

How does the performing arts deal with cost disease?

-A case study of QTC's art policy

Peiting Zhai^{1,2}

¹Institute of Arts, The University of Melbourne, Parkville VIC, Melbourne, Australia.

²Department of Arts and Cultural Management, The University of Melbourne, Parkville VIC, Melbourne, Australia

^a peiting_zhai@163.com

Keywords: Cost disease, performing arts

Abstract: This article uses the Queensland Theatre Company (QTC) as an example, and from a policy perspective in order to explore a particular economic issue-cost disease. By analyzing its art policy, clarification is provided regarding the issues faced by QTC with respect to cost-disease, and how they have developed policies to mitigate these concerns. Further, shortcomings related to this policy and appropriate recommendations are also provided.

1. Introduction

The performing arts has existed as a cultural heritage in history for a significant amount of time. With the rapid development of labor productivity after the industrial revolution, the performing arts has tended to have had a stagnant development due to its particularity. However, when productivity has been stagnant, the increase in other industrial labor activities has boosted inflationary wages, leading to a subsequent rise in the cost of the performing arts. This phenomenon is referred to as cost disease. This article uses the Queensland Theatre Company (QTC) as an example, and from a policy perspective in order to explore this particular economic issue. By analyzing its art policy, clarification is provided regarding the issues faced by QTC with respect to cost-disease, and how they have developed policies to mitigate these concerns. Further, shortcomings related to this policy and appropriate recommendations are also provided.

2. Literature review

In 1966, Baumol and Bowen proposed the concept of "cost disease" for the performing arts. The emergence of this concept has had a major impact on cultural economics (Baumol, Bowen, 1996). Cost disease primarily describes productivity and cost. Baumol and Bowen divide the economy into two parts: "stagnant" and "progressive". The former model shows that in part of the industry, per unit productivity is not affected by external elements. In Baumol's research on cost disease, he suggested that those industries, the costs of which continue to rise, always include artificial elements. This phenomenon indicates that machines cannot replace the work of this part of the industry, and labor is the most important element in this industry. Take the performing arts as an example; it took four people to play a classical piece of music a hundred years ago, and now it also takes four people to play the same piece (Baumol, 2012). Unless the composer adapts the track, the productivity of the same track will not change over time, but the wages paid to the musicians will increase as the economy grows; this results in production cost increases (Baumol & Bowen, 1965). The second model mainly occurs in the manufacturing industry. With the development of the industrial revolution and science and technology, the productivity of workers has been steadily increasing (Heilbrun, 2003).

3. Profile of Queensland Theatre Company

QTC is one of Queensland's most well-established theatres. The company is committed to encouraging the development of different art forms throughout the state and the country. Each year, there are various programs, from classic drama, international drama, and emerging Australian works. Such programs are used to create a diversity of theatre experiences, with QTC also being concerned with Aboriginal and Torres Strait Islander dramas. Moreover, their activity further includes inspiring young people to participate in theatre activities through education and youth drama.

4. Case Study

The Strategic Plan 2013–2017 is an arts policy created by QTC for the company's development over the next five years. In this policy, QTC identified the problems they were facing. To eliminate these issues, they developed appropriate solutions. The first problem is that the audience's attendance rate is relatively stagnant; according to data collected by QTC, their audience size and composition have been relatively stable. The majority of the audience is over 45 years old and is predominantly female. This situation has continued from the past ten years to the present. Moreover, regarding the stagnant model of cost disease, the production cost of the performing arts is constantly increasing due to productivity stagnation, but the demand for the performing arts is declining, and the trend of aging is becoming increasingly clear (McCarthy & Kevin, 2001). Particularly in recent decades, fewer and fewer people have been attending the performing arts, and the new generation is far less involved in such arts than the previous one (Ross, 2010). Therefore, in the performance industry, the aging of the audience is a sign of cost disease. This makes the performing arts a lot less profitable than other industries. Furthermore, Because of the imbalance between revenue and cost caused by the aging audience, QTC is suffering from economic pressure with respect to how to balance the cost of making a new product and ensuring the quality of their arts. Because many cooperative companies and charities are downgrading sponsorships and grants, QTC's project budget is showing a tightening trend; budget reduction and rising costs can affect their artistic vision and quality. Both problems are clear signs that QTC is suffering from cost disease. In general, due to the continuous lag of productivity of the performing arts, there is constant economic pressure being felt. Hence, some companies have adopted various cost-saving methods, such as changing the process of production of the repertoire; specifically, reducing the use of actors or lowering their daily rehearsal time; however, this approach will most likely result in damage to the quality of the artistic performance (Heilbrun, 2003). Besides, some theatres have chosen to rely on traditional repertoires instead of innovation to minimize the risk of rising costs (Towse, 2011) because creating a new repertoire is particularly expensive and unpredictable. It is difficult to measure how the market will respond to a new drama. If the box office income is not good, this will bring significant economic pressure to the company. Therefore, some companies have relied on various traditional classic dramas to avoid such risks, ensuring relatively stable box office income. However, the excessive reliance on such a traditional repertoire to save costs will lead to another problem: the aging of the audience. A traditional repertoire is more attractive for older people, and young people are not particularly enthusiastic about such productions. Hence, the stagnation and aging of the audience, as well as balancing work costs and the performing arts, have created a negative cycle. Therefore, we can find that the two problems faced by QTC are all negative effects caused by cost disease. To solve the negative effects of this issue, deal with the aging audience, and reduce costs as much as possible is a major direction. QTC's policy addresses the relationship between the audience and costs as the main problem to be solved, and it proposes a number of solutions. There are three main findings in their solution, outlined in the following section.

