

# Chapter 18

## Arts and Happiness

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### 1 The Economics of Art and Culture

Despite the importance of the cultural sector in today's society, there are considerable gaps in the literature on the economics of culture and the arts, especially with respect to the relation of culture and well-being. Regardless of its definition, culture holds a prominent place in the lives of many people. In a special Eurobarometer survey on cultural values conducted in 2007, over three quarters 77 % of all Europeans stated that arts and culture were important to them; only 22 % considered culture to be unimportant (Eurostat 2011). Complementing the subjective responses given in the Eurobarometer survey, several financial statistics underline the significance of the cultural sector. In 2005, the cultural and creative sectors in the European Union created a turnover of almost € 700 billion and employed a minimum of 5.8 million people (UNCTAD 2010). On average, culture accounted for 3.9 % of total household expenditure in the European Union member states in 2005, which is larger than the share of health expenditures, at 3.4 %, or education, at 1.1 % (Eurostat 2011).

Besides private expenditure, direct government support serves as a measure of the importance of the arts. In 2011, the direct government support for the arts in Europe in 2011 varied widely between countries, from only € 45 per capita in Greece, up to € 117 in Germany, € 235 in Switzerland and € 446 in Norway (Council of Europe/ERICarts 2013). In 2009, the total annual public spending for the cultural sector on all federal levels added up to over CHF 2.4 billion (€ 1.6 billion) in Switzerland (Tedeschi and Torche 2010) and to almost € 8.5 billion in Germany (Destatis 2012). The size is comparable to spending on science, research and development, or health, environment and recreation. While these numbers refer

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to direct government support only, indirect subsidies through tax exemptions and regulations such as intellectual property laws also play an important role.<sup>1</sup>

Economists who survey the field of cultural economics usually locate its origins in 1966, when Baumol and Bowen (1966) published the first major work dedicated specifically to the economics of arts. Other forerunners in the field were Lord Lionel Robbins (1963) and Sir Alain Peacock (1969), who investigated the normative question why the state should support the arts. The governmental support of the cultural sector is one key issue in the economics of culture and the arts, since, according to economic theory, state interventions have to be justified with market failure. Over the last decades, a substantial literature has grown in which the tools of economic theory and analysis have been applied to problems of the cultural sector (for surveys see for example, Towse 2010, 2011; Hutter and Throsby 2008; Ginsburgh and Throsby 2006; Frey 2003). Today, cultural economics is recognized as an established field of economics, also including the creative industries, such as music, film, and the broadcasting and book publishing industries. The Association for Cultural Economics International holds regular conferences, and there are various journals (for example the *Journal of Cultural Economics*) and an own field classification provided by the *Journal of Economics Literature* (JEL-code: Z1).

The economics of culture and the arts generally conceive of culture as an institution or as an organization supplying artistic services and not as an attitude or a way of behaving. Culture in a broad sense can, of course, be defined in many different ways. It may, for example, be understood as a “common value system, viewpoints, conventions, rules, ways of life and practices of a certain group of people” (Krätke 2003). Culture can also be understood in a more narrow sense, namely as cultural industries comprising entertainment, the media, radio, TV, printing and publishing, design, and advertising (Frey 2008a). In this chapter, culture is defined even more narrowly, encompassing “high culture”, namely the performing arts of theatre, opera and ballet and the visual arts, comprising painting, sculpture, and music, and cultural heritage in the form of monuments and buildings. This specification has frequently been used in the field of cultural economics, see for example the monographs by Baumol and Bowen (1966), Peacock and Rizzo (1994) or recently Towse (2010).

Economists use two main approaches to conduct research on culture and the art (Frey 2003). The first approach is to study the relationship between two different sectors, or spheres of society, namely culture and the economy. The effect of culture on the economy is difficult to capture, as the endeavor to estimate the effect of a theater or a museum on regional economic activity instantly reveals. There is a great number of impact studies seeking to measure the effect of such institutions on firms located in a particular area (Langen and Garcia 2009; Herrero et al. 2006; Saayman and Saayman 2004).

