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*"Are the Live Performing Arts dying or
flourishing ? A comparative perspective"*

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Are the Live Performing Arts Dying or Flourishing? A Comparative Perspective

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I. A Perplexing Picture

Theatres, opera houses and orchestras are under heavy financial pressure and find it difficult to survive. Most of them draw heavily on public support; there are opera houses receiving over 90 percent of their revenue from the state (Germany), and the absolute size of the subsidy is huge (e.g. SFr. 52 mio per year in the case of the Zurich Opera, and DKr. 258 mio yearly in the case of the Royal Dutch Theatre (ECU 78 mio, and 80 mio, respectively). Most of these establishments performing the live arts would certainly no longer exist if the government's support would end, a fact incessantly repeated and stressed by the suppliers' side of the arts community. That such support is needed is generally considered a fact of life, completely beyond doubt.

At the same time the live performing arts can be observed to be flourishing, and that mostly independent of government support. Staging 'Aida', the 'opera spectacular', for instance, has attracted much over one million spectators in many different cities all over the world. In Basle, where the opera house seats 1015 persons, and where in 1993/1994 about 65,000 persons attended an opera performance over the whole year, the opera spectacular attracted 30,000 persons in the four performances taking place in the city's sporting hall.

The live arts are not only thriving in the form of such gigantic travelling groups (but note that the many supernumeraries are locally hired essentially free of charge: the active participants get food, free tickets for the dress rehearsal, and their name is mentioned in the programme). Actually, the live performing arts are flourishing and growing at a very fast rate in the form of *festivals*¹. In Europe, almost every city or region has its own festival. There are many different kinds of festivals, e.g. jazz, film, folklore or religious events apart from the merely musical operatic or theatrical ones, but attention will be restricted here to the classical performing arts festivals in the narrow sense (see Merin and Burdick 1979).

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¹Economists have largely disregarded festivals as a general phenomenon (but see Frey 1994). They have concentrated their attention to the local and regional multiplier effects (see, e.g., Mitchell and Wall 1989, O'Hagan 1992 and Bille Hansen 1994) to the welfare theoretic implications of subsidization (e.g. Pommerehne 1992), or to specific festivals (see, e.g., Frey 1986 for the Salzburg Festival; Galeotti 1992 for the Spoleto Festival).

The term "performing arts festival" thus is vague. Experts count from over one thousand (Pahlen 1978) up to two thousand (Galeotti 1992) festivals a year all over Europe. Exact figures for narrowly defined musical festivals are available for the United Kingdom (Rolfe 1992, p. 2, lists 529) and France (Gandillot 1994, p. 32, counts 450). While a few particularly famous festivals were founded before World War II (among them Bayreuth in 1876, Salzburg in 1920, Glyndebourne in 1934), most of them were established thereafter, with an especially rapid growth in the 80s and 90s.

For example, when the official "Association Européenne des Festivals" was founded in 1952, there were 15 members as opposed to 58 today. Obviously, this Association is very restrictive and limited to the most prestigious festivals. According to Gandillot (1994) six out of ten festivals in France were founded in the 1980s and 1990s.

On the other hand, the live performing arts of opera, concert and theatre are faced with a secular threat of survival because of continually increasing cost relative to other consumption activities (Baumol and Bowen 1966): While labour productivity is more or less constant, unit labour cost of production steadily increases because the wage rates in this sector are rising at a similar rate as in the economy as a whole. Baumol's Law has been challenged on various grounds. In particular if demand rises more quickly than for other expenditures (the income elasticity is larger than one), and the price elasticity of demand is inelastic (larger than minus 1) so that prices can be raised to keep pace with rising cost (this might apply for tourists' demand for art representations); labour productivity may to some extent be increased by switching to different art forms, for instance the use of chamber rather than symphony orchestras (see Peacock 1984) and concerts by opera singers rather than whole opera performances, or by reducing the travel time of itinerant performers (Baumol and Baumol 1995). The basic idea has, however, been accepted and is one of the major building blocks of the economics of the arts. It provides a convincing explanation for why live performing arts suppliers are in perennial financial difficulties, and why many of them have not been able to survive.