Finding 1: QTC reduces expenditure and achieves small-scale audience development through the combination of old productions and special elements

First, in their policy, QTC regards audience development as the main goal to deal with cost

disease. It includes the number of spectators and the diversity of the audience. In this context, QTC decides to use existing products to attract more consumers, such as choosing popular existing products in the theatre and cooperating with some well-known actors. In this solution, QTC uses existing theatre products to add fresh elements by capturing the audience's demand for the performing arts in the market. Meanwhile, cooperating with well-known actors will lead to the performance being more influential. Because older repertoires have already been produced at the QTC, there will be no additional costs and associated risks because new performances would require rehearsals, new costumes for the actors, a new stage, etc., all of which require a significant expense outlay; hence, old repertoires can substantially reduce additional costs. In addition, the existing products also put the theatre at less risk because it is impossible to predict the response of the newly produced repertoire in the local market. Once the international fashion trends are no longer compatible with the local ones, the company will face a high financial risk; however, although this approach can attract small-scale audiences, effectively increasing box office revenues and reducing the economic deficit, from an artistic point of view, it may hinder QTC from pioneering creativity in the performing arts; when a theatre only plays the dramas that can guarantee their box office, it lacks something unique compared to other theatres, and its characteristics will be weakened. From a macro perspective, this method may make the entire art market simplistic, and it can subsequently stagnate.^[1]

Finding 2: QTC promotes audience development by improving theatre accessibility

Secondly, in terms of expanding the audience, QTC proposed to increase the accessibility of the audience. In this part, QTC divides this method into physical accessibility and mental accessibility. For physical accessibility, specific practices include addressing the problem of disabled people entering the theatre; it creates a detailed "accessibility plan", which focuses on the theatre experience in the disabled group, which represents a highly important potential audience. However, some theatre settings and other issues face this group in terms of becoming an important part of the audience; the provision of disabled access and other equipment can effectively develop this part of the potential audience into a faithful audience. In addition, from the space perspective, QTC proposed to develop the audience more effectively; for example, the venue needs more functions, such as a bar. This allows the theatre to be not only a place for performance but also a location for entertainment in the community. This method focuses on the commercial use of the theatre. As previously mentioned, the performing arts suffer from cost disease due to stable productivity, but commercial spaces such as bars, restaurants, and shops may help solve these issues. These industries' productivities follow the overall economic trend, and they suffer less from cost disease. Therefore, through such normal profit approaches, the cost deficit of the performing arts can be effectively reduced.

In terms of mental accessibility, QTC provides education and a youth program. In this way, the problem of the aging of the audience can be effectively solved. Theatre programs are sometimes difficult for children to understand; hence, providing education will allow children to immerse themselves in an artistic environment and improve their appreciation of art. Meanwhile, the setting of the youth program also attracts more groups of young people. Theatre provides young people with close access to the process of theatre production and supports those who are interested in the art of theatre. Walker-Kuhne points out that education could develop a long-term relationship with the community, motivating different communities to participate in the arts (2001). Therefore, the people in such a community will become the audiences and consumers of the future. This approach can help QTC build a long-term relationship with the community and achieve long-term audience development. In addition, to expand the audience of the theatre further, QTC also opened a pilot program for different cultures and races. In this program, the QTC audience can be more diverse, thus increasing attendance rates. The income of the corresponding company will also increase, and the negative impact of QTC suffering from cost disease will subsequently be reduced.

