

CREATIVITY, GOVERNMENT AND THE ARTS

BY

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Summary

Today's concept of art is intimately linked with creativity. The type of political system affects creativity: an authoritarian system tends to yield more diversity in quality, but less diversity in the type of art produced. Centralized political systems tend to favour large 'monuments'. By way of contrast, a federal system increases artists' freedom by offering multiple sources of support. Government support for the arts crowds out intrinsic motivation and therewith creativity if it is contingent on a particular performance and is simply part of a uniform treatment. It supports creativity if it enlarges artists' autonomy and participation possibilities.

1 THE IMPORTANCE OF CREATIVITY

In modern Western art creativity is closely linked to the arts. Indeed, the rank of an artist's evaluation much depends on how innovative he or she is considered to be. In contrast, an artist who produces the same art as others is called an imitator and his or her work is taken to be of low quality. He or she may not even be included among the artists. This emphasis on creativity applies to all kinds of art. Thus, it is essential that a painter develops a new style and a writer a novel way of writing and viewing the world. It does not go too far to claim that *creativity is the essence* of art.¹

Few economists have explicitly dealt with creativity.² Economists focus on the determinants of innovations and technical progress, mostly via expenditures for Research and Development (for recent contributions, see e.g. Navaretti et al.

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1 This has not always been so. When Michelangelo forged a work by his master Domenico Ghirlandaio, it was to openly demonstrate his ability as an artist. There are even accounts of buyers who welcomed a reproduction even though they had thought it to be an original. Thus the buyers of the claimed Renaissance bust of Lucrezia Donati were pleased to discover that it was a fake; that an artist of such talent was still alive (Jones (1990), p. 15). For an extensive quantitative discussion of the importance of novelty from impressionist to cubist French painters, see Galenson (1999).

In non-Western art (e.g. Chinese) as well as in parts of Western art (e.g. with respect to the production of icons), it is also more important to follow the examples set by forerunners than to exhibit creativity.

2 A notable exception is Throsby ((2001), ch. 6, pp. 93-109).

(1998)). They approach the subject by identifying the type of (typically incomplete) contracts (e.g. Aghion and Tirole (1994a, b)) and the problems of information disclosure created (e.g. Dasgupta and David (1987)). The corresponding incentive structures lead to new production techniques and, to a more limited extent, also new products. In this context, it is taken as a matter of course that material incentives, or monetary rewards, induce people to act in innovative ways. In general, competitive markets produce these monetary incentives in the most efficient way, and therefore are most conducive to innovations.³

The Economics of Art or Cultural Economics⁴ – which is generally understood to be the application of economic methodology to the artistic realm – has followed the lead provided by general economic theory.⁵ Most cultural economists believe that reality can well be explained by assuming that *only extrinsic* incentives matter. Often the extreme assumption is made that people acting in the arts maximise their income or wealth. Changes in extrinsic motivations and behaviour can then be attributed to changes in external constraints (McKenzie and Tullock (1975), Becker (1976), Hirshleifer (1985), and Frey (1999)). 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 the more creative, the higher the benefits are, and the lower the costs are. This approach is powerful, as it guards against 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.

In contrast to the economic approach, most art historians,⁶ art experts and artists are convinced 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 her 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 received thereby. The fact that some artists state the opposite – Salvador Dali is reported to have said ‘[A]ll that interests me is money’ – is more a well chosen effort to ‘épater le bourgeois’ than a description of how artists see themselves.

Among psychologists who are considered to be experts on creativity, the same two views can be identified. The ‘*intrinsic* motivation hypothesis of creativity’ is the conventional and dominant view. It states: ‘Intrinsic motivation is conducive

3 The role of the entrepreneurs is not at the centre of attention in neoclassical economics (but see Baumol (1990)), in contrast to evolutionary and Schumpeterian economics.

4 See the recent monographs and textbooks by Heilbrun and Gray (2001), Throsby (2001), Frey (2000), Benhamou (2000), O’Hagan (1998); the earlier contributions by Baumol and Bowen (1966), Throsby and Withers (1979) and Frey and Pommerehne (1989); and the readers by Towse (1997), Hutter and Rizzo (1997), Peacock and Rizzo (1994) and Blaug (1976).

