The Economics of Art and Culture

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Introduction

Though Adam Smith, William Jevons, Alfred Marshall, David Ricardo, John Maynard Keynes (who also collected paintings) were intrigued and had some views on the issues which will be discussed, research on the economics of art and culture is said to have really started after the essay by Baumol and Bowen (1966) on why, unless they receive financial support, the performing arts may disappear. The field is now relatively well established, has an association, the Association of Cultural Economics International, publishes a quarterly journal, the *Journal of Cultural Economics*, organizes, every two years, a conference that is attended by two to three hundred scholars, and has been able to generate teaching positions in a few economics departments in Europe and in the United States. The field is, nevertheless, still in its infancy

The topic is not well-defined, since it is located at the crossroads of several disciplines: art history, art philosophy, sociology, law, management, and economics and tries (or should try) to tackle questions such as why Van Gogh's paintings are expensive, and why copies of his works are cheap; why Pre-Raphaelite painters came back in the 1960s, after having been completely forgotten during almost a century (with an obvious effect on their prices); why European public or national museums are not allowed to sell parts of their collections; how the performance of museums should be evaluated; which (and given the budget constraint, how many) buildings should be saved from demolition, and kept for future generations; why the arts should be supported by the state; why there are superstars who make so much money; and whether works that have been sold should nevertheless be subject to copyright laws. From this enumeration, it should appear that all the fields are interacting, but that this does not often make an art historian understand mathematical economics, nor an economist show interest in Pre-Raphaelite painters.

The list also raises the issue of whether economists interested in cultural economics should simply apply their usual tools to questions related to and data coming from the arts, or whether they should take culture as an opportunity to add new issues to the existing economic literature. Should economists take as granted that prices and consumers' incomes are the main determinants of the demand for theatre plays or should they also understand what quality means in such heterogeneous markets, define it, measure and enter it as a variable in their regressions?

To describe the main problems which arise in cultural economics, it is useful to make the distinction between the performing arts (music, theatre, opera, dance), the visual arts (paintings, sculpture, art objects), and cultural heritage (museums, historical buildings, monuments and sites), though there are some unavoidable intersections (museums accumulate paintings, some artists in the visual arts produce unique performances in galleries). There is a tendency, nowadays, to add what came to be called the cultural industries, which cover books, movies, popular music, records, and the media (radio, television, newspapers and of course the ever present and invasive internet). We shall devote most of our discussion to the first three groups, which are often referred to as "high culture," and try to point out what cultural economists have found interesting, discuss the tools which they have imported from economics to analyse culture, which new insights the analysis of art markets have added to economics and what the questions are that have been left open or untouched. However, we start with a topic that applies to all groups, has kept many cultural economists busy, and has led to a large literature in the field: Should the state support the arts and, if so, how?

Public support of the arts. Why?

Many arguments have been invoked to justify public support, and correct for assumed market failures. Some apply to all forms of artistic activities (including the cultural industries), some are more specific. Here is a nonexhaustive list of the most important economic rationalizations for such support.

(a) The oldest and most often invoked argument is that art, whatever its form, is a public good. It benefits not only those who attend or see it, and who pay for it, but also all other consumers, who do not necessarily wish to contribute voluntarily to its production (performing or visual arts) or to its preservation (museums) and free ride, or who cannot contribute, since they are not yet born (heritage). If the arts are left to the market, they will not be priced correctly, and will thus be underproduced or not saved for future generations. Artistic activities are also said to produce externalities that cannot be sold on the marketplace, such as civilizing effects, national pride, prestige, and identity (justifying, for example, the French position in their fight against the free trade of movies and TV programs), social cohesion, etc.[1] which benefit all consumers.

[1] Such arguments were earlier suggested by Stanley Jevons, Adam Smith and Pigou.