Finding 3: Save production costs and increase theater diversity by strengthening cooperation with other companies

The last solution involves strengthening the cooperative relationship between the country and the

international arts sphere. This solution includes QTC's active collaboration with other theatres and arts organizations, both domestic and international. They welcome other organizations to come to their venue to perform a program, and they could also tour other theatres. The main goal of this solution is to expand the audience and reduce production costs. First, through cooperation with other theatres, QTC can effectively increase the diversity of its own theatre programs, meet the needs of and increase the numbers of audiences, and because of the cooperative relationship, QTC can share the production costs with its partners. In addition, QTC specifically mentions such touring in its policy. There are at least two programs that can be toured every year, with it being particularly necessary to pay attention to the indigenous culture. At the same time, it proposes to use the Asia-Pacific region as their targeted overseas market. A tour program is indeed an effective way to develop an audience, while also creating a good theatre brand to increase international visibility. However, such touring is substantially expensive for the company and would likely lead to an increase in its costs. Due to the uncertain situation of the overseas market, the attendance rate of the audience may not be as high as its expectations.

5. Discussion

From the above policy analysis, it can be seen that QTC is indeed plagued by cost disease, particularly due to the aging and simplification of its audience, as well as the balance between quality of arts and production costs. Flanagan (2012) argues that cost disease can lead to structural deficits in the company. To offset this deficit growth, innovative policies must be used to improve the company's performance, increase revenues and reduce expenses, and balance this financial problem as much as possible (Flanagan, 2012). Hence, the solution proposed by QTC in its policy mainly follows two directions of increasing revenue and reducing costs. QTC addresses audience development as the main goal that is well suited for raising revenue because audience attendance directly determines box office income and directly affects the financial situation of the company. Hence, in their policy, they use a different program to develop the audience, including the existing audience and potential audience as much as possible. Such a strategy can not only effectively help QTC increase its revenue but also assist in solving the aging audience issue. For audience development, Brook mentioned there is also a close relationship between the needs of the audience and cost disease. When demand is sufficiently high, income will increase, and eventually, it may even exceed costs. Thus, understanding the needs of the audience and following this change in demand may be an effective approach for reducing the cost disease (1997). Comparing to the policy, QTC attempts to cater to the audience demand, such as by cooperating with well-known actors and choosing a program based on social preferences. However, pandering to the audience's preferences may hinder artistic innovation.

Moreover, QTC's policy can also be divided into both long- and short-term directions; for example, cooperating with other art companies to develop the audience and future increases in box office revenue. The long-term projects include education, youth programs, accessibility, and the use of entertainment venues, all of which can help the theatre cover its costs and provide sustainable development. However, in the policy, its short-term projects, such as performing existing plays and cooperating with well-known actors, only temporarily increase its audience and revenue to a relatively low degree. On the contrary, the long-term project of QTC is more powerful. It expands a wider audience, from disabled groups to children and cross-cultural aspects. More diversified target audiences and increasing potential audiences provide more possibilities and space for the future development of QTC, enabling the company to obtain an increased ability to deal with the negative impact of cost disease.

Support from the government is also important for the performing arts to deal with cost disease. However, it is mentioned in the policy that although the Australian economy is prosperous, arts subsidies are tightening. In QTC's financial statements (2012), the company received a large number of subsidies from the government, accounting for more than half of its revenue. However,

in their policy, they noted that subsidies and sponsorship are expected to decrease in the future. Government subsidies are particularly important for the performing arts. Due to the substantial increase in the productivity of other industries, the performance of the performing arts has remained essentially unchanged. In such a situation, the productivity of the performing arts has appeared to have declined. However, the wages in this area have sustained growth, and the performing arts have had no way to adjust for the contradiction between economic inflation and its stagnant productivity. Hence, the government's support is especially important, and they need to balance the economic environment between the performing arts and other industries (Brooks, 1997). And more importantly, reflected in the QTC is the protection of cultural heritage. One of the important purposes of the government is to provide compensation for the performing arts in order to protect cultural heritage. If the performing arts continues to be affected by cost diseases, they will have no way to maintain a good operational and artistic heritage. Therefore, government compensation can directly help to maintain high-quality production in this artistic sphere. In particular, QTC regards indigenous culture as one of their brands; thus, the Australian government's financial support for QTC may be for the purpose of protecting the country's cultural heritage. However, in its policy, there is no detailed plan regarding how to develop indigenous culture. Besides, the plan combines indigenous culture with overseas tours and does not have a specific plan for the indigenous context. Therefore, based on the above consideration, the government reduced its financial support after 2012, most likely because QTC does not allocate economic resources reasonably.

