

Chapter 2

The “Value Paradox” in Art

Economics: Discourse on a

Research Program

2.1 Introduction

This methodological chapter addresses the research question: what are the value theories used in cultural economics which can help define the field as one with a shared vision of art containing non-exchange value, as opposed to the orthodox assumptions in economics that value is only realized through market exchange.

The motivation for this research is found in Mark Blaug (2001, 125), “Where Are We Now in Cultural Economics?”, who writes that “cultural economics lacks a single dominant paradigm or overarching intellectual theme that binds all of its elements together”. I find that Professor Blaug’s thesis does not fully capture the pre-analytical visions of those

researching and writing on the economics of the arts. My claim, fortified with examples in this chapter, is that indeed cultural economics does share a common ‘bond’. This common bond is the belief that art is *different* than other economic goods in society.¹ Art contains properties that give value beyond exchange value, I call this shared pre-analytical vision the “value paradox” in art economics (more on which below). It is important that we highlight these intrinsic values, which also go beyond individual use-value, in order to fully capture the importance of cultural goods in human flourishing.

2.2 Methodology of the Discourse

Following Victoria Chick (1998, 1867) who finds that “economics is defined by its subject matter”², I conduct a literature review in the field of cultural economics and outline the common research themes as published by the practitioners of cultural economics. In presenting the literature review I attempt a systematic classification of the categories in the art economics research program.

I find that there is in general a pre-analytical vision shared by the cultural economist. It appears that both orthodox cultural economists (those using the tools of neo-classical economics) and heterodox cultural economists (those using more sociological,

¹ See for example Throsby (2003, 28-29) for a list of *non-exchange* values in art, and, Varian (1987) for a canonical representation of mainstream economics with value being realized in market *exchange* with given and unchanging individual preferences.

² Robbins’ (1932) definition of economics as the study of scarce resources I argue does not apply to art because the supply of art is greater than the demand for art, as witnessed by the phrase “starving artist”. Throsby (1994) finds that 75% of those who consider themselves “fine” artists must sell their labor to the commercial sector in order to make ends meet. This behavior, which doesn’t fit the orthodox model of income maximization, is an example of the value paradox found in cultural economics.

philosophical and political economy approaches) share a belief that art as an object of study has value which makes art different from other commodities; art is different from other economic ‘goods’ (scarce resources) because art and other cultural heritage has value beyond exchange. I therefore devote the main section of the essay to value theory and how art economics as a field reintroduces non-exchange value to economic analysis. The search for value beyond exchange by art economists either implicitly or explicitly might be considered a paradox which shows the limits to orthodox economic science itself.

As a means of exposition it is helpful to classify the art economics research program in terms introduced by Imre Lakatos in *The Methodology of Scientific Research Programs* (1978). The metaphysical *hard core* of the cultural economics research program is the “value paradox” contained in art. The *protective belt* are the specific categories of applied and theoretical research against which the hard core is irrefutable. In this chapter I explore both orthodox and heterodox approaches to the *protective belt* research areas as found in published works in order to support the claim for the *value paradox* thesis of the chapter.

I begin by describing and defining art economics as a sub-discipline of economics in order to specify the object of analysis. Next I introduce my typology of the research program categories in art economics in Lakatosian terms, followed by a discussion of economic value in the history of economic thought and how cultural economics is currently re-inventing this value theory. The main body of the chapter then follows where I discuss some foundational and contemporary writings in cultural economics in order to give specific examples of the implicit *value paradox* in order to support the claim that cultural economists in general share a common irrefutable pre-analytical vision. I conclude by summarizing the findings.

2.3 Introduction to Art Economics

2.3.1 History of Art Economics: Literature and Professional Association

If economics is a relatively new science³ - most commonly recognized as beginning in 1776 with Adam Smith's *Wealth of Nations* - then the economics of art might be brand new. The first book on art economics was Carl Kindermann's *Volkswirtschaft und Kunst* (1903), the *Journal of Cultural Economics* has been published since 1973 and is now edited by the Association of Cultural Economics International (ACEI), which was chartered in 1993. Frey (2003, 3) states, "the birth of art economics as a discipline of its own within modern economic science can be dated exactly" with the 1966 publication of Baumol and Bowen's *Performing Arts – The Economic Dilemma*.⁴

The first compilation of collected readings in art economics was Blaug (1976) and the first textbook, devoted to the economics of the performing arts, was Throsby and Withers (1979).⁵ In 2003 *The Handbook of Cultural Economics* (Towse, ed.) was published.⁶ Art economics might now be considered to be an 'established' research program in that the literature now has at least two stock-taking articles, "Where Are We Now in Cultural

³ If economics is indeed a science; three leading economists have, true to form, given three different opinions on the matter. F.A. Hayek ([1942] 1979) has said that economics is not a science, Milton Friedman ([1952] 1953) has said that it is a science if its methodological approach is "positive economics," and Deirdre McCloskey (1998) has said that economics is "scientific rhetoric." For a discussion on the (short) history of economics relative to the (long) history of physics see Mirowski (1989).

⁴ Milestones in modern cultural economics through 2000 given in Frey (2003, 1-8).

⁵ My used library copy of this book shows that it was classified as "theatre arts" not "economics".

⁶ Note that I am using "art economics" and "cultural economics" interchangeably. This might offend some as art could be rightly considered a subset of culture. Towse (2003) in her Introduction to the *Handbook of Cultural Economics* states that the field was originally called "economics of the arts" (mostly the not-for-profit sector) and notes that this terminology has been changed to "cultural economics" to broaden the scope to include the economics of not just *high art*, but to include commercial sectors which use creativity as input. More on this later.

Economics?” (Blaug 2001) and “Contingent Valuation and Cultural Resources: A Meta-Analytic Review of the Literature” (Noonan 2003).

In addition, Hutter (1996a) studies how cultural economics impacts on economic theory itself, and, the first comprehensive textbook on cultural economics from a mainstream perspective was published in 2010 by Ruth Towse, a former president of the ACEI and a member of the United Kingdom’s advisory board on intellectual property policy. Despite the growth of interest in art economics, it is a relatively unknown field, “There is a surprisingly large number of professional economists who never heard that there is such a thing as the economics of art” (Frey 2003, 8).

2.3.2 What is Art Economics?

In order to answer this question we first need to define economics. The most commonly accepted definition of modern economics is that it is a science which studies “human behavior as a relationship between given ends and scarce means which have alternative uses” (Robbins 1932, 5). However I believe that this definition may not be appropriate for art economics in that it is well-known that the supply of art is greater than the demand for art and thus art is not a scarce good (as witnessed by the folk-wisdom “the starving artist”).⁷ As stated I prefer Chick’s (1998, 1867) proposed definition which is that “economics is defined by its subject matter.” Therefore, by Chick’s definition, art economics is the economic study of art.