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<sup>1</sup>For more statistics on the cultural sector, see [www.culturalpolicies.net](http://www.culturalpolicies.net). This website, provided by the council of Europe, gives a detailed overview of the cultural sector for many European countries.

The second approach is to study the arts with the help of economic analysis, mostly the rational choice approach.<sup>2</sup> Understood in this way, cultural economics belongs to a more general field of the economic approach to human behavior, comprising, among others, the economics of education, health, the family, sports, or religion. The formulation of the selfishly maximizing homo oeconomicus has often been extended in cultural economics by introducing psychological and sociological elements, for example decision anomalies (Towse 2011; Bénabou and Tirole 2006; Frey 2003).

Most researchers in cultural economics consider it a sub-discipline of economics and combine the two approaches. In particular, they use the rational choice approach to analyze the effect of economic factors on the arts. Examples are the study of art markets, most prominently the rate of return on investment in art (for example, Renneboog and Spaenjers 2013), the income of artists (for example, Bille et al. 2012), or the impact of regulations (for example, Rizzo 2011). In this chapter I discuss public policy considerations in the cultural sector and address the problems of measuring the value of art and culture (Sect. 2). I then consider two possible ways to combine cultural economics with happiness research, to measure potential benefits from culture and the arts. Section 3 looks at the supply side and discusses artists' labor market choices. I show how the interdisciplinary approach established by modern happiness research enriches the neoclassical rational choice approach with procedural aspects of work. Section 4 investigates the demand side and discusses how the life satisfaction approach can be used to measure the economic impact of hosting a European Capital of Culture. Section 5 concludes.

## 2 Public Policy Considerations

The cultural sector is subject to strong government interventions; for example, the European Capitals of Culture are determined in a political process. Happiness economics helps to get a clearer picture of the welfare consequences of government interventions in the cultural sector. The arts in general and cultural institutions in particular, such as museums, theaters and thus indirectly artists, are strongly supported by most states. In European countries, it is not uncommon that performing arts (orchestras, operas, theaters etc.) are completely state financed and even staffed by singers and actors with civil-servant status (Towse 2010). The typical model that cultural economists deal with is that of a mixed economy of cultural and private ownership and supply. Many cultural suppliers are non-profit organizations supported to a greater or lesser extent by the state. The balance of public and private ownership and the total public finance share of cultural expenditure differ strongly between countries. For example, the United Kingdom and the United States have

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<sup>2</sup>Some of the most prominent pioneers of this approach were Simon (1955), Becker (1976), and Sen (1977).

a marked history of involvement of non-profit organizations in the provision of arts and culture. Charity law confers tax advantages to these organizations, but also restricts the selection to the board of management (Netzer 2011).

Given that economic theory approves government intervention in case of market failure, a crucial aspect for cultural economists is to determine the nature and extent of such failure. Two aspects can be distinguished: the positive issue, where the extent of government interventions is analyzed, and the normative issue of whether or not these interventions should take place, and if so, to what extent. In the second case, the aim is to find a welfare-enhancing public policy. The analysis of state interventions in the cultural sector is based on welfare theory, which focuses on the questions of whether the private market misallocates the resources, and in particular whether the price system leads to an underprovision of art and if so, how. When discussing welfare policies, it must be taken into account that government intervention is also subject to failure. The economics of politics or public choice (for example, Mueller 2003) discusses many reasons why the decisions taken in the political process may deviate systematically from the preferences of the population.<sup>3</sup>

Market failures can occur on the supply as well as on the demand side. They arise, for example, due to positive or negative external effects, non-market demand or public good characteristics of cultural events. According to welfare economics, too little art is supplied if the market does not reflect all the preferences of individuals. One reason might be the existence of positive external effects in the production and consumption of art. Most sectors produce external effects, but theoretical and empirical considerations show that cultural activities produce more extensive and important positive externalities than other sectors (Hutter and Throsby 2008). There might also be non-market demand. People may value the existence of a museum or the option to visit an artistic production although, in fact, they never spend any money to actually attend in person. They might also value arts as a bequest for future generations. Furthermore, artistic production is closely identified with national identity, prestige and social cohesion (Towse 2010).