5 But there are exceptions, in particular Klamer (1996) and Hutter (1987, 1992, 1998), who deviate significantly from neoclassical economics. See also Castañor and Campos (2002).

6 An exception is, for instance, Alpers (1988) with her account of Rembrandt’s life.

to the idea-generation stage of creativity, but extrinsic motivation is detrimental' (Amabile (1988), p. 154). In contrast, 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 non-rewarded subjects working on the same problems.' The major reason is that rewards divert 'attention from the task itself and non-obvious 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 (e.g. Loveland and Olley (1979), Amabile (1979, 1985), and Hennessey and Amabile (1988)).

The second view in the psychology of creativity comes to the opposite conclusion, again based on laboratory experiments. Systematic rewards are taken to enhance creative performance (e.g. Torrence (1970), Winston 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 Armeli (1997), p. 661; also 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.

Both cultural economists and psychologists focus on the creativity exhibited by *individual persons*. In contrast, they tend to disregard the *aggregate* or *social* level. In particular, they rarely, if ever, consider how government organisation affects creativity. In order to make up for this omission, the following section 2 of this paper analyses the *institutional demand side* by looking at how the political organisation of the state is linked to artistic creativity. Section 3 analyses the *supply* of artistic creativity by *individual* persons. It suggests a more balanced view between the extremes of attributing artistic creativity to purely extrinsic or purely intrinsic incentives. Section 4 discusses the consequences relevant for arts policy, and section 5 draws conclusions.

2 DEMAND: INSTITUTIONAL CONDITIONS FOR ARTISTIC CREATIVITY

Artistic creativity depends to a large extent on the institutional setting within which artists act. This is the basic proposition advanced in this section. The relationship is not simple, however. As will be argued, it seems impossible in general to predict how the *level* of artistic creativity is affected by institutional conditions. But it is possible to advance conjectures about the *type* of artistic activities supported or hindered.

Two dimensions of political organisation are considered, both dealing with the extent of concentration of power. Subsection A looks at the extent of *democratic participation rights* of the citizens, subsection B at the extent of *decentralisation* of political decisions.

A. *Extent of Democratic Rights*

It is commonly taken for granted that authoritarian systems produce bad art. One tends to think of dictators as frequently having bad taste and using the means available to them to impose their views on their subjects. That is certainly true some of the time. But consider, for example, the autocratic popes of the Renaissance period, such as Julius II (reigning 1503-1515), who employed artists such as Bramante, Bernini, Raffael or Michelangelo to build St. Peter's Cathedral and the Vatican, including the *Stanze* and the *Capella Sistina*. Even in the case of Hitler, one of the most terrible dictators ever, views have somewhat changed. While he destroyed or drove expressionist and abstract artists into exile, 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 (e.g. some buildings of the EUR, *Esposizione Universale Romana*).

Rather than simply identifying autocratic rule with good or bad art, as the case may be, I wish to advance two conjectures:

(1) Among authoritarian rulers, there is a *greater diversity 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 carry little 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 greater diversity. 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 'good' taste in 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 a dictator has 'bad' taste in 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 regarding 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 up to the public. The same argument has been used by authoritarian rulers: they are also convinced that they have *the* ultimate in 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 represent an adverse selection with respect to artistic taste. This *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 quite prepared to support the arts financially (Frey and Pommerhne (1989), Vautravers-Busenhart (1998)).

(2) Within authoritarian states, arts policy is characterised by smaller diversity with respect to the *types* of art supported and produced than democracies. Authoritarian rulers are forced to impose their influence on the population in order to stay in power. To allow, or even support, artists and artistic groups and movements which oppose the government is dangerous and therefore avoided.⁷ Democratic states are committed to tolerate divergent views. While this is more of 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 for more types of art.

B. Extent of Political Decentralisation

A centralised government is 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 greatly affect the supply of art.

In a centralised monopoly state, an artist or art group in line with official art policy can receive considerable support from the concentrated funds which the government has at its disposal. 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, lump 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 art groups out of line with what is defined as 'good art,' or even 'art' as such, by the government, find it very 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 suited to them comes into power.