In addition here I should describe how the object of study in “art economics” has itself expanded. “Art economics” is now considered “cultural economics”; the application of

⁷ Many visual artists, actors and musicians try to “make it” or to become “discovered” and never do. “Who is, and who is not, an artist is, however, of crucial relevance to empirical studies on the share of artists in the population, and more importantly, on artist’s incomes” (Frey 2003, 28). Eventually, the economist’s ‘assumptions’ come in to play.

economic reasoning has been expanded from the ‘fine-art’, mostly not-for-profit, sector to the “cultural industries” or the “creative industries”, whose production occurs in the commercial or for-profit sector. Towse (2010, 376) states that the reason for this expansion is that UNESCO (2000) created the ‘cultural industries’ classification to include measurement of such industries as multi-media, internet, print and music publishing, sports, musical instruments, advertising, architecture, crafts, design and cultural tourism.⁸

A public choice explanation for this expansion of Chick’s “subject matter” could be an attempt by UNESCO to gain more funding for its programming, or indeed to prevent a decrease in funding. In addition it should be noted that including for-profit industries into the art economics subfield is not universally accepted. For example Throsby (2010) has a disparaging discussion on the “commodification” of culture and Frey (2003) virtually ignores the for-profit sectors in his discussion of cultural policy.⁹

2.3.3 On Definitions of Culture Used in Art Economics

Culture is a very general term that means many things to many people¹⁰, therefore a precise and complete definition of culture is beyond the scope of this paper. However we do need to understand what we mean by culture in order to understand how it relates to cultural

⁸ Throsby (1994) delineates the microeconomics of industrial organization between the profit and not-for-profit arts sectors. Towse (2010) divides her textbook between the “traditional” (not-for-profit) sectors and the newer “creative industries”.

⁹ Frey (2003) highlights the *value paradox*. If we hold the object of analysis to the not-for-profit sector then there is an explicit role for government intervention, if we expand analysis to include the for-profit sector then government intervention is less implicitly credible.

¹⁰ The first two definitions of culture in the *Random House College Dictionary, Revised Edition* (1982, 325) state culture is, “1. The quality in a person or society that arises from an interest in and acquaintance with what is generally regarded as excellence in arts, letters, manners, scholarly pursuits, etc. 2. A particular form or stage of civilization: *Greek culture*.” These conform roughly with, 1. Leo Straus’ definition, and, 2. Glifford Geertz’ definition.

economics. Leo Strauss (1959) states, “‘Culture’ means derivatively and today chiefly the cultivation of the mind, the taking care and improving of the native faculties of the mind in accordance with the nature of the mind.” Alternatively, anthropologist Clifford Geertz states,

Believing, with Max Weber, that man is an animal suspended in webs of significance he himself has spun, I take culture to be those webs, and the analysis of it to be therefore not an experimental science in search of law but an interpretative one in search of meaning. It is explication I am after, construing social expression on their surface enigmatical (Geertz 1973, 5).

Therefore, perhaps like art itself, culture has a different definition depending on whom you ask. For Strauss it is self-based learning, for Geertz it is the patterns in society derived from individual agency and societal interaction.¹¹

Two art economists have sought two different routes towards limiting the definition of culture to make it operational within the field of economics. Arjo Klamer sets as his goal as an art economist to broaden the theory of choice and value within the economic mainstream to include choice behavior that factors in the cultural. In his edited volume *The Value of Culture* (1996, 46-47) Klamer conducts an interview with the semiotician Barend van Heudson which is telling for our purposes here.

Klamer What about the value of culture?

Van Heudson [...] The function of culture, as many anthropologists have said, is to structure reality, to make coordinated action possible – we need culture in order to know what we do and how to relate with others. [...]

¹¹ See Sewell (2005, 175-196) for a rewarding critique of the work of Clifford Geertz. Sewell describes Geertz as the ‘Ambassador’ of anthropology to scholars in the other social sciences.

Klamer What I am particularly concerned with is the absence of any sense of culture in current economic theory. Culture does not play a role in economic analysis. [...]

Van Heudson I would go further than that. Listen, economists study human behavior and human behavior is in a large part cultural, that is, semiotic behavior. So if economists leave out culture from their theories of economic behavior, they have at least the duty to explain how this human being, cultural from head to toe, suddenly leaps out of culture when s/he is being “economic”.

Klamer [...] My proposal is to shift attention away from the moment of choice to the evaluation of the values inherent in economic behavior. This would direct our thinking to people actively valuating things and events of the world as they present themselves to them. Such activity is fundamentally social and cultural I would say. Our starting point then must be value.

Van Heudson [...] As such cultural behavior is definitely rational, although the rationality is semiotic, rather than logical.

Klamer proposes that economics is indeed the study of rational choice based on a notion of value, however he proposes that this concept of rational choice in economics needs to be expanded to include cultural and societal variables, not solely the utility (value) maximization of individually-predetermined consumption bundles. Value is also determined in society and through cultural norms, a pre-requisite for preference creation in the choice framework.¹²

¹² Blaug (2001, 1) states that Klamer’s approach has “sought to widen to widen it [art economics] from a sub-discipline of economics into a sub-discipline of anthropology.” However, I believe that Klamer’s approach is a heterodox one within economics itself trying to advance mainstream economics into embracing endogenous (socially-constructed and changing) taste preferences. This concept of pre-cognitive

Throsby (2003, 111) solves any culture/economics dualism in a different manner by defining the *cultural industries*. “The argument here is that if culture in general and the arts in particular are to be seen as important, especially in policy terms in a world where economists are kings, they need to establish their own economic credentials; what better way to do this than by cultivating the image of art as industry, bigger (in the Australian case anyway) than beer and footwear.”

Throsby defines the cultural industries, “cultural goods and services involve creativity in their production, embody some degree of intellectual property and convey symbolic meaning.” (2003, 112). This definition of culture nicely embodies some of the specific categories of research in art economics.

Therefore in art economics the term culture has two general meanings; 1) in the anthropological sense where culture helps determine the rational choices of individuals, and 2) in the macroeconomic sense where cultural output can be measured. Both of these definitions of culture are found in the art economics research program.

2.4 The Research Program in Art Economics

Imre Lakatos states, “The history of science is the history of research programs rather than of theories,” and, “all scientific research programs may be characterized by their ‘hard core [ideology]’ surrounded by a protective belt of auxiliary hypotheses which have to bear the brunt of the tests.”¹³ Blaug (1980, 36) writes “the hard core is treated as irrefutable” by

taste-formation is further explored in the fourth chapter of this dissertation. Gibbons (2005) credits economic sociology with introducing social variables, including social networks, into economic thought.

¹³ The discussion on Lakatos is from Blaug (1980, 36-37).

the research program. In my study of foundational and contemporary writings on art economics I form the conjecture that there is indeed a metaphysical ‘hard core’ belief by those working in the field of art economics, this belief is that art is ‘different’ from the other resources in society, a difference which becomes a paradox when applied to orthodox economic method.. This *value paradox* manifests itself in various and sundry ways, the rest of this chapter is on this ‘difference’ in art and how this difference is studied in the realm of art economics.¹⁴

Around the hard core of the value paradox we find the areas of research (the, in Lakatosian terms, ‘protective belt’ of the research program). In their more extended writings art economists explore philosophically, historically, sociologically and psychologically the value of in art. This would seem to lend itself to art economists redefining the mainstream economic approach, with its assumptions of set preferences no matter how formed, when applied to art. However this is not always the case, some art economists argue strongly that the neo-classical approach is applicable and appropriate for the study of art¹⁵ whereas of course others disagree and say that heterodox approaches are

¹⁴ This *value paradox* conjecture may be borne-out over time as noted by Mark Blaug himself, “Until recently, it would be true to say that economists only studied art markets because they provided ample data and the pork belly markets would have served just as well for the application of the latest fancy econometric techniques of time series analysis. But that glib accusation will not do for the recent literature on art markets, which has finally come so far to suggest some direct and indirect methods of measuring psychic income of art collections so as to explain the gap between the financial returns on art investment and those of other financial assets (Frey and Eichenberger 1995)” (Blaug 2001, 129). The lower returns to art relative to other asset classes over the long-term is made up by the “psychic income” of returns to owning and viewing art. This concept of “psychic income” bridging financial economics and the value of art, is an example of the value paradox at the core of art economics.

