

Is it worth subsidising the cultural sector? Evidence from Italian theatrical firms efficiency

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Inserisci l'Abstract (max 200 parole).

We study the impact of public subsidies on the efficiency of performing arts through an empirical analysis of Italian theatres using an output-oriented approach. We use the stochastic frontier analysis true random-effects model and the IV GMM second stage regressions, together with a procedure to measure the marginal effects of subsidies. Our findings suggest that the impact of public funds on technical efficiency of the Italian theatrical firms is positive and significant. The elasticity of public subsidy on efficiency is smaller than one. However, the return on subsidies amounts to 87% on average. These returns vary between Italian PA firms and is very high for theatre production companies, low for permanent theatres, and very low for the opera houses. Overall, since theatres technical efficiency could be increased at least by 25-27%, policy makers could work on public incentives, avoiding that, due to asymmetric information between government and theatrical firms, subsidies are provided indiscriminately. We also find that the technological progress is negative for the theatrical Italian sector and it leads to the decline in total factor productivity over time, providing empirical support to the presence of Baumol's disease in the sector.