6. Suggestions & Conclusion

QTC wants to reduce the negative impact of cost diseases. They also need to introduce a better arts management plan. In their arts policy, there is no detailed plan for arts management. However, adopting a good arts management plan can help them reduce the overhead of daily management, improve work efficiency, and decrease expenditure costs as much as possible (Dille, 2016). Moreover, QTC's short-term program is not particularly useful in terms of coping with cost disease. Hence, they need to consider other more efficient programs, such as holding festivals. For the short-term program, Frey points out that festivals represent a particularly effective approach for the performing arts to increase income and fight cost disease in a short period of time (1996). On the other hand, adopting multimedia technology is also a good way to deal with cost disease. QTC can use live broadcasts to interact with a wider audience, as well as recording the music and videos for eventual sale. This approach would free the performing arts from the additional costs of low productivity.

From the above analysis, we can conclude that QTC does suffer from cost disease, and the company has shown two clear signals of this: audience aging and cost/art deficits. By analyzing QTC's arts policy-strategic plan for 2013–2015, it can be seen that QTC relies on two main directions to alleviate the negative impact of cost disease: 1) developing an audience to increase future revenue and 2) reducing costs as much as possible. For audience development, they focus on solving the problem associated with aging and low audience diversity. In terms of reducing costs, attention is paid to maintaining costs to reduce its risky economic operation. However, in the policy, QTC still failed to balance the relationship between arts and the economy, and chose economic benefits in the setting of some programs, sacrificing the creativity of the arts. In addition, they also exposed various shortcomings, such as not having a detailed implementation plan. Furthermore, due to the use of the document analysis method, there are no specific data to support their case; therefore, the findings and discussion may be too subjective. Finally, our future research on cost disease will not only be confined to the theatre, opera, and so-called “higher arts”; we also need to explore the economic situation of contemporary arts, popular music, and so on in the arts industry. It is also important to learn how to use modern technology in the arts and cultural industry to deal with low-productivity issues and attempt to solve cost disease in the performing arts.

References

- [1] Baumol, W. J., & Bowen, W. G. (1965). On the performing arts: the anatomy of their economic problems. *The American economic review*, 55(1/2), 495–502.
- [2] Baumol, William J., & William G. Bowen. *Performing Arts—The Economic Dilemma: A Study of Problems Common to Theater, Opera, Music, and Dance*. New York: Twentieth Century Fund, 1966.
- [3] Baumol, H., & Baumol, W. J. (1980). On finances of the performing arts during stagflation: some recent data. *Journal of Cultural Economics*, 1-14.
- [4] Baumol, William J. *The Cost Disease: Why Computers Get Cheaper and Health Care Doesn't*. New Haven: Yale University Press, 2012, p. xix.
- Boerner, S., & Jobst, J. (2011). Stakeholder management and program planning in German public theaters. *Nonprofit Management and Leadership*, 22(1), 67–84.
- [5] Brooks, A. C. (1997). Toward a demand-side cure for cost disease in the performing arts. *Journal of Economic Issues*, 31(1), 197–208.
- [6] Dille, B. B. (2016). *Vibrant Symphony Orchestras* (Doctoral dissertation, PARDEE RAND GRADUATE SCHOOL).
- [7] Flanagan, Robert. *The Perilous Life of Symphony Orchestras: Artistic Triumphs and Economic Challenges*. New Haven: Yale University Press, 2012, p. 40.
- [8] Frey, B. S. (1996). Has Baumol's Cost Disease disappeared in the performing arts?. *Ricerche Economiche*, 50(2), 173–182.
- [9] Heilbrun, J. (2003). 11 Baumol's cost disease. *A handbook of cultural economics*, 91.
- [10] McCarthy, Kevin F., Arthur Brooks, Julia Lowell, & Laura Zakaras. *The Performing Arts in a New Era*. Santa Monica, CA: RAND Corporation, 2001, p. 109.
- [11] Walker-Kuhne, D. (2001). *Building Community-Based Audiences for the Arts*, Part 1 and 2. Queensland Theatre Company (2019). Strategic plans 2013–2015 retrieved Nov 2, 2019 from <http://www.queenslandtheatre.com.au/About-Us/Strategic-Plans>.
- [12] Queensland Theatre Company (2019). Annual report 2012 retrieved Nov 2, 2019 from <http://www.queenslandtheatre.com.au/About-Us/Annual-Reports>
- [13] Ross, Alex. (2010, February 8). "Close Listening." *The New Yorker*, pp. 66–67.
- [14] Towse, R. (Eds.). (2011). *A Handbook of Cultural Economics*, Second Edition. Cheltenham, UK: Edward Elgar Publishing. Appendix