Art may be of a collective nature, in the sense that nobody (including those not paying) can be excluded from enjoying it and that its consumption by one person does not reduce consumption by other people. In economics, these properties for the classification of goods are known as non-excludability and non-rivalry. Insofar as culture is a public good, the supply is lower than socially optimal. Arguments for government support of the arts that involve aspects beyond efficiency are merit goods, lack of information, irrationality, and also distributional aspects, since individuals with higher education visit cultural venues more frequently (Frey 2003).

On the supply side, art may also be subject to increasing returns to scale, which means that additional quantities may be produced at lower average cost, and therefore marginal cost pricing leads to an unsustainable deficit (Marchi and Mietgroet 2006). Moreover, the cultural sector might suffer from a productivity

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<sup>3</sup>A thorough discussion of applications of the public choice approach to the cultural sector can be found in Mazza (2011).

lag. Suppliers in the live performing arts are subject to continuous cost pressure. It is difficult, if not impossible, to increase labor productivity, but the wages have to increase similarly to those in the rest of the economy. This is known as “cost disease” (as first described by, Baumol and Bowen 1966). An egalitarian argument concerns income distribution: Artists tend to be, on average, poorer than other members of society (Alper and Wassall 2006).

The existence of market failures makes it difficult to capture the economic impact of culture. Impact studies which measure the effect of single cultural institutions or festivals in a particular area are often only able to capture the additional revenue created but not the value added which should be the object of interest from an economic point of view (Langen and Garcia 2009; Seaman 1997). The additional revenue does not account for the additional cost arising from the institution, the inputs that are provided by intermediaries, and potential external effects. Another method for capturing the influence of cultural institutions is to measure the social value created (Frey 2003). Theaters, museums, and other cultural institutions provide benefits beyond only those arising from the visit of cultural institutions. These values are not reflected on the market because they accrue to individuals not attending cultural institutions and thus not paying for them. These positive external effects of cultural institutions induce a form of market failure and justify governmental intervention.

The non-user benefits and costs in the cultural sector have been empirically measured by using three different techniques. Representative surveys have been conducted of both visitors and non-visitors of a museum. In such studies, the questionnaires are designed in order to elicit the true willingness to pay for the various social values produced by a museum. The best suited are Contingent Valuation Studies, which were originally developed to capture environmental values but are now often used to capture cultural values (see, Noonan 2003; Sunstein 2007; Saayman and Saayman 2004; Bateman et al. 2002). While the first two methods (representative surveys and contingent valuation studies) rely on stated preferences, another technique relies on the revealed behavior of individuals. The value of a cultural institution for the non-visitors is captured by observing how they act. One example for such a method is the travel cost approach. The value of a cultural object is calculated by summing the costs of the trip and the entrance fee which arise from visiting it (Blaug 2001).

The willingness-to-pay approach directly links the benefits to a particular cultural supply. This procedure risks falling prey to the “prompting effect” (Layard 2011) identified in psychology. It may happen that, as a result of questioning people in surveys, and thus focusing their attention on a certain issue, a higher value is attributed to cultural supply than would otherwise be the case. The consumption of culture is to a considerable degree an experience good, i.e. many people appreciate the good only after they have consumed it (see, Frey and Steiner 2012; Frey and Meier 2006).

