COMMUNICATIONS

A STATUS QUO IN THE ECONOMICS OF ART AND CULTURE? – A VIEW OF SOME RECENT DEVELOPMENTS –

In a recent review article in the *Journal of Economic Literature* the present president of the Association of Cultural Economics International (ACEI), David Throsby, gives an overview of the research done in the economics of art and culture. The picture one gets is that of a status quo with respect to theoretical matters. It seems as if all or most of these economists have adopted mainstream economic thought and apply it to the arts. In this paper I will argue that his review of cultural economics is biased, and that his characterisation of the state of affairs in the field needs to be amended.

I will argue that the status quo – if it ever existed – has always been a tenuous one, and that ever since the inception of the economics of art and culture many people in the field have tended away from it on occasion. For most economists involved, especially the 'founding fathers,' economics of art and culture was not something that constituted the major part of their research. Blaug, Boulding, Galbraith, Scitovsky, and others have not so much been concerned with applying existing economic theory to the arts, but started at the other end by trying to understand certain features that are particularly outspoken in the arts. Throsby paid scant attention to contributions that have taken the latter approach. The tenuity of the status quo becomes even more evident after I have discussed some central topics in the economics of art and culture.

Contrary to what Throsby argued, Klamer (1995, 1996a, 1996b) does not assert that the task for economists of art and culture in the future is to use available economic theory since it is well developed and only needs application. The central question around which their disagreement revolves is whether or not the field of arts and culture confronts the economist with new and important theoretical problems. Klamer (1996a) proposes to leave – what he metaphorically calls – 'the road of choice' and take the 'road of value.'[1] The road of value is, contrary to what he suggests implicitly, one on which a number of economists of art and culture are or have been travelling. Boulding, Galbraith and others may be

1¬ The road of choice seems, in Klamer's view, equivalent to neo-classical economic theory. What the road of value might amount to will become somewhat clearer in the remainder of the text.

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mentioned here. They are not given much attention in Throsby's article; nor is their work referred to in Klamer's recent publications.

What this road of value may involve can be inferred from the collection of contributions to a conference he organised in Rotterdam following the commencement address in May 1995 (Klamer (1996b); see also Dolfsma (1995)). Inspiration from many different sources is needed to go along this road of value as opposed to the road of choice. Reactions from social scientists well beyond the Dutch borders to his provocative inaugural lecture appeared in a Dutch journal focusing on research in and policy on art and culture (the *Boekmancahier*). In two issues of this journal (numbers 26 and 27) a large section was reserved for these reactions. They came from economists, sociologists, art historians, and philosophers alike; they were sometimes supportive but mostly critical. Especially the economists among the commentators levelled some heavy criticisms against Klamer's views.

1 THE STATE OF THE ECONOMICS OF ARTS AND CULTURE

What then is the status quo in cultural economics? 'By now there are few theoretical stones left unturned within the confines of the competitive model, and the focus of further enquiry in this area of the field must be primarily empirical' Throsby (1994, p. 24) concludes after having reviewed the field of cultural economics.[2] Neo-classical economics provides adequately and fully developed tools for an analysis of the economic aspects of the arts. Cultural economists only need to 'put some quantitative flesh on the theoretical bones (*ibid.*).' This is the theoretical position that drives many studies in the field.[3] Studies on the market for art works, the market for artists, the position of the performing arts institutes, and possible justification for government support for the arts are informed by neo-classical economics. It is from this position that the reactions to Klamer's lecture made by Abbing (1995), Frey (1995), Gray (1996), Heilbrun (1996), and Langenberg (1995) – all renowned in the field – must be understood.

A famous argument in this literature is the thesis Baumol and Bowen proposed in a seminal article in 1965, later expanded into a book (1966). Because of its fame, it received a nickname afterwards: 'Baumol's disease.' The 9th conference that the Association for Cultural Economics International organised in Boston from 8 to 11 May 1996 was the 30th birthday of the appearance of the book that still inspires much research – enough reason for celebration in a plenary session.

