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What Values Should Count in the Arts?

The Tension between Economic Effects
and Cultural Value

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15.1 Introduction

The basic distinction made in this volume compares “economic value,” expressed in monetary terms, to “cultural value,” reflecting cultural, aesthetic, and artistic significance. This chapter makes a different distinction that is rarely made explicit but that is of central importance to the decision process in cultural policy. On the one hand, “value” is attached to the economic effects of cultural activities: When cultural values are created, economic activity is bolstered. The increase of commercial activities induced is measured by the so-called impact effect. On the other hand, the value of culture is reflected in the increased utility to consumers and nonconsumers of a particular cultural activity. This type of value is measured by “willingness-to-pay studies.” I argue that these two values dominate cultural policy, but they capture totally different aspects and are proffered by different kinds of communities.

People involved in the arts as administrators or entrepreneurs – they are referred to as *arts people* in this chapter – are fond of *impact studies*. These studies measure the economic effects of a particular artistic activity such as that of a museum or festival. In contrast, people trained in economics and applying it to the arts – they are referred to as *arts economists* in this chapter – are fond of *willingness-to-pay studies* measuring the external effects, that is, those welfare-increasing effects of artistic activities not captured by the market. These preferences are rather surprising. Arts people focus more on the economic effects of the arts than economists do. Or conversely: Arts economists concentrate more on the artistic aspects than arts people do; they even argue that impact studies may be counterproductive for the arts, thus rendering a disservice to the arts.

The two views stand in an isolated way beside each other. On the one hand, arts people often pay considerable sums of money to commission impact studies. They do not commission willingness-to-pay or contingent valuation studies.¹ They disregard them and, insofar as they know them at all, they consider them at best to be purely academic exercises. On the other hand, arts economists have undertaken dozens if not hundreds of contingent valuation studies of the arts and have published them in scholarly journals.² They have not been commissioned by the respective art institutions but have rather done so for academic purposes. They consider impact studies to be inappropriate and methodologically weak.

In this chapter, I want to put the two opposing views in perspective.³ I attempt to be more general than the "economic" approach favored by arts people and the "artistic" approach favored by arts economists. The appropriate level is the political one, where decisions on art are taken. This level helps us to do justice to both approaches and to see in what respects the two aspects are lacking. This avenue also differs basically from the standard economic approach to the arts. Our analysis reveals that the conflicting approaches focus on quite different aspects and therefore rely on a different analysis and methodology:

- Arts people take the artistic value as given. They see no need to establish that it contributes to human welfare. They take it as a matter of course that the support of the arts belongs to the essential tasks of governments. The need to *activate* decision makers actually to undertake artistic projects is seen as the real problem. They feel that the decision makers can best be convinced to become active when it is demonstrated to them that the artistic project yields large economic benefits. Impact studies serve to prove this claim "scientifically."

¹ The editor of the special issue "Contingent Valuation in Cultural Economics" in the *Journal of Cultural Economics* (Schuster 2003: 157) states in his introduction: "To date many of the CVM (Contingent Valuation Method) studies in the cultural field have been hypothetical, conducted by economists who are perhaps more interested in their analytical techniques than in informing actual policy debates. Few seem to have been commissioned by actual clients who have decisions to make." He does not or is not able to state what few studies were indeed commissioned.

² Noonan (2003) identifies more than one hundred studies of various cultural goods; see also Mourato and Mazzanti (2002).

³ No methodological discussion of either impact or willingness-to-pay studies is intended. There is an extensive literature available. For impact and willingness-to-pay studies, see, for example, Throsby and Withers (1979), Throsby (1994, 2001), Frey and Pommerhne (1989), Towse (1997), Frey (2000), De la Torre (2002), Epstein (2003). For contingent valuation see the special issue of the *Journal of Cultural Economics* (2003), and for recent important examples Bille Hansen (1997), Santagata and Signorello (2000), Thompson et al. (2002), Willis (2002).

- Arts economists find it essential to establish the *need* for government support of any art project. According to classical welfare economics, a necessary condition is that the project in question produces external effects not captured by the market. Only then is there an argument for government support. If there are no external effects, the artistic project can be produced by the market, provided it yields a profit reflecting higher social benefits than costs. Willingness-to-pay studies are the best method to identify these external effects. In contrast, standard economists applying their methods to the arts do not consider political activation; they find it sufficient to offer their conclusions about whether there are external effects legitimizing government intervention.

At the level of political decision making, both views play an important role. It is indeed crucial for willingness-to-pay studies to establish the need for government intervention – if not, it can be concluded that the market will perform the activities more cheaply and efficiently. But it is also crucial that the projects are actually undertaken. This process requires political activation. However, both approaches need to be undertaken with care. Unfounded claims for government support threaten to backfire, because in that case many nonartistic projects would also easily qualify for government support, overtaxing public revenues. The same occurs if it can easily be shown that the market can well supply the artistic project in question. Political activation induced by impact studies is equally crucial, as it overcomes one of the major weaknesses of willingness-to-pay studies: the separation between evaluation and decision (Frey 1997). Willingness-to-pay studies must urgently go beyond being a purely intellectual exercise.

