

Chapter 1

What Is the Economics of Art and Culture?



Abstract The economics of art and culture is a fascinating and worthwhile subject. Its analysis is based on the economic way of thinking. It deals with a large number of diverse issues, such as how valuable art is to society, how the art market and auctions work, the specific characteristics of artists' labour market, and the role of copies and fakes in art. Various areas of the arts and culture are analyzed, such as opera and theatre, festivals, films, museums, cultural heritage and cultural tourism. Finally, various aspects of the public support for the arts are studied, and it is shown that art makes people happy.

Keywords Economics of Art · Economics of Culture · Cultural Economics · Economic approach · Non-user benefits · Non-economic values · Human motivation · Mass culture · Commercialization · Democracy · Market

1.1 A Challenging Discipline

The economics of art, also called the economics of culture, is a relatively little-known area of the science of economics. Often it is not even known to professional economists, let alone to practitioners active in culture.

The economics of art can be understood in two different ways:

- (1) *The relationship of arts with the economy*, that is, the interaction between two important parts of society.

This relationship is rather evident. Everyone knows that a great deal of money is needed to run an opera house; that many artists are poor—while some have become very rich; and that paintings and other works of art are auctioned, sometimes reaching huge prices. Important areas analysed in art economics are the performing arts (theatres, operas and films, festivals), the visual arts (in particular art auctions), and the many different kinds of museums, cultural industries, cultural tourism, and cultural heritage.

- (2) *The application of economic thinking to the area of the arts and culture.*

This approach to the social sciences represents a totally new kind of *interdisciplinarity*. Until now, this term has been understood to indicate a combination

of various disciplinary approaches. In contrast, the economic approach uses the particular way economists look at social issues. They carefully distinguish between what people want (their preferences) and their opportunities for reaching these goals (the constraints imposed by material means and by legal and political institutions). People are assumed to act primarily in a way that satisfies their goals. The rational choice approach provides a systematic study of the interaction between the behaviour of individuals and institutions existing in society. It has been successfully applied to many areas such as politics and political economy, the family, education, the natural environment, terrorism, sports, and happiness.

One of the most fascinating applications of the economic approach has been to the arts. It actually has quite an old history but it was not known by this name in the past). Economists in German-speaking countries were long interested in economic aspects of the arts. Public finance issues received special attention, in particular the role of the state in financing culture.

On the whole, it was taken for granted that the public should subsidize the arts, as they produce what would today be called positive external effects on the society at large. These externalities are called “non-user benefits” because they also accrue to people not consuming a particular cultural activity, but to the population at large. Famous British economists such as Lord John Maynard Keynes, Lord Lionel Robbins or Sir Alan Peacock were actively engaged in the arts both theoretically and practically.

The birth of art economics as a discipline of its own within modern economic science can be dated to the publication of Baumol and Bowen’s book *Performing Arts—The Economic Dilemma* in 1966. The dilemma referred to is created by an ever-increasing level of per capita income and the concomitant increase in the cost of staging the performing arts: theatres and operas. As a result, the performing arts are under continually rising financial pressure. It seems that, precisely because societies are rich and become ever richer, they have ever more problems in entertaining the living arts.

Subsequent to the publication of Baumol and Bowen’s influential book, cultural economics began to flourish. In recent decades, the literature on the economics of art has expanded greatly. There are now many excellent survey articles, textbooks, and collections of articles.

The study of the economics of art has been institutionalized by the Association for Cultural Economics International, which regularly organizes conferences and edits a review entitled the *Journal of Cultural Economics*. The bulk of articles relating to the subject are published there, but some contributions also appear in other journals.

The economic approach to the arts has close relationships with that of other disciplines. In particular, the sociology of art is in many respects quite similar. In contrast, contacts with art history have so far been limited. This may be due to a misunderstanding of the economic approach. Art historians seem to think that economists only value what is profitable in monetary terms, and that they therefore propose to commercialize art. Art historians are surprised to hear that most economists favour state

support of the arts and go to great pains to empirically demonstrate “non-economic” values such as existence, prestige, education, and bequest values. There are first signs of promising efforts to bridge the gap between art history and art economics, particularly with respect to cultural property.

1.2 The Scientific Approach

The dominant rational choice methodology has proved most useful in the study of culture: it is based on a clear behavioural model, and this helps to capture the demand and supply of art. On the basis of the resulting equilibria, it is possible to derive empirically testable implications. Most of the predictions conform to “common sense”, but others are unexpected and surprising. An example is the analysis of the performing arts: the richer societies become, the more difficult it is for them to maintain live performing arts.

