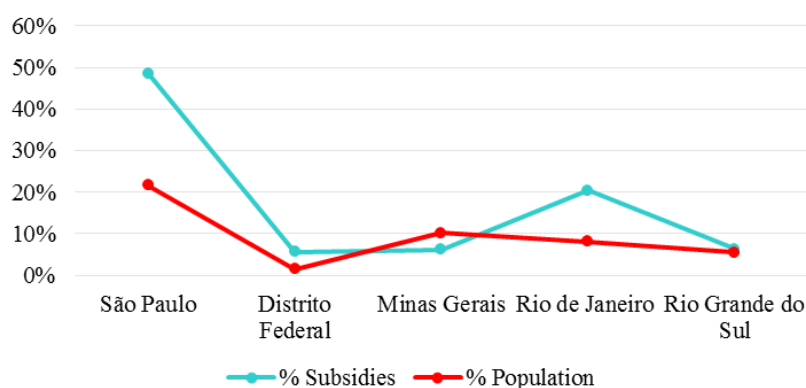
Source: prepared by the author based on the Salic and IBGE databases, 2016

The geographical inequality is also evident when comparing the per capita distribution of funds from the Rouanet Law in each federal unit. Alagoas, in the North region of the country, is the federal unit that received the lowest amounts of Rouanet Law subsidies per capita in 2016, a total of only R$ 0.01 per inhabitant. On the other hand, the highest amount of subsidies per capita was received by Distrito Federal, the capital of the country, and corresponds to R$ 21.07, it is to say, almost four times the national average and 2,107 times the per capita amount received by Alagoas.

When comparing the regions, the Southeast received in 2016 R$ 9.80 of subsidies per inhabitant, while the Northeast area received only R$ 0.57 of subsidies per inhabitant, corresponding to around 181.8% and 10.6% of the national average, respectively. The table below presents the amounts of subsidies per capita for each federal unit and per region.

**Table 10 - Rouanet Law funds per capita by federal unity / region in 2016**

Federal Unit / Region	Rouanet Law funds per capita	
National Average	**R$**	**5.39**
North	**R$**	**1.08**
Rondônia	R$	0.68
Acre	R$	3.47
Amazonas	R$	2.88
Roraima	R$	0.05
Pará	R$	0.25
Amapá	R$	0.61
Tocantins	R$	0.62
Norteast	**R$**	**0.57**
Maranhão	R$	0.20
Piauí	R$	0.29
Ceará	R$	1.60
Rio Grande do Norte	R$	0.49
Paraíba	R$	0.07
Pernambuco	R$	0.71
Alagoas	R$	0.01
Sergipe	R$	0.25
Bahia	R$	0.42
Southeast	**R$**	**9.80**
Minas Gerais	R$	3.26
Espírito Santo	R$	2.68
Rio de Janeiro	R$	13.65
São Paulo	R$	12.06
South	**R$**	**4.89**
Paraná	R$	3.36
Santa Catarina	R$	5.26
Rio Grande do Sul	R$	6.18
Midwest	**R$**	**4.47**
Mato Grosso do Sul	R$	0.82
Mato Grosso	R$	0.67
Goiás	R$	0.42
Distrito Federal	R$	21.07

Source: prepared by the author based on the Salic and IBGE databases, 2016

*3.5.4. Which art forms are the most benefited by Rouanet Law?*

In addition to the regional concentration of subsidies, the funds from the Rouanet Law are also concentrated in terms of artistic genres. The supported projects are classified into seven categories: (i) performing arts, (ii) visual arts, (iii) audio-visual, (iv) humanities, which mostly relates to literature, journals and other publications, (v) integrated arts, which comprises carnival, multifunctional cultural equipment, multimedia and restorations, (vi) music, and (vii) cultural heritage. As per the graphs below, from 2012 to 2016 the subsidies have been mostly concentrated in performing arts (33% in average), followed by music (23% in average) and visual arts (average of 16%).

