MANAGING THE SCARCITY OF RESOURCES FOR ART THROUGH CROWDFUNDING. WHEN AND WHY IT WORKS

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prepared for the

XII International Conference on Arts & Cultural Management,

Universidad de los Andes at Bogotá, Colombia, on **June 26–29, 2013**.

1. OBJECTIVES OF THE RESEARCH

Crowdfunding seems to be the last fashion tendency to finance culture and art — but also any type of project. It rests on a relatively simple principle: individuals who need money to develop a project, in our case, artists ask "directly" other individuals who could be interested in financing this project to lend them money. More precisely, Lambert and Schwienbacher (2010) define crowdfunding as "an open call, essentially through the Internet, for the provision of financial resources either in form of donation or in exchange for some form of reward and/or voting rights in order to support initiatives for specific purposes" (see also Schwienbacher and Larralde, 2010). Or, as one website presents it, crowdfunding consists in "tapping into the power of crowds" (Fundageek).

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For instance, in 2009, Fanny Armstrong, a young London-born director, funded her documentary on climate change, *The Age of Stupidy*, by appealing to a public of (relatively) small donators. Out of £450 thousands that were needed to make the film, £335 thousands were provided by 228 groups or individuals who gave sums ranging from £20 to £5,000—Armstrong and her company, Spanner Films, did not stop there. Their *Age of the Stupid* adventure still goes on: on the website of Spanner Films, it appears that more than 600 "ordinary people", as their website presents the donators, have invested about 880 thousands pounds (so far, the amount is continually changing). This, undoubtedly, is as a successful operation. In other areas, such as music, attempts have not always been successful. To mention but a few examples, one of the first crowdfunding music platform, SellaBand, launched in 2006, but was bankrupted in 2010; similarly, the French platform Spidart, launched in 2007, bankrupted in 2009. Fundamentally, it appears that "projects generally succeed by small margins, or fail by large ones." (Mollick, 2012, p. 21).

The purpose of this paper is to propose an economic analysis of crowdfunding, and to propose an explanation as to why or under which conditions crowdfunding works or does not work.

2. HYPOTHESES AND/OR RESEARCH QUESTIONS

First, we would like to interpret crowdfunding platforms as cultural clubs. The main benefit of these mechanisms of financing public goods would derive from the fact that crowdfunding platforms tend to create club goods in the sense defined by Buchanan in 1965. To write it in different words, some individuals create a club whose purpose is to produce, finance certain cultural goods. Membership is acquired by paying a certain amount of money that is used to finance in advance the good. This is interesting because it means that the standard problems of public goods, that so often affect the production of cultural goods, are solved in advance through private means. Then, the question is: are crowdfunding platforms real clubs? Our answer is negative, partly because the number of participants is not limited and therefore non-optimal. This can be viewed as one explanation: crowdfundind does not work when, or because, it is not precisely tailored around *one* cultural club good.

Second, we plan to discuss one of the most frequently mentioned advantages of crowdfunding: the model is supposed to eliminate "intermediaries" and based on (so to speak) face-to-face relationship between donators and artists. That is on a face-to-face relationship between supply (of projects) and demand (of funds). In other words, fundamentally, crowdfunding could be viewed as a decentralized -- to some extent market-like -- mechanism that could reduce the matching problems that cloud the functioning of markets. This is an interesting feature for a mechanism that is supposedly built against big corporations, against capitalist firms and, therefore, to be less capitalist-oriented than other ways of financing art and cultural projects.

Beyond that, the main problem is the following: does crowdfunding eliminate intermediairies? Or, more broadly, is it possible to envisage a market that would function without intermediaries? We argue that it is possible to answer by the negative to this question. Actually, as many economists have shown in the case of the emergence of law, for instance, intermediaries are not only useful but also necessary. Crowdfunding is not an exception. And, indeed, crowdfunding most of the time, if not always, functions through platforms — Internet websites — that serve as intermediaries between supply and demand. Do they differ from the major and the publishing companies that usually perform that type activities or do they have the same role? Theoretically, no. Crowdfunding, like any other finance model, requires institutions to guarantee the effectiveness of transactions and the quality of the artists who want to have their projects funded and also to manage the property rights that the lenders acquire when they give money to the artists. Here we have a second explanation: the necessity to have a project in which some one plays the role of an intermediary whose role is to channel energies and funds.

A third claim we would like to discuss relates to the existence of cultural network externalities. It mainly appears that, in art, music or painting, "success" is a process that can be described as resting on "network externalities" — reputation fuels reputation — and "informational cascades." In this process, what appears to be important is the role of experts and critics, who are informational leaders -- they are supposed to be better informed than other individuals -- and therefore create informational cascades, leading individuals to consume or buy this rather than that cultural goods. Now, one of the features with cultural goods is that preferences are endogenous or "uncertain" -- "We don't know what we like most" and "We don't know what we may like in the future" (Aubert,

Pranab Bardhan, and Jeff Dayton- Johnson, 2003). This implies, and this is what we intend to show in this part of the paper, that without informational leaders, that there might not exist network externalities and informational cascades. Or, to put it differently, crowdfunding platforms can succeed is they are able to create network externalities and informational cascades and this happens if they replace experts and informational leaders. That is, if they are organized around specific projects with leaders or entrepreneurs. This confirms our second point. We derive this result by using Farrell and Saloner 1985 model.

3. MAIN OR EXPECTED CONCLUSIONS

Our paper is organized around three main questions -- clubs, intermediaries and cultural network externalities -- that we discuss in order to show -- this is our main expected result -- that crowfunding is not necessarily more efficient than standards ways of financing art projects. More precisely, we would like to argue that crowdfunding might be efficient under certain precise conditions. We do not only plan to develop a theoretical argumentation but also show that our claims are confirmed by facts.

4. MAIN REFERENCES

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