The phenomenon that the live arts are at the same time dying and flourishing must be analyzed in a comparative setting. Section II looks more closely at the flourishing festivals and seeks to identify the causes. There is no need to correspondingly analyze the financial plight of the conventional forms of the live performing arts as this has been done in the mainstream of the economics of the arts (e.g. Blaug 1976, Throsby and Withers 1979, Frey and Pommerehne 1989, Heilbrun and Gray 1993, Throsby 1994). We conclude that festivals have decisive advantages on both the demand and supply side which explains the success of festivals as a particular form of performing the live arts. Section III argues, however, that many of these advantages are only temporary. The Cost Disease is to a significant part inherent in the live performing arts and will reappear in particular once the festivals have exploited their cost advantages. Section IV distinguishes four stylized phases of a 'festival cycle'. The last section evaluates future prospects of the live performing arts.

II. Flourishing Festivals

Factors on both the demand and the supply side are responsible for this "explosion" in the number of festivals. With respect to **demand**, the interaction of two factors is responsible for much of the increase. On the one hand, the large gains in real disposable income since the war have benefitted spending for vacation. As real growth has been accompanied by significant decreases in working time (at least in Europe: a typical German employee or worker today enjoys 5-6 weeks' vacation), a strongly increasing share of the population goes on vacation away from home and is prepared to spend large sums for this purpose. The growth of real disposable income has at the same time lead to an increase in the demand for culture. But as the live arts are highly time-intensive there has been a countervailing effect on demand so that the share of expenditure devoted to such activities does not necessarily increase. Indeed, the empirical evidence is unclear about whether the income elasticity of demand is larger than one. Throsby and Withers (1979, p. 113), for example, estimate an income elasticity for performing arts

services of 1.5 for the United States 1949-73, and of 1.4 for Australia 1964-74 (full income). Krebs and Pommerehne (1994) reviewing the different estimates conclude that the short-run and long-run price elasticity of demand lies between 0.4 and 1.6. If the lower estimate applies, the expenditure share for the live arts will thus decrease. Brosio and Santagata (1992, p. 11), on the other hand, find for Italy that the share of expenditures for visiting the opera, ballet and concerts in total consumption expenditures has risen from 1.1% in 1970 to 2.6% in 1988.

Festivals are well adapted to benefit from various sources of demand: Most festivals take place during the tourists' high season and have been created on purpose to care for the cultural interests of vacationers, or to attract them in the first place (see, for the case of the Wexford Opera Festival, O'Hagan 1992). The commodity "enjoying one's spare time in summer" is efficiently produced (for many, if not most people) by *combining the good vacation with the good cultural performance*.

The individuals' cost of attending a festival has tended to fall relative to expenditures for comparable activities. While the opportunity cost of time has in general risen due to the secular rise in income (which makes it more costly to spend time in the concert hall or opera house), the time cost of attending a festival has, due to the increase in vacations, decreased substantially. Most performances take place in the evening, so that attending them is a welcome opportunity for entertaining oneself with little or no time opportunity cost (see Gapinski 1988, p. 963, for the case of London). At the same time, the cost of travelling has fallen (see, e.g., today's low cost of flying between America and Europe). As a result, individuals have experienced a steadily rising incentive to take advantage of the economies of scope provided by combining vacations and culture.

Another relative price effect working in favour of festivals consists in the *lower transaction cost* compared with attending performances at a concert or opera house. One of the great handicaps of attending a conventional orchestra or opera performance is the trouble of getting tickets and committing oneself to a particular evening. In the case of festivals, the tickets are often provided by the travel agency booking the complete vacation. Hence no additional effort to attend a festival is needed. Moreover, as people tend to think in relative terms, the entry fee is perceived to be lower than the same sum spent for a conventional orchestral or operatic performance (to spend \$ 100 is taken to be little if the vacation itself costs \$ 5000).

A *strong demand* for festivals has also been exerted by the *musical recording industry and corporate sponsors*. Discs and videos of classical music have become a huge commercial enterprise with correspondingly high profits. Festivals provide an excellent opportunity to bring superstars under contract before what are often very large crowds of spectators. This effect is greatly magnified if the performances are televised and propagated by discs and videos. An example are the record breaking performance of the three tenors Carreras, Domingo and Pavarotti in the Roman Caracall ruins. The phenomenon of superstars has been introduced into economics by Rosen (1981); see also Towse (1992). The recording companies also use festivals to launch the careers of their future stars. As festivals are less regulated than concert and opera houses (see below), these companies can more easily influence the program to favour the artists they have under contract (this has been particularly noted for the Salzburg Festival, Frey 1986). The same applies to the sponsoring activity of companies producing goods unrelated to the arts. At festivals they can appear more prominently and can therefore expect more publicity from a performance for a given sum of money.

