

The Quality of Governance and its Effect on Decentralization in the Cultural Sector of the European Union Member States

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“...our goal must be neither the extreme decentralization of free competition nor the complete centralization of a single plan but some judicious mixture of the two methods.”
(Hayek, 1945, 2008:90)

The European Union member states use various cultural financing models. Some of the countries prefer the dominance of the market therefore the government creates an institutional system, in which the arm length aspect has priority. Other countries believe in the direct political and fiscal role of the state. However in both aspects the quality of governance has a major role in the efficient functioning of the system.

As the result of the financial crisis in 2007–2009 in many EU countries the level of decentralization increased as mostly the central government budgets were cut, while the regional or local governmental budgets stagnated (Čopič *et al.*, 2013). This change in the ratio of the central and local cultural budget and the increase of decentralization during crisis raises the question why decentralization has still dominance in the cultural policy of the European Union and its member states.

We assume that the quality of governance and its institutions has effect on decentralization as the higher the quality of governance is, the higher the transparency is, the trust between the central and local government actors stronger is and the level of corruption lower is.

In this article the connection between the quality of governance and the type of decentralization is examined. In the analysis the Worldwide Governance Indicators (*time series 2000–2012*) and the central and local cultural budgets (*time series 2000–2012*) of 25 EU Member States are compared.

Hypothesis: *The higher the level of quality of governance is, the higher the decentralization is in the cultural sector.*

Keywords: financing of culture, quality of governance, decentralization, European Union

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1. Introduction

The European Union's motto is "*unity in diversity*". The European Union has supranational regulations on the audiovisual, the book sectors, on national heritage and copyright in the cultural area. EU cultural projects such as the European Capital of Culture, the MEDIA program, the book translation project and other minor programs, all were created to help understanding each other's culture and bring these cultures closer to each other. *Hayek* in his famous book "*The Road to Serfdom*" argued that the main European values are *Christianity, Tolerance and Democracy*. (*Hayek, 1945, 2008*). These values are embedded in culture so they are becoming more and more accepted and used in the practice of the European Union's supranational cultural political level as the decision-makers realized the social, political and economic potential of the cultural sector. In 2005 *Barroso* declined the importance of culture in the common European policy. However the communitarisation process in the field of culture is lagging behind comparing to other sectors as the European Union implemented rules only on a few cultural fields and the financing of culture is also delegated to the member states. Based on these facts we argue that the decision-making and the fiscal resource allocation are *decentralized in the European Union on the supranational level* as these tasks are delegated to the national level.

There is *no unity* in the strategies used by the 28 member states of the European Union. The European Union does not force a best practice model on the member states either in cultural policy or in the financing of culture, so all the member states have the opportunity to create and develop their own cultural strategies.

Despite this fact there are some common characteristics among the countries. Based on the similarities there are various categorisations models to group the EU member states from cultural policy aspect. In all the categorisations the role of the state is in the centre.

Littoz Monnet (2007) created three main groups. The countries can be categorized as liberal, coordinated or federal cultural policy using countries. The author focused on the *legal systems* of the countries and examined their role in the communitarisation process in the field of culture. This model is not financial oriented and excludes the post-socialist countries from the analysis.

Katunarić (2003) made a ten-level-categorisation system, in which the level of *decentralization* of the cultural policy is emphasized. The author demonstrated this model on the South East European countries, especially the former Yugoslavian lands.

Tóth (2013) created a model, which tried to categorize the countries according to the *role of the state* in the financing of culture. In the grouping the level of decentralization, the

size of the non-profit sector, the level of entrepreneurial aspect of the cultural actors, the existence of independent arts councils, the level of competition for subsidies, finally the level and quality of tax reduction were measured and examined. The two main models, which can be created by this categorisation, are called *coordinated* and *liberal cultural financing strategies*.

- The coordinated countries are: *Austria, Belgium, Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, France, Greece, Poland, Latvia, Lithuania, Luxembourg, Hungary, Malta, Germany, Italy, Portugal, Romania, Spain, Slovakia and Slovenia.*
- The liberal countries are: *Denmark, Finland, Sweden, the Netherlands, Ireland and the United Kingdom.*

It is important to emphasize that although the names of these cultural financing models are almost similar to the names of the *Hall–Soskice* capitalist systems, the characteristics of them are not similar. It is not for sure that in a country the used cultural financing approach and the capitalist system are the same.

