

## What Is the Economic Approach to Aesthetics?

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*Keywords:* aesthetics, art, cultural economics, cultural policy, decision-making, economics, evaluation, marketing, referenda, values

### ABSTRACT

For a useful discourse on art and culture to take place between economists and culturalists, each side must point out its concrete position in a rather extreme manner in order to highlight the different ways in which cultural issues are approached and viewed. This chapter presents nine propositions from the point of view of culturalists and the corresponding counterpropositions reflecting the politico-economic approach. It shows how the economic approach to aesthetics, and to the measure of the value of arts and cultural policy in particular, differs compared to the views of culturalists and the general public with regard to aesthetics, arts, and culture.

### INTRODUCTION

Experience shows that it is not easy to establish a fruitful discourse between social scientists, on the one hand, and culturalists on the other. Segregated discussion is often the result. One reason for this difficulty is the disparity in terminology. This holds in particular for economists, who employ quite specific terms. To overcome the problem, an effort is sometimes made to define terms. However, this means that the advantage of a discourse is lost because the exchange becomes highly formalized and lifeless.

In my opinion, a useful discourse can be undertaken if each side speaks in as concrete terms as possible and does not try to impress the other side with highly theoretical constructions. It has also proved to be helpful to state one's own position in a rather extreme way in order to highlight the differences in how one approaches and views cultural issues.

In:  
«Rational Decision-making in  
the Preservation of Cultural  
Property», edited by N.S. Baer &  
F. Snickars, 2001 Dahlen  
University Press, 225-234.

In what follows, nine *propositions*, where I have experienced wide currency among culturalists (as well as in the general public), are advanced. Each proposition is presented together with a *counterproposition*, reflecting the politico-economic approach. The politico-economic approach deviates from more conventional economics by taking political factors into account. It is sometimes called "Public Choice" (see e.g., Mueller 1989) or "Modern Political Economy" (see e.g., Frey 1978; 1983). The mode of analysis, however, is the same: it basically assumes that individuals act in a reasonable way and are subject to constraints imposed by nature and physical conditions, as well as income and available time. While the application of economic reasoning beyond the narrow confines of the economy is quite new, it has received great attention within the field of economics and generally in the social sciences. In addition to the political sphere, the economic approach has, for instance, also been applied to issues of the family, crime, religion, or sports (see Becker 1976; Frey 1999).

In this chapter, I analyze cultural issues from the point of view of political economy. The concepts of "Economics of Art" or "Cultural Economics" have experienced rapid growth over the past few years. My analysis is based on theoretical insights and empirical studies gained in that field. Useful surveys of this field are provided by Blaug (1999, unpublished manuscript) and Throsby (1994); recent monographs are Behnamou and Ginsburgh (2000), Frey (2000), Frey and Pommerhne (1989), O'Hagan (1998); an extensive collection of articles has been edited by Towse (1997).

It need not be emphasized that the *economic counterpropositions* are my own and are not necessarily fully shared by all other economists. However, I believe that a vast majority of cultural economists would take the line of the narrowly economic counterpropositions, while my advocacy of direct citizen participation in decision-making processes, also with regard to cultural issues, is perhaps not shared by as many.

The propositions are grouped into three sections. The first section discusses the *typical features of the economic approach* to culture and aesthetics, as measures of the value of aesthetic objects, by confronting them with what I sense to be the views generally held by culturalists and by the public. The second section presents some *facts on aesthetics and culture*, where the perceptions of culturalists and the public, on the one hand, and economists on the other hand, strongly deviate. The third section is devoted to the often starkly contrasting views with respect to *cultural policy* and who should make decisions regarding this policy.

## CHARACTERISTICS OF THE ECONOMIC APPROACH

### Value of Aesthetic Objects

*Proposition: "The value of an aesthetic site is measured by the number of visitors."*

This is a charge often heard against economics. The idea seems to be that economics is interested only in numbers and quantities. Thus, it is claimed that economists would suggest closing down a theater or a museum cultural site, if the number of visitors is small, because it is taken to be of no value from the economic point of view.