Blaug (*Ibid.*) states that “Baumol’s cost disease” may be a candidate for the tie that binds cultural economists, however this is easily refutable, see for example Cowen (1996), Currid (2006), and Cowen (2008) who argue against the “disease”.

¹⁵ See Towse (2010) on the strength of the neo-classical approach to economics and the progress of the research program in art economics using this approach and Frey (2003) on the use of methodological individualism in art economics. Blaug (2001), following Tyler Cowen, proposes that ‘loose neoclassicism’ preference formation *viz.* Mancur Olsen, Ronald Coase, Douglas North and Bruno Frey is the dominant

necessary¹⁶. I will summarize what I have found to be the main research areas in art economics, see Exhibit 6 below.

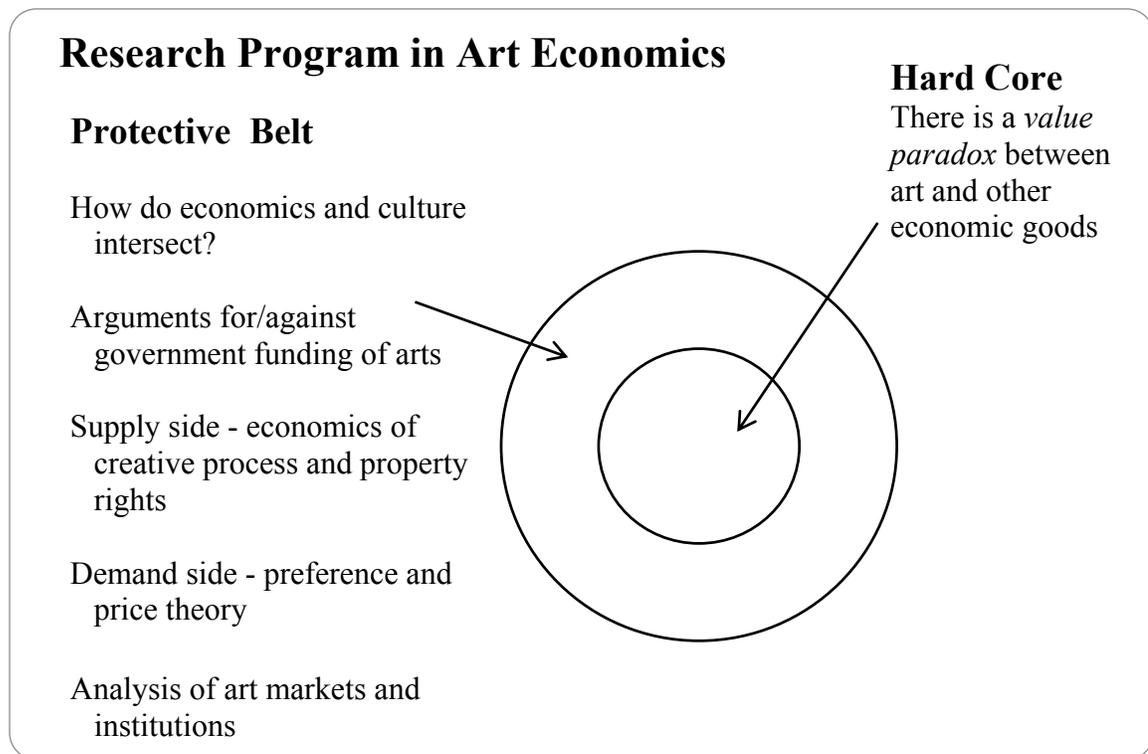


Exhibit 7: Heuristic on the Research Program in Art Economics, author's diagram.

The first item in the protective belt is labeled, *How do economics and culture intersect?*

Art is seen as something different, something that encompasses the culture of a time and place and thus is not a commodity in the economic sense, this is the essence of the value

rational choice paradigm in art economics as opposed to that of the 'Chicago school' viz. George Stigler and Gary Becker (1977).

¹⁶ See Klammer (1996) for a collection of writings from other disciplines on art and culture and Klammer's arguments for a heterodox art economics.

paradox. Art economics explores this intersection, between art as an economic good and art as a cultural good, again with public policy implications, most specifically in terms of art as national heritage, ‘merit goods’, public goods or “mixed” goods¹⁷. These concepts are explored, in terms of public goods under welfare economics, later in this chapter. The intersection between culture and economics is also used to critique mainstream economic method itself, again discussed later in this chapter.

The second item in the research program is *Arguments for and against government funding of the arts*. The value paradox perceived by art economists then requires art economists to explore the public policy connotations of this difference. In fact the first text on art economics (Throsby and Withers 1979) specifically contained economic rationale for public funding of the performing arts and was devoted to the management of arts institutions and related public resources. Cowen (2006) is a history of, and arguments for, arts funding in the United States and proposes that decentralized funding best achieves a richer supply and greater access¹⁸. Throsby (2010) is a full text about the economics of arts policy.

The next two categories of research are on the Supply and Demand-sides for art. The study of the supply (artists) and demand (individuals and institutions) are among the most studied areas in art economics.¹⁹ Demand-side research can range from labor-supply

¹⁷ A “mixed” good has characteristics of both public and private goods. For example a “free” concert in the park is a public good up to capacity at which point it becomes a private good.

¹⁸ In the spirit of reflexivity my position on public arts funding is that, if given (this is only determined through the democratic process), it should subsidize public access to art, specifically museums, not the production of art, given that we have found an “over-supply” in the production of art.

¹⁹ Institutional analysis appears most often in the economic sociology literature (see e.g., Currid 2006, Aspers 2010, Kaprick 2010), with the role of cultural gatekeepers and networks in bridging asymmetrical information during socially-constructed supply and demand.

analysis (entry, exit, incentives), to property rights (copyrights and in Europe the right to proceeds from onward sales and performances, e.g. *droit de suite*) effects on supply and pricing, and, theories on creativity and institutional effects on creativity. Attention on the supply-side is given to the value paradox and how consumer preferences may or may not capture the (social) value in art and the role of government and not-for-profit organizations making the supply of art available to those less-educated in the arts.²⁰

The ‘market’ (where supply and demand meet) is also part of the research program, this analysis includes studies of specific cultural industries (like the theatre, opera, museums, arts festivals of various types including cultural tourism), comparisons of investments in art versus financial markets, cultural gatekeepers and public choice economics, optimal ticket pricing theory and empirics, and the analysis of transaction costs.²¹ I capture these concepts in the *Analysis of art markets and institutions* research program category.

During the research for this chapter the question was posed to paraphrase, “why does a Picasso fetch tens of millions of dollars?” if towards the end of his life he was painting several per day. The answer is that, historically, gatekeepers (curators, historians, gallery owners, cutting-edge collectors, critics and other “experts”) determined that Picassos had intrinsic value, this non-scarcity value then is carried over to retail and wholesale art-markets. See fn 14 on how non-exchange value (non-market price value) is now seen as “psychic” return to art investment when fine-art does not perform as well as other investments over time.

²⁰ Dutton (2009), following Hume, writes that all of us have a (oftentimes latent) taste for art and beauty.