It is common in the liberal capitalist and *liberal cultural financing model* that both of them put the *arm length aspect* in the centre. The difference is that some countries use the liberal cultural financing model with higher direct government subsidy in % of GDP and when speaking about liberal aspect in cultural financing it refers not only to the subsidizing system, but how the actors (*consumers and artists as well*) behave in the market (*entrepreneurial aspect*). The role of the state concentrates on providing legal frame for the functioning of the independent arts councils and committees, giving tax incentives, functioning of non-profit sectors, investing in human capital and protecting intellectual property rights.

The coordinated capitalist system and the *coordinated cultural financing model* give the opportunity not only for market but non-market actors as well to influence the strategic decision-making processes. The state has a determining role in the financing and coordination of the cultural sector.

In both the liberal and coordinated cultural financing models the size of direct government actions and subsidies are higher than in the traditional capitalist systems.

All these previously referred literature grouped the countries from aspects such as the type of the legal system, the level of decentralization and the role of the state. These aspects

seem to be different for the first reading, but they have so many things in common as they all depend on the quality of governance.

The aim of this article is to analyse the cultural sector from an aspect, which expresses how the quality of governance influences the volume and the type of decentralization in the cultural sector of the EU member states.

We assume that the quality of governance and its institutions has effect on decentralization in the cultural sector.

The first chapter of the article explains why the active role of the state is important in the cultural sector. In the second chapter the pros and contras of decentralization are introduced. In the main chapter of the article the Worldwide Governance Indicators (*time series 2000–2012*) and the central and local government budgets on recreation, culture and religion (*time series 2000–2012*) of 25 EU member states are compared¹. The article ends with the concluding remarks based on the results of the analyses.

2. The Role of the State in the Cultural Sector

The state is the biggest subsidizer (*legal, political, financial*) of the cultural sector in most of the countries. Even in the most liberal countries, such as the USA, the UK or Australia, the role of the state is the most dominant in the cultural sector. These countries prefer the dominance of the market therefore the government creates an institutional system, in which the “*arm length*” aspect has priority. In these countries there is decentralised fiscal resource allocation and decision-making, bottom-up institutional development, the role of independent arts councils is determining, the entrepreneurial aspect among the actors of the cultural sector is very strong, there is highly developed non-profit sector and there is strong competition for state and private subsidies, consumers, media attendance and artists. This model is used in the most transparent way in the United Kingdom in the European Union.

The other group of countries believe in *the dominance of the state* as the decision-making and the resource allocation is centralized, the direction of the institutional development is top-down way, there is lower level entrepreneurial aspect and competition.

Although there are many differences how the coordinated and the liberal aspects define the role of the state now we list those fields where the role of the state is more than necessary in both models.

¹ No statistical data is available on Croatia, Cyprus and Lithuania.

Most of the cultural goods and services have the *common goods* characteristics, which mean that these goods and services have to be accessible for the people (*citizens, tourists*) free of charge. However these goods and services also have costs, which have to be covered. The role of the state is determining in this process to cover the cost of common goods.

Many of the cultural goods and services have the special *meritocratic* characteristic, that the actors cannot estimate the importance of these goods and services with using their own preferences. The critics take the role as they share their opinion with the public and based on these opinions the consumer decision-making is helped. The critics mostly financed from public money, so the active role of the state appears in this process as well.

The *legal system* is a key element in the effective functioning of the cultural sector. The intellectual property rights protection is the major shelter for the artists and the owners of the cultural goods, which can be created by the state. The law-making role is also important to create institutional background for the functioning of public, private and non-profit cultural institutions. The tax incentive rules make it possible to involve the private sector to sponsor and donate cultural activities. In more and more countries the lottery became an important source of financing culture. The law on lottery is also made by the state.

Baumol and Bowen (1966) in their famous article described a very interesting paradox called the *cost disease*. The paradox is that the production cost of cultural goods and services is increasing, while the output is almost stagnating. This phenomenon is against the classical economic theory that the increase in income generates higher productivity. Baumol and Bowen illustrate the paradox with an example from the music sector. 4 musicians are needed to play a string quartet. There could be slight differences in the interpretation, but the length of the piece would not change significantly, however there is a significant increase in the musicians' salaries, especially from the 19th century. The state enters into the scene as the increased costs are very often covered from public budget.

