



## State Support and Creativity in the Arts: Some New Considerations

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**Abstract.** Neglected aspects of state support for the arts are discussed through posing two questions. First, "What kind of state is providing that support?" The extent and type of public support and its effects on the arts crucially depends on whether the state is centralised or decentralised, and on whether it is authoritarian or democratic. Second, "How is artistic creativity fostered?" "Institutional creativity" is best supported by attributing a large role to the market and market-like institutions. "Personal creativity" hinges on intrinsic motivation, which may be crowded out by different types of public support. Important consequences for the public support of the arts follow.

**Key words:** art subsidies, state support, creativity, crowding-out, institutions

### 1. Market Failure – Government Bashing, or Something More?

The case for support of the arts by the state has been based on market failures, in particular the positive externalities culture provides for society. This is also the approach normally used by economists; it is the one Dick Netzer relied on in his now classic book, *The Subsidized Muse* (1978).

This kind of analysis has the advantage of building on a well-worked out theory of welfare. A major shortcoming is that it leaves open what such externalities might be. While they can be evaluated by empirical methods, it remains unexplained why they exist. Clearly, they change over time. In particular, a work of art may at first be considered to be a negative externality, but over time people often start to enjoy it so that it becomes a positive externality. Whether a piece of art or an artistic production generates positive or negative externalities is the outcome of a social process.

More recently, some economists have concluded that there exists no such thing as an externality in the arts. Consequently there is no need for governments to support the arts (Grampp, 1989). On the contrary, they claim that the state damages culture. This "government bashing" constitutes a rather extreme ideological view not only among economists but also among artists and other commentators. However, it remains popular in some quarters.

This paper endeavours to overcome these rather unsatisfactory approaches to the analysis of government support for the arts by considering aspects of that support

that have so far been neglected. It does not deal with the categorical question of whether the state should support the arts at all. Rather, it asks: "What kind of state?" It is argued that the answer to this question is crucial to determining the effects and desirability of government support. In particular, the differences between a centralised or federal state, and between a democratic and authoritarian state are analysed (Section 2). A second, equally neglected question with respect to government support is: "How is artistic creativity fostered?" To answer this question, which is again crucial for determining the effects of state support for culture, crowding theory is used. It allows us to systematically analyse the relationship between government intervention and intrinsic motivation, which is an important source of artistic creativity (Section 3). The final section discusses the far reaching consequences of these new considerations for public support of the arts.

## 2. What Kind of State?

Most studies in cultural economics take the state as a welfare maximising black box.<sup>1</sup> However, this assumption goes against the insight of modern political economy showing that government (politicians) pursue selfish aims. Social welfare is maximised under highly restrictive and improbable conditions only. It is therefore important to go more deeply into the political economy of art by using a comparative institutional perspective. I will concentrate on two crucial aspects characterising the state: whether it is centralised or decentralised and whether it is democratic or authoritarian.

### 2.1. CENTRALISED OR DECENTRALISED STATE

A centralised government is normally a monopolistic supplier of publicly provided goods and services. In a decentralised system, on the other hand, there is a differentiated supply from which the citizens and firms may choose. These institutional differences strongly affect the supply of art.

In a centralised monopoly state, an artist or arts organisation in line with official art policy can receive considerable support from the concentrated funds which the government disposes. Artists who ask for support must at least conform to the formal requirements established by the monopoly state. This reduces their artistic freedom, and in practice the chance of getting support is clearly higher if the kind of artistic project submitted suits the tastes of the party and politicians in power. As a result, such centralised nations are characterised by large and lumpy artistic expenditures. The establishment of the Centre Pompidou, the Opéra Bastille, the Arche de la Défense, or the Librairie Nationale all located in Paris or the huge subsidies to the Viennese Opera, the Burgtheater and the Wiener Philharmonie all located in Vienna provide examples for France and Austria.

Artists and arts organisations out of line with what is defined as "good art", or even as "art" at all, by the government find it most difficult and often impossible to

get public support. If their art is not, or not yet, marketable they have to emigrate or to wait until a government with an art policy more suitable to them comes to power.