2 In personal communication, Throsby points out that he draws this conclusion with respect to the debate in the field of cultural economics on issues of welfare economics. The text shows, however, that such discussions loom large in the field generally and have relations with many if not most other studies.

3 See e.g. Heilbrun and Gray (1994) as well as many of the articles that feature in the Association of Cultural Economics International's *Journal of Cultural Economics*.

'Baumol's disease' implies that the performing arts, being a sector that provides services, will see its economics position becoming weaker and weaker as technology progresses. The fruits of technological progress – as a result of process innovations rather than product innovations as Baumol explained himself during the plenary session – cannot be borne by the performing arts, the argument goes, and so its productivity will increasingly lag behind. Combined with over the board rises in wages in all sectors of the economy, and the empirical fact that the audience is not likely to accept a price increase results in a precarious financial position for the performing arts.[4] Ultimately, *ceteris paribus*, performing artists and supportive personnel will have to sacrifice some of their income to prevent bankruptcy or closure. Which explains the often low – or lower as compared to the average – incomes of performing artists like members of orchestras and actors in theatres. As it turns out, 'Baumol's disease' has wider significance than might be expected: it is a theory of unbalanced economic growth that becomes increasingly relevant as the service sectors grow relative to the other sectors in the economy.

The position artists have in the labour market is an important concern among cultural economists – partly because Baumol's argument about the difficult position of and gloomy prospects for the performing arts (see e.g. Abbing (1989), Frey and Pommerehne (1989), and Langenberg (1993)). The large majority of artists have low incomes, while a few have extremely high incomes. Consequently, many have to look for other, often related, work to complement their income or have to be satisfied with the meagre income they have. Surprisingly many artists however – though not nearly all, of course – choose not to look for additional income from a different kind of source contrary to people in many other professions. And even if they do have another, additional source of income, many tend to keep it quiet. One reason for this phenomenon of deprivation-by-choice is that many people – nonprofessionals, artists, and those who study the arts – think there is a contradiction between real art and commercially recognised art. Real art is innovative and thus has, almost by definition, no market on which it can be sold. It is only (much) later that such art is recognised for what it was all along – high art –, after which it draws the attention of large audiences (*cf.* Bourdieu (1993)). It is this romantic ideal that draws artists-to-be to the profession and that makes them accept meagre incomes (Abbing (1989); see also Fase (1996)). Van Gogh is for many people the perfect embodiment of this ideal – he died in poverty and misery, while his paintings are now in high demand.[5] In high

4 See Fase and Winder (1995) for both a concise and lucid explication of the theory of unbalanced economic growth (Baumol's and Verdoorn's laws), as well as a test of these theories for The Netherlands. Empirical evidence for the elasticity of demand for the performing arts is provided by, e.g., Throsby and Withers (1979).

In reality Van Gogh is the a-typical artist. His career as a painter had only been short and he was treated for his insanity in the best sanatoria paid for by his family. I owe this point to Marlite Halbertsma.

demand both by people wanting to visit exhibitions in museums and by people wanting to buy Van Gogh's paintings. Several studies showed that investment in certain paintings can be very worthwhile at times; its returns outstripping that of stocks and bonds. Over longer periods of time, however, investments in the arts are not generally as lucrative as other investments (Frey and Pohmerehne (1989), Fase and Van Tol (1994), Throsby (1994, pp. 4-7), and Fase (1996)).

In spite of, or perhaps because of, this romantic ideal there is a small group of artists that earns a high income – both in relative and absolute terms. It is not surprising then that the phenomenon of stardom was looked at in a serious way for the first time by cultural economists. Rosen (1981), Adler (1985), and Towse (1993) have done some important work on this topic. Towse points to the imperfect information that people have about artists and the consequent costs of acquiring that information. Rosen showed that small differences in talent can lead to large differences in income earned by using this talent. Imperfect substitutability between products of different artists, together with the fact that it often makes no difference how many people enjoy a performance – the quasi public good character of art goods – are the reasons Rosen points at. Adler goes even further by showing that differences in talent can be irrelevant because people in the (potential) audience have a need to talk with each other about cultural events. If at one time some artist, for some reason that need not be related to his talent, stands out he can become the superstar that everybody talks about. As Aristotle has said: people are political – by which he means social – animals. When everybody talks about his own favourite artist, we would not be able to share our experiences with each other. So there is an incentive to select one or only a few stars. A skewed income distribution may arise because of this, without differences in talent.

