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RESEARCH ARTICLE

Two types of cultural economics

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Abstract
Modern economics includes two fundamentally different fields, but identically labelled 'Cultural Economics'. The first type deals with cultural institutions in a specific sector of the economy and society: the performing arts, visual arts, and other forms of cultural industry. The second type analyses how culture influences the economy in the form of shared beliefs, norms, and preferences. The two types of Cultural Economics largely disregard each other. This paper argues that their mutual existence should be acknowledged and possible relationships between the fields should be analysed. Future interconnected research opportunities are suggested.

Keywords Cultural economics · Values · Norms · Performing arts · Cultural industry

Mathematics subject classification A10 · A13 · Z10 · Z13

1 What are the two types of cultural economics?

A specific area within economics studies the determinants, behaviour, and outcomes of cultural institutions such as theatres, opera houses, festivals, museums, and the cultural industry. More recently, a separate field in modern economics has emerged that analyses the effects of cultural factors as a set of attitudes and goals on economic outcomes. Such cultural factors are beliefs, norms, or preferences that some or all of the population share. Up to now, these two fields within economics have been investigated independently of each other, although the two types have been introduced sharing the same name, Cultural Economics, creating confusion for the reader.

This paper discusses in what respect the two types of Cultural Economics differ and how they are related. The goal is definitely not to provide a survey of the

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procedures and results of the two types; rather, we refer to the relevant literature. The aim is to characterise the two distinctly different approaches to 'culture' as clearly as possible. Table 1 provides a brief overview distinguishing the two types of Cultural Economics.

We also discuss in which ways the two types of Cultural Economics can benefit from each other. The paper seeks to encourage scholars to establish links between the two types. This is so far an essentially uncharted but potentially fruitful scientific activity. It presents a difficult challenge because the factors to be considered evade easy identification and measurement, and there are reciprocal causal relationships to be taken into account.

The following section looks at cultural institutions (First Type). The development of the more recent study of cultural effects (Second Type) is sketched in Sect. 3. Section 4 considers possible relationships between the two types and illustrates future research potential and expected synergies. Section 5 highlights further challenges and concludes.

2 First type of cultural economics—art and cultural industry

Type 1 Cultural Economics, sometimes also called *Economics of Art*, is a relatively little-known area in economics. Often it is not even known to professional economists, let alone to practitioners active in culture.

This type of Cultural Economics analyses culture as a particular area in the economy and society. There are many challenging issues to grapple with. An opera house or a classical ballet normally cannot be produced by market activity alone but require large subsidies. The question is to what extent this can be achieved and how the support can be arranged. Opportunities for gaining both additional revenues and support from private donors are provided by festivals. These are able to attract a large number of cultural tourists. Prominent examples include the Salzburg Festival and the Bayreuth Festival devoted to the music of Richard Wagner.

Many artists are poor; some artists have become very rich. Most paintings and other works of art are auctioned at low prices if the auction houses accept them at all. Nevertheless, some works attract exorbitant prices, such as the painting Salvator Mundi, attributed to Leonardo da Vinci, which sold in 2017 for $ 450 million. Important areas analysed in Type 1 Cultural Economics are the performing arts (theatres, music, dance and opera houses, films, festivals), the visual arts (in particular art auctions) and the many different kinds of museums (art, history, technology), cultural industries (architecture, fashion, design), cultural tourism, and cultural heritage. The analysis is undertaken by applying economic theory. It, therefore, differs basically from the better-known sociological and art-historical analyses of culture. Art historians seem to think that economists only value what is profitable in monetary terms and, therefore, propose to commercialise culture. Art historians are often pleasantly surprised to learn that most economists favour state support of the arts and go to great pains to empirically demonstrate its 'non-market' values such as existence, prestige, education, and bequest values. Essential activities of Type 1 Cultural Economics include identifying and measuring the social value of art. In

Table 1 Differences and similarities between the two types of cultural economics

	Cultural institutions (First Type)	Cultural effects (Second Type)
Method	Subject of investigation in the form of institutions	Influence of culture in the sense of norms, preferences, and beliefs on the economy
Approach to culture	Culture as the representation of organised cultural institutions such as operas, theatres, and museums	Culture as the population's representation of norms, preferences, and beliefs
Some major contributors	Baumol, Bowen, Throsby, Towse, O'Hagan	Sen, Mokyr, Besley, Tabellini, Spolaore, Bénabou, Tirole

contrast to many suppliers of cultural activities, who focus on impact studies capturing only market effects, cultural economists exert strong effort to also measure their non-market benefits, most importantly by well-designed willingness-to-pay surveys.