*Economic Counterproposition: "The measure of value is the willingness to pay for an aesthetic object. This includes the intensity of appreciation as well as choice, existence, bequest, prestige, and educational values."*

This counterproposition makes clear that economists do *not* take the number of visitors to be the indicator of value. This is so for two reasons:

1. The willingness-to-pay can be high, even if only a few people visit the cultural object. What matters is not simply the number, but also the *intensity* with which the cultural object is enjoyed. This is not an empty statement without relevance in the real world. The opposite is true. Even a quick glance at a newspaper kiosk reveals that profit-oriented firms are able to cater to minority tastes, and sometimes even to very small minority groups. Consider, for example, the dozens of high-quality journals devoted to the opera or, for that matter, to the collection of toy soldiers.
  2. The economic value of an art object depends on the preferences of *all* individuals, not only on those who pay for it on the market. Economists have gone to great pains to identify these so-called *nonuser values*, in particular:
    - a) option values (people value the possibility of enjoying a cultural object in the future);
    - b) existence values (people do not benefit from a cultural object themselves, but benefit from knowing that it exists);
    - c) bequest values (people do not benefit from a cultural object themselves, but derive utility from knowing that their descendants will be able to enjoy it if they choose to do so);
    - d) prestige values (people derive pleasure from knowing that a cultural object is cherished by persons outside their community); and
    - e) educational values (people are aware that culture contributes to education and therefore value it).
- This list is not exhaustive; many other aspects relevant to cultural property, such as authenticity value, arise, provided the individuals in a society express a willingness to pay for them.
- To speak of nonuser values is not an empty statement because they have been empirically measured. For example, it is well known that only a small share (something like 5%) of the population ever (voluntarily) visits an opera house. Nevertheless, several popular referenda concerning the financial support of the Zurich opera house have been supported by a clear majority of the voters. The support of the many nonusers could be attributed to the various nonuser benefits mentioned above.
- Nonuser values are not often supplied by the market. Economists have therefore devised many different schemes and techniques to capture the willingness-to-pay by nonusers in order to secure the supply of the respective cultural goods.

### Induced Business Activity as a Measure of Art Value

*Proposition: "The value of an aesthetic object is measured by the amount of business activity created."*

It is often claimed that economists are only interested in culture if it produces additional economic activity. Thus, many culturalists think that a classical musical festival can only be

rationalized economically if the business created for restaurants, hotels, and the various kinds of shops, exceeds the cost of running the festival.

*Economic Counterproposition:* "The economic approach supports culturalists in their effort to stress noncommercial aspects. Purely business interests are opposed."

The counterproposition makes it clear that economists do not base their evaluation of culture on the amount of business created. Such "impact studies" are only one part of the evaluation. It is important to distinguish between economists (an academic field) and business interests. Owners of hotels, restaurants, and shops are obviously interested in the additional business created by culture. However, economists are quick to argue that if the profits indirectly accrued are as large as often claimed, the businesses that derive these profits should finance the cultural activity in question. Economists consider the *total* utility created, which also involves the above-mentioned nonuser benefits that are not (directly) reflected in the form of market turnover and profits. It is wrong to consider only business interests.

### Employment and Income as a Rationale for Public Support

*Proposition:* "The employment and income generating effects of cultural projects are important."

Impact studies have indeed been undertaken for many cultural activities, in particular for musical festivals such as the one in Salzburg. These studies often come to the conclusion that the additional employment and profits created provide a good rationale for public support.

*Economic Counterproposition:* "Impact studies devoted to capturing the multiplier effects of cultural projects are dangerous and often counterproductive."

Economists are critical of impact studies (which are often initiated and financed by the business community) because turnover created does not reflect the value added by the cultural activity. It may well be that turnover rises but profits do not (they may even fall). More importantly, business profits create only one part of utility, while neglecting the already mentioned nonuser benefits. Using impact studies is dangerous because if one relies on the additional business created — and that is an approach often taken by cultural managers, e.g., directors of museums or opera houses — one runs the risk that alternative activities are even more profitable from the business point of view. Thus, a sports event such as a Formula One car race is likely to create more business than the local museum does. If one followed the rationale of impact studies, it would then be logical to support the car race and to no longer subsidize the museum. An economist would not support this argument.