²¹ See Towse (2007) for a collection of papers on cultural economics which represent “some distinct trends in cultural economics over the last ten years.” I have tried to capture these and more recent trends in my summary of the research program in cultural economics.

2.5 On Economic Value

2.5.1 A Short History of Economic Value

Economists since the time of Adam Smith (and before) have looked for the meaning of value in economic life.²² The mercantilists (ca. 1500s – 1700s) believed that economic value arose from precious metals (usually gold) held by national governments and the physiocrats (ca. mid-1700s) believed that value came from agriculture production.²³ The classical economists (ca. mid-1700s to late-1800s) wrote that value came from the inputs to (costs of) production. For example Adam Smith (1994, 36-37) writes that value came from productive labor.²⁴ “Labor alone, therefore, never varying in its own value, is alone the ultimate and real standard by which the value of all commodities²⁵ can at all times and at all places be estimated and compared. It is their real price; money is their nominal price only.”

The ‘marginal revolution’ of 1871-3 changed the conception of value in economics, from one of objective value based on inputs (labor, land and commodities and a competitively-equalized profit rate in the long-term) to one of subjective value based on individual

²² It is well-known by classically-trained economists that the search for an invariable measure of value occupied David Ricardo (1772-1823), however, “The fact is there is not any measure of absolute value which can any degree be deemed an accurate one” (Ricardo 1823 in Sraffa, ed. 2004, xlvi).

²³ See Marx (2000, 44-68) for a summary of the physiocratic theory of value and Marx (2000, 308-343) for a discussion on what is considered the first “model” of the economy, Quesnay’s “Tableau Economique” (1759) and which shows the source of value and wealth being based on recursive periods of agriculture production.

²⁴ Adam Smith found that the performing arts were unproductive labor. “Like the declamation of the actor, the harangue of the orator, or the tune of the musician, the work of all of them perishes in the very instant of its production” (1994, 361). Another example of the paradox of value in the arts.

²⁵ Every work of art is, by definition, unique and therefore not a commodity. The exception to this rule might be limited edition prints. If we include the ‘creative industries’ as object of analysis then reproduction does perhaps commodify creativity.

perceptions of economic “goods” and what has to be given-up (the opportunity cost) to obtain the good. The marginal revolution was in part based on utilitarian philosophy where “good” was measured in pleasure and “bad” was measured in pain. Of course, the idea was that people try to maximize the good and minimize the bad. This concept of subjective value through the consumption of economic goods then became *utility* in economics, where utility is realized through market exchange.²⁶

2.5.2 Vulgar Economics

According to David Throsby (2003, 20) Adam Smith in *Wealth of Nations* was the first person to differentiate between what economists refer to as *use value* and *exchange value*, the former being “its power to satisfy human wants” and the latter “being the quantity of other goods and services that someone would be prepared to give up in order to acquire a unit of the commodity”. John Ruskin in 1872 used the term “vulgar” political economy to criticize economists who believe that all value is exchange value.²⁷

For Ruskin, following Carlyle, the idea that the value of a commodity²⁸ can be determined by market process and measured in monetary terms was a violation of the principle of intrinsic value upon which the worth of objects, especially art objects, should be assessed. Instead he related value to the life-enhancing labour of the worker who made the commodity; the worker not only pleased himself by his efforts but also bestowed of this goodness upon the user of the product. Ruskin applied this theory to explaining why some artworks were more valuable than others, arguing that

²⁶ See Little (1958) for a discussion and critique of welfare economics which is based on a theory of the societal aggregation of individual utility.

²⁷ See Throsby (2001, 19-43) for a discussion on the history of value in economic thought including Ruskin’s critique of the marginalists. The evolution of marginal economic methodology is also reviewed in the first chapter specifically in context to evolving theories of value over time in the West.

²⁸ I favor the term economic ‘good’ (following Menger 1950) rather than the term ‘commodity’ to describe the object of economic analysis as commodity implies homogeneity and this is I believe not indicative of most items bought and sold in the market except of course commodities themselves (agriculture products, metals, barrels of oils, etc.) which are by definition homogenous.

the creative production process imparted value to a painting or a sculpture which became embedded or intrinsic to the work itself (Throsby 2003, 22).

Modern economics has effectively collapsed use-value and exchange into one value, that of the market. It could be stated that the *value paradox* research program in art economics is an attempt to reevaluate this inherited unity.²⁹

Some economists (see most any undergraduate economics textbook) also have the belief that if the market is not providing enough of a good which is beneficial to society there is a role for government to provide this good, called a public good, through redistribution of assets or income or through other public policy. As stated the hard core of the art economics research program is that the value of art is different than the value of other economic goods in society. In the next section of this chapter we explore this value paradox in art economics as applied to the Lakotosian research categories we have defined in this essay. I focus most on the research program categories *How do economics and culture intersect?* and *Arguments for/against government funding of the arts* to provide evidence of the value paradox in the practice of art economics.

²⁹ Throsby (2001, 22) states, “Despite the self-satisfaction that many economists feel at having arrived at a theory of value which they regard as complete in terms of its universality and elegance, marginal utility has been highly criticized. For our purposes the most important line of attack has been to argue that value is a socially-constructed phenomenon, and that the determination of value – and, hence of prices – cannot be isolated from the social context in which these processes occur,” and, “Nevertheless, it can be argued that market prices are at best only an imperfect indicator of underlying value”.

2.6 The “Value Paradox” in Art Economics

2.6.1 How Do Economics and Culture Intersect?

We addressed above the collapse of value in modern economics of ‘use’ (or ‘intrinsic’ or ‘embedded’ or ‘absolute’³⁰) value into exchange value. Throsby (2003, 28-29) lists six types of value which make art different than other economic goods, values which differ from values realized through exchange. I paraphrase these “use” values.

- 1) *Aesthetic value*: an artwork has the properties of beauty, harmony, and form; in addition aesthetic value is influenced by style, fashion and taste.
- 2) *Spiritual value*: an artwork can bring understanding, enlightenment and insight.
- 3) *Social value*: an artwork can bring a sense of connection with others and may contribute to the conception of a society’s identity and place.
- 4) *Historical value*: an artwork can offer insight into the time and place it was created and may illuminate the present in connection with the past.
- 5) *Symbolic value*: artworks are repositories and conveyors of meaning, an individual viewing an artwork extracts meaning from the artwork.³¹
- 6) *Authenticity value*: an artwork is real, original and unique. The authenticity and integrity of an artwork has value.³²

³⁰ These terms have precise and differing meanings in the history of economic thought, however it is not our purpose to discuss these definitions here exhaustively, only to differentiate use value as something intrinsic to the good and as different from the value at exchange. Missing from Throsby’s list are non-use intrinsic Option value and Bequest value, more on which later in this essay.

³¹ Viewing an artwork does not necessarily mean “consuming” it as it remains intact for others to view. Art is an experience good (like education and science), the more one “consumes” the good the more one “produces” the good.

³² Van den Braembussche (1996, 40) calls the aesthetic and other intrinsic values the “old essentialist view.”

Although David Throsby provides a list of the non-exchange values in art it should be noted that perhaps a deep analysis of these values is not a primary point of interest to all art economists. Art economists recognize (or perhaps more economically, “assume”) that art is different from other goods in society and then move forward with the analysis of this value paradox as manifested in the supply and demand for art and implications for public policy. Another art economist of note, Bruno Frey describes the limitations of “use value” theory in art economics.