On the whole, most economists agree that the public should subsidise culture, as it produces positive external effects. Cultural activities also provide 'non-user benefits' for those who do not consume them, and thus for everyone in society.

It is noteworthy that famous British economists such as Lord John Maynard Keynes, Lord Lionel Robbins, and Sir Alan Peacock were actively engaged with this form of culture, both theoretically and practically. The birth of this type of Cultural Economics as a discipline of its own within modern economic science can be dated from the publication of Baumol and Bowen's book Performing Arts—The Economic Dilemma in 1966. The dilemma referred to is that wage levels increase with per-capita economic growth, thus leading to a concomitant increase in the cost of staging such performing arts as theatres, concerts of classical music, operas, and ballet. As a result, the performing arts are under ever-growing financial pressure. It seems that, precisely because societies are rich and become richer over time, they have problems in maintaining a living culture.

Subsequent to the publication of Baumol and Bowen's influential book, Cultural Economics began to flourish. In recent decades, the literature has expanded greatly. There are now many excellent survey articles, textbooks, and collections of articles (e.g. Frey and Pommerehne 1990b; Blaug 2001; Throsby 1994, 2010; Towse 2011, 2014, 2019; Ginsburgh and Throsby 2006; Frey 2003, 2019; Bille et al. 2020). The Association for Cultural Economics International has institutionalised the study of the field, regularly organises conferences, and publishes a review entitled the Journal of Cultural Economics.

Much of this attention is directed at the labour market in culture. It is characterised by even larger income differences than in other areas of the economy. Much discussion is devoted to the relationship between 'starving' and rich artists. The phenomenon of 'superstars' and winner-take-all markets, mainly produced by modern media, has received great attention (Rosen 1981; Cook and Frank 2010). An important aspect refers to the human motivation of individuals active in the cultural sector of the economy. There is no doubt that artists respond systematically to monetary (i.e. extrinsic) incentives, like all other people. Salvador Dalí is reported to have said, 'All that interests me is money'; several other artists have made statements to the same effect. Nevertheless, strong evidence exists that successful artists have a highly developed intrinsic motivation: they at least partly pursue art for art's sake. This applies particularly to the first years in an artist's career, which also are often one of the most creative and productive periods in their life. An important question is whether direct income enhances or damages artists' creativity. To focus on both extrinsic and intrinsic motivation and to look at the dynamic interaction between the two by identifying positive and negative crowding effects is highly relevant to understanding cultural activities. The artists' labour market is also characterised by many people working part-time, by formal education being less important for success than in other fields, and by the high risks that many artists have to cope with.

The increasing importance of Type 1 is visible in what can be called 'cultural mass tourism', mainly due to the Chinese and Indian middle class visiting cultural sites all over the world, such as Venice or Dubrovnik in Europe, Machu Picchu in South America, and Angkor Wat in Asia. Other nations overcoming poverty are sure to follow. This is also most recently reflected, for instance, in the vast number of visitors to famous museums. In 2018, more than 8 million people visited the Louvre in Paris, and almost 7 million visited each of the Metropolitan Museum of Art in New York, the Vatican Museums in Rome, the Tate Modern, and the National Gallery in London (The Art Newspaper, 2020). The cultural economy, and its study, Type 1 Cultural Economics, is correspondingly important.

3 Second type of cultural economics—the effect of culture on the economy

The second type of Cultural Economics studies the impact of culture on the inputs, behaviour, processes, and outcomes of economic activity. Culture is taken to be a certain set of information that is available, accessible, and applicable in the whole society or by a group within society. It is socially transmitted and thus not genetically determined (e.g., Kashima, 2008, 2014; Mokyr 2016[1]). It is broadly conceived and comprises beliefs, attitudes, values, and preferences. To some extent, the second type also inquires what its determinants may be which is a particularly challenging task.

Classical and socialist economists such as Adam Smith or Karl Marx attributed a substantial role to culture in explaining economic activity and its distribution among persons. They would have been surprised to observe that neoclassical economics places little or no importance on cultural influences on the economy. As always, there are notable exceptions, a prominent example being Arrow (1972, 1977, see also La Porta et al. 1997), who emphasised the crucial importance of trust and sympathy for the working of markets. Another major exception is the extensive literature on developing countries, where culture plays a particularly large and conspicuous role (e.g. Sen 1998a, 1998b).