Since the 1960s the *democratisation of culture (access to culture for everyone)* became the main slogan of the national and supranational cultural policies. The income gap between the social classes creates different possibilities to have access to culture. The governments give financial support (*tax reduction, free entry, free open air cultural festivals, cultural program on TV*) to increase the accessibility of cultural goods and services for the all the social classes of the society.

The financing of *archival activities* is a key role of the state as the society is not able to perfectly inherit culture properly from one generation to the other.

The cultural goods and services generate the *spill over effect*, as they have influence on other sectors of the economy. The state intervenes mainly in case of negative externality, for example when the open air festivals' volume exceeds the limit. Luckily there are many positive examples for the spill over effect in the cultural sector too. The museum shops, the restaurants around touristic attractions are examples of it. Although the running of a museum can have deficit for the state, but the rental fee, the taxes of the cultural goods and services generate income for the state budget, so the balance could be positive in total. The role of the state here is to create an institutional system, in which there is trust between the state and the private sector, the system is predictable, transparent and accountable.

In the first paragraph of this chapter we described the main characteristics of the coordinated and the liberal cultural financing models. It is clear that the coordinated system is mostly centralized, while in the liberal countries decentralization has priority. The state decides, whether to use a centralized or a decentralized system in the cultural sector. As decentralization of the cultural sector is in the scope of this article now we turn to examine, which are the pros and contras of decentralization.

3. Decentralization and/in Culture

Decentralization is implemented into practice in a country if there is *deconcentration*, *fiscal decentralization* or *democratic decentralization*. Some form of decentralization can be present in democracy, autocracy or transitional cases, however if deconcentration is not combined with democratic decentralization it results in centralization. Furthermore if a system has centralized decision-making with fiscal decentralization the result is a pseudo decentralised system, which cannot be regarded as a democratic decentralised system (*Manor*, 2011).

A real democratic decentralized system comes together with capitalism and the active role of the civil society. The decision-making, the fiscal resource allocation all delegated to the lower intermediate and/or local level elected representatives. In this system there is top-down and bottom-up accountability at the same time, so the local level elected representatives have the right to control the central government and the civil society has the accountability right above the local representatives. The direction of accountability can be the other way around too.

If decentralization works well in a country the speed of problem solving, the quantity and the quality of solutions increases, so the overall performance of the system develops. These values can be guaranteed with quality governance (*Manor*, 2011).

These arguments support why it is worth analysing whether the quality of governance has effect on decentralization in the cultural sector.

Cowen (2006) believes that decentralization supports innovation, entrepreneurship, charity and generosity, which are all active motivators of culture.

Kawashima (2004) in an excellent paper explains how decentralization can be implemented in a special segment of the economy (*the cultural sector*), in which the dominance of the state exists. In the cultural sector we speak about *cultural, political and fiscal decentralisation*. The theatre or museum exhibition country tours are typical examples for *cultural decentralization*, when the cultural goods and services are brought to the consumers (*democratisation of culture, to have free access for everyone to consume culture*). The *political decentralization (deconcentration)* means to empower the decision-making right to lower lever elected representatives. *Fiscal decentralization* exists in a country if the regional and/or the local governments are the main allocators of the cultural budget.

In the cultural sector there are different combinations for political and fiscal centralization and/or decentralization (*Figure 1*).

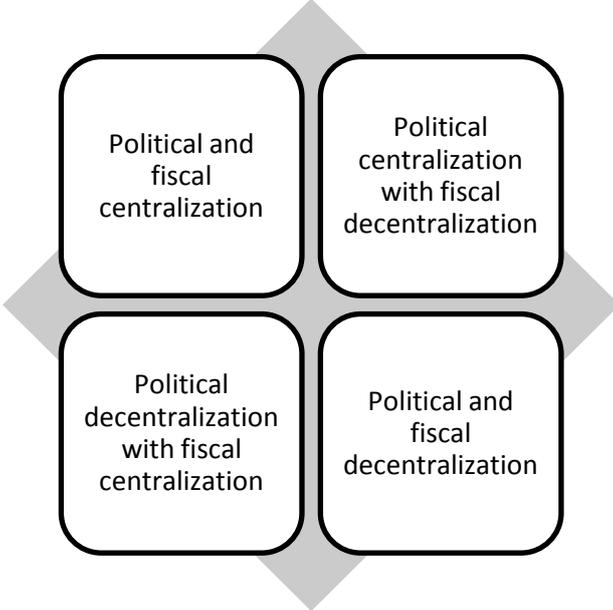


Figure 1: Centralized, Decentralized and Hybrid Political and Fiscal Systems in the Cultural Sector

We can see that the system is homogenous when there is political and fiscal centralization or decentralization. Two hybrid models exist, one is when political centralization is combined with fiscal decentralization like in *most of the post-socialist countries* or political decentralization is together with fiscal centralization like in Slovenia.