With respect to the additional employment created, the same argument applies. If another economic policy instrument (e.g., an employment program in the sports sector) creates more employment than a cultural activity, any basis for the public support of the latter is lost.

## FACTS ON AESTHETICS AND CULTURE

### The Wealth of the Arts

*Proposition:* "The arts are poor and are getting poorer and poorer all the time."

Many culturalists are convinced that the arts and culture today are in a very bad financial condition. The respective complaints have become something of a trademark.

*Economic Counterproposition:* "The arts are getting richer all the time."

In one respect, this statement is certainly true: art objects, in particular paintings, have greatly increased in monetary value, as everybody following art auction results can testify. It is only a matter of time before a painting is sold for more than 100 million dollars or euros.

Of course, this does not mean that *all* art is in good financial health. However, it does mean that our art museums are immensely rich if they value their art holdings correctly. At present, almost all art museums implicitly attribute a value of zero to their holdings, i.e., the art they own does not appear on their balance sheet. The question is how the wealth of art museums should be dealt with.

### Art as an Investment

*Proposition:* "Private investments in art are more profitable in monetary terms than investments in assets such as government bonds or shares."

This is a very popular view that has recently been fueled by banks, which have detected art as a new investment option.

*Economic Counterproposition:* "To make money, people should not invest in art."

This view, interestingly enough, is shared by most serious art dealers and persons active in auction houses. It is also supported by serious empirical research. Thus, in joint work with Werner Pommerhne, using data on art auctions spanning more than 350 years (1635–1987) and more than 2400 transactions on the most important art markets (New York, Paris, and London), I calculated an average real net rate of return (i.e., after accounting for inflation and transactions cost) of 1.5% per year (Frey and Pommerhne 1989). An investment in government bonds would have yielded a return of about 3% per year. Thus, art investment, on average, is *not* profitable from a purely financial point of view.

It is, of course, possible to reach higher returns on the art market — if one is lucky. If I had bought a Rauschenberg in my youth, I would have realized a high profit. But this argument applies to all investments: if I had bought an object which afterwards turned out to rise sharply in price, I would have realized a high profit. To test this argument, just envisage whether you are prepared to state today what painter will trade at high prices in the future. If you were really sure, why would you not buy all his or her paintings now (as you could easily get a loan from the bank)?

## CULTURAL POLICY

## Aesthetics and Marketing

*Proposition: "Aesthetics should be divorced from commercialization."*

It is often argued that aesthetics can remain "pure" only if not mixed up with business.

*Economic Counterproposition: "Marketing should be actively used to safeguard aesthetic objects."*

Economists emphasize the possibilities of tapping the willingness-to-pay for art by various means. Marketing is one important means of financing the arts, thereby helping to protect cultural legacy. One example is provided by "superstar museums," which are characterized by the fact that it is almost impossible as a tourist to visit the respective city without going to the museum itself: the Louvre and Paris, the Prado and Madrid and, most recently, the Getty and Los Angeles. Superstar museums increase the profits of many industries such as tourist enterprises, hotels, restaurants, and souvenir shops. Cultural suppliers must be taught to appropriate some of the business profits created instead of leaving them to noncultural enterprises. This can be done partly by raising entrance fees, opening restaurants and souvenir shops within the cultural establishments themselves, or by lobbying political decision-makers to impose a special tax on the firms and persons indirectly benefiting from cultural institutions.

There are many possibilities for raising money that have so far remained largely untapped. All over Europe, cultural institutions — as part of the public sector — have little incentive to move in this direction, not least because they are normally not allowed to keep their earnings for their own purposes, but must rather hand them over to the general budget. Over the last few years, this has begun to change toward the situation found in the United States, i.e., where cultural institutions (most of which are legally private) are required to raise the necessary revenue themselves. However, the task of the American cultural institutions is greatly facilitated by the fact that the donations are generally exempt from taxes and, therefore, cost the donors much less than the sum given (if the relevant income tax rate is, say, 50%, the cost to the donor amounts to only 30%). In most European countries, by contrast, such donations are not exempt from taxes or only to a small extent.