The concept of art, as understood by economists, starts with the preferences or values of the individual. This distinguishes the economic concept of art fundamentally from other definitions of art which derive from quite different principles, e.g. from a notion of aesthetic beauty based on deeper philosophical grounds. It also strongly differs from the concept of art defined by art experts (art historians, museum curators, conservationists, art critics and journalists, gallery owners and artists themselves), who have a superior professional knowledge of the various aspects of artistic activities and therefrom derive the authority to pass judgment on what art is. According to the economic approach, the individual preferences for art are recorded, but no normative judgment about it is given; art in this sense is what people think art is. Economists cannot, and do not want to, say what constitutes “good” or “bad” art; this is not within the realm of their professional competence, but should be left to those sciences (such as philosophy) which have a theory appropriate to dealing with the question of art quality (Frey 2003, 23).

Thus art economists (with exceptions) do not explore the value of art in itself but the economic implications of art’s intrinsic value. In fact the world of art and the world of economics can be viewed as inhabiting two different cultural realms, or *habitus*³³

³³ See the previous chapter on Pierre Bourdieu’s theory of *habitus* as social structures in which actors inter-relate.

Klamer (1996, 13-27) describes the sociological differences between art and commerce. The art community is one built of on-going relationships and conversations (is discursive or continuous in time), whereas commerce is discrete in time. Once an economic transaction is complete, assuming all obligations are met, the relationship is over, “a strictly commercial transaction ends the relationship.”³⁴ Klamer compares art culture similar to that of family, science and religion where the cultures “fight the encroachment of commercial and political values to sustain the conversation among each other and keep those values alive.” “In accordance with philosophers of art like John Dewey and economists like Michael Hutter, my first step is to distinguish the *product of art* from *art as an activity* and *art as an experience*.”

Michael Hutter builds upon Klamer’s concept and looks at how the economy can help the arts and how the arts can help the economy. Specifically Hutter sees art (human creativity) as an inexhaustible resource which becomes value through ‘source events’ (plays, poems, paintings, films), this value then feeds itself back to the economy. “A world that is inevitably running out of natural resources cannot maintain or even increase the volume of material production at length.”³⁵

Creative work, however, provides an inexhaustible stream of scarce items. The emphasis of economic evaluation is shifting from the transformation of wood and metal into payment, to the transformation of stories, tunes, images or performances into payment” (Hutter 1996b, 131). Human ingenuity may be unlimited, a continuing source of value,

³⁴ Note that Klamer’s concept of economics here may ignore ‘reputation capital’ or the value of continual and personalized relations in a service economy. Discrete transactions are however how mainstream economics most often models the economy.

³⁵ See Simon (1995) for a counter-argument to the vision of a world running out of resources.

but this creativity is limited by economic scarcity. “The economy is, then, a reservoir from which art plays draw money income as a context for the maintenance of the plays. Art participants treat income not as an objective but as a constraint” (*Ibid.*, 132). The Hutter/Klamer concept of the exchange of value between art and the economy is shown heuristically in Exhibit 8.

Exchange of Value Between Art and the Economy

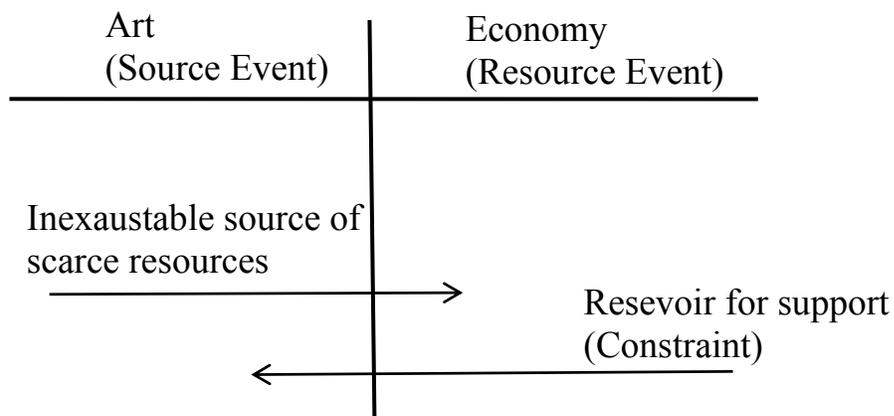


Exhibit 8: Heuristic on Exchange of Value between Art and the Economy. Diagram by author, adapted by from Hutter 1996.

The last theory of value we will demonstrate under *How do economics and culture intersect?* before moving on to the research program of art as a public good is that of ‘radical commodification’. Antoon Van den Braembussche in a section of his essay entitled “From Symbolic Value to Radical Commodification” has a different approach to

the valuation of art in the market, whereby the mere process of art entering the market the aesthetic value of the art takes on economic value and loses its aesthetic value.

In the approach of Smith³⁶ any value-judgment becomes a commodity. This reminds us of the way Baudrillard criticized the concepts of use-value and sign-value. In his diagnosis of contemporary cultural practices, Baudrillard confronts us with a radical instrumentalization of culture, which rests on a double and parallel reduction. The explosion of commodity circulation reduces any use-value into exchange-value. This goes hand-in-hand with an implosion of ‘meaning’, in which the signified is reduced altogether with the signifier. The signifier and exchange-value become omnipresent, equal and perfectly interchangeable, leading to a radical commodification of cultural practices (see Baudrillard, 1972) (Van den Braembussche 1996, 39).

In this view the depth of the market in today’s society is inescapable, the “old notions” of aesthetic instrumentalism loses its essence through market-forces. Although defining away the value paradox through a dialectical synthesis, this work can still be considered part of the art economic research program as it acknowledges the paradox at the hard core of the research program while at the same time negating it.

We can see similarities between Van den Braembussche discussing the intersection between culture and economics, and that above with Throsby delineating the non-exchange values in cultural goods, Frey stating that art has aesthetic value but that economists are not concerned with these “deeper philosophical” concepts as orthodox economics takes preferences as given, Hutter on the relationship between the cultural and economic *habitus*, and Klamer’s attempt to broaden the rational choice framework in economics to include the cultural and social values which form preferences. Each of these cultural economists has a different take on the relationship between art (the aesthetic) and economics. Yet, the

³⁶ See Barbara Smith (1988).

point is that they all explicitly acknowledge this value paradox in art economics, and explore this paradox in their research program however uniquely.

2.6.2 Arguments For/Against Government Funding of the Arts

Tyler Cowen, one of the preeminent American cultural economists after William Baumol, uses the dialectic of aesthetics and economics to come to terms with the meaning of value in art and to apply the familiar trade-off between efficiency and (re)distribution in economics.³⁷ For Cowen assuming that one has the right to art opens the door for the economic analyst to trade-off at the margin efficiency and redistribution in the supply and demand for art. Cowen states that art is beauty and that people in democracies have a right to beauty because of art's "elevating and developmental powers" (Cowen 2006, 5).³⁸

This notion of beauty as being a requirement for Aristotle's *human flourishing* is carried one step further by Herbert Marcuse who equates beauty with freedom and morality, "In Kant's system, morality is the realm of freedom, in which practical reason realizes itself under self-given laws. Beauty symbolizes this realm in so far as it demonstrates intuitively the reality of freedom" (Marcuse 1962, 159). For Marcuse, and implicitly for Cowen, art (beauty) is freedom and humans have an implicit or explicit right to freedom.³⁹

³⁷ The free market, the voluntary exchange of goods and services without harming anyone else in the process, is said to be *efficient*. When public policy distorts these market forces for equity reasons it is said that these policies have made the economy less efficient for *distribution* purposes.