In contrast, the advantage of the “life satisfaction approach” (Oswald and Wu 2010; Frey et al. 2004) is that the benefits of culture are reflected in the independently measured life satisfaction indices, which are then related to the extent

of cultural supply by econometrically estimating a happiness equation. The life satisfaction approach based on the economics of happiness has addressed the public good element of cultural supply. Due to extensive work by numerous psychologists (Diener et al. 2009; Kahneman and Krueger 2006), the measurement of well-being has made great progress. Using representative surveys, it is now possible to approximate individual utility from work or life in general in a meaningful way. With the help of a single question, or several questions on global self-reports, an individual's evaluation of his or her satisfaction or happiness can be measured (Frey 2008b). Happiness estimations are usually based on national and international surveys. Respondents are asked to provide an assessment of their overall satisfaction with life. Cross-national indicators of subjective well-being are generated, for example, by representative surveys such as the World Value Survey, in which individuals are asked: "All things considered, how satisfied are you with your life as a whole these days?" The answers are often given on a scale from 1 (dissatisfied) to 10 (satisfied).

With the means of modern happiness research, it is possible to answer the question to what extent people derive satisfaction or dissatisfaction from cultural activities or events – on the consumption as well as on the production side. In the next sections I discuss new approaches to determine the benefits and costs derived from cultural activities. Section 3 shows how modern happiness research can explain the labor market decisions of artists (also see Steiner and Schneider 2013; Bille et al. 2013). Procedural job aspects lead to increased job satisfaction for artists. This is a new approach to issues in cultural economics, where artistic labor market choice has so far been explained in standard economics in the form of superstar theory. Section 4 focuses on the economic effect of hosting a cultural event, namely the European Capitals of Culture (also see Steiner et al. 2015). Surprisingly, the life satisfaction approach reveals that (cultural) mega-events can have a negative net effect on the well-being of the local population.

### 3 Artists' Job Satisfaction

This section looks at the supply side and discuss artists' labor market choices. On average artists work more, earn less and have a higher risk of becoming unemployed than other employees. They experience an earnings penalty of around 10 % compared to other employees with an equal education, and the unemployment rate is 1.5 times higher than among the rest of the population.<sup>4</sup> According to the literature in psychology and psychiatry, artists also suffer more frequently from mental disorder and commit suicide more often; thus it can be expected that they are less happy than non-artists (Vellante et al. 2011; Stack 1997). Creativity, a defining

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<sup>4</sup>See the homepage of the Institut für Arbeitsmarkt- und Berufsforschung <http://bisds.infosys.iab.de>, accessed on 15.4.2013.

feature of artists, has been linked to mental illness (Rothenberg 1990). Nevertheless, the artistic labor market attracts many young people. The number of students exceeds the available jobs by far. For example in Germany, the proportion of art students is almost four times higher than that of artists in the labor force (Eurostat 2011). The classical explanations for this paradox are that artistic labor markets are superstar markets (Schulze 2011; Rosen 1981) or that artists overestimate the likelihood of future success (Towse 2006).

Two recent articles have proposed an alternative explanation for the artistic labor market paradox (see Steiner and Schneider 2013; Bille et al. 2013). They show that artistic work results in exceptionally high job satisfaction. This conjecture has been mentioned various times in the literature, but it has not been tested empirically. One reason for this gap in the literature is that economists' interest in job satisfaction is relatively recent. A study by Benz and Frey (2008), which is closely related, shows that the self-employed are more satisfied with their work than the employed. This effect is driven by their greater independence and autonomy, a result that is evidence for procedural utility. People seem to value not only outcomes but also the processes leading to outcomes.

The aforementioned papers are based on international cross section data from 47 countries and three national panel data sets. Artists are, on average, found to be considerably more satisfied with their work than non-artists. For example, in the international cross section data, the job satisfaction of artists is around 0.3 points higher (on a scale from 1 to 10) compared to other employees. The correlation between an artistic occupation and job satisfaction is sizeable and comparable to the effect of being self-employed. The correlation is not driven by differences in income or working hours. Throsby (1994) asserted that artists did not fit the standard economic model of labor supply. The work-preference model includes artistic work as an argument in the utility function. The crucial assumptions are that artists derive utility and not, as assumed by standard economics, disutility from work, and that they derive less utility from income than do other workers. Steiner and Schneider (2013) show that the effect of working hours on job satisfaction is positive for artists, unlike for non-artists. The estimated effect of income on job satisfaction is positive for artists and non-artists alike. However, the effect is substantially smaller for artists, i.e. artists derive less utility from income than do other workers.