Although originally cultural economists concerned themselves with the 'high arts' only, one can see a move towards more attention to what is called 'low culture.'[6] Often the criteria applied by lovers and students of the arts to distinguish between high arts and low arts seemed to be whether or not a product was unique. Until recently, cultural economists devoted most if not all of their attention to studying the high arts, apparently based on the assumption that only unique items could be culturally or artistically meaningful. In doing so they went against the dictum of the classical economists that economics should not and could not deal with unique goods (e.g. Von Wieser (1924)). Cultural industries, however, produce large amounts of identical, yet culturally meaningful, items. Examples

6 As De Swaan (1991) and Crane (1992) have argued, this distinction between high culture and low culture is not related to intrinsic qualities that cultural goods have, but rather to the group of people that appreciate them. High culture is appreciated by the upper classes. So it follows that the ideal of spreading high culture to the whole of a population can only fail. For when an item that was formerly considered high culture is adopted by the lower classes it ceases to be seen as high culture. The definition of highly cultural goods changes to again serve as a means of distinguishing between the different groups in society.

are pop music, film, and television. The problem of defining what the product and therefore the market is, now becomes as pertinent as it is in the field of cultural economics in general. Is a movie the product we are talking about and is it different from the video, or is the experience of each person in the cinema a unique product? The theory of industrial organisation is particularly appropriate for studying the cultural industries. An old and important question in industrial organisation is which market structure is most conducive to innovations. Peterson and Berger's (1975) seminal article asks essentially the same question and inspired many subsequent studies, both critical and appreciative of their findings and the methods they used. Their conclusion that the diversity of musical forms increases as market concentration decreases was both supported and contested in subsequent studies. Still, although the cultural industries are often run as profit organizations, a surprisingly large number of cultural economists only reluctantly see them as 'real' firms. Here, too, the possible role the government can play a widely debated.

2 CHANGING DIRECTIONS – FROM AN ECONOMICS OF ART AND CULTURE TO CULTURAL ECONOMICS?

The overly enthusiastic use of *ceteris paribus* assumptions in arguments such as those by Baumol and Bowen, and the uneasiness of trying to justify government support for the arts from within the neo-classical paradigm are indications of the need for a changed perspective. It is likely that it was felt all along that the field of cultural economics makes the problems of neo-classical or 'orthodox' economics more visible.

Neo-classical economics endorses a libertarian position in the spirit of political philosopher Robert Nozick (1974). People should be left free to decide for themselves what to do so they can satisfy their known and unchanging preferences constrained only by the budget and time they have available. This will result in the situation where the collective welfare of a society is at a maximum while no single individual is worse off compared to the previous situation (Pareto efficiency). In finding out what they want, people should not be influenced ('bothered'). In this perspective the assumption that we can perceive of people having ended their learning process and having found out what they want is understandable (*cf.* Lucas (1987)). The role of the government should be kept to a minimum, it should be a 'nightwatch state.' Only activities that confer evident positive effects to a society that a market could never deliver (merit goods) justify state intervention in the economy. This external benefits argument works well in the case of law and order, or national defence. But what about the arts? Are the arts comparable to the army? Historical evidence shows that support for the arts from the authorities is not of recent origin. Aristocrats, the clergy and successful businessmen have long acted as protectors of particular artists. Abbing (1992) argued that in a sense modern democratic governments have taken over this role of maecenas. While in a sense there may be a kind of continuity in this case, there nevertheless is a change, too. For, as democratic governments take up the role of protectors of the arts, the need for justifying this role becomes much more acute, if there ever was such a need before the democratic practice established itself. In fact, what are now generally considered the best examples of high art were often deliberately made to be sold at market (Dutch paintings in the 16^{th} and 17^{th} century) or made while the government actively opposed its creation (literature in former communist Eastern Europe). Neil de Marchi (see e.g. De Marchi and Van Miegroet (1995)) repeatedly made the case that markets for paintings in the Low Countries (Belgium and The Netherlands) were the prototypes of the highly developed modern markets. Fundamental research may be a better analogy. Perhaps the externalities the arts bestow on society are comparable to those fundamental research provides (Abbing (1980), Wijnberg (1994)). The relation is, however, tenuous. Galbraith (1983) claims that the arts confer such benefits, but it is more difficult to show this empirically than in the case of fundamental research in the natural sciences. It seems difficult to sustain this empirical claim.