³⁸ Whether or not people have a "right" to anything in free societies is under debate by philosophers and is beyond the scope of most economics as we know it today. Followers of John Rawls (1971) usually tend to believe that people have the "right" to economic redistribution to account for differences in luck and talent and that this redistribution constitutes economic justice, whereas followers of Robert Nozick (1974) tend to consider redistribution unjust and that people have the "right" to be free from redistributive takings. Cowen is using the "merit good" argument for art subsidy although does not say so. More on merit goods later.

³⁹ The previous chapter analyses the evolution of aesthetic philosophy in the West since the 18th century and finds that beauty as a necessary quality for fine art loses its primacy with the counter-Enlightenment Romantics and the rejection of the salon by the early modernists.

Regardless of the political philosophy arguments (resolvable only in the democratic process itself) for or against the right to art (or for that matter the right to anything else in the realm of public policy), let's assume that Cowen is correct in his assumption that art is a public good and that we need to trade-off efficiency with (re)distribution. Distributive considerations mean that there are non-market (a role for the state) elements in the creation and distribution of art. This trade-off between the economic and the aesthetic can be visualized heuristically, see Exhibit 9 below.⁴⁰

Aesthetic and Economic Value Trade-Offs in Arts Policy Analysis

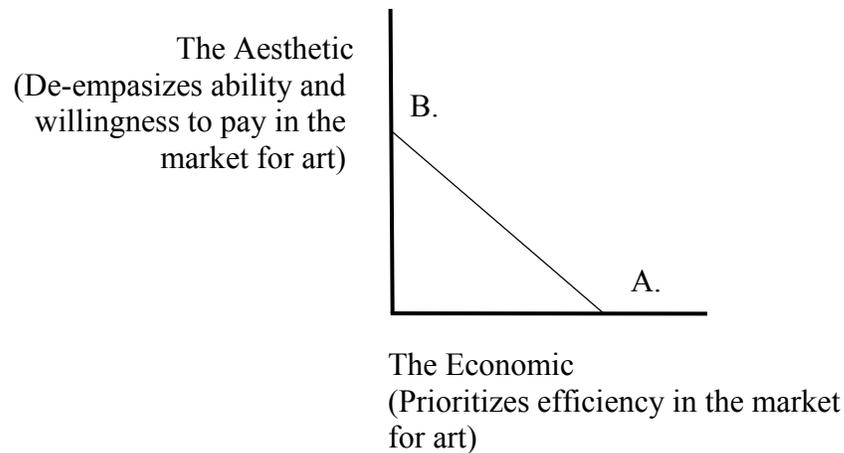


Exhibit 9: Illustration of Trade-Off between Aesthetic and Economic Value in Arts Policy

⁴⁰ Exhibit 9 shows the trade-off between value meanings of art in terms of the aesthetic and the economic. The Economic at Point A. means that society values art only for its economic value as manifested through the market. The Aesthetic at Point B. is the other extreme and means that society ignores economics (individual preferences and endowments) and makes all art available to everyone for “free” through government intervention. I have drawn this trade-off while assuming perfect substitution and abstracting from the form aesthetic subsidy is realized, obviously any redistribution policy is not “free”.

Bruno Frey writes that all societies have a political economy of art which means that all societies operate somewhere along the continuum between A. and B. in their value of art.

There is no sense in restricting the analysis to purely economic aspects of culture. Obviously, the state plays a most important role in directly (via subsidies) and indirectly (via regulations such as tax laws) supporting the arts. At the same time government may cripple arts, not only in dictatorships but also in democracies. In both cases the decisions made by the state are based on political (and bureaucratic) considerations. Political aspects are relevant in the arts beyond the state. Many more actors are involved in influencing the arts, and are in turn influenced by them (see e.g. Hutter 1986, 1987). Hence, there is no doubt for me that a political economy of the arts is needed (Frey 2003, 8-9).⁴¹

Cowen may take an idiosyncratic approach to arguing for arts funding in his “positive rights” approach, however his economic (efficiency) versus aesthetic (distribution) distinction is useful in framing the argument concerning arts public policy.⁴²

Many art economists use economic arguments for arts funding beginning with defining art as a public good. There are two main approaches to the value of art as a public good created from market failure (a public good requires government support due to positive externalities not realizable in market exchange, this argument would mean that not enough art is produced, exchanged and/or consumed to maximize social welfare). One public good argument is that the arts are a *merit good* worthy of state support “because of the superiority of their inherent worthiness” (Baumol 2003, 21). The second is that arts are a *cultural*

⁴¹ The present dissertation is an attempt in this direction.

⁴² Cowen’s approach may not be all that idiosyncratic. Blaug (2001, 12) writes, “Is it not time for cultural economists to abandon normative arguments for public subsidies of arts and instead to study the positive consequences of public subsidies, including the rhetoric of public bodies subsidizing the arts?”

good containing “bequest value” and thus are part of a cultural heritage to be passed along to future generations. These two concepts are related and there is some overlap.⁴³

The term “merit good” was coined by Robert Musgrave (1959) and can be defined as “goods which are provided as a result of the imposition of the preferences or tastes of one group (e.g. the government) on others (e.g. the community), rather than in response to market or nonmarket demand” (Throsby and Withers 1979, 192). Throsby and Withers, who give a formal summary of the discussion around merit goods and their relation to welfare economics in their seminal text on art economics *The Economics of the Performing Arts*, emphasize the importance of merit goods in art economics.

[T]here is little doubt that that merit-good considerations have probably been the most significant single explanation of government involvement in the arts in all the countries we are dealing with. If the motivations of politicians can be inferred from their public pronouncements, it is clear that most of them believe that the existence of the arts is essential to civilized life. Since governments derive pride in the thought that they preside over a cultured society, they are willing to provide funds to support the arts, even though they acknowledge that the resulting activity exceeds that which consumers would demand if left to their own devices. (*Ibid.*, 192-193).⁴⁴

Throsby and Withers’ argument that government taste-makers have the right to provide these goods is based on the assumption that the democratic process will remove governments whose tastes and quantities of merit goods fall too far out of line with the

⁴³ Note that the ‘merit good’ and ‘cultural good’ concepts are similar to those non-exchange (non-economic) values defined by Throsby (2003) earlier in this chapter. It is not the classification schema of the value paradox which is important in establishing the metaphysical hard core in art economics, only the realization that this paradox exists however disaggregated and recompiled.

⁴⁴ Cowen (2006, 69, referencing Naifeh and White (1998)) states, “When the WPA [Works Progress Administration, 1933-1943] ended during the war, government warehouses had to auction off thousands of canvases by the pound. Other pictures were burnt, taken home by bureaucrats, or, in one case, sold to a plumber for insulation.” We explore the political economy of the WPA art in the fourth chapter.

public. However the authors do acknowledge that, “On the other hand, however, these effects tend to be offset to some extent by the growth of bureaucracies and lobbies which increase ‘the intermediation’ between voter preferences and public policy decisions.” (*Ibid.*, 197) This is a classic public choice theory criticism of the behavior of government bureaucracy.⁴⁵

According to Throsby and Withers, Musgrave assumed that, “some goods (not all) are by common consent considered so meritorious that it is agreed they should be publically provided. The implication of this position is that there exists a distinct class of such goods on which agreement can be reached....it is probably true that the arts in general, and the performing arts in particular could be regarded as paradigm examples of goods where widespread (though by no means universal) consent on ‘merit’ could be reached.” (Throsby and Withers 1979, 197). Throsby and Withers also contrast art with “public parks, free school lunches, education and even public transport” because these latter public programs have overtly redistributive effects in addition to being merit goods.