(b) But the arts are also said to yield economic externalities. Old castles, well known opera houses or orchestras, and art festivals attract visitors and tourists. So do museums with good collections, while newly constructed museums are claimed to contribute to city renewal (an argument used, for instance, to attract public support for the recent Guggenheim museum in Bilbao). This is supposed to have spillover effects on hotels, nearby restaurants and shops, generate new activities and came to be called the "arts multiplier."[2]

(c) Art is a "merit" good. It "is a means of educating the public's taste and the public would benefit from a more educated taste." (Scitovsky's, 1972). Since consumers are not fully informed, they are unable to evaluate all its benefits without public intervention. Moreover, even if there is addiction to the arts, it develops only slowly, and consumers have to be exposed as much as possible.

(d) For equity reasons, art should be made available also to low income consumers who cannot afford to pay. Poor artists should be supported alike. Schemes for doing this will be discussed below.

(e) Culture is transmitted by education but also from parents to children. Since parents can hardly be considered as purely altruistic, an additional externality is generated, which needs support for efficiency (and equity) reasons.

(f) The last argument on the difficulty or impossibility to achieve productivity gains is more specific to the performing arts. It was put forward, more than thirty years ago, by Baumol and Bowen (1966), and came to be known as the Baumol cost disease. It can be briefly stated as follows. Since wages escalate in sectors other than culture, they must also do so in the performing arts to make these attractive enough for artists to enter, but since no productivity gains are possible wage increases have to be passed fully to prices. Therefore the relative price of the performing arts increases and, unless subsidized--or supported by donors and private funds--, the sector will shrink and eventually disappear.[3]

The issues that we have just discussed have of course their supporters and their detractors. The main detractors base their case on the public choice theoretic claim that some people wish to use the state's resources for their own benefit, and on the regressive nature of supporting high income groups who are more likely than others to attend, and who can afford to do so.[4]

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[2] Grampp (1989, p. 247) ironically grips that the arts multiplier takes "its place besides the investment multiplier, the foreign trade multiplier, and the balanced budget multiplier in the kitchen midden of Keynesianism." See also the paper by Seaman (1987).

[3] It is worth quoting the (now) standard argument by Baumol and Bowen: "The output per man-hour of the violinist playing a Schubert quartet...is relatively fixed, and it is fairly difficult to reduce the number of actors necessary for a performance of Henry IV, Part II."

[4] In 1982, in the United States, for example, 38.5% of the high income population (more than $50,000 per year) attend classical music live performances, while this percentage drops to 8.1% for low income groups (less than $10,000 per year). See Heilbrun and Grey (1993, p.43).

Several additional arguments can be opposed to the Baumol and Bowen reasoning. Empirical studies on the performing arts point to price elasticities which are smaller than one, so that there is still some room for price increases; the performing arts have not exhausted the possibilities of price discrimination (popular shows do not seem to charge more, most venues could be scaled in more sections than observed, intertemporal price discrimination and peak load pricing during certain days are seldom implemented, bundling--bookstores at opera houses, museums, drinks during intermissions--can also be used more systematically); technical progress (sound and lighting, for instance) can make for larger audiences; broadcasts and records[5] could be used to cross-subsidize live performances, and make these less expensive; synthetic music is being composed, which needs no or less performers, and is even sometimes used in ballet or opera performances; opera music is performed under the form of concerts; contemporary theatre plays save on the number of characters, etc. In the visual arts, Duchamp and later on, Andy Warhol created ready mades and multiples by the hundreds. Reproductions of paintings in books pay royalties to artists, also a form of cross-subsidization.

The cost disease has led to a host of quantitative studies, which show that the curse is not as severe as what Baumol and Bowen had originally suggested. But there is still more empirical work needed to prove (or disprove) the reality of the other arguments which call for public support.

Public support of the arts. How?

In most developed countries, the arts are supported, though the volume of public intervention can be very different. It is very low in the United States (three to four dollars per head), reaches $16 in the United Kingdom, $19 in Australia, and $30 to 40 in Continental Europe where private support is, at the present time, negligible.[6] No convincing argument has yet been put forward to explain these large differences in behavior between the Anglo-Saxon and other cultures.

Government intervention takes several forms. It can be direct: Some art institutions or companies are state-owned (museums in most European countries, but also opera companies, theatres, symphony orchestras) and are, therefore, supported, at least in part, by public funds. Their efficiency has been questioned on many occasions. Arts education programs are also often supported by the state. In the 1960s, Peacock[7] suggested the distribution to poor consumers of art vouchers, exchangeable for seats or visits to museums.