Graph 5 - Subsidies per genre from 2012 - 2016
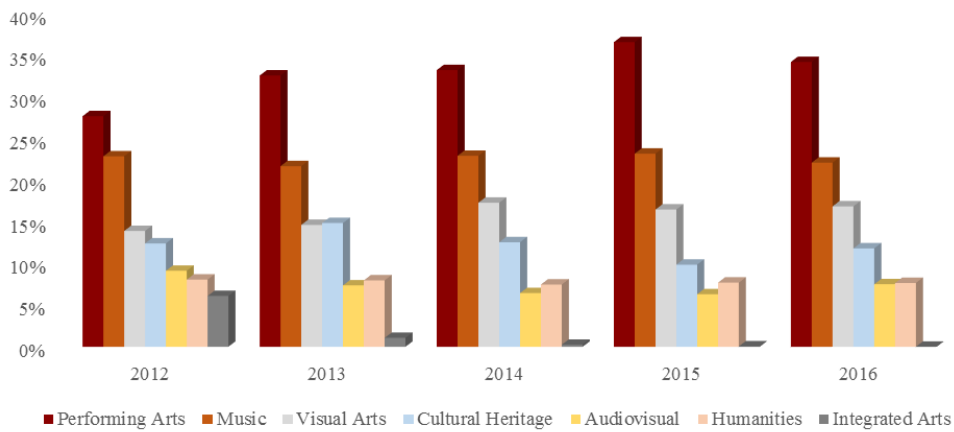
Source: prepared by the author based on the Salic database, 2012-2016

Graph 6 - Subsidies per genre in average (2012 - 2016)
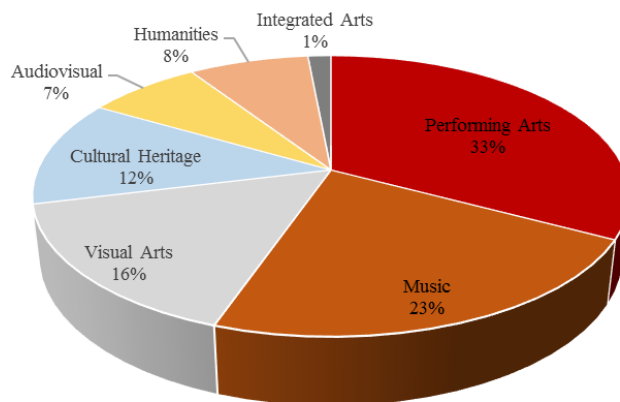
Source: prepared by the author based on the Salic database, 2012-2016

The concentration of funds in certain genres may be partially explained by the fact that they seem to follow the proportion of funds required in the proposed projects, as illustrated by the graph below[4].

Graph 7 - Projects proposed by genre vs Projects supported by genre (averages)
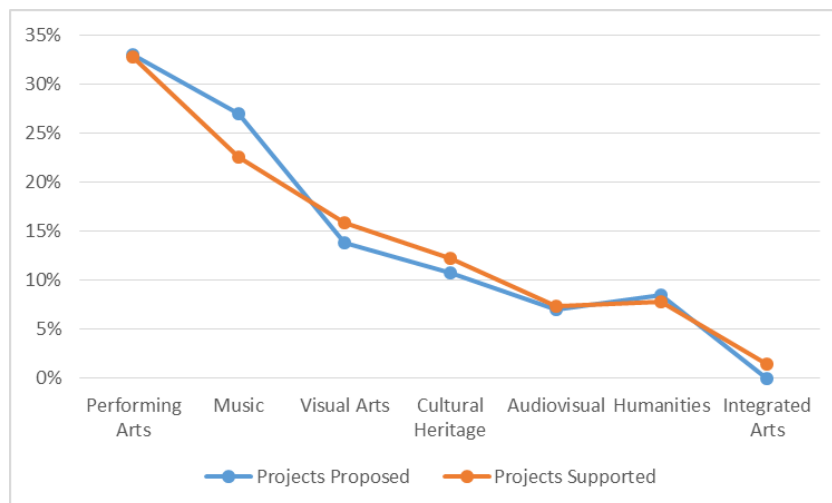
Source: prepared by the author based on the Salic database, 2012-2016

Nonetheless, there are three other reasons that may also help to explain such allocation of funds: (i) cultural marketing strategies, (ii) levels of tax deduction, and (iii) complexity of the application process.

First, supporters decide which project to support based on their marketing strategies. As explained by Mega (2015, p. 4), supporter companies tend to invest in large shows that proportionate high levels of media exposure and attendance. Such kind of events are more likely to happen in the performing arts (e.g. adaptations of Broadway plays), music (e.g. music festivals with superstars) and visual arts sectors (e.g. exhibitions of prestigious artists).