Based on *Manor's* (2011) definition we speak about *real decentralization* only when political and fiscal decentralization comes together. The system has to be regarded as being partially decentralized if there is either fiscal decentralization or deconcentration in a country.

The literature (*Tanzi*, 1996; *Crook–Manor*, 2000; *Manor*, 2011) explains why it is hard to achieve real democratic decentralization in practice. First of all the constitutional and legal framework have to be clearly defined and enforced. The local governments should have access to the necessary resources. The quality of public expenditure management system can guarantee the efficiency of fiscal allocation with its monitoring and controlling function. The equal quality of local and national bureaucrats is a necessity, as the national level has more opportunity to employ the highly qualified experts.

Beside these constraints there are examples that decentralization can function in practice. If decentralization has priority in a country's political, economic and social system it is more likely that the system works more efficient, as decentralization increases information accessibility, the independence of the civil society and the local governments. The cooperation between the public and the private sector is more vital. The governmental work is more transparent for the local representatives and the civil society. Corruption can be a problem on the local level in a decentralized system, but with the quality of governance, transparency and accountability it can be reduced.

As a summary we can state that it is very hard to create a democratic decentralized system, but decentralization can live up to its promise if the previously mentioned criteria are implemented in practice. In the next chapter we check how many of the EU member states are able to create a democratic decentralized system in their cultural policy. We also examine the role of the quality of governance in creating decentralization in the cultural sector.

4. The Quality of Governance and its Effect on Decentralization in the Cultural Sector of the European Union

In this chapter first the EU member states are categorized into groups according to the type of decentralization used in the cultural sector. Then we compare the Worldwide Governance Indicators (*indicating the quality of governance*) and the ratio of central and local government budgets on recreation, culture and religion of 25 EU countries to check the relevance of the hypothesis and answer the research questions.

4.1 Methodology of the Research

The Worldwide Governance Indicator (WGI) demonstrates the quality of governance in a country. Six broad dimensions of governance are measured with this indicator:

- *Voice and Accountability*: Reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.
- *Political Stability and Absence of Violence/Terrorism*: Reflects perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.
- *Government Effectiveness*: Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
- *Regulatory Quality*: Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.
- *Rule of Law*: Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.
- *Control of Corruption*: Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests.

In the analysis we use the WGI indexes of 13 years between 2000 and 2012. First the 13 year average of all the six dimensions, then the average of these six variables is calculated. We believe that this indicator with all the six areas measures the quality of governance in an effective way.

If we compare the main characteristics of a decentralized system and the dimensions measured by the WGI index, we can see that all the criteria of democratic decentralization appear in these dimensions and a strong and high quality governance is needed both on the central and local level to achieve decentralization. The cultural sector is no exception.

What do we mean under culture? Nowadays it is accepted among cultural economists to take the broader dimension of culture (Throsby, 2010). We accept this view so when we speak about culture we mean recreation, culture and religion as being part of it. In the analysis the so called *COFOG database*² of the OECD is used to demonstrate how much the central and local governments spend on recreation, culture and religion in the examined 25 EU member states. There are some countries on which the COFOG database is not available. The central and local government budget on culture is from the *Compendium country profiles* in case of Bulgaria, Malta, Latvia and Romania. We have the COFOG time series for Austria between 2000–2011. All the other 20 countries cultural budgets are from between 2000–2012. The central and local government budgets are measured in national currency, current prices and in millions. In the analyses we use the cross-country comparative method, so the previously introduced variables of 25 EU member states are compared. The research questions of the article are the following:

- Is the institutional system of the cultural sector politically and fiscally homogenous in those countries, in which the quality of governance is higher?
- Is the cultural sector more likely to be centralized or decentralized in the countries where the quality of governance is high?
- Is the cultural sector centralized or decentralized in those countries where the institutional system is homogenous?