Standard neoclassical economic theory took preferences to be exogenous and, compared to markets, to be of little importance to explain the working of economies.

[1] Most statements made in this paper could be supported by dozens, if not hundreds, of references. To keep the paper well readable, the number of citations is kept to the minimum, allowing readers to go deeper if desired.

This approach is most prominently reflected in Stigler and Becker's (1977) famous statement 'De gustibus non est disputandum', but was early criticized, e.g., by Colander and Klamer (1987). Today, the economics literature is aware that believes and values differ between regions, countries and over time and that the working of an economy is strongly affected by such cultural factors.

There may be three reasons for this neglect of culture in early standard economics (Throsby 2001). The first is that economic variables also reflect cultural factors. This applies in particular to human capital. This variable is assumed to integrate the major influence of culture during the educational process and in work life thereafter. As a result, it was not considered necessary to explicitly introduce cultural variables into the analysis. The economy can be analysed by considering real prices on markets and shadow prices in non-market activities (Casson 1993).

The second explanation concerns the self-image of economists, who focus on material and financial aspects in society. The typical purely economic factors would be the price/cost relationship, or fundamentally, the allocation of scarce resources. Aspects of culture are left to analysis by sociologists and social psychologists.

A third reason for the disregard of cultural influences may be adduced. In superficial economic discourses, the term culture was used to 'explain' aspects outside the economy. It was sometimes argued that a country does not grow if it does not have the requisite 'culture' but what constitutes 'culture' was neither defined nor empirically determined. According to Solow (1970), explaining economic growth with variables such as 'culture' tends to end up in a 'blaze of sociology'.

Times have changed, not least because various new data sources such as laboratory, online, and field experiments in the economic profession allow measuring various aspects of culture. Extensive and representative surveys were the first tool to capture and identify cultural aspects. The first of such data were cross-country or cross-regional, for instance, the World Values Survey, the General Social Survey, or the European Values Survey. Panel data such as the Socio-Economic Panel, the British Household Panel, and the European Community Household Panel have become available, allowing scholars to analyse both the causal effect of culture on the economy and the effect of the economy on individuals' beliefs, values, and norms. Cultural factors may influence the economy in various ways (see Throsby 2001): The economic efficiency provided by shared values supports economic processes: for example, by giving prestige to people successful in business; by dealing with equity, with the intergenerational income distribution; and by determining economic and social objectives varying over time. A pertinent example is climate change that for many people has become more important issue than material welfare.

The study of cultural values, beliefs and attitudes has emerged as an important new field in general economics in the new millennium (see, e.g. Guiso et al. 2006; Tabellini 2008, 2010; Spolaore and Wacziarg 2013; Spolaore 2014; Spolaore et al. in progress; Bénabou and Tirole 2016). This extends to corporate culture (Fehr 2018). A most recent article in the *Journal of Economic Literature* (September 2022) refers to 'people care deeply about nonmonetary factors such as identity, fairness, morality, equality, and status' (Guriev and Papapioannou, 2022, p. 790; Bénabou and Tirole 2006; Di Tella and MacCulloch 2009).

A prominent contribution to Cultural Economics dealing with values is Akerlof and Kranton's (2000, 2010) analyses of identity as an essential force characterising economic activity. They were the first to put this concept on the economists' agenda. The two scholars acknowledge that fairness and norms have been studied by economists previously but suggest that these concepts can usefully be based on the notion of identity. Identity provides utility and a deviation from the corresponding norms tends to reduce utility. The social environment in which people grow up and live often determines individual identities, but identity may also change. People can, to some extent, choose their identities. These considerations help us to better understand many aspects of the economy, such as those relating to poverty, race, and the role of gender.

A recent example of Cultural Economics dealing with values is the article by Besley and Persson (2019). They posit that democratic values are a crucial prerequisite for the prosperity of democratic institutions. They find a natural complementarity between changing culture and institutional choice, which helps to understand the diverse observable democratic values and the development of political institutions between countries and over time.

These are just a few major contributions to the second type of Cultural Economics. They serve to illustrate that the term 'uncultured economics' (used by *The Economist* in July 2019) is no longer appropriate.

4 Relationship between types of cultural economics

The links between Cultural Economics as institution (Type 1) or as an effect on the economy (Type 2) have mostly been disregarded in the literature. This applies even to the most recent publications, such as Besley and Persson (2019) and the survey article by Azis (2019) entitled 'Economics and Culture'.