It is useful to take into account that individuals do not always and under all conditions act in a rational way. In particular, psychological aspects are important to consider. Behavioural anomalies are sometimes important in cultural realm. For example, many owners of paintings become subject to the *endowment effect*: they are not prepared to sell a painting for a given sum, say 10,000 Euros, though they would not buy it for that price, even disregarding transaction costs. This behavioural anomaly is likely to influence prices paid in auctions and elsewhere.

Another important contribution of psychology to art economics refers to human motivation. There is no doubt that artists systematically respond to monetary (i.e. extrinsic) incentives, like all other people. Salvador Dalí is reported to have said, “All that interests me is money”; statements to the same effect have been made by several other artists. Nevertheless, strong evidence exists that successful artists have had a strongly developed intrinsic motivation: they pursue art for art’s sake. This applies particularly to the first years in an artist’s career. Commonly, this is the most innovative and productive period in an artist’s life. The extent to which, and the specific ways in which an artist is motivated intrinsically or extrinsically, are crucial when it comes to the public support of culture. These considerations are relevant to the question whether public subsidies, in particular direct income transfers to individual artists, raise or damage creativity. To focus on both extrinsic and intrinsic motivation and to look at the dynamic interaction between the two (termed the *crowding effect*) is crucial both for understanding and supporting the arts.

1.3 Fascinating Issues

Many applications of economic thinking to culture yield fascinating insights. Sometimes, however, such applications might simply rename observations in economic terminology. Transgressing established boundaries and venturing into new method-

ological territory allows us to gain novel and challenging insights. Indeed, art economics is one of those areas in economics most open to new approaches. Perhaps more than in other areas, such an exchange of views is fruitful in the arts.

In order to illustrate that art economics is indeed fascinating, two issues are briefly discussed, namely whether the market is bound to produce bad art, which many people believe, and whether cultural decisions can be left to democratic decisions, an idea which many art lovers abhor.

1.3.1 Does the Market Produce Bad Art?

Most people believe that the market produces low-quality art. Complaints about “mass culture” and “commercialization” abound. This view dominates not only amongst the general public, but perhaps even more strongly in intellectual discussions. Behind this deep-seated conviction is a general suspicion of the market on the part of intellectuals, and also the more specific belief that public support of culture is needed to maintain high quality. Not only must the state subsidize the arts, but it must also produce cultural activities by running museums, theatres, opera houses, ballet companies, and orchestras.

The popular view that the market only produces low-quality mass culture is based on a misunderstanding of how the market works. Moreover, it is empirically incorrect. In fact, the market *can* produce high quality culture, and even art of the highest quality. To understand this statement, it is necessary to look behind the market. The market is an institution that responds to demand. If low-quality art is asked for, it produces low-quality art—but if high-quality art is demanded, it produces high-quality art. There is no reason to assume that such a demand for high-quality culture does not exist. In reality, we observe that many people indeed spend money to enjoy good art. A case in point is the many art festivals, including film festivals, where art of the highest quality is presented. Such festivals are normally the result of private initiative, with the intention of avoiding the political, administrative, and artistic constraints typical of government-run theatres, opera, and concert halls. Some of these festivals cater for a small minority of lovers of a particular art form, such as modern music, which does not find a sufficiently large audience in the established artistic venues. The market thus does *not* require a mass audience. The general and wildly popular statement that “the market produces bad art” is thus untenable.

The positive consequences of competition among the demanders of art is, for instance, clearly visible for music in the age of the baroque, in which no copyrights existed for musical works. Italy and Germany, where many princes competed for composers, produced a large number of major artists such as Vivaldi, Schütz, Telemann, Händel, and Johann Sebastian Bach. In contrast, more unified France and Great Britain produced far fewer composers of high distinction.

It cannot be denied that much commercially produced art is of low, if not very low, quality. But this is not surprising. Many people may have such tastes, and the market simply reflects these. This tendency may be reinforced in some cases by

economies of scale. They allow the production of large quantities at a lower price than small quantities. Nevertheless, we observe that the same market also produces serious music of superb quality, for instance in recordings of classical music. It is therefore important not to focus only on the mass aspects of the market but to see that the price system is normally well able to cater for high-quality demand.

One of the market's great advantages is that it permits and fosters *variety*. No commission and no group of experts need to approve the tastes reflected in the market. This raises the chances that innovative ideas spring forth, keeping art lively. An open market is an antidote to a monopoly of artistic taste.

The markets for art as they exist in reality are far from ideal: they suffer external effects, increasing returns, and monopolistic tendencies among suppliers. The market should be seen in perspective. For the arts, as elsewhere, several decision-making mechanisms are available. Instead of jumping to the conclusion that the government is the only entity that should support the arts, one must engage in comparing the advantages and disadvantages of the various decision-making mechanisms.

Let us now turn to another fascinating system, democracy, and its role for the arts.

