

BRUNO FREY
*Department of Economics,
University of Zürich*

For a useful discourse between economists and culturalists on art and culture to take place, each side has to point out their concrete position in a rather extreme manner in order to highlight the different ways in which the cultural issues are approached and viewed. This paper presents nine propositions from the point of view of culturalists and the corresponding counter-propositions reflecting the politico-economic approach. The paper shows how the economic approach to aesthetics, and to the measure of the value of arts and the cultural policy in particular, differs compared to the views of culturalists and the general public with regard to aesthetics, arts and culture (see also Benhamou, 1999; Blaug, 1999; Frey, 2000; Throsby, 2001).

Experience shows that it is not easy to establish a fruitful discourse between social scientists on the one side, and culturalists on the other side. The discussion often ends up with social scientists speaking to each other, and culturalists speaking to each other. One reason for this difficulty is the use of different terminology. This holds in particular for economists who are used to employing quite specific terms. To overcome the problem, an effort is sometimes made to define terms—but this means that the advantage of a discourse is lost because the exchange becomes highly formalised and lifeless.

In my opinion, a useful discourse can be undertaken if each side speaks in as concrete terms as possible and does not try to impress the other side with highly theoretical constructions. It has also proved to be helpful to state one's own position in a rather extreme way in order to highlight the differences in how one approaches and views the cultural issues.

In what follows, nine propositions, where I have experienced wide currency among culturalists (as well as in the general public), are advanced. Each of them is presented together with a counter-proposition, reflecting the politico-economic approach.

The propositions are grouped into three sections: the first section discusses the typical features of the economic approach to culture and aesthetics as measures of the value of aesthetic objects by confronting them with what I sense to be the views generally held by culturalists and by the public. The second section presents some facts on aesthetics and culture, where the perceptions of culturalists and the public on the one hand, and economists on the other hand, strongly deviate. The third section is devoted to the often starkly contrasting views with respect to cultural policy and who should decide about it.

Characteristics of the Economic Approach

1. *The Value of Aesthetic Objects*

A. PROPOSITION: "The value of an aesthetic site is measured by the number of visitors."

This is a charge often heard against economics. The idea seems to be that economics is interested only in numbers and quantities. Thus, it is claimed that economists would suggest closing down a theatre or a museum cultural site, if the number of visitors is small, because it is taken to be of no value from the economic point of view.

B. ECONOMIC COUNTER-PROPOSITION: "The measure of value is the willingness to pay for an aesthetic object. This includes the intensity of appreciation as well as option, existence, bequest, prestige and educational values."

This counter-proposition makes clear that economists do not take the number of visitors to be the indicator of value. This is so for two reasons.

1. The willingness to pay can be high even if only a few people visit the cultural object. What matters is not simply the number, but also the intensity with which the cultural object is enjoyed. This is not an empty statement without relevance in the real world. The opposite is true. Only a short glance at a newspaper kiosk reveals that profit oriented firms are able to cater for minority tastes, and sometimes even for very small minorities. Consider, for example, the dozens of high quality journals devoted to the opera or, for that matter, to the collection of toy soldiers.
2. The economic value of an art object depends on the preferences of all individuals, and not only on those who pay for it on the

market. Economists have gone to great pains to identify these so-called 'non-user values', in particular:

- option values (people value the possibility of enjoying a cultural object in the future);
- existence values (people do not benefit themselves from a cultural object, but benefit from knowing that it exists);
- bequest values (people do not benefit from a cultural object themselves, but derive utility from knowing that their descendants will be able to enjoy it if they choose to);
- prestige values (people derive pleasure from knowing that a cultural object is cherished by persons outside their community); and
- educational values (people are aware that culture contributes to education and therefore value it).

To speak of non-user values is no empty statement because they have been empirically measured. To provide an example: it is well known that only a small share (something like 5 percent) of the population ever (voluntarily) visits an opera house. Nevertheless, several popular referenda concerning the financial support of the Zurich opera house have been supported by a clear majority of the voters. The support of the many non-users could be attributed to the various non-user benefits just mentioned.

Non-user values are often not supplied by the market. Economists have therefore devised many different schemes and techniques to capture the willingness to pay by non-users in order to secure the supply of the respective cultural goods.