In a federal system of government, an artist has alternative sources of government support to turn to. The possibility of tapping funds by relocating enlarges artistic freedom. History provides many examples for this assertion. The Holy Roman Empire of German Nations consisting of hundreds of small units (Volkart, 1997) provided an institutional setting for flourishing arts because an artist found it very easy to move the few kilometres to another dukedom. A well-known case is Friedrich Schiller (1759-1805) who was severely suppressed by the Duke Karl Eugene but who had outside opportunities. He took advantage of them by fleeing to Mannheim and later to Weimar where he found the freedom and the support to write his masterpieces. Another case is Wolfgang Amadeus Mozart who was able to leave Fürsterzbischof Colloredo's intolerant rule in Salzburg and found more welcoming conditions in Vienna and Prague (Baumol and Baumol, 1994).

The same supportive condition for the live arts was provided by the many independent city states in Medieval and Renaissance Italy. Artists, among them the geniuses Michelangelo Buonarroti and Leonardo da Vinci, frequently switched their patrons. They were not subservient to them because both sides knew that the artists had good opportunities elsewhere (Warke, 1985).

This stimulating effect of decentralisation (federalism) on the arts is often overlooked because historiography is still dominated by the view that the formation of unified nations (Germany, Italy) was a great achievement. While it has slowly been understood that it was, to say the least, a mixed blessing politically (viz. the two World Wars), the notion of a "national arts policy" still has much currency. Some even dream of, and actively promote, a "European arts policy" within the European Union. The political economy of culture would do well to study more deeply the conditions of artists in the historical periods of a multitude of diverse competing states.

### 2.2. DEMOCRATIC OR AUTHORITARIAN STATE

It is commonly taken as evident that authoritarian systems produce bad art. One tends to think of dictators who have bad taste and use the means available to them to impose it on their subjects. That is certainly true sometimes. But consider, for example, the autocratic popes of the Renaissance such as Julius II (1503-1515) who employed artists such as Bramante, Bernini, Raffael or Michelangelo to build St. Peter's Cathedral and the Vatican, including the *stanzze* and the *capella sistina*. Even in the case of Hitler, one of the most terrible dictators ever, views have changed somewhat. While he destroyed or drove to exile expressionist and abstract art, some art work, films and especially architecture commissioned by him is today no longer considered to be so bad. In the case of Mussolini it even tends to be

favourably acknowledged (some buildings of the EUR, *Esposizione Universale Romana*).

Rather than simply identifying autocratic rule with bad or good art, as the case might be, I wish to advance two propositions regarding state support of the arts:

(1) *Among authoritarian rulers there is a larger variance in the quality of art produced than in democracies.* In democratic countries governments are controlled by the citizens; in the pure model of two competing parties or simple majority voting their art policy converges to the preferences of the median voter, i.e. to "average art taste". This means that extreme views have low weight (in the median voter model actually no weight) which produces a more stable art policy. In authoritarian states, on the other hand, the preferences of the ruler with respect to art are decisive. The art supported and produced therefore depends on what artistic tastes the ruler happens to have, resulting in large variation. The personal tastes of various authoritarian rulers may differ greatly and are sometimes too extreme to be directly translated into arts policy. If the ruler happens to have what art historians ex post consider a "good" taste for art, the respective policy is likely to produce high quality art. An example would be the Egyptian pharaohs erecting magnificent temples and pyramids. But if he has a "bad" taste for art, the resulting cultural policy is likely to produce junk. Stalinist arts policy may be an appropriate example.

A large majority of art lovers and, not surprisingly, politicians and public officials abhor the idea of letting citizens participate in decisions with respect to art. They are absolutely convinced that an elite must decide. They believe, of course, that they themselves belong to those chosen few, and that the decisions taken by them are far better than if they were left to the population. The same argument is used by authoritarian rulers: they are also convinced that they possess the good taste. To differentiate between art support favoured by an elite in a democracy and by authoritarian rulers one would have to argue that the latter represents an adverse selection with respect to artistic taste. It *may* well be so but this proposition would have to be empirically established. What *is* known, on the other hand, is that decisions on art via popular referenda do not destroy art. Indeed, the empirical evidence suggests that citizens in directly democratic institutions are prepared to support the arts financially (Frey and Pommerhne, 1995; Vautravers-Busehant, 1998).