Another market failure argument popular among cultural economists is that of the public goods. Art, or at least many of its forms, is a public good – for many forms of art one cannot exclude people from appreciating it, while it is (almost) impossible to make them pay for the experience. Hence, the market will not provide art, or at least not in the amount and form that we would all like to see. Here we almost casually move towards the third argument within neo-classical economics to a possible support of the arts: the merit goods argument. Public goods and merit goods arguments are, especially in the field of art and culture, closely related. Both economists of the road of choice and of the road of value seem to agree that market failure arguments are not convincing to justify support for the arts (Frey and Pommerehne (1989, p. 29), Klamer (1995)). One problem is that a *direct* comparison of a piece of art with different art forms or non-art in terms of a *single* measure (e.g. money) disturbs many people.[7]

It is no surprise that many cultural economists have worked on topics of welfare economics. A sufficient cultural (artistic) element, some economists suggest, makes for the 'good society' of which J.K. Galbraith spoke in his address to the Cultural Economics conference in Boston (Pen (1983), Scitovsky (1989)). Now that Baumol's argument makes it clear that the production of culture may be in danger as technology progresses and the more usual justifications for government support seem inadequate or at least troublesome, economists again look at the merit goods argument. By making the merit goods argument, saying that the arts should be supported just because we (all) think it is good for society, as for instance Pen (1983) and Scitovsky (1989) do, an economist moves away from the

7 Art is not unique in this respect, other examples where many people would object to applying a single measure (especially money) for the sake of comparison are human lives, the Truth and moral or religious convictions.

orthodox view in economics.[8] What we would (all) like to see, what we should value is not something 'positive' economics can tell us.[9] Economics as it is generally understood by its practitioners is about what *is*, not about what *ought*. The field of cultural economics tends to make economists aware that there is a 'problem of value,' as Heilbroner (1988) puts it. Abbing (1993) observes that, even if cultural economists keep to the neo-classical theory of value, they at least feel obliged to discuss the problem of value at some length (see Grampp (1989) and De Grauwe (1990)).

What the discussion about a possible justification for government support for the arts of course revolves around are questions of value. One needs a conception of what it means for something to have value before addressing the question of government support for the arts. Value theory, as former president of the Association of Cultural Economics International Michael Hutter observes, seems like an old, abandoned copper mine. Economists do not visit this mine any more, since it is judged to be unproductive, not worth their while. What do we value (about the arts)? And: Why do we value it? Value theory has always been central to economics; whenever a new or different economic theory appeared on stage, it first contested the previous value theory (Dolfsma (1997)). Value theory is thus in the heart of economics. Today's economic theory, however, does not have a heart. Economics has a 'problem of value' as Heilbroner (1988) puts it. Value is equated to price, and a price is determined on impersonal markets where supply and demand curves move around. This is what Klamer focuses on. As with issues raised by other people in the field of cultural economics, the arguments made may have wider implications for economics as a science.