In a federal system of government, an artist has alternative sources of government support to turn to. The possibility to tap funds by making a geographical move enlarges artistic freedom. History provides many examples for this claim. The Holy Roman Empire of German Nations, consisting of hundreds of small

⁷ One might argue that this policy leads to 'underground art'. This is quite true, but in most cases it is rather small with respect to the number of art consumers reached, and confined to particular art forms suitable for clandestine presentation.

units (see e.g. Volckart (1997)), provided an institutional setting for the arts to flourish because an artist found it very easy to move the few kilometres to another dukedom. A well-known case is that of Friedrich Schiller (1759-1805) who was severely oppressed 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 that of Wolfgang Amadeus Mozart, who was able to leave Fürsterzbischof Colloredo's intolerant rule in Salzburg and found more welcoming conditions in Vienna and Prague (see Baumol and Baumol (1994)).

The same supportive condition for lively arts was provided by the many independent city states in Medieval and Renaissance Italy. Artists, among them the geniuses Michelangelo Buonarrotti 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 (see e.g. Warnke (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. But the historical experiences should warn us to be highly sceptical of such an approach.

Combining the two conjectures, it may be predicted that in authoritarian states the diversity of types of art is smaller, but with respect to quality it is larger. The prototype of art supported in authoritarian states are dominant 'monuments' (they need not be architectural but may be virtual, e.g. orchestras or theatre groups) some of which are hideous, and some of which are 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* supports the arts. In addition to the two dimensions discussed here – 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 SUPPLY: DETERMINANTS OF INDIVIDUAL CREATIVITY

It is time to overcome the diverging views held by economists and psychologists about artists' personal motivation to be creative. For that purpose, a relationship

called *Crowding Theory* (see more fully Frey (1997)), systematically linking intrinsic and extrinsic motivation, is called upon.

Crowding Theory analyses the effect of external interventions on intrinsic motivation. It is thus applicable to the creativity of individuals, which relies strongly on motivation to act for your own sake, rather than because of external compensation. The external intervention may consist of monetary and non-monetary rewards, as well as certain stipulations. It is based on a well-developed psychological effect known as 'Hidden Cost of Rewards' and 'Cognitive Evaluation theory',⁸ stating 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 nor appreciated. This psychological relationship has been 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 crowding-out when it is perceived to be controlling by the persons affected.

Crowding Theory contributes a new aspect to economics. It states the opposite of the relative price effect so far representing the core of economics. There are relevant conditions under which an increase in price (or in monetary rewards) *decreases* effort (work input). This is the case when the crowding-out effect dominates the relative price effect.

4 GOVERNMENT SUPPORT OF THE ARTS

The effect of government support on the creativity of artists may now be analysed from this more balanced perspective.

According to traditional economics, granting money to an individual or organisation should increase artistic effort or output. The room for different possibilities is extended, which benefits such activities, provided it is a normal good.⁹ If government support is provided to cultural activities in an incentive compatible way (e.g. the higher the artistic effort, the higher the support granted), the induced relative price change is expected to raise artistic effort.

Crowding Theory questions this result. If government support is perceived to be controlling by the artists in question, their intrinsic motivation and creativity

⁸ Lepper and Greene (1978), Deci (1971), Deci and Ryan (1985), Deci and Flaste (1995). Crowding Theory has been introduced into economics by Frey (1997). The experimental findings in psychology are summarized in Deci et al. (1999) and Cameron et al. (2001). A more complete survey of the empirical results, including real life evidence, is provided in Frey and Jegen (2001). An application to the theory of the firm, and in particular to the transfer of tacit knowledge, is given in Osterloh and Frey (2000).

⁹ It is, of course, possible to concoct *some* story in order to reduce artistic activities. 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.

are 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, controls 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 *crowding-out* is therefore strong (see Frey (1997), chapter 4):

(a) Increased government support is *contingent on a particular performance*. The immediate feedback is inimical to intrinsic motivation, and even more so to artistic innovation. Creativity requires time to unfold, 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 only takes place 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 to produce 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 which strongly tends to crowd-out intrinsic motivation is a *uniform treatment* of artists by the government. A fundamental characteristic of artists is certainly that they are a diverse lot, reacting very negatively to any effort to treat them uniformly. Government support of the arts does not take this diversity into account, and is therefore inimical to creativity.