(2) *Within authoritarian states arts policy is characterised by a smaller variation with respect to the types of art supported and produced than within democracies.* Authoritarian rulers are forced to impose their influence upon the population in order to stay in power. To allow, or even support, artists and artistic groups and movements in opposition to the government is dangerous and therefore evaded.<sup>2</sup> Democratic states are committed to tolerating divergent views. While this is more an ideal than reality (artists and art groups conforming to "official" art policy find it much easier to get financial support from government), democracies nonetheless allow more types of art.

Combining the two propositions, I predict that in authoritarian states the variety of types of art is smaller, but the variety of quality is greater. The prototype of art supported in authoritarian states is dominant "monuments" (they need not be architectural but may be virtual, e.g., orchestras or theatre groups) some of which are hideous, some of which beautiful (according to an ex post art historic evaluation). In contrast, financial support to the arts in decentralised democracies benefits a broader set of cultural activities and shows less variance in quality.

The purpose of the discussion in this section has been to demonstrate that it is a worthwhile endeavour to analyse *what type of state* is supporting the arts. In addition to the two dimensions discussed here – the extent of centralisation and of authoritarianism – several others may also have a significant effect on the kind of art produced. Many of these aspects have so far received scant attention in cultural economics. Yet, they may constitute a rich source of insights going beyond what has been studied by (art) historians.

### 3. How Does Government Support Affect Artistic Creativity?

Creativity is an elusive concept and most difficult to deal with in a way providing useful insights for the typical problems with which the economics of art is concerned. In particular, the effect of government intervention on artistic activity is complex, and does not lend itself to simple relationships and conclusions.

#### 3.1. INSTITUTIONAL AND PERSONAL CREATIVITY

For our purpose it is useful to distinguish two types of creativity:

(1) *"Institutional creativity"* may describe the creativity produced by adequate institutional conditions (some of which have already been touched upon). One institution supporting creativity is the price system. This also applies to the art market. Prices produce the incentive to innovate and reward those who are successful in this endeavour. This feature of the market or price system has been neglected in traditional static economics (such as general equilibrium theory), but it has been in the centre of the thinking of Schumpeter, Hayek, the New Austrians and evolutionary economics. It has also been appreciated in the economics of the arts. Voucher systems which give more choice to the consumers than direct government support have been suggested not least because they promise to foster variety and creativity.<sup>3</sup>

The negative effects of some types of institutions on creativity have also been well studied in the economics of the arts. Thus, for example, a guaranteed public financing of the budget deficits of arts organisations (as is prevalent in many European countries) discourages creativity. To receive funds largely independent of performance makes for a comfortable life. But it does not promote creativity; rather, it promotes conservatism. The recipients have an overwhelming urge to keep the easy source of finance. Accordingly, they have a strong interest in not

antagonising the politicians and bureaucrats handing out the money by promoting innovative art which inevitably fosters conflict. The many government regulations and restrictions imposed on public art institutions is another way of inhibiting creativity as they hamper or forbid change. The same holds for union restrictions (particularly in the case of orchestras, theatres and opera houses) which are often supported by the government (Frey and Pommerhne, 1989).

Interestingly enough, institutions damaging creativity may *indirectly* promote artistic innovation elsewhere. Provided there are persons with strong intrinsic motivation to be artistically innovative (which I will call "personal creativity"), they will seek ways to fulfil it outside established art manipulated by government interventions. The rise of festivals can at least partly be interpreted as an effort to free oneself from the governmental and union restrictions existing in the traditional art institutions (Frey and Busenhardt, 1996). However, this is only a short-term escape because governments and unions are keen on regulating the new territories as well (see, in general, Frey, 1996). Some of the famous old festivals (such as Bayreuth and Salzburg) have experienced that fate. Governments have increasingly stepped in with direct and indirect subsidies which have been accompanied by ever increasing regulation. As a result they are in constant threat of becoming ossified and have partly succumbed to that danger.

(2) "*Personal creativity*" designates the intrinsic motivation to be artistically innovative in a given institutional environment. Intrinsically motivated persons pursue their artistic activities for their own sake (by contrast, extrinsically motivated artists do so in order to get acknowledgements and rewards, including income). Personal creativity may vary even if the institutions governing the arts are the same. While institutional creativity depends on the nature of the constraints on behaviour, personal creativity is a feature of the individuals' motivations, i.e., it belongs to the set of preferences or tastes.<sup>4</sup>

Personal creativity has not been the subject of much research in cultural economics.<sup>5</sup> It will be studied in the remainder of this paper.