3 VALUE AND CULTURE IN ECONOMICS

The adage of one of the founding fathers of cultural economics – Kenneth Boulding – is again subscribed to in the work along the road of value. 'Cultural economics must look upon both preferences, skills, and techniques as essentially learned in the great process of cultural transmission (Boulding (1973, p. 53)).'[10] This process of cultural transmission is one in which people learn, as Boulding stresses. People learn from other people in their surroundings and thus come to share a culture – consciously as well as tacitly. In this line of reasoning 'culture'

8 The question that Dworkin (1985) raises of what policy objective should prevail, if government support for the arts can be justified, remains. Should the government strive to ensure the survival/flourishing of particular organizations, or should it ensure the widest diversity of artistic messages attainable? Dworkin chose the latter.

9 The merit goods argument can also be brought to bear on other economic issues, as Galbraith again observed in his speech. Do we, for instance, really want a 'comparative advantage in producing morally depraved television programmes?' is a question we may want to ask in international economics.

10 See also Abbing (1993).

seems best described in a broad, anthropological sense of ‘a system of values, beliefs, and aspirations that distinguishes one group of people from other groups’ (Trimarchi (1996)). What people want, prefer or value depends on the culture they are in, on their social environment. This is at least what sociologists and anthropologists show. Elsewhere (Dolfsma (1996)) I argue that to understand and explain a phenomenon like the consumption of a cultural good such as pop music, its valuation, economics needs to take such social or cultural aspects into account.

Concepts of value and culture are thus intricately related, which is also a point that some of the founding fathers of economics make. Aristotle and Adam Smith (especially in his *Theory of Moral Sentiments*) are important sources of inspiration (*cf.* McCloskey (1996)). People are social or political animals who talk all the time – especially in the market (*cf.* McCloskey and Klamer (1995)). How they talk, what they talk about, what kinds of arguments persuade people, etc. depend on the culture they are born into. In a culture, underlying socio-cultural values play a role. These provide guidelines as to what ought to be done, to right and wrong, to what is beautiful, etc. Examples of how these underlying values materialise or institutionalise are the working ethic in a country, scientific pursuit of the Truth, and the believe that Van Gogh’s paintings are the pinnacle of high art.[11]

4 SOME CONCLUDING REMARKS

Not surprisingly, it is too early to observe a change in the direction in which cultural economics is going. Status quos are notoriously hard to alter, the process of cultural evolution is slow. If my observations are correct, however, there has at least been an appreciation of the kind of questions that the road of value poses in this field.[12] Most likely because this field of cultural economics tends to make its scholars more open to the ambiguous nature of matters such as culture, norms, values, prices, goods, services, relations between people, and markets.[13] Matters that are more complicated than ‘orthodox,’ neo-classical economic theory seems to suggest. Such open-mindedness has also been the reason for the fact that the status quo in the economics of art and culture, if there has ever been one, has always been tenuous. This is most notable in the discussion on a possible justification for government support for the arts. Discussions on the topic of justification for government support for the arts seem warranted given its almost chronic economic difficulties. Here, I argue that such discussions are not fruitful without a proper discussion of what it means for something to have value. More-

11 With regard to the working ethic, see Jakee (1996) on Sweden.

12 See e.g. Hutter (1996). A number of people that presented papers on the recent ACEI conference showed a similar interest in, what might metaphorically be called, ‘the road of value.’

13 On goods and services, see Boulding (1977).

over, the theory of value that reigns in 'orthodox' or 'competitive' economics lacks explanatory power in these and other instances.[14]

Much along the lines of what Boulding suggests, the economics of art and culture – the application of standard economic 'tools' to the field of art and culture – gives way to cultural economics. Cultural economics is a 'cultured' economics, an economics that takes social and cultural aspects seriously. I have tried to show that the field of the economics of art and culture brings one almost naturally to such a position. However, whether or not the metaphorical 'road of value' blends easily with the 'road of choice' is a matter I will have to leave open at this moment. Partly because the 'road of value' is not yet, and may never be, completely outlined.

Wilfred Dolfsma*

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14 See Heilbroner (1988), Klamer (1995), and Dolfsma (1997).

* Erasmus University Rotterdam, Economics of Art and Culture, PO Box 1738, 3000 DR Rotterdam, The Netherlands. Phone: +31-10-4082449, fax +31-10-4532922, e-mail: dolfsma@kcw.fhk.eur.nl

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