Sometimes at first sight, it seems impossible to raise revenue from cultural activities. An example is environmental art, which can be viewed by everyone free of charge (in economic language, it is a public good). Still, as Christio has convincingly demonstrated, this need not necessarily be so. He is proud to create his wrappings *without* any subsidy, be it from government or private sources. He is able to raise the money by selling sketches and plans of his works — a considerable achievement, which might be imitated by other enterprising artists.

## Aesthetics and Monetary Values

*Proposition: "For cultural policy, aesthetic values are all that matters."*

This view seeks to differentiate cultural from other aspects of policy, and claims that they should be clearly set apart.

*Economic Counterproposition: "Since resources, in particular government budgets, are restricted, it is often indispensable to price aesthetic values in monetary terms in order to fight competing claims."*

As soon as the public sector is involved, there is no way of denying the scarcity of financial resources. The size of the public budget is limited, and there are virtually thousands of demands competing for funds. Culture is only one of these demands. If cultural activists refuse to employ the measuring rod of money, they become inconsistent, because they actually use a monetary measure when applying for financial support. Only if the cultural sector were to refuse to ask for money from anyone, could the strict posture of this proposition be maintained. However, this certainly has nothing to do with reality.

How can a "right" balance between aesthetic and commercial aspects be maintained? This question cannot be answered *in abstracto*. Rather, fundamental rules in society must provide for the *right process* to go about deciding this issue. This is the content of the next proposition and counterproposition.

## Who Should Decide on Cultural Issues?

*Proposition: "Public decisions concerning aesthetics must be left to an educated elite."*

It is often understood as a matter of course that ordinary persons are incapable of judging and therefore deciding on cultural issues. Only those persons who have been educated or have educated themselves in art, are taken to be able to make reasonable decisions concerning culture. Only they know the relevant facts, can evaluate the pros and cons, and are sufficiently involved to be able to seriously consider the issue in question.

*Politico-economic Counterproposition: "It is essential to have generally accepted rules of how decisions on aesthetics are to be made within a democracy."*

A democracy is defined by citizens having the last say on all issues. This must include cultural issues. It is not compatible with the democratic rationale to exclude any area as a matter of principle. If culture were excluded, many other areas could be excluded as well, using the same arguments stated in the proposition. Thus, for example, experts on military affairs could claim that they are the only ones capable of deciding on whether a country should engage in war, or experts on nuclear power could claim that only they are capable of making a well-informed and reasoned decision on the use of nuclear power plants.

The politico-economic counterproposition does not mean that citizens themselves make all decisions on every issue. In areas where intimate professional knowledge and expertise is required, the citizenry may well decide to leave the specific decisions to experts. This may well apply to cultural issues. However, the extent to which the decision-making power is transferred to experts must be decided by the citizens rather than by the experts themselves.

## Aesthetics and Direct Democracy

*Proposition: "Aesthetic decisions cannot be left to the citizens."*

Average citizens are taken to be badly informed and little interested in cultural issues. They are therefore well advised to leave cultural decisions to experts.

*Politico-economic Counterproposition: "Aesthetic decisions can and should be made via popular referenda."*

Modern political economy proceeds from the notion that reasonable individuals are able to make rational decisions. They are certainly not as well informed as the cultural elite but they are able to appreciate the issues once the ground has been prepared by the public bureaucracy, government, and parliament. Extensive and open public discussion, which is an integral part of the referendum process, provides citizens with the necessary information to make reasoned referendum decisions, including decisions on cultural affairs. In this pre-referendum process, cultural experts play a prominent role. They must make their case in a language understood by common people, which means that they must leave their expert "ghetto" and concentrate on the fundamental issues.

Popular referenda on cultural issues are a necessary part of a democratic society, which puts trust in its citizens. It has often been argued that popular referenda are possible only in well-developed democracies with well-educated and informed citizens. This may be true, but it should be taken into account that providing citizens the opportunity to participate directly in public decisions gives them a strong incentive to learn and to inform themselves. As long as they are excluded from daily politics, they see little sense in becoming informed and engaged because they cannot change anything anyway.