4.2 The Comparative Analysis of the Main Statistical Data on Quality of Governance and Decentralization of 25 EU member states

To answer the research questions we categorize the countries into different groups. If we focus on the quality of governance two groups can be created. The WGI index ranges between -2,5 and + 2,5. As the lowest score among the 25 EU member states is 0,04 (*Romania*) and the highest score is 1,9 (*Finland*) we determined 0,93 as being the mean. At 0,93 score and above the quality of governance is strong, below this level it is weak in a country (*Table 1*).

Countries with high quality of governance are: Austria, Belgium, Denmark, Finland, Germany, the Netherlands, Sweden, France, Portugal, Spain, Ireland, the United Kingdom, Estonia, Luxembourg, Malta and Slovenia. It is remarkable that only two post-socialist countries belong to this group.

² COGOG is an acronym: Classification of the Functions of Government

Table 1: The Main Statistical Data on the Quality of Governance and Decentralization of 25 EU Member States

Country	Worldwide Governance Indicator (2000-2012) average ^a	Central Government Budget on Recreation, Culture and Religion (2000-2012) average ^b	Local Government Budget on Recreation, Culture and Religion (2000-2012) average ^b	Fiscal Decentralization	Political Decentralization	Type of Decentralization	System Characteristics
AUSTRIA	1,6	899	1785	YES	YES	Democratic Decentralization	Homogenous
BELGIUM	1,33	271	3791	YES	YES	Democratic Decentralization	Homogenous
DENMARK	1,85	12430	14080	YES	YES	Democratic Decentralization	Homogenous
FINLAND	1,9	715	1396	YES	YES	Democratic Decentralization	Homogenous
GERMANY	1,47	1450	18648	YES	YES	Democratic Decentralization	Homogenous
NETHERLANDS	1,7	1924	7719	YES	YES	Democratic Decentralization	Homogenous
SWEDEN	1,76	10038	24847	YES	YES	Democratic Decentralization	Homogenous
FRANCE	1,22	6403	18921	YES	YES	Democratic Decentralization	Homogenous
SPAIN	0,99	2778	10833	YES	YES	Democratic Decentralization	Homogenous
PORTUGAL	1,07	724	1006	YES	NO	Fiscal Decentralization	Hybrid
UNITED KINGDOM	1,45	7386	6533	NO	YES	Deconcentration	Hybrid
SLOVENIA	0,95	265	232	NO	YES	Deconcentration	Hybrid
IRELAND	1,5	706	470	NO	NO	Centralization	Homogenous
ESTONIA	0,99	147	117	NO	NO	Centralization	Homogenous
LUXEMBOURG	1,71	399	223	NO	NO	Centralization	Homogenous
MALTA*	1,19	26151	0	NO	NO	Centralization	Homogenous
LATVIA*	0,6	81,7	96,5	YES	YES	Democratic Decentralization	Homogenous
POLAND	0,64	3778	11110	YES	YES	Democratic Decentralization	Homogenous
ROMANIA*	0,04	703 536	3 024 817	YES	NO	Fiscal Decentralization	Hybrid
BULGARIA*	0,2	84783	109293	YES	NO	Fiscal Decentralization	Hybrid
CZECH REPUBLIC	0,84	18117	27305	YES	NO	Fiscal Decentralization	Hybrid
ITALY	0,62	6133	6621	YES	NO	Fiscal Decentralization	Hybrid
GREECE	0,6	740	264	NO	NO	Centralization	Homogenous
HUNGARY	0,85	253371	141036	NO	NO	Centralization	Homogenous
SLOVAK REPUBLIC	0,72	378	197	NO	NO	Centralization	Homogenous

Source: ^a WGI database; ^b OECD COFOG database; * Compendium Country Profile

Countries with low quality of governance are: Poland, Romania, Bulgaria, Czech Republic, Italy, Latvia, Greece, Hungary and Slovak Republic. Beside Italy and Greece all the other countries are post-socialist ones.

Out of 25 countries 16 countries (64 %) have high and 9 (36 %) ones have lower quality of governance. 18 countries use some type of decentralization, which is 72 % of the examined population. 11 (44 %) countries use democratic decentralization, 5 (20 %) ones prefer fiscal decentralization, 7 (28 %) countries are politically and fiscally centralized and 2 (8 %) member states chose deconcentration.