According to Mega (2015, p. 95), in 2011 approximately R$45 million of the funds raised by Rouanet Law have been invested in large Broadway productions. This amount corresponds to more than 15% of the Rouanet Law subsidies directed to performing arts in 2011. According to the author, these blockbuster events proportionate high levels of publicity to the supporter companies, and consequently contribute to add value to their brands. Mega (2015, p. 4) explains

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[4] It is worth noting that in some years the amount of funds raised is higher than the amounts of funds requested by the proponents in the relevant year. This difference may be explained by the fact that the project may be proposed in a certain year and the funds raised in a different year. The term for raising funds may vary according to each project, but apart from exceptional cases, shall not exceed 24 months.

that there is a concentration of investments in projects with superstar actors and widely-known directors in detriment of professionals not acclaimed by the media.

Second, supporters tend to prefer to invest in sectors that entitle full deduction of the investment (sectors listed in section 18 of Rouanet Law). This could explain why investments in performing arts are higher than in music, once all investments in performing arts allow full deduction, while only investments in instrumental and classical music are fully deductible.

Third, the concentration of investments in certain genres may also indicate that the bureaucracy for proposing projects is likely to deter the less privileged artists and producers – from less appealing segments such as integrated arts – from seeking for subsidies, since they do not have trained people to help them with the application process.

The high levels of bureaucracy and the complexity of the application process have been acknowledged by the Ministry of Culture, which has formally proposed adjustments to the Rouanet Law to reduce the bureaucracy and to prohibit the use of intermediaries in the application process (as per section 37 of the PL 6,722 mentioned in section 3.2 herein).

As explained by Barbalho (2007), artists are increasingly required to get professionalized by means of hiring a team of support professionals, such as producers, fundraisers, researches and marketing professionals, which consequently tends to exclude the artists who have no advisory support.

3.5.5. *Corruption in connection with Rouanet Law*

According to the regional chief of the Office of the Comptroller General in the state of São Paulo 87% of the projects financed by the Rouanet Law presents failures considered serious. This conclusion comes from the analysis of a sample of 34,000 cultural projects from 1992 to 2015.

According to the Communication Department of the Attorney General's Office in the State of São Paulo, in June 28, 2016 there has been deflagrated the so-called Operação Boca Livre (Freeload Operation) aiming at investigating alleged manipulations of federal funds in cultural projects approved by the Ministry of Culture by means of the Rouanet Law. The fraudulent acts have been performed within the last two decades and caused a loss of approximately R$180 million to public purse (around USD 57 million). The Federal Police believe that the irregularities may include, among other aspects, the return of part of the deviated funds to supporter companies.

Moreover, the Brazilian Federal Court of Accounts (TCU) has investigated alleged irregularities in the financial support approved by the Ministry of Culture based on Rouanet Law to some cultural projects, such as Rock in Rio, a major musical festival. As a result of the investigations, TCU recommended the Ministry of Culture not to authorize the raising of funds

to projects that present a strong potential to be profitable or capacity to attract sufficient private investments.

According to the TCU's decision, the practice of charging prices that cannot be considered accessible to society in general conflicts with the purposes of the Brazilian Federal Constitution and the Rouanet Law, which aim at assuring to all citizens the full exercise of cultural rights and access to the sources of national culture (as per section 215 of the Brazilian Federal Constitution and section 1st of Rouanet Law).

Another important criticism against the operation of Rouanet Law relates to the supervision of the projects' accountability. According to the Ministry of Culture, there are approximately 18,000 of projects whose accountability assessment is pending, which contributes to a scenario of lack of control over public funds.

Finally, it is worth mentioning that corruption is also present within some important supporters. For instance, Petrobras, the Brazilian state-oil company which supported the largest number of projects within the period from 2008 to 2013, wrote-off in 2014 an amount of R$ 6.2 billion (at the time approximately USD 2 billion) due to alleged bribery payments.

Likewise, BNDES, which was also among the largest supporters of cultural projects via Rouanet Law in the referred period, is being investigated by the Federal Police under the investigation called Operação Bullish, initiated in May, 2017. The investigation aims at clarifying alleged frauds and irregularities within the granting of funds by BNDES to JBS, a company controlled by J&F, who entered into a leniency agreement with Federal Public Prosecutor's Office after confessing the involvement in a corruption scheme. It is worth mentioning that BNDES indirectly owns more than 21% of JBS's shares, which also emphasizes the entangled relationship between the public and private spheres, as mentioned in section 3.5.1.