[5] Though these forms may also be subject to the cost disease.
[6] See Throsby (1994, p. 21) for more detailed data.
[7] See Peacock (1993, p. 122).

In most cases, public funds, including lottery funds, are channeled to private companies, or directly to artists, through subsidies, or tax relief (reduced VAT rates, no or lower rates of taxation on profits or on income). In the United States, most of the effort is concentrated on tax deductions or exemptions to donors (individuals or corporations) for charitable contributions; gifts or bequests of artworks are also encouraged by tax concessions, and more and more often, inheritance taxes can be paid for by artworks. This indirect subsidization system is much less used in European countries, though the incentive schemes are also present.

The less direct (and, sometimes, most insidious) form of intervention is regulation, which is mainly concerned with (a) guaranteeing artistic freedom, though this right has often been breached, for example, to "protect" consumers against pornography; (b) ensuring moral rights, i.e. protecting artists against being plagiarized, or against alterations or destruction of their works; (c) ensuring financial rewards to living artists and to their heirs during as much as 70 years after their death, in the European Union, under the form of copyright. Copyright has led to a very large literature, at the confines of law and economics. Its economic justification is based on the idea that it provides incentives to create, and that the absence of protection would lead to underproduction--the same idea is used to justify protection of industrial patents.

Copyright applies mainly to plays, and literary or musical works. Authors usually do not "sell" their creation, but get compensated through authors' rights for each copy (book or record) sold or for each performance of a play or of a score. However, the idea has been extended to all other forms of art, including the performance itself (the staging of a play can be copyrighted), and the visual arts. Reproduction of a work pays rights to the artist even after he sold it; resale rights (droit de suite) pay to the artist a percentage on the resale of a work on the secondary market, for instance between two dealers.[8] The photographer of a work by Rembrandt is, in some (European) countries, entitled to rights for his "original" photography. One can wonder whether copyright laws still provide incentives for art creation, or whether they generate incentives to use Mozart's music in movies, and Schiele or Klimt paintings (no longer covered by copyright) to illustrate book covers, in order to avoid the intricacies of the law on contemporary scores and illustrations. Obviously, regulation has led to overregulation, perhaps driven by the rent-seeking behavior of author societies, which collect transaction fees, and not by artists themselves.

The international trade of cultural goods has also been the concern of regulators. Some countries fully prohibit the export of artifacts of some age--although illegal exports from Mexico, Italy or Greece continue. Some countries (France and the United Kingdom) are more lenient and require export licenses for "national treasures;" this

[8] Note that since such transactions are difficult to follow, droit de suite is usually only enforced for sales at auctions.

procedure is often used to delay the export and give time to the potential exporting country to raise funds and buy the object at the price at which it could be sold abroad. More recently, during the 1994 GATT negotiations, France has insisted on maintaining import quotas on American TV programs to "protect" local culture and national identity. This is the so-called cultural exception argument, which is very reminiscent of its forefather, the infant industry argument.

Rich man, poor man, beggar...

A folk theorem states that most artists are poor--or have lower income than the average consumer--, die poor, while salerooms, their dealers, and editors become rich.

Using the 1980 US Census data, Filer (1986) concludes that, on average, artists do not earn any less than they would in a nonartistic employment (after standardizing for personal characteristics, productive attributes and age). It has later been shown, however, that this is due to multiple job holdings, including in nonartistic activities (see e.g. Wassal and Alper, 1992). If these extra jobs are not accounted for, artists' average incomes are smaller than those of workers with comparable education. It is also said that artists devote less time to their work on art than do others to their main occupation, that they may have to go to lower paid jobs to supplement their income, that their earnings are more variable and less directly influenced by education than those of other workers. To explain then why artists accept this income differential, one has to appeal to differences in motivation; this is summarized by Throsby (1994, p. 17) who suggests that "the primary desire to create art as a principal occupation must be recognized as the essential driving force behind an artist's labor supply decisions."