We suggest, however, that it is valuable to explore the link between the two types of cultural economics. In the arts, values, beliefs and norms are particularly important because in the arts the price system is used less than in the narrowly defined economy. The behaviour of actors in cultural institutions, such as theatres or museums, is less determined by relative price changes than is the case for actors in the market economy. A substantial share of the budget of art institutions is financed by government or foundations. For instance, the Opera House in Zurich receives 67 per cent of overall expenses by the government. This compares to the self-generated revenue of only 22% of overall expenses (Opernhaus Zürich 2019). In many countries, especially in the UK and the USA, subsidies from private foundations and similar institutions cover a substantial share of the costs of cultural activities. It follows that political and administrative influences matter more than narrowly economic factors.

Economists dealing with cultural institutions do not generally analyse the impact of shared values, norms, and beliefs on the cultural sector. Their main interest lies in studying how institutions such as theatres or a museums function, for instance, whether private or public ownership affects their decision about what is performed or exhibited, and how much to charge. However, there are major exceptions: to name but a few, McCloskey (1985, 1994), Klamer (1997), Hutter (1996), Throsby and Hutter (2011), and in particular Throsby (2001). These scholars study how rules, norms and the zeitgeist influence the type of culture produced. Examples include what is exhibited in art museums and what is kept in the basement, where a large share of the holdings is rarely, if ever, shown to the public. As a result, aggregate consumption decisions are influenced by people's values, beliefs, and attitudes, notably in design, fashion, and architecture but also far beyond.

Culture in the sense of shared values, beliefs, norms, and preferences (Second Type) impacts what is produced in the cultural sector of the economy (First Type). But this influence is hard to capture and to measure. The 'output' of, say, a museum or festival is not merely the number of visitors and attendants, but the effects extend well beyond to the general population. A museum may raise the creativity of its visitors, which then could indirectly affect not only the cultural sector, such as fashion, design, and architecture but also what is performed in theatres and opera houses.

Conversely, the activities of cultural institutions may influence the shared values or preferences of individuals, the domain of the Second Type of Cultural Economics. But again, this impact is most difficult to identify precisely, let alone to measure. Individuals are influenced by a multitude of activities in the cultural sector, ranging from artistic experiences in theatres and opera houses to architecture, design, and fashion. This influence is not one-dimensional but composed of many simultaneous forces. The difference in financing strongly influences the behaviour of cultural suppliers. Cultural suppliers depending on the market have to pursue a quite different behaviour compared to institutions receiving large subsidies from government or private foundations.

As the literature of the two types of Cultural Economics mostly disregards each other's work, a combination of the approaches would be fruitful for economics as a science. According to Rosa (2003) in the USA, cultural change in the form of different values, beliefs and norms has accelerated, mainly due to the changing composition of the population caused by emigration and immigration. A relevant issue to study is how quickly cultural institutions adapt to the changing cultural composition of the population. It is reasonable to believe that these two developments evolve at different speeds which may lead to conflicts and a disruption of society. Connecting the two types of cultural economics helps us to better understand how cultural institutions in the performing and visual arts evolve, and how the zeitgeist changes over time.

To give a concrete example for the influence of cultural values on cultural institutions: the demand and supply at art auctions strongly depend on the zeitgeist, reflected in particular values and beliefs. So far, such considerations have rarely been based on empirical analyses and are therefore mostly speculative. A partial exception is the sudden and large price rise at auctions for particular categories of art, such as modern Chinese paintings (Shi et al. 2018; Frey and Pommerehne 1990a). To know more why and how cultural factors so strongly influence the prices of particular categories of art is a challenging topic.

5 Concluding remarks

Cultural Economics can be understood as the analysis of arts institutions such as theatres or opera houses (Cultural Economics of type 1). Many economists are not aware of this approach. Alternatively, cultural economics studies the effect of values, beliefs and norms on the economy (Cultural Economics of type 2). The latter aspect has been largely disregarded in standard economics but has recently been taken up by leading economists. Each of the two types of Cultural Economics studies a set of different issues. Misunderstandings can be avoided by carefully distinguishing between the two types.

A challenging task is to study the relationship between the two types of Cultural Economics: how cultural institutions such as theatres and museums affect the values and beliefs in society; and how, in turn, cultural values and beliefs affect the working of performing and visual art institutions and cultural industries. It is a wide-open field requiring careful identification and measurement of the relevant variables. We argue that it would certainly be a fruitful endeavour in which to engage.

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