### 3.2. GOVERNMENT INTERVENTION AND PERSONAL CREATIVITY

There are two opposing views of what incentives make artists creative (Tietzel, 1995, pp. 138–143). The dominant view held by art historians,<sup>6</sup> other art experts, and artists themselves is that creative art can only be produced by intrinsically motivated persons. George Bernard Shaw (1903, p. 22) states: "The true artist will let his wife starve, his children go barefoot, his mother drudge for his living at seventy, sooner than work at anything but his art". Most artists would emphatically deny that they produce art because of the monetary compensation thereby received. The fact that some artists state the opposite (Salvador Dalí is reported to have said "All that interests me is money") is a well chosen effort to "épater le bourgeois" but should not be taken seriously.

Economists, in contrast, believe that reality can be well explained by assuming that *only* extrinsic incentives matter. To assume income or wealth maximisation is quite current, but of course not necessary. What matters is that changes in extrinsic motivations and therewith in behaviour can be attributed to changes in external interventions via the constraints on behaviour (McKenzie and Tullock, 1975; Becker, 1976; Hirschleifer, 1985; Frey, 1992). This relative price effect applies to all kinds of behaviour and persons, i.e., also to creativity in the art world. Artists thus are taken to be more creative the higher the benefits and the lower the costs. This approach is powerful as it forbids attributing changes in behaviour to haphazard and unexplained changes in preferences (Stigler and Becker, 1977; Becker, 1996). Moreover, it provides clear and empirically testable hypotheses.

Among psychologists who have specialised in research on personal creativity, interestingly enough, two similar camps may be identified. In contrast to economics, the conventional and dominant view, the "intrinsic motivation hypothesis of creativity", states: "Intrinsic motivation is conducive to the idea-generation stage of creativity, but extrinsic motivation is detrimental" (Amabile, 1988, p. 154). Rewards, in monetary or non-monetary form, reduce creativity. According to an extensively cited literature review (Condry, 1977, pp. 470–471), individuals who are given rewards "seem to work harder and produce more activity, but the activity is of a lower quality, contains more errors, and is more stereotyped and less creative than the work of comparable nonrewarded subjects working on the same problems". The major reason is that rewards divert "attention from the task itself and nonobvious aspects of the environment that might be used in achieving a creative solution" (Amabile, 1983, p. 120). These findings are directly applicable to artistic creativity (Loveland and Olley, 1979; Amabile, 1979, 1985; Hennessey and Amabile, 1988).

The second camp in the psychology of creativity arrives at the opposite conclusion also on the basis of laboratory experiments. Systematic rewards enhance creative performance (Torrence, 1970; Winsion and Baker, 1985). "The use of periodic salient reward may provide an effective way to help individuals sustain their creative efforts when success comes slowly and with great difficulty" (Eisenberger and Arnell, 1997, p. 661; Eisenberger and Selbst, 1994). However, psychologists have more in mind than economists' relative price effect. They assume that rewards create a *general* tendency to behave creatively even when the reward is no longer active. They thus posit a "Motivational Spill-Over Effect" (Frey, 1997, chapter 5).

It is time to overcome these divergent views held by economists and non-economists about artists' personal motivation to be creative. For that purpose, a relationship called *crowding theory*, which systematically links intrinsic and extrinsic motivation, is called upon.

### 3.3. A MORE BALANCED VIEW: CROWDING THEORY

Crowding theory analyses the effect of external interventions on intrinsic motivation. It is thus applicable to personal creativity, which depends on motivation for its own sake rather than for external compensation. The external intervention may consist of monetary or non-material rewards as well as regulations. It is based on a well-developed psychological effect known as the "hidden cost of rewards", which states that rewarding highly motivated persons to undertake a task tends to reduce their intrinsic motivation. Due to the external incentive introduced, intrinsic motivation is no longer needed or appreciated. This psychological relationship can be generalised to the *crowding-out effect*. But there are also instances under which an external intervention raises intrinsic motivation, leading to the *crowding-in effect*. Psychologists have shown that crowding-in takes place when the intervention is perceived to be supportive, and a crowding-out when it is perceived to be controlling. Crowding theory has been empirically analysed under a large number of experimental conditions in the laboratory as well as in the field, and has most recently been subjected to econometric tests.<sup>7</sup>

The crowding-out effect contributes a new aspect to economic theory. It states the exact opposite of the relative price effect, which so far has comprised the core of economics. An increase in price (or monetary rewards) *decreases* effort (work input) when the crowding-out effect dominates the relative price effect.