2. *Induced Business Activity as a Measure of Art*

A. PROPOSITION: "The value of an aesthetic object is measured by the amount of business activity created."

It is often claimed that economists are only interested in culture if it produces additional economic activity. Thus, many culturalists think that a classical musical festival can only be rationalised economically if the business created for restaurants, hotels, and the various kinds of shops, exceeds the cost of running the festival.

B. ECONOMIC COUNTER-PROPOSITION: "The economic approach supports culturalists in their effort to stress non-commercial aspects. Purely business interests are opposed."

The counter-proposition makes clear that economists do not base their evaluation of culture on the amount of business created. Such 'impact studies' are only one part of the evaluation. It is important to distinguish between economics (an academic field) and business interests. Owners of hotels, restaurants and shops are obviously interested in the additional business created by culture. But economists are quick to argue that if the profits indirectly made are as large as often claimed, the businesses benefiting should finance the cultural activity in question. Economists consider the total utility created, which also involves the above mentioned non-user benefits, which are not (directly) reflected in the form of market turnover and profits. It is wrong to only consider business interests.

3. *Employment and Income as a Rationale for Public Support*

A. PROPOSITION: "The employment and income generating effects of cultural projects are important."

Impact studies have indeed been undertaken for many cultural activities, in particular for musical festivals such as the one in Salzburg. They often come to the conclusion that the additional employment and profits created provide a good rationale for public support.

B. ECONOMIC COUNTER-PROPOSITION: "Impact studies devoted to capturing the multiplier effects of cultural projects are dangerous and often counterproductive."

Economists are critical of impact studies (which are often initiated and financed by the business community) because turnover created does not reflect the value added by the cultural activity. It may well be that turnover rises but profits do not (they may even fall). More importantly, business profits create only one part of utility, while neglecting the already mentioned non-user benefits. Using impact studies is dangerous because if one relies on the additional business created—and that is an approach often taken by cultural managers, e.g. directors of museums or opera houses—one runs the danger that alternative activities are even more profitable from the business point of view. Thus, a sports event such as a Formula One car race is likely to create more business than the local museum does. If one followed the rationale of impact studies, it would then be logical to support the car race, and to no longer subsidise the museum. An economist would not follow that argument.

With respect to the additional employment created, the same argument applies. If another economic policy instrument (say an employment programme in the sports sector) creates more employment than the cultural activity, any basis for the public support of the latter is lost.

Facts on Aesthetics and Culture

4. *The Wealth of the Arts*

A. PROPOSITION: "The arts are poor, and are getting poorer and poorer all the time."

Many culturalists are convinced that the arts and culture today are in a very bad financial situation. The respective complaints have become something of a trademark.

B. ECONOMIC COUNTER-PROPOSITION: "The arts are getting richer all the time."

In one respect, this statement is certainly true: art objects, in particular paintings, have greatly risen in monetary value, as everybody following art auction results can testify. It is only a matter of time until the first painting will be sold at more than one hundred million dollars or euros.

This does, of course, not mean that all art is in good financial health. But it does mean that our museums of art are immensely rich if they correctly valued their art holdings. At present, almost all art museums implicitly attribute a value of zero to their holdings, i.e. the art they own does not appear in their balance sheet. The question is how the wealth of art museums should be dealt with.

But even apart from art in the form of objects, it is probably not true that culture is in a terribly bad financial state compared to the past or to other public expenditure items such as—recently—military outlays.

5. *Art as an investment*

A. PROPOSITION: "Private investments in art are more profitable in monetary terms than investments in assets such as government bonds or shares."

This is a very popular view that has recently been fuelled by banks, which have detected art as a new investment option.

B. ECONOMIC COUNTER-PROPOSITION: "To make money, people should not invest in art."

Interestingly enough, this view is shared by most serious art dealers and persons active in auction houses. It is also supported by serious empirical research. Thus, in joint work with Werner Pommerehne, using data on art auctions spanning more than 350 years (1635–1987) and more than 2 400 transactions on the most important art markets (New York, Paris, London), I calculated an average real net rate of return (i.e. after accounting for inflation and transactions cost) of 1.5 percent per year (Frey & Pommerehne, 1989). An investment in government bonds would have yielded a return of about 3 percent per year. Thus, art investment, on average, is not profitable from a purely financial point of view.

It is, of course, possible to reach higher returns on the art market—if one is lucky. If I had bought a Rauschenberg in my youth I would have realised a high profit. But this argument applies to all investment: if I had bought an object, which afterwards turns out to rise sharply in price, I would realise a high profit. To test this argument, just envisage whether you are prepared to state today what painter will trade at high prices in the future. And if you were really sure, why do you not buy all his or her paintings now (as you could easily get a loan from your bank)?