Out of the 16 high quality governance countries 12 countries use some type of decentralization (75 %), 9 countries (56,25 %) use fiscal and political decentralization, so they fulfil the criteria of democratic decentralization, 1 country combine fiscal decentralization with political centralization (6,25 %) and 2 member states prefer deconcentration (12,5 %) , while Ireland, Estonia, Luxembourg and Malta are centralized countries (25 %). These latter 4 member states chose centralization because of the small size of the country. The results show that among the high quality governance countries the homogenous democratic decentralization is the most popular system, followed by the homogenous centralized model, then comes fiscal decentralization with political centralization and finally deconcentration.

The Netherlands, the Scandinavian (*Denmark, Finland, Sweden*) and the federalist countries (*Austria, Belgium, Germany*) are the typical examples for democratic decentralization. France also belongs to this group however with its etatist tradition the state has important role in the coordination of cultural policy and financing. Surprisingly the United Kingdom is categorized into the hybrid group with its deconcentration system. We have to emphasize in case of the UK that although the central government subsidizes culture more than the local governments, but this subsidy is transferred to the actors of the cultural sector via independent bodies such as the Arts Councils. It is also important to mention that the British private sector's role in the financing of culture is the highest in the EU. In Slovenia after the political change there is a strategy to implement decentralization into practice in a judicious way, because of the slow speed of the structural change the fine tuning of the system is still in progress.

Out of the 9 lower quality of governance countries there is democratic decentralization in Poland and Latvia (22,2 %), fiscal decentralization with political centralization has priority in 4 member states (44,4 %) and 3 countries prefer the homogenous centralized model in the cultural sector (33, 34 %). There are no countries where deconcentration is used as a cultural policy strategy.

In Poland and Latvia both the decision-making and the fiscal resource allocation became decentralized after the political change. These two countries are still in the learning face, although the transition ended, the fine tuning of the system is still in progress. It is remarkable that these countries did not change their mind after the first unsuccessful years and now the system is functioning with good results. Hungary was not consequent as decentralization was a priority in the cultural policy in the 1990s, but after

2000 the governments started to recentralize the system; first the political decision-making then the fiscal allocation became centralized. Now there is total political, ideological and fiscal centralization in the cultural sector in Hungary.

If we focus on the homogeneity of the political and fiscal system of the cultural sector, we can see that 18 (72 %) countries use a homogenous system, the other 7 (28 %) member states apply a hybrid model. Out of the 18 countries with homogenous system 15 have high and 3 have low quality of governance. Out of these 7 hybrid countries 3 have higher and 4 have lower quality of governance.

Based on the analyses on the 25 EU member states we argue that:

- a) If the quality of governance is higher in a country, the system is more likely to be homogenous (*political and fiscal centralization or democratic decentralization*).
- b) In those countries where the quality of governance higher is, the chance is bigger for using some kind of decentralized system (*democratic decentralization, fiscal decentralization or deconcentration*).
- c) In those countries where the cultural sector is homogenous, more countries are able to create a real decentralized system, the so called democratic decentralization.

These results support the hypothesis that *the higher the level of quality of governance is, the higher the decentralization is in the cultural sector*.

5. Conclusions

In this article we tried to demonstrate that the quality of governance has positive effect on decentralization in the cultural sector of the European Union member states. The results of the analyses support this argument. Although there are many political debates about the effectiveness of decentralization, this sample shows that decentralization is preferred to centralization in the majority of the EU member states in the cultural sector, which sector relies more on the active role of the state than other sectors of the economy.

When we speak about strong state we do not mean that the volume of the state has to be big, but the quality of governance has to be high and determining. The cultural sector performs better if the government creates a transparent system with low level of corruption, high level of trust between the public and the private sector and the actors of the cultural sector are accountable, in one word there is decentralization in the field of culture. If any of these criteria is missing from the system, the artistic and financial potential of the cultural sector decreases.

The next step of the research is to test these results with statistical analysis. We are planning to examine how the six dimensions of the WGI index separately influence decentralization in the cultural sector of the EU member states.

Based on the results of the research we believe that decentralization still has relevance in the cultural sector and the quality of governance is a necessity to achieve it.

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