Government support to the arts may now be analysed from this perspective. According to traditional economics, granting money to an individual or organisation should not reduce their artistic effort. The possibility space is extended, which benefits such activities provided they are a normal goods.<sup>8</sup>

If government support is provided to cultural activities in an incentive compatible way (e.g. the higher artistic effort, the higher the support granted), the induced relative price change is expected to raise artistic effort. Crowding theory puts this result into question. If government support is perceived to be controlling by the artists in question, their intrinsic motivation and personal creativity is undermined. Depending on the size of crowding-out and the relative price effects government support might well lead to an unintended, perverse effect on artistic creativity.

As stated above, crowding-out occurs when the recipients of government support perceive it to be controlling. In the artistic field, such a reaction by the recipients appears to arise quite often, not least because the government for bureaucratic reasons does indeed control the recipients to some extent. In the extreme we have the (so-called) "artist" whose artistic zeal has been completely destroyed by the funds received, who produces junk and is even aware of this.

Several geniuses are reported to have feared the corrupting or distracting effect of monetary rewards. It has been argued that this may even apply to the Nobel prize. T.S. Eliot got depressed when he was awarded this most prestigious prize: "The Nobel is a ticket to one's own funeral. No one has ever done anything after he got it". And Oscar Wilde put it even more succinctly: "Genius is born, not paid" (see Simonton, 1994, pp. 57–58 for the references).

Conditions have been identified under which the controlling perception is particularly vivid, and therefore *crowding-out* is strong (Frey, 1997, chapter 4):

(a) The more government support is *contingent on a particular performance*. Such immediate feedback is inimical to intrinsic motivation, and even more so to artistic innovation. Personal creativity needs time to develop, and is damaged if the support is closely connected with behaviour.

It is interesting to note that the same conditions strengthen the relative price effect: perfect incentive compatibility is best reached when the support is as closely contingent on performance as possible. The crowding-out effect takes place only if the recipient has some amount of intrinsic motivation. But this means that an effective way of government subsidisation – namely as contingent as possible on performance – tends to produce more but rather mediocre art because the artists concerned are not intrinsically motivated in producing original art. On the other hand, if the potential recipients of government support are highly intrinsically motivated, and hence potentially creative, this high motivation tends to be crowded-out by contingent rewards. In this case it is better to grant subsidies leaving the artists considerable leeway so that they are able to engage in creative art.

(b) A second condition that strongly tends to crowd-out intrinsic motivation is a *uniform treatment* of artists by the government. A fundamental characteristic of artists certainly is that they are a varied lot and react most negatively to any effort to treat them uniformly. Government support of the arts does not take this variety into account and is therefore inimical to creativity.

A comparison may be made with the relationship of artists to their exhibitors and dealers on the art market. In most cases this relationship is intimate and far transcends the commercial aspects. A successful and creative co-operation only emerges if the dealer is willing to tolerate, and perhaps even instigate, the idiosyncrasies of each one of the artists he or she represents.

We can now turn to the conditions under which external interventions *raise intrinsic motivation*, i.e., where a strong *crowding-in effect* is expected.

(a) The more strongly artistic creativity is fostered, the more each artist's intrinsic motivation is acknowledged and appreciated. In order to meet this condition, government support must be given in a way which supports artists' autonomy and which makes them feel that they are taken seriously. If, in contrast, governments hand out money to artists as if they were just one of the many interest groups claiming support, artists would tend to lose their unique characteristic creativity. One way to maintain creativity would be to give the support in an unconditional way only preventing obvious embezzlement, e.g., by granting stipends to cover the expenses of living in a challenging place for a particular period. Another is to grant the support indirectly by leaving this task to better equipped private persons who in turn are partly compensated by tax exemptions for subsidising the arts.