Using the panel structure of the three national data sets, Bille et al. (2013) show that the higher satisfaction is not driven by time-invariant individual characteristics, such as personality. The higher job satisfaction can partially be attributed to the higher self-employment rate among artists. The job satisfaction difference between artists and non-artists is reduced by one third when controlling for self-employment. The remaining difference in job satisfaction is shown to be related to procedural characteristics. Increased variety, on-the-job learning and autonomy in choosing working hours and place contribute to the difference in job satisfaction. At the same time, however, a higher risk of becoming unemployed reduces individual job satisfaction significantly. Since artists have an increased risk of becoming unemployed, the satisfaction difference between artists and non-artists becomes even larger when this risk is controlled for.

How compatible are these findings with the evidence that artists are more prone to mental illness and committing suicide? A possible explanation could be that artists, while exhibiting high job satisfaction on average, over time experience particularly large fluctuations in subjective well-being. In the phase in which they are severely depressed, they tend to commit suicide more often than other individuals. In psychiatry, this phenomenon of bipolarity has been noted to apply to artists and other creative people (Tremblay et al. 2010; Vellante et al. 2011; Kyaga et al. 2011). To investigate variations in affective happiness (bi-polarity) and the relation between short-term happiness and long-term satisfaction constitute fruitful approaches for future research.

The finding that artists are more satisfied with their work than are non-artists may have important policy consequences. It might suggest that, to improve the situation of artists, a greater effort should be made in safeguarding their self-determination and autonomy, and that rules and regulations constraining them should be used with care. For example, cultural scholarships should be awarded unconditionally and should not restrict the content or working structure of the awardee. While supporting artists financially is important, it should not be the major, let alone the only, consideration.

## 4 Cities of Culture

This section looks at the demand side of culture by mainly discussing a recent paper by Steiner et al. (2015). Their paper analyzes whether hosting a European Capital of Culture has an impact on regional economic development or the life satisfaction of the local population. Founded in 1985, the European Capitals of Culture are now regarded as the most prestigious and popular cultural event in Europe (Mittag 2008). On average, 500 cultural projects are implemented in the year in which the event takes place. The goal of including citizens in the program leads to open-air events being held, a large number of free events, and various projects that are conducted in public spaces. Large investments in infrastructure have been made in most cities hosting a European Capital of Culture. Remodeling public spaces and transportation systems, urban renewal, and the construction of museums and concert halls are claimed to change the appearance of these cities. The total expenditure attributed to the 21 cities analyzed by Palmer (2004) between 1995 and 2004 ranged between € 3.5 and 3.75 billion.

Most studies on mega-events analyze sport events such as the Olympics or the Football World Cup, and furthermore restrict their focus to the economic consequences of these. Little is known about the impact of cultural events on society. Previous economic studies on cultural events have focused on single economic indicators, such as tourism or government spending, disregarding substitution effects or the crowding out of private investment. In contrast, Steiner et al. (2015) investigate the impact of hosting a European Capital of Culture on regional GDP per capita and economic growth. Pure descriptive statistics suggest that hosting



this event is correlated with GDP per capita and growth in the respective region. However, when estimating multivariate regressions with macro-economic control variables and fixed effects, the correlation disappears. Thus, European Capitals of Culture are hosted in regions with above average GDP per capita, but do not causally affect the economic development in a significant way.

Even a positive impact on GDP per capita would not imply a positive impact on individual utility or social welfare of the regional population. The advantage of the more comprehensive life satisfaction approach is that each individual implicitly weighs the relative importance of advantages and disadvantages of hosting such a mega-event. Surprisingly, using difference-in-difference estimations, all estimates find a negative effect on the well-being of the regional population during the event. When a region hosts a European Capital of Culture, the life satisfaction of the local population decreases by roughly 0.09 on a 4-point scale. The size of this effect equals one fourth of the effect of being unemployed (compared to being employed) and is thus quite sizeable. The negative effect during the event might result from dissatisfaction with the high levels of public expenditure, the expected tax burden, transport disruptions, general overcrowding, criminality or an increase in the general price level.