But the income distribution of artists is also markedly skewed and there exist superstars, whose earnings are impressive. In a beautiful paper, Rosen (1981) shows that talent only does not explain these differences. He models income as a convex function of talent, so that small differences in this endowment may result in large differences in income. This is compounded by the fact that there is little if any substitution between various degrees of talent, or between quality and quantity. As Rosen points out, "hearing a succession of mediocre singers does not add up to a single outstanding performance."

Issues in the market for visual arts

Art works are, with some exceptions, heterogeneous. Each creation is unique and markets can hardly be analyzed by the usual supply-demand mechanism. The very high prices reached by some works has led economists to study (a) what can be said about the characteristics that determine values, (b) whether the returns obtained on artworks outperform those of financial markets, and (c) why tastes change. None of these issues has been given a definitive or even satisfactory answer.

Values are obviously mainly determined by the name (or the reputation) of the artist, but this explains little, and one should understand why reputations differ, and what makes a painting "good" or "bad." Decomposing "quality" in terms of (hopefully) objective characteristics should be possible. After all, this is what, long before Lancaster, the French art historian de Piles (1708) had in mind when he wrote that[9] "the true understanding of painting consists in knowing whether a picture is good or bad, in distinguishing between that which is good in a certain work and that which is bad, and in giving reasons for one's judgment." This led him to grade on a scale of twenty, characteristics such as composition, drawing, color and expression, for a group of painters, and rank them accordingly.[10] Art historians and philosophers have strong objections against such views. Economists are used to work on horizontal and vertical differentiation, but consider quality in art to be the playground of art historians and philosophers. Some collaboration between the two sciences should therefore be possible!

Financial returns on works of art have been analyzed very often.[11] Baumol's (1986) paper has probably been one of the most influential studies, since the conclusions are based on prices obtained at auction during 300 years (1650-1960). Baumol finds that the average real return rate is equal to 0.55% per year, some 2% lower than the return on bonds. The difference is understandable and, according to Baumol, attributable to the return provided by aesthetic pleasure. Buelens and Ginsburgh (1993) qualify the results and show that this conclusion does not preclude the existence of 20 to 40 years-long time intervals during which returns are much higher; since tastes change slowly, there may thus be opportunities to do better than bonds.[12] In a recent paper, Landes (2000) shows that skillful collectors can even beat the stock market, as long as they spend time and effort and follow a buy and hold policy.[13]

Tastes change, and prices commanded by works of art often follow these movements. There are many examples of painters who have been "rediscovered," including Boticelli, Vermeer, Goya or the Pre-Raphaelites.[14] It is unclear whether such changes are due to fads or fashion, or to more fundamental reasons. Grampp (1989,

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[9] The English translation is borrowed from Jakob Rosenberg, (1969, p.33), *On Quality in Art*, London: Phaidon Press.

[10] Note that quality concerns also the performing arts, movies, TV programs, etc.

[11] See Frey and Eichenberger (1995) for a survey.

[12] Buelens and Ginsburgh show that when the 1914-1949 period of turmoil is excluded, the rate of return is 2.5%, thus equal to the return on bonds. Art is thus attractive even if aesthetic returns are ignored.

[13] Part of the returns is also due to provenance of the works (the Ganz collection in the paper by Landes). The very high prices obtained at auction for the Kennedy or the Marilyn Monroe memorabilia are of course only due to their provenance.

[14] See Haskell (1980) for an account of these changes in France and in the United Kingdom between the late 18th century to the early 1920s.

pp.66-68) suggests that the rapid succession of styles in contemporary art is due to the rapid increase in consumers' income, "who seek novelty more often than they would if their income was lower." The changing tastes issue has, to our knowledge, never been seriously investigated by economists.[15]

The status and the prices of copies (to be distinguished from fakes) have also varied over time. While copies were close substitutes for originals during the 17th century, and priced accordingly at about half the price of originals,[16] they are hardly considered to have any value nowadays. Again, little is known about the reasons and the period at which the break occurred. Photography is sometimes said to have been at the root of the change.