(b) Intrinsic motivation is also supported when the recipients of the external intervention have a *measure of participation*. Today, in the art world this condition seems to be met to a higher degree than ever before in history. In former times,

artists were often hired for very specific tasks. For instance, medieval monasteries used to commission painters to complete a picture of the Holy Mary in which even the colours used for her coat were exactly laid down (Baxandall, 1972). In the centuries thereafter artists were given more leeway but they were nevertheless much constrained by the patron. This dependence of artists applied also to public commissions. In the 20th century, such constraints have become difficult to imagine. It would lead to an uproar in the art world and beyond if the government specified exactly how a commissioned painting or a piece of architecture should look. Indeed, the artists today have considerable freedom in that respect and may therefore imprint their particular understanding of aesthetics on publicly funded works. Examples abound, but are particularly well visible in recent museum buildings such as the Museums of Art in Stuttgart or in Mönchengladbach where the respective architects had much leeway to do what they wanted. It may well be that the outbreak of creativity in the arts in the 19th and especially in the 20th century with wide variety and rapid innovations in artistic styles has been the result of strongly enhancing the participatory role of artists. This "grand" relationship is a conjecture that needs to be subjected to serious empirical analysis. But it accords well with the psychological findings on which crowding theory is based.

The discussion has shown that government policy is on the whole not well-equipped to support and enhance personal creativity. Under many conditions, government support tends to undermine artistic innovation. Much would be gained if government support were at least neutral, i.e., would leave personal creativity unaffected. Private art supporters and art professionals (such as gallery owners) are better prepared to meet the conditions for supporting artists' innovative capacity. Museum buildings are a case in point. Indirect public support, through tax exempt donations to the arts and tax exempt foundations active in the arts, has created stunning examples of artistic creativity such as Frank Lloyd Wright's Guggenheim Museum in New York, Frank O. Gehry's Guggenheim Museum in Bilbao, or Richard Meier's Getty Center in Los Angeles.

This does not at all mean that government support to the arts should be suspended or curtailed. But politicians and bureaucrats should not believe that they can plan creativity, because "creativity always comes at a surprise" (Hirschman, 1970, p. 80). Rather, the government should concentrate on setting the right conditions for *institutional* creativity. In particular, it must lay the rules to allow a flourishing art market, e.g. by setting adequate property rights for artists' output<sup>9</sup> and promoting international exchange (trade) in art. Econometric cross-national research has established more generally that "open societies which bind themselves to the rule of law, to private property and to the market allocation of resources grow at three times (2.7 to 0.9 percent annually) the rate of... societies where these freedoms are circumscribed or proscribed" (Scully, 1992, p. 183). The government can promote *personal* creativity by a hands-off policy, giving private actors incentives to take over the role of enhancing artists' intrinsic motivation to produce innovative art. Such a policy is not free of charge. Most importantly, it involves tax expenditures,

i.e., government revenue lost through tax exemptions from private individuals and firms, as well as from tax-free, non-profit art foundations.

#### 4. Summary

An extensive literature in the economics of art deals with the categorical question of whether the state should support the arts. It is answered in two quite different ways. Those taking market failures to be an important phenomenon tend to answer affirmatively. Proponents of the new right tend to answer negatively because they reject the very notion of market failure and emphasize instead political failure.

There is also a large literature on the most efficient forms of public support, in particular of government subsidies. It concludes that support should be given in an incentive compatible way, i.e., the subsidies given should be as closely related to the desired performance as possible.

This paper has proceeded quite differently; it has explored neglected aspects of the public support of the arts. Two issues have been discussed:

One fundamental issue is *what kind of state* is supporting the arts. Once this issue is settled, the level and type of support is endogenous. At best marginal changes are possible. The basic decisions are determined by a politico-economic equilibrium within a given constitutional setting.

Two constitutional aspects and their effect on the support of art have also been discussed. One is the extent of democratic participation rights of the citizens (autocracy or democracy), the other the extent of decentralisation (unitary or federal state). An authoritarian and centralised state tends to support larger "monuments" (including not only architectural but also virtual objects such as orchestras) and has a smaller variation in the types of art supported but a larger variation in quality compared to decentralised democracies. Representative, but largely centralised democracies in which the political elite dominates the decisions on art, reveal a type of cultural support that is similar to authoritarian countries.