On the *supply side*, two major factors account for the rapid growth of festivals. *First*, the *additional costs of setting up a festival are relatively low* compared with live performances at a conventional venue. Many festivals, especially newly established ones, strongly rely on volunteers for administrative and technical tasks, as well as for supernumeraries in opera performances (for U.K. festivals, e.g., see the evidence in Rolfe 1992) which strongly reduces cost. Almost all the paid staff is hired on a short time basis. This also applies for well established, old festivals. Even the Salzburg Festival employ most artists - soloists, actors, directors and musicians - as well as administrative and technical staff on a seasonal basis (about 53 percent of total cost) while fixed salaries make up only about 19 percent of the cost (Gandillot 1994,

p.32). In a corresponding fixed venue, such as, e.g. the Viennese Burgtheater there is a very high share of fixed cost of employment. Indeed, at this particular theatre, many artists and directors are fully employed but do not perform at all which drives up cost significantly (see Wahrnehmungsbericht des Rechnungshofes 1994, pp. 16-19). Most employees (administrative, technical and artistic staff) paid by a festival during summer have their main and permanent occupation at a concert or opera house which covers the overhead costs of retirement benefits, health insurance and vacation time. These expenditures today can constitute a considerable share of the gross income of such employees. Festivals may therefore hire people at correspondingly low cost. The deal is profitable for both sides: The employees receive additional income during their "holiday" time, and the festival gets artists and workers whom it would otherwise find too costly to hire. This does not mean that a festival's artists and employees are badly paid; the opposite is often true. At the Salzburg Festival, for instance, workers, the administrative staff and the artists get incomes clearly above market wages, i.e., they derive sizeable rents, as shown by Frey (1986). The prospective employees do have bargaining power, especially when they constitute part of a festival's image, which is the case for instance for the Wiener Symphoniker and the Salzburger Festspiele. The festival directors are, on the other hand, not helpless as they can threaten to turn to different orchestras and artists and can therefore prevent their own rent from being dissipated.

The festival directors further have the opportunity to exploit the fact that most artists have double (or multiple) employments. They can implicitly cross-subsidize the festival by shifting part of the cost to someone else. A director may, for instance, pay an employee more at his concert or opera house than he or she would get on the market, with the understanding that he or she will work at a lower than market wage at the festival he or she is involved in. In this case, both the festival organizers and the employee are better off, and the cost is paid by the taxpayers who have to make up for such employment practices by increased subsidies.

In many cases, festivals have low production cost by using existing structures and production technology of a permanent musical concert or opera house. As the hall and theatres are normally unused during the festival period (in summer), the owners are generally prepared to rent them at a low price, or free of charge. This also applies in the many cases where festivals take place in a church or other historic monument such as a Roman arena.

A *second* major factor favouring festivals on the supply side is that they permit *evasion of the restrictions imposed by the government and unions* on conventional venues. Established (stationary) musical institutions have increasingly been burdened by a straightjacket of restrictions which makes it difficult, and sometimes impossible, for enterprising conductors and other musicians to reach their artistic and personal goals. In Europe, typical houses are either closely controlled by, or are simply part of the public administration. They are moreover unionized, which strongly restricts flexibility and kills incentives (for empirical evidence, see Frey and Pommerehne 1989, ch. 2 and 3). The restrictions are related to salaries and wages (there are fixed scales independent of performance), hiring and firing (after some years it becomes impossible to dismiss an artist under contract), the collaboration with private and corporate sponsors and recording companies, and the impossibility of appropriating the gains from successful commercial enterprises in the arts. Festivals, in contrast, are usually established as private institutions in which the government's role is at most one part of the whole, and where, as a consequence, the organizers are much freer to pursue a policy which suits their own wishes. Unlike the traditional venues where the government often imposes maximum salaries (this is, e.g., the case in Italy), festival directors may hire superstars even at high salaries if they expect that they attract sufficient additional visitors, and facilitate a raise in entry fees, to be profitable. As the festivals play only temporarily (often only one or two weeks), there is practically no permanent employment, so that trade unions' restrictions on hiring and firing are irrelevant. Moreover, the organizers can seek that form of collaboration with sponsors and recording companies that is in their own interest. Indeed, while concert and opera houses often have fixed contracts with recording companies, festival organizers may play them off against each other, improving their bargaining position. The commercial fruits of a festival can to a large extent be appropriated by the organizers; the profits achieved can, for instance, be

freely used to pursue other, loss-making artistic ideas (cross subsidization), but it may also be used for more mundane purposes, above all for increasing one's income.