3.5.6. The Normative Instruction 1/2017

In response to the regional disparities and high prices of cultural products and services funded by means of the Rouanet Law, the Ministry of Culture released on March 20, 2017 the Normative Instruction 1/2017 (IN 1/2017) aiming at assuring the fundaments of the law: fomenting national culture in a decentralized way, democratizing the access to the resources from the tax incentives and to the cultural goods supported by Rouanet Law.

The new rules try to induce the increase of projects in the North, Northeast and Midwest regions by means of increasing the thresholds of number of projects per proponent and resources per proponent for projects carried out in such areas.

The first possible problem of such measures is that the Midwest area includes Distrito Federal, which is the richest federal unit of the country in terms of average income per capita,

and the federal unity that received the highest amounts of Rouanet Law subsidies per inhabitant in 2016. In addition, analyzing the numbers of the last five years (i.e. 2012 - 2016), Distrito Federal has been always one of the five federal units most benefited by the Rouanet Law in absolute values, as detailed in the table below:

Table 11 - Five federal units most benefited by Rouanet Law Funds (2012 - 2016)

	2012	2013	2014	2015	2016
1st	São Paulo (43%)	São Paulo (45%)	São Paulo (41%)	São Paulo (44%)	São Paulo (49%)
2nd	Rio de Janeiro (26%)	Rio de Janeiro (22%)	Rio de Janeiro (26%)	Rio de Janeiro (22%)	Rio de Janeiro (20%)
3rd	Paraná (7%)	Minas Gerais (8%)	Distrito Federal (8%)	Distrito Federal (8%)	Minas Gerais (6%)
4th	Minas Gerais (6%)	Distrito Federal (6%)	Minas Gerais (7%)	Minas Gerais (7%)	Paraná (6%)
5th	Distrito Federal (6%)	Paraná (6%)	Paraná (5%)	Rio Grande do Sul (5%)	Distrito Federal (6%)

Source: prepared by the author based on the Salic databases, 2012-2016

In this sense, supporters may opt to invest in Distrito Federal to benefit from the higher thresholds, rather than investing in less privileged areas. If that happens, the decentralization pursued by the law will be unlike to happen.

Another weakness of the IN 1/2017 relates to the thresholds themselves. Article 20 of the IN 1/2017 states that the proponents (legal entities) shall not have more than ten projects supported by the Rouanet Law and that they shall not receive more than R$ 40 million, limited to R$ 10 million per project, except in some specific cases, such as annual or biennial plans, where the monetary thresholds do not apply.

The problem is that, in view of empirical data such thresholds do not seem actually restrictive to the proponents. For instance, seven out of the ten largest proponents invested the funds in annual and biennial plans, which are not subject to the limitations. Additionally, none of the ten largest proponents in 2016 reached the limits of R$40 million or the ten projects threshold. Only one of such proponents (i.e. Fundação Roberto Marinho) exceeded the threshold of R$10 million per project (Instituto Tomie Ohtake and Instituto Itau Cultural exceeded the amount but they are not subject to the threshold since they are investing the funds in annual and biennial plans). The table below provides more details on the matter:

Table 12 - Investments supported by the 10 largest proponents in 2016

Rank	Proponent	Number of Projects	Total Amount (R$ million)	Highest amount per project (R$ million)	Annual or Biennial Plan?*
1	Instituto Tomie Ohtake	2	19	10.7	Yes (100%)
2	OSESP	2	14.2	8.4	Yes (100%)
3	Aventura Entretenimento Ltda.	6	14	4.2	No
4	Instituto Itau Cultural	1	14	14.0	Yes (100%)
5	MASP	2	12.6	6.5	Yes (100%)
6	Fundação Roberto Marinho	3	12.3	10.6	No
7	Instituto Cultural Inhotim	3	10.8	6.6	Yes (96%)
8	Fundação Bienal de São Paulo	2	10.5	8.5	Yes (20%)
9	Nós 3 Produções Ltda.	3	10.4	6.3	No
10	Instituto de Desenvolvimento e Gestão	2	10.4	5.5	Yes (100%)

** In affirmative cases the percentual of funds invested in annual/biennial plans is indicated*

Source: *prepared by the author based on the Salic database, 2016*

As per the above, it is possible to notice that the changes introduced by IN 1/2017 may not be sufficient to promote the decentralization of investments made under the Rouanet Law. This is especially true in light of the fact that the Rouanet Law has become an important instrument of cultural marketing for the sponsoring companies (Calabre, 2007), and as so, the investments made through the law are mainly guided by a market-oriented logic, which is not necessarily concerned about decentralization or democratization of culture.