Robert Musgrave and James Buchanan had a debate in 1998 over their two differing visions of public economics. In this debate Musgrave clarified his concept of merit goods as socially-constructed,

I like to think of them in relation to an individual’s place in society, not as an isolated person but as a member of his community. As such he might support certain public services because they are seen as part of the community’s cultural heritage, rather than in response to his personal tastes.

Support of merit goods thus involves a form of social interaction that is not purely individualistic.

I am well aware that once you get out of the safe haven of purely individualistic concerns, there are

⁴⁵ See Buchanan and Tullock (1960: esp. 283-295), the founding text on public choice theory, on the motivation of bureaucracies to increase their power. Public choice theory applied to the arts is part of the *Arguments for/against public funding of the arts* and the *Analysis of art markets and institutions* research programs in art economics.

all sorts of dangers, but, as I said yesterday, I don't think you can reject the concept of community values on those grounds." (Buchanan and Musgrave 2001, 95).

For Musgrave cultural heritage goods (art) are merit goods. This argument is similar to the 'positive rights' argument in Cowen in that he is arguing from a normative (the way things ought to be) rather than a positive (the way things are) base point. Economists have difficulty with this approach due to the lack of empirical testability. William Grampp, an art economist who is known for advocating a free-market for the arts, writes the following about merit goods.

Art is a merit good. The argument has a forthright and ingenious quality that makes it attractive. It declares art is a good thing, that people do not want enough of it even if they can afford it, and that the state should see to it that they get more. This seems to take things out of economics and to relieve one of having to follow the ambages of the arguments that employ it. Tibor Scitovsky has said as much, and he is an economist. "None of the standard arguments in favor of financing is really applicable to the arts. The only valid argument for government aid to the arts is that it is a means of educating the public's taste and that the public would benefit from a more educated taste," he said. One is not permitted to object that if art is actually to the benefit of people they will themselves acquire a taste for it (Grampp 1989, 253-254).

The case for funding the arts because art has intrinsic value (are merit goods) upon further inspection does not seem to have much support, even by those that argue for arts funding for other reasons, "Hence, arguments for public support for the performing arts based on this view rest on matters of belief rather than of fact, and it would only become a ground for unequivocal government intervention if it could be shown that the belief enjoyed universal approval" (Throsby and Withers 1979, 195).

William Baumol gives perhaps the most succinct summary of the theory of art as a merit good, and of merit goods themselves. "The argument is that the arts deserve public funding

because they are good. If asked why, or how one tests the proposition, the implied answer is that it is self-evident. Whether or not this is accepted as convincing, it must surely be recognized to be an honest reply” (Baumol 2003, 23). The case of merit goods represents a good example of the paradox of value faced by art economists.⁴⁶

2.6.3 Cultural Goods

In modern society we are grouped in political bodies, in *polis*. Apart from our daily lives in which we transact and live voluntarily with those we like, our collective actions are guided by the state (local governments) and the State (national governments, e.g. the Nation-State). As mentioned above Frey (2003) believes that all states are involved in the ‘market’ for arts. Throsby and Withers (1979, 193) state why this may be true, “Since governments derive pride in the thought that they preside over a cultured society, they are willing to provide funds to support the arts, eventhough they acknowledge that the resulting activity exceeds that which consumers would demand if left to their own devices.”⁴⁷. Specifically, states have taken a role to ensure that cultural goods are preserved to symbolize the culture of a *polis*, be it for legitimate social or for nationalist reasons.⁴⁸

⁴⁶ Although merit goods seem to be discredited as a valuation method I have included the category here as it has been a fundamental part of art economics since its debut. Another valuation method, that of the return to public investment (“economic impact studies”) in the arts, is not included in the survey in this essay because it is not specific to art economics, “...using the same methods, we could easily show that even earthquakes generate an excess of economic benefits over costs” (Blaug 2001, 12). Further Towse writes, “In fact, many economists think that the national multiplier is indeed close to one, and that claims for significant induced income are exaggerated” (2010, 285). See Rushton, ed. (2013) for a different view on the arts and economic development.

⁴⁷ It should be noted that some public art can be perceived as a ‘public bad’, some people may not find aesthetically pleasing art that has been placed in public spaces, especially when they know that their taxes have been used to fund something they find displeasing. See Klamer (1996, 87-91) for a case study.

⁴⁸ We discuss in more detail art and nationalism in both the first and fourth chapters of the dissertation.

Throsby (2003, 26) writes, “What is the nature of the value a community places upon the traditions which symbolize its cultural identity? What do we mean when we say that Monteverdi’s operas or Giotto’s frescoes are valuable in the history of art? In neither case does an appeal to individual utility or to price seem appropriate.” Throsby uses the argument that art has two values, the cultural (the aesthetic under Cowen’s dialectic) value and the economic value. By denoting the difference we then denote that the cultural is a public good and that there is a role for the state in supplying (or preserving) the cultural value. “Thus we continue to maintain the necessity of regarding economic and cultural value as distinct entities when defined for any cultural commodity, each telling us something different of importance to an understanding of the commodity’s worth” (*Ibid.*, 33).

Throsby then uses the example of the art museum as the way in which the cultural (public good) value of art is brought to realization and lists many public good characteristics of the museum (I have included a sampling), “the contribution the museum makes to public debate about art, culture and society”, “the role the museum plays in helping to define cultural identity, either in specific terms or more generally in its representation of the human condition”, “the value to individuals of retaining the option of visiting the museum”⁴⁹, “the sense felt by people that the museum and its contents have value as a bequest to future generations”, and, “the connection with other cultures which an art

⁴⁹ I personally like this approach as it may not be that as individuals we optimize our consumption but that we enjoy having options, these options can include potentials for consumption and for experiences. In art economics this is called “option value” by Frey (2003, 2). Public funding of art makes art available to ourselves and others and this gives value whether or not we avail ourselves of this option.

museum provides either for citizens within its own jurisdiction looking outwards, or for those from outside who wish to learn more of the culture they are visiting” (*Ibid.*, 37).⁵⁰

It is the bequest value argument which is relevant to our survey of the *value paradox* in art for this essay. The bequest value concept is not too different from the normative notion that one generation owes another generation some degree of preservation of nature.⁵¹ Art that is passed from generation-to-generation is called *built heritage*, whereas natural endowments are referred to, obviously enough as *natural heritage*. It is not clear that government, as opposed to private philanthropy, is required to provide for intergenerational equity in the arts⁵², however, history should not be removed from our analysis and the state and prior to that the church have funded cultural heritage so we have seen this valuation empirically over time. The cumulative causation in the relationships between patronage and art theory and practice over time is captured in the periodization contained in the previous chapter of this dissertation.

⁵⁰ The next chapter is specifically about the economics of art museums in the United States. See the previous chapter on how art museums emerged as social and political institutions in the West and how they are seen as sites of “consecration” for legitimatizing artworks as dominant culture.