This should be compared to the relationship of artists with gallery owners and impresarios 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 gallery owners are willing to tolerate, and perhaps even instigate, the idiosyncrasies of each of the artists he or she represents.

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

(a) The more 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 it were just one of the many interest groups claiming support, artists tend to lose their unique characteristic creativity. One way to maintain creativity is to give the support in an unconditional way, i.e. preventing obvious embezzlement for instance, by granting stipends to cover the expenses of living in a challenging place for a particular period of time. 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.

(b) Intrinsic motivation is also supported when the addressees 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, the artists were given more leeway, but they were nevertheless considerably constrained by the patron. This dependence of the artists applied also to public commissions. In the 20th century, such constraints are difficult to imagine. It would lead to an uproar in the art world and beyond if the government stipulated exactly how a commissioned painting or a piece of architecture has to 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 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 its wide diversity of, and rapid innovations in artistic styles, is the result of greatly enhancing the participatory role of artists. This 'grand' relationship is a conjecture which needs to be subjected to serious empirical analysis. But it accords well with the psychological findings on which Crowding Theory is based.

5 CONCLUDING REMARKS

An extensive literature in the economics of art deals with the categorical question of whether the state should support the arts.¹⁰ It can be answered in two quite different ways. Those taking market failures to be an important phenomenon tend to respond positively. Proponents of the new right tend to respond negatively,¹¹ because they reject the very notion of market failures and instead emphasise political failures.

There is also a large literature on the most efficient forms of public support, in particular those subsidised by the government. 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 proceeds quite differently. It wishes to explore the neglected aspects in the relationship between the government and the arts. Two issues have been discussed:

One fundamental issue is how the *state* supporting the arts is *institutionally organised*. 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 been considered. 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), has less diversity in the types of art but more diversity in quality compared to decentralised democracies. Representative, but largely centralised democracies, in which the political elite dominates the decisions made on art, reveal a type of cultural support similar to authoritarian countries.

The second issue concerns the effect of government support on *artistic creativity*. An institution beneficial to creativity is the market: it provides monetary (i.e. extrinsic) incentives to seek innovations in the cultural sphere. By way of contrast, fixed government subsidies – in particular an automatic coverage of budget deficits – leads to the maintenance of a comfortable life style and to artistic behaviour inimical to innovation.

10 In many cases, the analysis is focussed on the *effects* of direct subsidies and other tax expenditures on production in the arts and social welfare (e.g. Peacock (1969)). Formal studies are provided e.g. 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 e.g. Throsby and Withers (1979), Frey and Pommerehne (1989), Trimarchi (1985, 1994), Benhamou (2000), Heilbrun and Gray (2001), Throsby (2001).

11 Thus Grampp (1989) and Cowen (1998) praise the ability of the market to produce (good) art, and therefore find it quite unnecessary and even pernicious for the state to intervene.

It has been argued that artistic innovation is crucially dependent on the *intrinsic motivation* of the artists. *Crowding Theory* allows an explicit analysis of the effects of external interventions (government support) on creativity. Government policies tend to undermine intrinsic artistic motivation and therewith creativity. The contingency of the support on a particular artistic performance, and a uniform treatment of the recipients of aid, are major conditions contributing to crowding-out creativity.

The analysis undertaken leads to a more differentiated view of public support compared to conventional (cultural) economics. The difference is most clearly visible in 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* argues that discretionary room is necessary for artists to experiment and develop their creative ideas. If government support is made contingent on how artists behave, artistic innovation tends to be crowded out.

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

This does not mean at all that government support to the arts should be suspended or curtailed. But the politicians and bureaucrats should not believe that they can plan creativity, because 'creativity always comes as a surprise' (Hirschman (1970), p. 80). Rather, the government should concentrate on setting the right *institutional* conditions for *artistic* creativity. In particular, it must posit the rules allowing for a flourishing art market, e.g. by setting adequate property rights for artists' output¹² and promoting the international exchange (trade) in art. The government can promote artistic 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. income lost through tax exemptions).

12 See Towse (2001).

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