These two supply factors are the major reasons why so many festivals have been founded and have expanded all over Europe. The situation is different in the United States, where at least some opera houses - the Lyric Opera in Chicago and the Metropolitan Opera in New York for instance - and many orchestras are private but they get indirect government support as donations are tax-exempt (see Netzer 1978) and therefore do not suffer from public regulations to the same extent as do European performing arts institutions. Organizers of festivals in the U.S. have, for the same reason, fewer opportunities to shift fixed cost to the existing concert and opera houses. One would therefore expect that the incentive to run musical festivals is weaker than in Europe. Though there certainly exist several festivals in the United States - the best known being the Berkshire Musical Festival known as Tanglewood, the Aspen Music Festival in Colorado and the Wolf Trap Festival near Washington, D.C. (for a survey see Rabin 1990) - there are fewer of them than in Europe (Merin and Burdick 1979). Thus, the empirical evidence is consistent with our theoretical proposition.

III. Temporary and Permanent Advantages of Festivals

We have so far identified major differences between traditional (fixed) venues and festivals on both the demand and supply sides. While consequences on unit labour cost have been mentioned, it has not been analyzed whether festivals enjoy a lower growth rate of unit labour cost than the traditional venues or whether they enjoy a lower unit labour cost level. This difference is crucial: in the case of lower growth in cost, Baumol's Cost Disease is permanently overcome, and the living performing arts would flourish in the form of festivals. If, on the other hand, the unit cost level of festivals is lower, Baumol's Cost Disease is only temporarily alleviated. The overall cost level of live performing arts is only shifted downwards as long as the share of cultural activities in festivals rise at the cost of the traditional venues. Once an equilibrium is reached, i.e. when the output shares between the two sectors of live performing arts are constant, the Cost Disease again raises its ugly head. The growth rate in unit labour cost is then not different from the one in the traditional venues, and the growth in wage rates would again dominate the low or non-existent growth in labour productivity.

Among the differences identified, two factors lead to a permanently lower growth rate in unit labour cost. Both relate to institutional differences.

The first is the fact that festivals are not part of the public sector, have therefore considerable leeway and incentives to introduce technical progress and to quickly adjust to the permanent relative price changes. The second institutional factor contributing to a permanently lower growth in unit cost is the smaller influence of trade union restrictions and regulations.

On the other hand, several of the differences identified constitute a lower cost level only. Thus, the temporal employment during the holiday season, the larger share of volunteers, the more extensive use of low cost performance sites, and the easier access to the support by recording firms and sponsors constitute a once for all cost advantage of festivals relative to traditional venues. As long as there is a shift of activities towards festivals nourished both by these cost advantages as well as by demand, live performance activities have a lower labour unit cost increase than if there were only the traditional opera, concert and theatre activities.

IV. A Festival Cycle

In order to assess how far the Cost Disease applies in reality it is useful to distinguish four stylized stages of the relationship between festivals and traditional venues.

(1) The fixed live performance establishments dominate and the festivals are quantitatively unimportant. Baumol's Cost Disease then fully applies².

(2) Festivals are attracting an increasing share of all visitors to live performance events. This has been the situation over the last decennia (for evidence, see, e.g., the Deutsche Theaterstatistik 1990/91). At this stage Baumol's Cost Disease is overcome in the living performing arts due to the structural shift from high unit cost production in the traditional venues to the lower cost production in festivals.

(3) Festivals have reached a constant share of visitors of the live performance events. This situation is reached in those countries in which the scope for festivals has been fully exploited. This is likely to be the case in countries with a very large number of festivals of serious music, theatre and opera, in particular in France and Italy (see the evidence in section I). In such countries, both the traditional venues and festivals experience a continuous cost pressure, and Baumol's Cost Disease is virulent.