The second issue concerns the effect of government support on *artistic innovation*. Two kinds of creativity are distinguished. The first relates to *institutional creativity*. An institution beneficial to creativity is the market: it provides monetary (i.e., extrinsic) incentives for creativity. In contrast, fixed government subsidies – in particular an automatic coverage of budget deficits – leads to the maintenance of a comfortable life and artistic behaviour inimical to innovation.

The second type of artistic innovation is called *personal creativity*. It is governed by the extent of intrinsic motivation of the artists. Crowding theory allows an explicit analysis of the effects of external interventions (government support) on personal creativity. Government policies tend to undermine intrinsic artistic motivation and therewith personal creativity. Making support contingent on a particular artistic performance and a uniform treatment of aid recipients both contribute to crowding-out personal creativity.

The analysis undertaken leads to a more differentiated view of public support than that offered by received (cultural) economics. The difference is most clearly visible for the case of public subsidies relying on incentive compatibility. For orthodox economics (principal agency theory) a close relationship between artistic performance and support is required for efficient support. In sharp contrast, crowding theory derived from a well established and empirically supported psychological effect points out that discretionary room is necessary for artists to experiment and to develop creative ideas. Making support contingent on artistic performance crowds-out artistic innovation.

It is also concluded that government support in general is ill suited to support and enhance (crowd-in) intrinsic artistic inventiveness. Private persons as supporters and/or art managers (e.g. gallery owners or impresarios) are better equipped to provide the supportive atmosphere needed for personal artistic creativity. The state can support artistic creativity by granting tax exemptions to private persons who donate to the arts, by not taxing non-profit art foundations, or by non-monetary means such as setting adequate property rights for artists' output.

## Notes

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1. In many cases, such analyses are focused on the effects of direct subsidies and other tax expenditures on artistic production and social welfare (Peacock, 1969). Formal studies are provided by Hansmann (1981), Le Pen (1982), Dupuis (1983), Austen-Smith and Jenkins (1985). A survey of the instruments for the public promotion of the arts is provided in Pommerhne and Frey (1990) as well as in monographs, Throsby and Withers (1979), Trimarchi (1985, 1994), O'Hagan and Duffy (1987), Heilbrun and Gray (1993), Benhamou (1996). See also the collection of articles in Towse (1997).
2. One might argue that this policy leads to "underground art". This is quite true, but in most cases it is rather small in terms of the number of art consumers reached and confined to particular art forms suitable for clandestine presentation.
3. This view is not generally accepted in cultural economics. Dolfsma (1997, p. 245), for instance, states: "Real art is innovative and thus has, almost by definition, no market on which it can be sold".
4. But, as will be argued below, personal creativity is not independent of institutions but is governed by different theoretical relationships than envisaged in orthodox economics.
5. This includes my own book with Werner Pommerhne (Frey and Pommerhne, 1988) which does not even mention the terms "creativity", "innovation" or "invention". Exceptions are works by Heilbrun (1991), Hutter (1992, 1996) and Klamer (1996). Hutter and Klamer proceed in a quite different way than done here. To capture creativity, they give up traditional economic theory and turn to philosophical and sociological approaches. I endeavour to extend economic theory of the arts by using *specific* and *empirically* tested theories from social psychology. In disciplines beyond economics, creativity is a central concept. See, for instance, the fascinating and encompassing book on "Greatness" by Simonton (1994) who also gives a large number of references. For a sociological approach see Kavolis (1964), and more generally Foster and Bhaa (1989).
6. An exception is, for instance, Alpers (1988) with her account of Rembrandt's life.

7. Crowding theory is developed in Frey (1997). The experimental findings are summarised in Wiersma (1992), Cameron and Pierce (1994), Eisenberger and Cameron (1996) and Deci, Koestner and Ryan (1998). Econometric evidence is provided in Barkema (1995), Frey, Oberholzer-Gee and Eisenberger (1996), and in Frey and Oberholzer-Gee (1997).
8. It is, of course, possible to construct *some* story so that artistic activities are reduced. One such possibility is provided by rent-seeking activities which might consume more resources than granted from outside. But such stories require many additional assumptions.
9. See the special issue of the *Journal of Cultural Economics* 19 (2) (1995) on "The Economics of Intellectual Property Rights".

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