The analysis of various socio-economic groups reveals that hosting a European Capital of Culture does not have an impact on life satisfaction of more highly educated individuals. This result is plausible considering that highly educated individuals tend to attend cultural events more often. The effect on the local population's life satisfaction does not depend on income, but being unemployed roughly doubles the negative effect. On the macro-economic level, it is shown that faster growing regions suffer less from hosting the event. With respect to the long-term impact, it is shown that hosting a European Capital of Culture does not have an impact on life satisfaction in the years after the event. Endogeneity issues would arise if the events were hosted in regions that are unhappier anyway. However, hosting this event has no effect on well-being in the 4 years prior to the event, thus ruling out reverse causality problems and positive anticipation effects.

Several issues remain open for future research – besides closely investigating the impact channels of cultural events. Steiner et al. (2015) only measure the well-being of the local population. Another question is how European Capitals of Culture affect the satisfaction of visitors, i.e. domestic or foreign tourists. If the event has a positive impact on non-local visitors, the total welfare effect for the country (or for Europe) may well be positive. Collecting more extensive visitor data is needed for this purpose. Another interesting issue is whether the effect of European Capitals of Culture differs for individuals, depending on their interest in culture. A related question is whether such an event has the potential to foster long-term interest in culture. Applying happiness research to capture the value or external effects of other cultural festivals or venues besides the European Capitals of Culture constitutes an obvious path for future research.

The implication of the work by Steiner et al. (2015) is certainly not that cultural supply is unimportant and should not be increased. However, the consequences of mega-events, whether cultural or sporting, should be considered more carefully.

One approach is to use existing infrastructure to a greater extent to reduce the cost of an event. De-centralizing an event can reduce the negative consequences for the local population which arise from overcrowding of a city or region. This concept will, for example, be applied by the UEFA European Football Championship 2020, which will be hosted in several countries. The life satisfaction approach provides new insights on the impact of such mega-events or festivals.

## 5 Conclusion

In economics the rational choice approach is used as the basic analytical method for studying a variety of issues (Becker 1976). The interrelated concept of methodological individualism states that social phenomena can best be explained in terms of the economic agents' individual rational choices and not exclusively by the context of societal aspects. Happiness research can be seen as a direct application, since well-being is measured at the individual level and used as a proxy for utility (Layard 2011). The rational choice approach has been extended beyond the limits of existing neoclassical economics by taking insights from other disciplines into account. Happiness research and the relation of culture and well-being are obvious examples of this, in which many aspects of psychological research are considered (Diener et al. 2009; Kahneman and Krueger 2006).

Recent work by Steiner and Schneider (2013) and Bille et al. (2013) employ happiness research and shows that, in contrast to neoclassical theory, the job satisfaction of artists is not negatively related to working hours. Moreover, artists derive utility from the process and not only from the outcome of work. The importance accorded to political decisions and institutions is another extension to the neoclassical approach, in this case promoted by political economy and research on international organizations (see for example, Dreher et al. 2009; Vaubel 2006). For example, the decision to host a European Capital of Culture is based on political and bureaucratic considerations. The paper by Steiner et al. (2015) discussed in Sect. 3 shows that this decision leads to a decrease in the life satisfaction of the local population, which contradicts the benevolent dictator approach of classical welfare economics.

The role of the state in regulating and financing culture, from a positive and normative perspective, is probably the most important issue in cultural economics (Towse 2010; Frey 2003; Peacock 1969). Thus, a crucial aspect is to identify the value of culture for society and to measure externalities. Many different approaches, such as impact studies and stated and revealed preference methods have been developed and applied over the last decades. The research discussed in this chapter has applied modern happiness research to the cultural sector to empirically analyze how large the benefits and costs derived from cultural activities are. The effects of arts and culture on life satisfaction, on both the consumption and the production sides, have strong management and policy consequences and are relevant for society as a whole.

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