Another concern addressed by the IN 1/2017 relates to the price of the cultural services and goods subsidized by the Rouanet law. The new rules establish that (i) at least 10% of the tickets shall be distributed free of charge to the population, (ii) up to 10% can be distributed free of charge to the sponsors, (iii) up to 10% can be distributed free of charge to advertising purposes, (iv) at least 20% shall be commercialized for no more than R$ 50 (corresponding to 5% of the current monthly minimum wage or 4,7% of the Brazilian average income per capita in 2016) and (v) up to 50% can be commercialized for an average price equal or lower than R$ 150 (corresponding to 16% of the current monthly minimum wage or of 14,1% of the Brazilian average income per capita in 2016).

The careful analysis of such numbers also seems to stress the weakness of IN 1/2017 to promote democratization of access. According to the data from Eurostat (2010), private consumption expenditure on culture-related goods and services in Europe as a share of total household expenditure averages 3.6%, with just few countries exceeding 5% (i.e. Denmark, Sweden and United Kingdom). The graph below provides more details on the matter.

Graph 8 - Household cultural expenditure in Europe as a share of total household expenditure in 2010
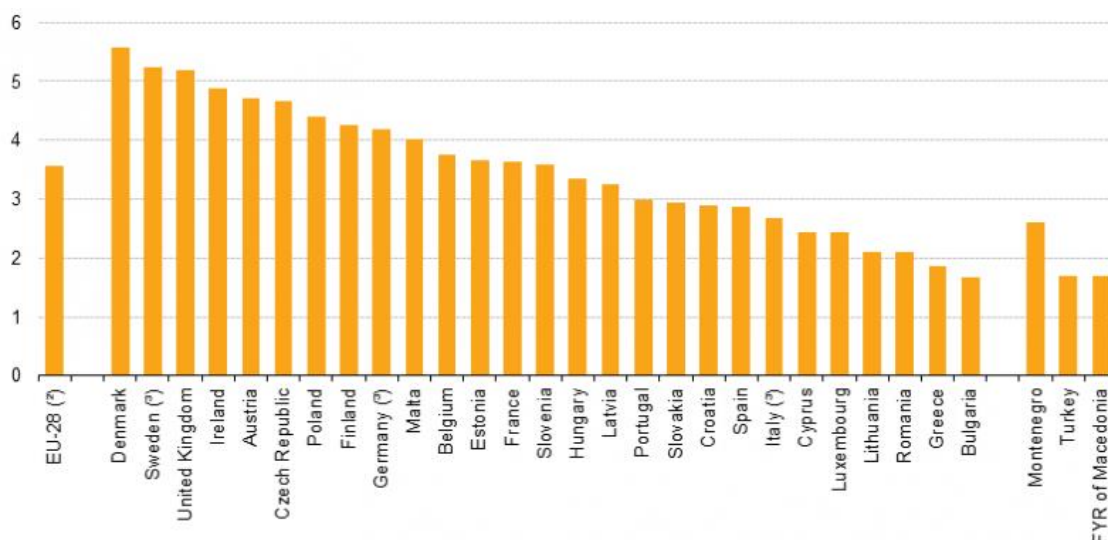
(¹) The Netherlands: data not available.
(²) Estimate; does not include the Netherlands.
(³) Estimates.

Source: Eurostat (cult_pcs_hbs), 2010

In Brazil, according to Diniz & Machado (2011), the expenditures on cultural-artistic goods and services account for less than 1.5% of the total household expenditure. In this sense, the maximum prices established by the IN 1/2017 for the cultural tickets and goods seem still very high and not capable of actually democratizing the access to culture.

3.6. *State patronage of arts and the crowding-in and crowding-out effect*

As mentioned in section 2.1.2, the poor reputability of the government of emerging economies may in several ways inhibit private investments, generating the so-called crowing out effect. The empirical research conducted in Brazil by Earp & Estrella (2017) confirms such affirmation.