Cultural Policy

6. Aesthetics and Marketing

A. PROPOSITION: "Aesthetics should be divorced from commercialisation."

It is often argued that aesthetics can only remain 'pure' if not mixed up with business aspects.

B. ECONOMIC COUNTER-PROPOSITION: "Marketing should be actively used to safeguard aesthetic objects."

Economists emphasise the possibilities of tapping the willingness to pay for art by various means. Marketing is one important means of financing the arts and therewith protecting the cultural legacy. Examples are the 'superstar museums', which are defined by the fact that it is almost impossible as a tourist to visit the respective city without going to the museum itself, the Louvre and Paris, the Prado and Madrid and, most recently, the Getty and Los Angeles being examples. Superstar museums raise the profits of many in-

dustries, such as tourist enterprises, hotels, restaurants, or souvenir shops. The cultural suppliers must be taught to appropriate some of the business profits created instead of leaving them to the non-cultural enterprises. This can partly be done by raising entrance fees, running their own restaurants and souvenir shops, or by lobbying the political decision makers to impose a special tax on the firms and persons indirectly benefiting (Throsby, 1994; Towse, 1997).

There are a great many possibilities of raising money, which so far have largely been untapped, partly because the cultural institutions, being part of the public sector, had no incentives to move in this direction. Sometimes, it seems at first sight that it is impossible to raise such revenue from cultural activities. An example is land art, which can be viewed by everyone without payment (in the economic language it is a public good). But as Cristo has convincingly demonstrated, this need not be so. He is proud to perform his wrappings without any subsidy, be it from government or private sources. He is able to raise the money by selling sketches and plans of his works—a considerable achievement, which might be imitated by other enterprising artists.

7. Aesthetics and Monetary Values

A. PROPOSITION: "For cultural policy, all that matters are aesthetic values."

This view seeks to differentiate cultural from other aspects of policy, and claims that they should be clearly set apart.

B. ECONOMIC COUNTER-PROPOSITION: "As resources, and in particular government budgets, are restricted, it is often indispensable to price aesthetic values in monetary terms in order to fight competing claims."

As soon as the public sector is involved, there is no way of denying the scarcity of financial means. The size of the public budget is limited, and there are virtually thousands of demands competing for it. Culture is only one of them. If the cultural activists refuse to employ the measuring rod of money, they become inconsistent, because they actually use a monetary measure when applying for financial support. Only if the cultural sector refused to ask for money from anybody, could the strict posture of proposition 7A be maintained. But this has certainly nothing to do with reality.

8. *Who Should Decide on Cultural Issues?*

A. PROPOSITION: "Public decisions concerning aesthetics must be left to an educated elite."

It is often understood as a matter of course that ordinary persons are incapable of judging and therefore deciding on cultural issues. Only those persons who have been educated in art, or have educated themselves in art, are taken to be able to make reasonable decisions concerning culture. Only they know the relevant facts, can evaluate the pros and cons, and are sufficiently involved to take the trouble of seriously considering the issue in question.

B. POLITICO-ECONOMIC COUNTER-PROPOSITION: "It is essential to have generally accepted rules of how decisions on aesthetics are to be made in democracy."

A democracy is defined by citizens who are having the last say on all issues. This must include cultural issues. It is not compatible with the democratic rationale to exclude any area as a matter of principle. If culture was excluded, many other areas could be excluded as well, using the same arguments as in proposition 8A. Thus, for example, experts on military affairs could claim that they are the only ones able to decide on whether a country should engage in war, or experts on nuclear power could claim that only they are capable of taking a well informed and reasoned decision on the use of nuclear power plants.

The politico-economic counter-proposition does not mean that citizens make all decisions on every issue themselves. In areas where intimate professional knowledge and expertise is required, the citizenry may well decide to leave the specific decisions to experts. This may well apply to cultural issues. However, the extent to which the decision-making power is transferred to experts must be decided by the citizens rather than by the experts themselves (Throsby & Withers, 1979; O'Hagan, 1998).

9. *Aesthetics and Direct Democracy*

A. PROPOSITION: "Aesthetic decisions cannot be left to the citizens."

The average citizens are taken to be badly informed and little interested in cultural issues. They are therefore well advised to leave cultural decisions to experts.