⁵¹ This type of normative economics is called *intergenerational equity*, *intertemporal distributive justice* or *sustainable development* (although this latter term is not necessarily intergenerational), see Throsby (2003), and was pioneered by Harold Hotelling (1931). The key to intergeneration analysis is the use of intertemporal discount rates or time-preferences. The discussions around the *Stern Review on the Economics of Climate Change* (Stern 2006) give an example of the debate over equity and time-preference. Some argue that Stern used too low of discount rate, prioritizing future generations over the current generation and that this overstated the negative effects of climate change. The point here is that bequest value in art economics opens the door to valuing cultural heritage at a discount rate in public policy which differs from a market-determined discount rate. The government of the United States (through the Office of Management and Budget, OMB) uses as its social discount rate the cost of US borrowings on the national debt. The next chapter explores issues of temporal equity relating to cultural consumption at museums.

⁵² Many museums, great and small, are the result of private philanthropy. The first museums were called “cabinets of curiosities” and were private individuals opening their private collections to their neighbors (McClellan 2003). See the first chapter for more information on the evolution of museums.

Tibor Scitovsky in the *Joyless Economy: An Inquiry into Human Satisfaction and Consumer Dissatisfaction*⁵³ provides an argument for public funding (using ‘specialists’ picking what is valuable) in arts.

Works of art are durable sources of stimulus enjoyment which can last for years, even centuries, and since the specialist’s judgment is believed to be a better predictor than the general public’s of what posterity’s judgment is going to be, we attach to his judgment the weight of future generations, which outweighs of course, that of the single present generation (Scitovsky 1976, 278).

As stated throughout this chapter, it is inevitably the public policy process of each *polis* which determines how and to what extent built heritage is funded and preserved (valued), however, skeptically, it is difficult to avoid the notion of the co-integration of publically-funded heritage and the use of public funds for the creation of political influence.⁵⁴ It should also be noted as discussed in the previous chapter that there are ‘nation-building’, nationalism, or less euphemistically, ‘national treasure’ arguments put forth to support government funding of the arts or for protectionism against outside cultural influences.⁵⁵ Comparative statistics are widely-used in art economics (as political economy) to measure differences in how various *polis* value their culture empirically by levels of public funding

⁵³ Scitovsky’s book is seen by many as a classic diatribe against mainstream consumption theory. The thesis of *Joyless Economy* is that people consume too much for comfort and not enough for novelty (the aesthetic or the ‘finer things in life’) reasons, this leads to the Socratic unexamined life. Further elucidation of consumer theory is beyond the scope of this paper, however is very much part of the art economics research program under *Demand side - preference and price theory*.

⁵⁴ See Thomas (1977), “Given the conspicuous success stories and the known delight of the Pope in antiques, poetry, and the visual arts, it was likely that those who sought advancement or potential influence would follow his lead as an art patron” (221), and, “Ever since the time of the first Cosimo de’ Medici in Florence, the Italians had recognized that the surest way of insuring the immortality of a family was to pay artists to commemorate it” (222). See Welch 2013 for art as political influence in the 20th and 21st centuries.

⁵⁵ The first chapter of the dissertation describes the relationship between cultural nationalism and national culture in context specifically relating to the art-statism as found in the fourth chapter.

(see Frey 2003, Cowen 2006, Towse 2007, Zuidervaart 2011). The fourth chapter of the dissertation is a case study on the art produced for the US government during the Great Depression and New Deal in the 1930s.

2.6.4 Note on the Contingent Valuation Method

With surveys and experimental settings, economics has used the contingent valuation method (CVM) to try place an economic value on non-tradable goods.⁵⁶ “Contingent valuation is a method of estimating the value that individuals attribute to non-tradable goods or some characteristics of tradable goods not revealed by the market mechanism” (Cuccia 2003, 119).

Frey (2003, 6) offers insight into how CVM may be used for valuing the psychic (or perhaps, intrinsic or aesthetic) value of a painting using what he calls the ‘endowment effect’, the difference between what someone paid for a painting and what they would sell it for. Experiments could be conducted to see what offer price could be made to the owner of a painting to see what could induce her or him to part with that painting. If a significant amount of these experiments/surveys were conducted, then a proportionality between buy and sell prices could be used to ‘value’ this ‘endowment effect’ and thus create an indicator for intrinsic or aesthetic value.

⁵⁶ CVM has been used for approximately 50 years in the valuation of natural, environmental, heritage. In 1993 Kenneth Arrow, Robert Solow and others published “a qualified endorsement of CVM along with guidelines for quality research (Arrow *et al.* 1993)” and this opened the door for its wide-spread use in cultural economics (Noonan 2003, 171). Noonan (2003) conducted a meta-analysis of CVM in cultural economics, finding 61 applications of CVM to cultural heritage between 2000 and 2003.

For example, Maddison and Foster (2001) used CVM to measure congestion costs at the British Museum by showing photographs of the museum during peak and non-crowded hours to 400 museum-goers and asking the value (Willingness-to-Pay) for non-congestion, which amounted to £12.40 per person per uncongested visit. This research of course while interesting shows some weaknesses to the CVM; 1) only those interested in attending the museum in the first place were surveyed, 2) only those who had the time and interest to be surveyed were, and 3) people were offering someone else’s theoretical pounds to visit the museum during uncongested times.

Importantly art economics has used the CVM approach to remove decisions about public arts funding from that of experts to include the public at large. This may help government decision-makers to “not adopt a paternalistic approach but try to found their decisions on individual preferences” (Cuccia 2003, 120). CVM marks a break with neo-classical preference theory, “the peculiar characteristics of CVM that differentiates it from the other classes of valuation methods (the direct and indirect revealed preferences methods and the direct stated preference methods) is that individuals directly state their preferences about a public good by answering a structured questionnaire specifically prepared by the analyst to reproduce a hypothetical market-situation where a non-marketed good is traded” (*Ibid.*, 120). The robustness of this approach depends on your view of how realistic experimental economics is or how objective is the survey process.⁵⁷

2.7 Conclusion

This chapter has proposed that the hard core of the research program in art economics is that of a difference in value between art and other economic goods, a difference which results in a *value paradox* when attempting to apply the strictly material economic measures found in orthodox economics. The study of culture and aesthetics may be more the purview of other disciplines (philosophy, anthropology, sociology, art history, semiotics) than that of economics.⁵⁸ However, economics is the study of human behavior

⁵⁷ “The validity of CVM has been hotly contested” (Noonan 2003, 161). In the *Journal of Economic Perspectives* symposium on CVM in Fall 2012, Hausman writes, “But despite all the positive-sounding talk about how great progress has been made in contingent valuation methods, recent studies by top experts continue to fail basic tests of plausibility” (Hausman 2010, 54).

⁵⁸ The values found in the “two worlds” of science and the humanities are discussed in more detail in the introductory chapter of the dissertation.

and human behavior is more than (different from) individuals acting alone under resource constraints. It is proposed, here and elsewhere, that this has been a weakness in mainstream economics.

This paper has tried to show that culture and the economy are two different albeit mutually-dependent spheres that operate together to help define the human condition. The “value paradox” applied to art has been a framework to evaluate how the intersection between culture and economics is approached in the relatively new and growing field of art economics. Economics itself is limited to sets of assumptions which can only get us so far in defining how cultural resources are allocated in society. Political economy - where the study of public policy and institutional processes are combined with economic analysis - may perhaps be more relevant in the study of art as an economic good. This is borne out in the field of art economics where debates and analysis around the public funding of the arts is of a primary interest in the research program.