According to the results of their empirical research (Earp & Estrella, 2017, pp. 319-320), in 1996 the real value of the amounts raised for arts and culture by means of tax deductions totalled around R$133 million, in 2014 this amount increased to approximately R$1,260 million. The private investments, on the other hand, amounted R$230 million in 1996 and decreased to R$74 million in 2014. The crowding-out effect is illustrated by the graph below which presents the shares of private and public investments during the years:

Graph 9 - Evolution of percentage of tax deductions and private support in patronage of arts raised by the Ministry of Culture
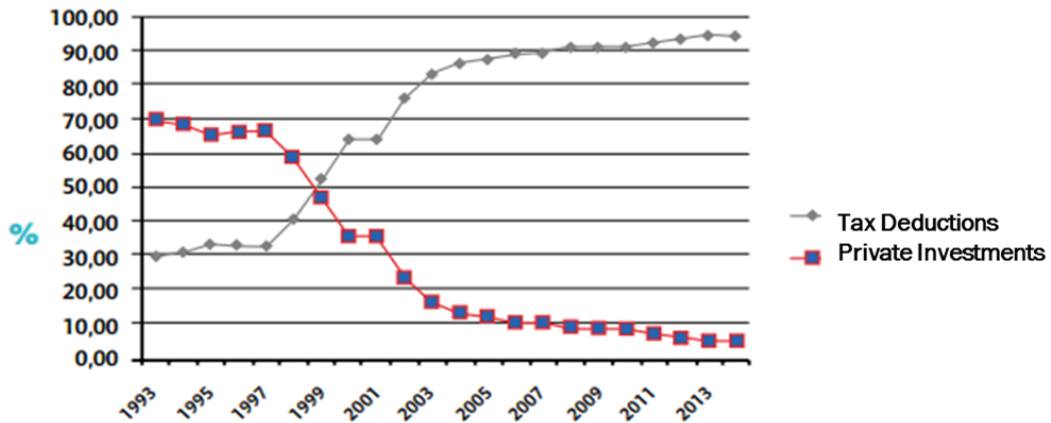
Source: Earp & Estrella, 2017, p. 320

The graph below compares the real value of the investments made by means of private capital and tax deductions from 1996 to 2014:

Graph 10 - Investments in arts and culture 1996 - 2014: Private Investments vs Tax Deductions (real values)
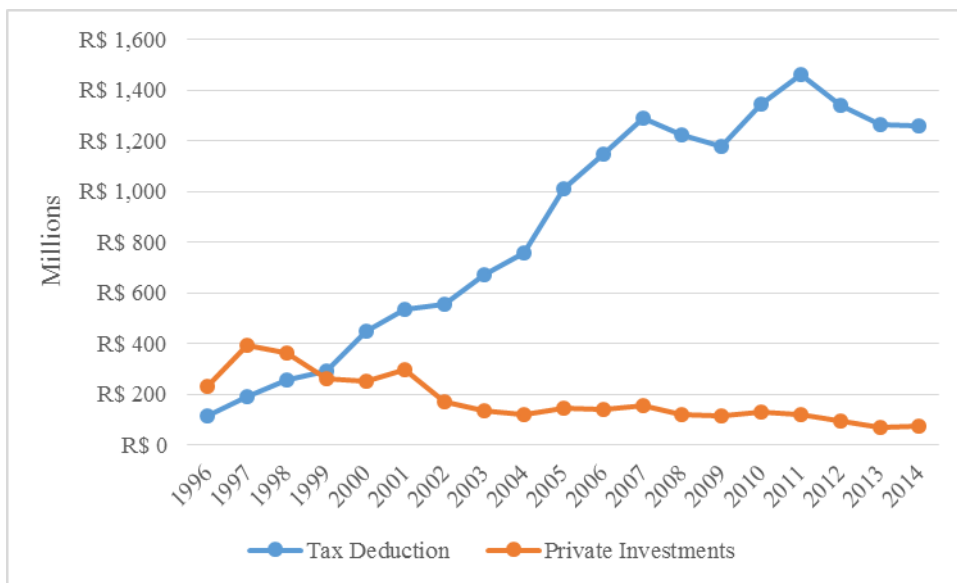
Source: prepared by the author based on the data provided by Earp & Estrella, 2017, p. 332

The main reason for the rampant decrease of private support is, as explained by Belem & Donadone (2013, p. 56), the amendment of Rouanet Law in the second semester of 1997 by means of the Medida Provisória 1,589/97. The new rule introduced the possibility of deducting 100% of the sponsorship or donation for cultural projects in certain sectors (i.e. the ones listed by section 18 of Rouanet Law). In other words, this new rule allowed the private sector to

finance cultural projects fully with tax incentives, with no need of any counterpart by the sponsor or donor.