This chapter proceeds as follows: Section 15.2 sets the stage by characterizing the views of arts people and arts economists, reflected in impact studies and willingness-to-pay studies, respectively. The following section presents a critical examination of the two views, showing that both are lacking. Section 15.4 discusses the consequences for decision making in the arts.

15.2 Setting the Stage: Characterizing the Two Views

15.2.1 Impact Studies

The economic benefits of artistic projects as measured by impact studies typically consist of the direct expenditures associated with a project, as well as the indirect expenditures induced by suppliers and visitors to the arts project. Consider the case of a classical opera festival that is proposed to be

established. The direct expenditures benefit the artistic and administrative personnel engaged in the project and the suppliers of material goods and services. The recipients of direct expenditures create indirect benefits in turn by spending a large part of their revenues on the supply of these goods and services. For example, the provider of costumes for the singers must spend money to produce them, and the recipients of those expenditures again spend a large part of it. The visitors to the opera festival also spend money in addition to the entrance fee, for instance, on transport costs, hotels and meals, hairdressers or clothes. Thus, a multiplier process is set in motion by the establishment of the opera festival, going well beyond the direct expenditures.

Arts people assume that the persons directly and indirectly benefiting from the festival will provide political support for its establishment. This support is based on the economic advantages gained and is quite independent of the artistic benefits created by the artistic project.

15.2.2 Willingness-to-Pay Studies

Arts economists favor willingness-to-pay studies because they seek to measure whether the total benefits created by the artistic project outweigh the total costs. If it turns out that the net benefits are negative, the art project should not be undertaken, as society is worse off with it than without it. The market captures some of the benefits and costs, most importantly by visitors paying an entrance fee to attend an artistic activity, in our example the festival. As the visits are voluntary, it makes sense to assume that people only attend the festival and pay the entrance fee if the benefits to them outweigh their costs. But the market does not capture part of the benefits and costs. In particular, there are positive external effects accruing over and above the direct benefits; the most important ones are existence, option, bequest, education, and prestige values. They are characterized by the fact that they increase people's welfare but cannot be captured in monetary terms by the suppliers of the artistic project. This often means that the arts project is not commercially viable, though society's welfare would be increased by its existence.

There are several methods to capture such external effects. The most prominent technique to measure the willingness to pay is known as contingent valuation. It uses carefully crafted representative surveys to reveal how much utility the arts project would generate. The willingness-to-pay approach is based on classical welfare analysis. The underlying idea is that with a perfect market a (Pareto-) optimal or (potentially) welfare maximizing use of the economic resources available to society is generated (Peacock

1969; Throsby 2003). When the market is not perfect, there is a case for public intervention. The government should rectify the shortcomings of the market. In the example of the opera festival, the suppliers of the festival should receive a subsidy from the government amounting to the size of the positive external benefits created. This intervention is designed to overcome the otherwise nonexistent, or negligible, supply of the arts project.

15.3 Critical Evaluation

Both arts people and arts economists consider only limited goals and seek to attain their respective goals in an inadequate way.

15.3.1 Shortcomings of Impact Studies

Arts people wishing to activate decision makers to support arts projects take into account only a part of the underlying motivation. By focusing on the expenditure impact, arts people implicitly assume that decision makers are solely responding to the economic benefits of such projects. The motivational structure of people is, however, much broader:

- People are prepared to support artistic activities for many different reasons, of which selfish economic benefits are only one, and perhaps not even the most important one. An important reason for supporting the arts is an intrinsic interest in art. People enjoy arts activities for themselves (direct consumption benefits) as well as for their heirs and other people (indirect benefits). These are exactly the benefits captured by the willingness-to-pay techniques. They should therefore be of interest to arts people, especially as people with such an intrinsic love of the arts are often prepared to make a great effort to influence the political process in favor of the arts. At least in the case of classical art forms, such intrinsic interest is on average highly correlated with education and therefore income. It is well known that such persons tend to participate more intensively in political activities. They therefore are more influential in the political process than persons less intrinsically interested in the arts.
- People or organizations commercially benefiting in a direct way from an artistic project do not necessarily support it. They may expect other projects to give them even higher profits. From a commercial point of view, a sport event such as a football championship may be preferable to a classical music festival. To rely solely on the economic benefits of an artistic endeavor, as is done when calculating impact values, is

therefore dangerous. To rely on the commercial benefits when arguing for an arts project means that the argument is lost if another, nonarts project is shown to yield even higher benefits. In that case, the use of an impact study would be counterproductive.