B. POLITICO-ECONOMIC COUNTER-PROPOSITION: "Aesthetic decisions can and should be made via popular referenda."

Modern political economy proceeds from the notion of reasonable individuals who are able to take rational decisions. They are certainly not as well informed as the cultural elite but they are able to appreciate the issues once the ground has been prepared by the public bureaucracy, government and parliament. The extensive and open public discussion, which is an integral part of the referendum process, provides the citizens with the necessary information to take a reasoned referendum decision also on cultural affairs. In this pre-referendum process, the cultural experts play a prominent role. They must make their case in a language understood by common people, which means that they must leave their ghetto and concentrate on the fundamental issues.

Popular referenda on cultural issues are a necessary part of a democratic society, which puts trust in its citizens. This accords well with the idea that the citizens are reasonable human beings. It also makes sense because it is unclear what a cultural elite is composed of. Is it people with a formal education in the arts? What level of formal education is needed? Is it sufficient to have a diploma from an arts school, or is a diploma, doctorate or professorship in art history or some other cultural field required? Or is the cultural elite made up of people active in art administration, such as museum directors and curators? Or is the cultural elite made up of those persons actually producing culture, i.e. the artists themselves?

Whatever the answer, there is obviously a great amount of uncertainty as to what constitutes the cultural elite. Moreover, whatever the definition of the cultural experts, they are often severely divided on the merits of particular cultural policies. It must be concluded that there is no such thing as the 'opinion of the cultural elite'. Rather, there are many different views of individual art experts. And many of these views turned out to be utterly mistaken from today's point of view. An example is the extreme resistance of the Paris art establishment against the Impressionists.

The basic idea of an open society is that each art expert has the opportunity to communicate his or her view to the citizens, who listen to the various arguments and, on that basis, make a referendum decision.

Compared to traditional methods to evaluate the willingness to pay for cultural projects—in particular the so-called 'contingent

valuation approach?—referenda induce a discussion focused on a specific cultural issue. The discourse does not have the character of an inconsequential academic discussion, but takes into account the resource scarcities, which public decisions necessarily confront. Another great advantage is that a cultural project is at the same time evaluated and decided upon. This contrasts favourably with the many benefit-cost analyses wherein a project is carefully evaluated, but which is shelved once completed.

Empirical research in the economics of art has convincingly shown that popular referenda may well be used for cultural issues. An example is the referendum undertaken in the canton Zurich opera house already mentioned, or the purchase of two paintings by Picasso (Les Deux Frères of 1905/6 and Arlequin Assis of 1920) in the canton Basle in 1967. Many art experts at that time thought that the decision to buy abstract paintings (which were then still considered by many to be outlandish) was a bad idea. Yet 53.9 per cent of the voters supported the proposition. Picasso was so pleased with the outcome that he generously donated two paintings, Vénus et l'Amour and Le Couple, as well as some drawings, to the population of Basle. But these specific examples are not exceptions. Thus, it has been shown that the voters are more prepared to support cultural issues than they are to support other purposes.

References

- Benhamou, F., (1999). *L'économie de la culture. (The economics of culture)*. Editions La Découverte, 2nd edition, Paris (in French).
- Blaug, M., (199). *Where Are We Now in Cultural Economics?* Mimeo, Department of Economics, University of Amsterdam.
- Frey, B. S., (2000). *Art and Economics*. Springer Verlag, Heidelberg and New York.
- Frey, B. S., & Pommerehne, W. W., (1989). *Muses and Markets: Explorations in the Economics of the Arts*. 1990 reprint, Blackwell, Oxford.
- O'Hagan, J. W., (1998). *The State and the Arts: An Analysis of Key Economic Policy Issues in Europe and the United States*. Edward Elgar, Cheltenham.
- Throsby, D. C., (1994). The Production and Consumption of the Arts: A View of Cultural Economics. *Journal of Economic Literature*, 33, pp. 1–29.

- Throsby, D. C., (2001). *Economics and Culture*. Cambridge University Press, Cambridge.
- Throsby, D. C., & Withers, G. A., (1979). *The Economics of the Performing Arts*. Arnold, London and Melbourne.
- Towse, R., (ed.) (1997). *Cultural Economics: The Arts, the Heritage and the Media Industries*. Edward Elgar, Cheltenham U. K. and Lyme, U. S.