The issues discussed above have often been analyzed on the basis of works sold and prices obtained at auctions. This has led to several observations on the possible inefficiency of auction mechanisms, which theory considers to be efficient.[17] Among these observations, let us single out the declining price anomaly (prices of homogeneous lots sold in sequence decrease over time, but this is also the case for the ratio between hammer prices and pre-sale-estimates for heterogeneous works of art--see Ashenfelter, 1989, and Beggs and Graddy, 1997), the existence of systematic price differences across salerooms and/or countries,[18] (Pesando and Shum, 1996), the biasedness of pre-sale estimates by salerooms, the fact that pre-sale estimates do not reflect all the information that is available (though theory shows that it is efficient for the auctioneer to reveal the truth).

Cultural heritage, where do we go

Forty-five thousand monuments are listed in France, and this number is increasing every year, without any legal possibility to drop a monument once it has been listed. In the United Kingdom, there are 40,000 scheduled monuments and sites and 500,000 listed buildings. Maintaining this heritage obviously implies costs, and these costs are increasing. The number of specialists who are able to reconstruct and restore these sites is dwindling, the materials needed are becoming rare and often expensive to extract, and monuments deteriorate at an increasing rate, since they are visited more often, and subject to pollution (Benhamou 2000, p.58). A curse similar to the one said to prevail in the performing arts (the previously mentioned cost disease) is ahead of us. The decision to list heritage sites less will have to be made, and perhaps also the decision to drop

[15] At least empirically. Stigler and Becker (1977) have developped a theory of changing tastes in the neoclassical framework of unchanging preferences, see below.
[16] See De Marchi and Van Miegroet (1996).
[17] This is at least the case for the second-price auction mechanism often used in art auctions.
[18] Though this seems to make arbitrage possible, saleroom commissions and other transaction costs are usually high enough to reduce such possibilities, at least in the short-run.

monuments and allow their demolition. Property rights may have to be redefined to induce private owners to care for their properties, and tools, such as contingent valuation, polls or even referenda may be needed to elicit preferences and help decision makers.

The number of museums has also increased dramatically during the last twenty years, and so have collections, generating serious constraints on exhibition space.[19] It happens that as much as 80 to 90% of the works are not shown (97% in the case of the Art Institute in Chicago). Though the International Council of Museums (ICOM) recommends that each musuem should have a statement describing its collecting policy, many have no such written documentation. To the layman, and sometimes even to the expert, some transactions look bizarre, to say the least.[20] Why can't museums stop increasing in numbers, and dimensions. Why is it that if curators are empowered with the power to buy works of art, it is made difficult (in the United States) if not impossible or unlawful (in Europe) for them to sell works ("deaccession," in the museum language), and certainly those which are not and will probably never be shown. This would not only provide financial leverage to museums, but also reduce the incentive for illegal excavations and sales.

Should museums charge entrance fees? Curiously enough, the French, whose successive governments claim to have the largest budgets to support the arts, insist that museums should charge visitors--and they do so--, while free admission at the six British national museums--some of which currently charge--will be introduced in April 2001. Some (natural) experiments are being run in French museums on the effect of charging, and not charging entrance fees once every four weeks, on Sundays, but the evidence that this increases the number of visitors is scant. More serious econometric work is obviously needed in this area.

How would the management of museums be affected if the value of their collections were considered as capital? How should museums (as well as many other cultural institutions) be evaluated? Their output can obviously not be measured by profits, nor by the sole number of visitors, as has often been suggested, and done. According to the ICOM definition, a museum "acquires, conserves, researches and communicates, and exhibits for the purpose of study, education and enjoyment, material evidence of people and their environment." This makes for an activity with multiple outputs; measuring its performance calls for the use of appropriate efficiency frontier methods.

[19] The forms used by contemporary art (e.g. installations) make this constraint even more binding.

[20] In 1999, though it possesses several works by Breughel the Elder, the largest Belgian museum bought a copy by one of his descendents, Breughel the Younger, for the stunning amount of 3 million dollars. This amount should be compared to the museum's 150,000$ annual public subsidy for new acquisitions!