(4) In the longer run, festivals may not even enjoy a lower level of labour unit cost than the traditional venues. The major reason for this development is that long established festivals become more and more similar to the fixed venues and therewith lose the cost advantages. In many ways, festivals such as Salzburg, Glyndebourne, Stratford or Bayreuth are confronted with the same problems as the fixed venues (see Mitchell and Wall 1989, Frey 1986). In particular, government and trade union intervention is important which results in inflexibility and rent seeking instead of efforts to increase labour productivity. In so far as such festivals have themselves become 'established' and 'fixed', they have to pay similar gross wages, and capital cost. Such festivals usually have their own houses and have to carry the corresponding maintenance and capital cost. The very success of the festivals undermines one of their major cost advantages: they can no longer 'exploit' traditional venues by hiring much of their employees during the holiday period but they now have to deal with free-lance artists and workers who are no longer regularly employed in a traditional venue. Already today, a significant share of superstars are not regular members of an opera house, theatre, or orchestra. Under these conditions, the Cost Disease is in full rigour in the live performing arts.

V. Future Prospects

We have shown that the emergence and even 'explosion' in the number of festivals has important effects on live performing arts. At the present time, as long as they constitute an increasing share of the corresponding art supply, and as long as they profit from favourable institutional conditions (little government and trade union interventions) they are able to temporarily overcome Baumol's Cost Disease. However, the more they grow in importance, and the more established they become, the more they lose their capacity of exploiting the cost advantages and to raise labour productivity. While festivals have importantly contributed to the survival of the live performing arts, the cost pressure is due to become most severe again. Looked at from this perspective, the future of the live performing arts look rather grim again - except if there is another, as yet unknown, innovation as were previously the festivals. While it is (by definition) impossible to predict innovations the 'opera spectacular' touring major cities and attracting huge numbers of visitors may be a form of performing the live arts which is financially viable over a long period though it is also affected by some aspects of the Cost Disease. It is, for example, very expensive for such companies to hire top singers who can make much money on TV, radio, CD, video and future electronic media. This form presently allows only the production of the most popular operas such as 'Aida', 'Die Zauberflöte' or 'La Bohème', i.e.

²But the provisions mentioned in section I, of course, apply; in particular, the financial difficulties of the fixed venues are mitigated in the case of operas, theatres and concert houses profiting from an income elastic, and a price inelastic demand.

composers such as Verdi, Mozart and Puccini. But why should it not be possible to stage in a financially profitable way operas such as 'Die Hochzeit des Figaro', 'Carmen', 'Madame Butterfly', 'Tosca', 'Il Barbiere di Siviglia', 'Fidelio', 'Der Freischütz', 'Rigoletto', 'La Traviata' and 'Il Trovatore'? In that case, the composers Bizet, Rossini, Beethoven and Weber would be added. If this development took place, we would experience that the same would be produced that were the most performed ones in the past by the German speaking opera houses which are subsidized to more than 90% by the public purse (see Frey and Pommerehne 1989, p.25-6)³. It is difficult to claim that these new forms of live performance are devoted to 'popular' plays only. If this is argued, one has to also state that the public supported opera houses do the same. Interestingly enough, 'Aida' presently performed by the 'opera spectacular' is not among the 15 most often performed operas of publicly subsidized houses in Germany, Austria and Switzerland. Hence this new form of presenting operas helps to keep in existence an opera which the traditional venues often find too costly to produce. Moreover, the opera composers performed (or likely to be performed in a new form) are the best the world has known. Again, it could be charged that such performances are more 'show' than 'art'. This may well be true according to some absolute standards but the argument is weak in a comparative perspective. The highly subsidized opera houses often engage in the same kind of 'show' and are well aware of that. Even if quality were lower (which is not established)⁴ it must be weighted against the cultural experience of the many more visitors in the new forms of presentation.

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³The only operas among the most often played in German speaking opera houses not included in that list are Lortzing's 'Zar und Zimmermann', Mozart's 'Entführung aus dem Serail' and Humperdinck's 'Hänsel und Gretel'. But who would bet that they could not be produced with financial profit by new suppliers?

⁴Critiques about the Basle Aida representation are far from being enthusiastic, but quite differ with respect to the artistic quality of the spectacle.

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