15.3.2 Shortcomings of Willingness-to-Pay Studies

To rely on the values generated by willingness-to-pay studies is also inadequate, again because the motivational aspects are ill conceived. The basic idea that the existence of positive external effects of arts projects constitutes a case for government intervention does not take into account the specific incentives of governmental decision makers. It is necessary to consider that these decision makers may pursue their own goals that are certainly not identical to, or even compatible with, "general social welfare."⁴ Rather, politicians pursue their own utility. A love of the arts is only one, probably not very important, argument in their utility function; others are income, prestige, and power. Most importantly, government politicians must be reelected in a democracy and must cling to power in an authoritarian or dictatorial system. This means that in election times the politicians in power have only limited, if any, interest, at least in "high" art, which is known to be appreciated only by a small percentage of the electorate.

Public officials may exhibit a more continuous interest in the arts because they do not depend on reelection. But they derive utility from being able to become active in the way they best see fit, which is not necessarily best for the arts. Bureaucratic interventions in the form of public subsidies have strings attached, which are inimical to artistic freedom. It follows that the basic idea of classical welfare economics that government interventions serve to overcome the misallocation due to external effects is politically naive. Indeed, it may even happen that government intervention worsens the state of the arts. It is therefore not sufficient simply to demonstrate the existence of positive external effects of an arts project; rather, it is necessary to analyze how these values enter into the political process, and to what extent they are taken into account.

15.4 Conclusions: Consequences for Arts Policy

The preceding discussion reveals that the approaches of both arts people and arts economists are valuable and are needed, but that both are lacking

in important respects. Both of them need to be extended in order better to reach their different goals, overcoming market failure in the willingness-to-pay studies and activating the political process in impact studies.

A broader approach to studying arts policy can only be outlined here. When the willingness-to-pay approach of arts economists identifies a "market failure," the relevant question is what social decision-making system is best able to provide society with the art desired by the population. Government support by subsidies is not the only alternative to the perfect market. There are many more possibilities available. Examples are the designed use of pricing, such as handing out art vouchers to the population; indirect government support, for instance, via tax breaks; or providing institutional conditions favoring voluntary supply via volunteer work and donations to the arts. Such a broad approach is more useful and more practical than an abstract analysis confined to the study of willingness to pay. But the discussion has also shown that the willingness-to-pay approach is able to convey valuable information on the intrinsic utilities provided by arts projects.

Activating political decision makers is of crucial importance for arts policy. For that reason, the politicoeconomic interdependence as a whole needs to be studied. This goes far beyond the narrow self-interest of persons benefiting commercially that is addressed in impact studies. To analyze how arts supply comes about links up closely with the broader analysis emanating from market failure. An important focus must lie with the various groups of actors determining arts policy. They comprise the population or voters; collective actors in the form of firms, nongovernmental organizations, and interest groups for the arts; and governmental actors, namely, politicians in power and in the opposition party, as well as public officials in their various occupations. For these actors, it is necessary to be aware of the restrictions they face, be it time, effort, resources, or reelection and bureaucratic constraints. Extrinsic incentives such as the commercial interests captured by impact studies as well as intrinsic interests in the arts need to be considered. This also includes aspects recently analyzed in economic psychology. An important example is the systematic misprediction that potentially occurs between the time of decision and consumption (Frey and Stutzer 2003). The arts may be an area in which individuals find it difficult to predict correctly how much utility they will experience from a particular arts project when they consume it in the future. Often they tend to be rather skeptical, especially when they have to decide about a new and therefore unfamiliar form of art. They therefore believe that they will not enjoy it in the future. In fact, however, they inadvertently become used to the new art form and

⁴ This is the message of the New Political Economy or Public Choice; see, for example, Mueller (2003).

enjoy it when they actually consume it. Such misprediction may lead to systematically distorted decisions with respect to the arts.

Both impact studies and willingness-to-pay studies should play an important role in cultural policy. But it is argued that presently both of them are inadequately conceived. Impact studies capture only a small part of the potential political support for (and opposition to) a cultural project. In particular, the support of art derived from intrinsic values must be taken into account. Willingness-to-pay studies are necessary to establish clearly the nonmarket benefits (and costs) of cultural projects, such as existence, option, bequest, education, and prestige values. But isolating these values is certainly not sufficient for a cultural project to find the political support necessary for it actually to be undertaken.

The two approaches thus complement each other. The willingness-to-pay studies undertaken by economists are indispensable for two reasons: By identifying nonmarket benefits, they provide the rationale for political intervention, and they identify the political support for the cultural project based on intrinsic values. Impact studies are indispensable in order to activate the support for cultural projects of commercial agents. Cultural policy so far has not taken advantage of the complementarity between the two approaches. It has either relied on welfare economics and has therefore disregarded all political aspects or solely relied on the support of commercial agents, which is far too narrow a view. Cultural policy would certainly benefit from a broader approach building on and combining the strengths of each type of study. But this requires learning on both sides: "Arts people" need to learn to appreciate that cultural activities do not necessarily have to be provided and financed by the state but that if they are, sound reasons (based on willingness-to-pay studies) must be provided; "arts economists" must learn that it does not suffice to undertake welfare theoretic exercises, but that the political process must also be taken into account.

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