

# **Baumol's suppressed cost disease and programmatic choices by Flemish subsidized theatres**

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The programmatic choices of an individual theatre are a major strategic decision. By this, the theatre not only makes an artistic statement, it also creates the context for the practical organisation of its current and future activities. As any other decision, programmatic choices are not taken in a vacuum. The management has to take into account the constraints imposed by the public, by the subsidising bodies, and, of course, by its own technology. As the latter is known to be highly labour intensive, it is a well-established fact that theatres suffer from Baumol's cost disease: the systematically increasing production costs narrow their choice set. To keep their output constant over time, theatres are in need of additional financial means. Lacking such means, they can avoid structural deficits by adapting their programs in terms of the plays that are performed. The latter reaction has been labelled *suppressed cost disease* (Baumol and Baumol, 1985).

Evidence on the suppressed cost disease is to a large extent anecdotal (Heilbrun and Gray, 2001). A first aim of the present paper is to offer more systematic evidence. Thereto we analyse how professional Flemish theatres respond to the cost disease. By far most of these theatres are non-profit organizations who depend heavily on government subsidies. As theatres reorganize in response to sustained budgetary pressures, it is likely that not only the *quantity* but also the *quality* of output can be affected. We identify three possible decision-variables. Firstly, theatres can choose to perform plays that have smaller casts. Secondly, they can opt for retakes of productions that have been on the program before. Finally, theatres can increase the number of performances per production, a choice that may imply performing more popular plays.

Section 1 reviews the relevant literature. Section 2 uses data on 60 Flemish theatres to describe changes in output from 1970-71 to 2000-2001. One of our most remarkable findings is a significant decrease of 42 % in the average number of actors per production, which is even stronger (51 %) when only the theatres specialized in the classical repertoire are considered. Large productions are becoming more and more scarce.

Section 3 looks for an explanation of the described changes in output. We expect theatres' output decisions to depend on (a) changes in subsidies, (b) changes in input prices, (c) the objectives of the theatres and the subsidizing government. Preliminary results show that the change in the average number of actors appearing on stage positively correlates with the changes in subsidies.

In a last section a case study on the most well-established Flemish theatres is undertaken. Detailed data on labour and production costs reveal an increasing importance of non-artistic labour compared to artistic labour.