Another argument against using popular referenda for cultural issues is that the population is too emotional to be able to make reasonable decisions. Emotions do indeed enter into decision-making, but this applies to everyone. There is no reason to assume that parliaments are not subject to emotions (the U.S. Congressional debate on Mapplethorpe's photos is a case in point). Nor are groups of experts immune to emotions, as the phenomenon of "group think" demonstrates. The argument of citizens' alleged emotionality would only be decisive if it could be proved that it is everywhere and always greater than in other decision-making bodies — and as far as I know, no such evidence exists.

Referenda are not restricted to granting money for general cultural issues (as is the case for bond issues in some American communities). Rather, citizens are invited to decide on issues of content, such as whether a particular theater should be built, or even whether particular paintings should be purchased (for a concrete example of the latter, see below). This accords well with the idea that citizens are reasonable human beings. It also makes sense because it is unclear who constitutes the cultural elite. Is the cultural elite comprised of persons with a formal education in the arts? What level of formal education is required? Is it sufficient to have a diploma from an art college, or is a diploma, doctorate, or professorship in art history or some other cultural field, required? Or is the cultural elite made up of people active in art administration, such as museum directors and curators? Or is the cultural elite made up of those persons actually producing culture, i.e., the artists themselves?

Whatever the answer, there is obviously a great amount of uncertainty as to what constitutes the cultural elite. Moreover, whatever the definition of cultural experts, they are often severely divided on the merits of particular cultural policies. It must be concluded that there is no such thing as the "opinion of the cultural elite." Rather, there are many different views among individual art experts. Moreover, many of these views turn out to be utterly mistaken from today's point of view. One example is provided by the extreme resistance of the Paris art establishment toward the Impressionists.

The basic idea of an open society is that each art expert has the opportunity of communicating his or her view to the citizens, who listen to the various arguments and, on that basis, make a referendum decision. The use of referenda to decide on cultural issues thus does not establish a confrontation between citizens and experts. On the contrary, experts are given the task of informing citizens about the underlying issues, and their superior knowledge and experience will be appreciated by the citizens.

Compared to traditional methods of evaluating the willingness-to-pay for cultural projects, in particular the so-called "contingent valuation approach," referenda induce a discussion focused on a specific cultural issue. The discourse does not have the character of an inconsequential academic discussion, but rather takes into account the resource scarcities which public decisions necessarily confront. Another great advantage is that a cultural project is evaluated *and* decided upon simultaneously. This contrasts favorably with many cost-benefit analyses, in which a project is carefully evaluated, but is then shelved once the analysis is completed.

Using referenda to decide on issues of art, including cultural property, also differs from a "stakeholder approach," which has currently been favored in the so-called public-private partnership discussion. A fundamental problem with this approach is that the participants are not well defined. Well-organized (interest) groups have a much higher chance of participating than the rest of the society. In particular, two nonorganized groups regularly tend to be excluded: the "consumers" and the "taxpayers" who have, after all, to foot the bill. What a stakeholder approach normally boils down to is a discussion between a selected group of persons, consisting primarily of the supplier side as well as government representatives. The latter cannot be assumed to speak for society as a whole, but are, in reality, very concerned with their own interests as bureaucrats. In contrast, a popular referendum gives everyone the possibility of participating — not just the chosen few.

Empirical research in the Economics of Art has convincingly shown that popular referenda may be used effectively for cultural issues (Frey 2000, Chapter 7). The costs of the referendum campaigns were regularly carried by groups supporting the arts so that the public discussion was, if anything, biased in favor of the cultural issues.

An example of such a referendum is the one undertaken in the canton Zurich opera house already mentioned, or on the purchase of two paintings by Picasso (*Les Deux Frères* of 1905/6 and *Artéquin Assis* of 1920) in the canton Basel in 1967. Many art experts at that time thought that leaving the decision to buy abstract paintings (which were then still considered by many to be outlandish) to the public, was a bad idea. Yet 53.9% of the voters supported the proposition (Frey 2000, p. 125). Picasso was so pleased with the outcome that he generously donated two other paintings, *Venus et l'Amour* and *Le Couple*, as well as some drawings, to the population of Basel. These specific cases are not exceptional. Thus, it has been demonstrated that the voters are sometimes more prepared to support cultural expenditures than other issues.

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