1.3.2 Can Arts Policy Be Left to Democracy?

There is a common charge against "democratizing" the arts, in particular against leaving decisions about art to the people via popular referenda. The idea is that "people do not understand what good art is". It is even claimed that the people's taste in art is terrible. Therefore, cultural decisions should not be left to the members of the public.

These arguments are similar to those raised against using the market in culture. But the charge is more serious, if democratic decisions are identified with majority decisions. Such decisions are feared to inevitably lead to bad art. It is concluded that the *élite* must decide. This immediately raises the question: which *élite*? There are many possibilities:

Elected politicians. The taste of politicians does not correspond to that of the population at large (they are, on average, better educated), but it is doubtful whether they really have better judgment concerning art. Moreover, in order to secure re-election, politicians respond to a large number of outside influences. In a democracy with stiff competition between the parties, the politicians seek to fulfil the preferences of the electorate. In such a case, decisions on art are shifted back from the *élite*, here the politicians, to the population at large. In most democracies, however, politicians have room for discretion when making decisions on art. But it is exactly this capacity that makes it worthwhile for interest groups to influence them. The better these groups are organized, the stronger is their influence. This applies equally to art decisions, where established and therefore essentially culturally conservative group interests have a larger say than those promoting innovative forms of culture. The latter are, almost by definition, less organized and therefore politically weak, as they represent future, still unknown forms and types of art.

Art administrators in government. People employed in government and various public art organizations are generally well educated in art, but they also have a particular stake in that art. Art administrators have an interest in defending established art. Most importantly, they have an incentive to fight off outsiders—but this is exactly where creative and innovative art comes from. Leaving cultural decisions to art administrators introduces a marked conservative bias.

The private art establishment. Art critics in the media, art historians, gallery owners, and private and corporate collectors, comprise this type of élite. Many of them have a conservative slant because the art presently in vogue is their area of competence. They would partly or totally lose this advantage if an innovative art form were to appear. Consequently, real outsiders, whose *raison d'être* is to reject existing art, are not supported. If this happens, innovative elements tend to be lost.

This situation has partly changed since the time when the art establishment in Paris rejected the new art forms of Impressionism and Expressionism. Today, groups of people and firms actively seek to identify the newest waves in art and fashion to exploit this insider knowledge. This benefits new art forms that appear to be exploitable over a reasonably short period, but works against new art forms where this is not the case.

Artists. Decisions about culture could be left to the artists producing it. This sounds quite convincing, but only at first sight. First of all, it is far from clear whether artists are good judges of art produced by other artists. They highly value what they do themselves (otherwise they presumably would not do it), but they are sometimes quite negative about what others do. Such a reaction may be due partly to envy but even more importantly to an incapacity to go beyond their own realm of thinking: many artists are quite self-centred, a fact intimately related to their own creative efforts. However, in modern times most artists are part of rather closed social groups, which often meet with each other and assemble and exhibit in the same places.

There is yet another problem with leaving decisions on art to artists, which also applies to decisions by the art establishment: How are the decisions to be made? If representatives are to be elected, they are likely to lose touch with the groups whose tastes they are supposed to reflect. As a result, the representatives may deviate ever more from what they are supposed to reflect. This is a classical principal-agent problem.

The role of democracy for the arts may also be seen in a quite different perspective. So far, decisions on art have been discussed as being taken in the current politico-economic process. The perspective shifts fundamentally if one moves to the level of the constitution or, more generally, the level of the basic rules of society, which determine how the current decisions on art are to be taken. One of the most important constitutional rules for a flourishing cultural life is to guarantee artistic freedom. Anybody who feels that he or she wants to engage in a cultural activity should be free to do so, provided it does not impose major costs on other people. It would be too simple to assume that artistic creativity can only exist under democratic conditions so defined: some great art has been produced under authoritarian rulers. An example is the Renaissance, which was accompanied by an explosion of artistic talent. The then-reigning princes were far from democratic, but it may still be argued that the

artists gained a considerable measure of artistic freedom in that period. Many of the great masters, among them Michelangelo Buonarroti and Leonardo da Vinci, were free enough to bargain with various masters. They were thus able to work for the master who provided them the most artistic freedom relative to financial compensation. Nevertheless, in our modern world, where the population as a whole and in particular artists have experienced a rise in self-determination brought about by democracy, a decision-making system involving the whole population is the best-equipped to establish and to safeguard constitutional rights for artistic freedom.

1.4 Conclusion

Looking at the arts and culture from an economic point of view provides many new and interesting insights. In many ways, this view differs fundamentally from more conventional treatments of the subject, in particular as undertaken by art historians. It is certainly not claimed that the economic approach is the only reasonable one but it offers a noteworthy alternative perspective. Many generally accepted views are challenged, such as that the market is incompatible with the arts and leads to bad outcomes, or that cultural decisions should not be left to democratic decisions but must be undertaken by a well-educated élite.

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