3.7. State patronage of arts and income distribution

As briefly mentioned in section 2.2, another common argument in favour of public subsidies for the arts relates to income distribution (Zimmer & Toepler, 1999, p. 34; Netzer, 1978, p. 156; Frey, 2003, p. 373). Nonetheless, as per the empirical analysis of Rouanet Law, none of the three potential contributions of the state patronage of arts to democratize arts and culture has been observed.

First, the Rouanet Law has not contributed to the geographical decentralization of arts and culture, but rather reinforced it. As mentioned in section 3.5.3, in 2016 the five Brazilian federal units with highest monthly income per capita received more than 84% of the tax incentives.

A second component of the income distribution argument is the idea that admission prices may inhibit the consumption of arts. Once again, the example of Rouanet Law shows that this barrier may exist even when the state patronage of arts takes place.

Many projects subsidized by Rouanet Law are not free of charge for the public, and the maximum prices established by the IN 1/2017 are much higher than the rate of private consumption expenditure on culture-related goods and services in most European countries and in Brazil itself. For instance, Aventura Entretenimento Ltda., the third largest beneficiary of Rouanet Law in 2016, charged full admission fees ranging from approximately 5% to 14% of the Brazilian current monthly minimum wage (the half-entrance fee for students, seniors and disabled people ranged from approximately 2.5% to 7% of the Brazilian current monthly minimum wage).

The third component of the income distribution argument refers to family financial support. The idea is that the high investments in arts training combined with the low earnings in the early years of the careers may discourage young artists from low-income families and, therefore, make artistic careers a privilege for those who can rely on family financial support.

Nevertheless, subsidies for the arts do not necessarily solve the problem. For instance, the funds from Rouanet Law are heavily used to support superstar artists and blockbuster events instead of low-income artists (Calabre, 2007). The Rouanet Law allows the private agents to decide which project to support, and this decision is made based on a cultural marketing logic. As a consequence, companies prefer to invest in less risky projects, normally carried out in the richest regions of the country and by well-known artists.

Therefore, the analysis above confirms the allegation sustained by the public choice theory that "government programs often have losers (taxpayers for whom the burden exceeds

the benefit) as well as gainers" (White, 2012, p. 335). The main problem evidenced by the case of Rouanet Law is that due to the lack of education, high levels of corruption and significant social and economic inequalities, the number of losers may be way larger than the number of gainers.

In this sense, the conclusions above are in line with several studies which have found that arts attenders worldwide represent the well-educated, wealthy minority of society (Morrison and West, 1986; Dobson and West, 1990; Hendon, 1990). Such studies suggest that governmental subsidies for arts may result in public money financing the habits of a prosperous minority.

Such idea that public subsidies for arts and culture would only benefit an elite has been elicited by Grampp and Brooks. According to Grampp (1989, p. 120) "government assistance to the arts is an involuntary transfer of resources from the public to arts organizations and their audiences". Grampp argues that the main beneficiaries of government support of arts are the arts organizations and their audiences. In emerging economies, where arts audience is mostly composed by wealthy people, this would mean that the main beneficiaries of public subsidies are arts organizations and wealthy individuals.

Likewise, Brooks (2001, p. 363), based on his model to predict opposition to state patronage to the arts grounded on ideological, economic, and demographic characteristics, has identified that "those in the highest income class are most likely to support public arts funding, holding all else constant". Brooks suggests that if wealthy individuals are not systematically different than others in their opinion on the public benefits of the subsidized arts, it would be possible to infer that highest income class derives more in private benefits from public funding than do people in other classes. Therefore, he concludes that this "adds legitimacy to the position that government arts funding, as currently administered, is primarily a public subsidy to the rich" (2001, p. 363).

4. Conclusion

This study provides a systematic view on the literature on state patronage of arts and outlines, in light of the Brazilian case, important limitations that have been ignored by scholars.

As per this work, most of the arguments for the public support of arts can be considered highly fragile when analysed under the context of emerging economies. The main reason for that is the precariousness of education, the social and economic inequality and the high levels of corruption in emerging economies.