The cultural industries: how will newspapers and TV programs look in the future

Here we turn to more conventional commodities, since the cultural industries mainly produce "copies," such as books,[21] records, movies, newspapers and TV programs, and the value of the work is not conferred by its uniqueness or its scarcity.[22] Like in other sectors, these industries are faced with globalization and follow the move to more concentration, both in terms of production and of distribution. This may open the road to more uniformity and is sometimes considered as presenting a threat for democracy, especially in the case of newspapers and TV or radio news programs.

At issue are also (a) the public support to (and even the ownership by the state) television and radio stations and, in some countries (France), newspapers, and the complex problems of (dis)information this may generate, (b) the import quotas on cultural programs in a world which moves to free trade in all other industries as well as (c) the complex economic and legal (copyright) problems generated by the internet.

Other issues and, why not culture for the enjoyment of life ?

We are left with many unresolved questions. The economics of certification or authentification ("authentic" works versus copies, or fakes) is one of these. While many art philosophers maintain that this does not change the aesthetic qualities of a work, it definitely changes its price! The formation of values also raises the interesting issue of who are the agents endowed with the power to discriminate between good and bad art (the "gurus"). What is the expertise of those who grant prizes and awards? Who still reads Sully Prudhomme (Nobel literature winner in 1901), Paul von Heyse (Nobel 1910), Verner von Heidenstam (Nobel 1916), or of more recent vintage, Ivo Andric (Nobel 1961). But even worse, who still remembers their names? Who would today award the 1959 Oscar for best movie to *Ben Hur* and forget about *Some Like it Hot* produced during the same year? Time obviously does a far better job than experts.

Why did blockbuster exhibitions or music, opera and theatre festivals become so numerous? Don't such events simply displace the public from more traditional venues? Or do they, as is sometimes claimed, attract visitors who also have a look at the permanent collections, and familiarize with music those tourists who would otherwise never attend a concert in their own city. Much has been said on the rent-seeking behavior of those who organize such events, but little is known on the long-term effects on the behavior of those who attend.

[21] Some books can be viewed as works of art. This is obviously the case of old manuscripts, but also of some contemporary books, often illustrated by painters, printed in limited numbers, and which become collectors' items.

[22] Note that this is also partly true for the performing arts, though each performance can be considered as unique.

The last question, which is also one of the most important ones, is how culture affects the preferences of consumers. This is the subject of the important paper by Stigler and Becker (1977), who were among the first to discuss changing tastes and addiction to culture (as well as to other goods or bads) in terms of a household production function and the stock of past consumption (of culture) and not consumption itself, appearing as argument in the utility function.

Addiction (if positive) should enhance the role of education to culture. More education to culture would certainly lead to more participation in cultural activities (see Bergonzi and Smith, 1996) and, therefore, to less need for public support. It would also increase efficiency, since we would have to accept that consumers possess the knowledge and have the right to choose in a sovereign way, and accept the consequences to which this could lead.

Bibliographic notes

For obvious space reasons, it is impossible to do justice to and quote the many original contributions to cultural economics. The two volumes edited by Ruth Towse (1997) contain many of the important papers which have made cultural economics into a field. The book by Sir Alan Peacock (1993) is a delicious and highly informative account by an economist *cum* musician and composer, of the years he spent as Chairman of the Scottish Arts Council and member of the Arts Council of Great Britain. It also contains references to his many and highly regarded other contributions to cultural economics. The iconoclastic views in Grampp (1989) make for very entertaining and witty reading that is also very serious economics. So is Frey's and Pommerehne's (1989) contribution, which contains a very complete and useful list of references written before 1989. O'Hagan (1998) covers most of what should be known on the relations between the art sector and the state. So does Schuster (1997) for the cultural heritage, Throsby and Withers (1979) for the performing arts and Albarran (1996) and Hoskins et al. (1997), for the main problems faced by the cultural industries. Throsby (2001) bridges the gap between economics and culture. The situation in the United States is described by Netzer (1978), Heilbrun and Gray (1993) and by Feldstein (1991) for museums. A very good overview of the French situation (which is almost polar to the American one) is given in Benhamou (2000). The two volumes by Merryman and Elsen (1998) are invaluable as a first approach to the understanding of the intricacies of law and the visual arts. Contracts between art and commerce (the subtitle of the book) are masterly described in Caves (2000).

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