All the market failure arguments to support the subsidy of arts are based on the romantic assumption that governmental intervention could correct the market failures. As mentioned by Krueger (1990, p. 13), "one must ask why economists were ever comfortable with the

simultaneous beliefs that individuals in the private sector act in their self-interest and that individuals in the public sector are motivated by a Benthamite vision of social justice".

Such question makes even more sense to be asked in view of the emerging economies, which present high levels of corruption and poorer levels of education. As pointed out by Krueger (1990, p. 16), since the supply of skilled manpower in emerging economies is limited and the levels of education are poor, "employing highly educated persons in the public sector or educating more persons to increase the supply available to the public sector is far from costless".

In this sense, it seems naïve to believe that government intervention could be the solution for market failures. Public agents, as well as private agents, may be guided by their own particular interests, rather than by the public interest. This is also more likely to happen in countries with high levels of corruption where the legitimacy of government is undermined and the enforcement of law is fragile (Krueger, 1990, p. 18).

In addition, even if there was no self-interested behaviour among public agents, this would not be enough to guarantee that government intervention would be able to correct market failures. The design and implementation of an effective public policy requires more than good faith, there is a need, among other things, of skilled manpower. As mentioned, this may be a problem in emerging economies due to the deficient levels of education and, consequently, the lack of high qualified individuals.

Education is not only important to form qualified police makers and public agents, but also to encourage the demand for arts, since it is a crucial component of human capital and contributes to the individual´s ability to process and acquire information (Stigler & Becker, 1977, p. 79; Diniz & Machado, 2011, p. 3).

In this sense, if access to good education is a privilege of wealthy people, it would be possible to argue that they should be the ones subsiding arts, otherwise, public money would be spent just for the benefit of an elite. The cultural exclusion of non-educated and underprivileged individuals is well illustrated by the Brazilian example of Rouanet Law. The subsidized projects are mainly concentrated in the regions with higher levels of education and income, which are not accessible to most of the inhabitants of the poorest areas.

But it is not only the arguments for the public support of arts based on market failures that do not stand up to scrutiny. The defence of state patronage of arts based on income distribution does not seem to justify public subsidies either. The democratization of access to arts and culture depends on a combination of factors, such as infrastructure, education, income and leisure time.

Even if subsidies guarantee free or reasonable prices to cultural goods and services, which is not the case for Rouanet Law, it does not guarantee that people would be willing to spend their free time on this, especially if the individuals do not have the required human capital

to understand and appreciate them. The scenario can be even worse in countries where there is a lack of infrastructure. It would be costly to build museums, movie theatres and concert venues in every city of a country. But if such cultural infrastructure is concentrated in few areas and there is no affordable means of transportation between the cities, the access to arts and culture is certainly compromised.

Another obstacle that can prevent cultural democratization is the lack of leisure time due to poor working conditions or weak enforcement of labour laws. As mentioned by Burton (2010, pp. 185-186), the "growth of time-poor employees" encourages the search for distraction and "superficial engagement in free-time activities", therefore reducing the demand for several cultural activities.

In view of the above, it is clear that subsidies cannot alone assure social and cultural equality. In emerging economies, there are several barriers to arts and culture other than the price of the cultural good or service.

In addition, the effectiveness of using subsidies to protect national identity against the homogenizing effects of globalization is also questionable, especially in emerging economies. Due to the hybrid nature of culture in such countries, it is particularly difficult to define what national culture would be, and this definition is essential for the creation of a good public policy.

Therefore, the Brazilian case illustrates the weakness of the three group of arguments mentioned above (i.e. based on market failure, equity and diversity) to support state patronage of arts in emerging economies, which correspond to the majority of countries in the globe.

The literature on state patronage of arts seems to ignore that the world is not only composed by developed countries. The levels of inequality and corruption in developed and emerging economies are virtually incomparable. There are structural problems in the emerging economies that are pre-requisites for a decent life and that compromise the quality and effectiveness of public policies for arts and culture.

In this sense, while corruption is not at minimum control, there is no way to assure that subsidies will end up where they are supposed to. While decent education is not universally provided, there is no way to assure that people will have the minimum human capital to enjoy arts and culture. While people do not have humanized conditions of work, it is not reasonable to believe they will be willing to spend their rare free time in museums, exhibitions and the like. While the separation of state and market is so fuzzy, there is no way to clearly distinguish market failures from government failures, nor to believe that one of these spheres is apt to save the other.

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