On the “Value Paradox” in Art Economics

June 4, 2016

1 Introduction

This article addresses the research question: what are the value theories used by art economists which can help define the field as a unique research program. We categorize the research program in art economics in Lakatosian terms and find that art economists share a value-system around art which is that art contains value beyond that of exchange. This difference introduces a “paradox” of value to be addressed (either implicitly or explicitly) by the art economist in practice in that mainstream economics assumes value is realized through exchange only. We then survey the literature and find evidence to support this value paradox claim. In addition, we find that the art economics research program does not adequately address the potentiality of the state using art as instrumental value and introduce political economy to factor in a self-interested state using art production as a means to reproduce and ideally expand state legitimacy and power in society.

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.[1] Our claim, fortified with examples, 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.[2] 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 non-exchange values, which also go beyond individual use-value, in order to fully capture the importance of cultural goods (in our case, art) in human flourishing for both the individual and the collective.

2 Plan for the Discourse

Following Victoria Chick (1998, 1867) who finds that "economics is defined by its subject matter," we conduct a literature review in the field of art economics and outline the common research themes as published by the practitioners of art economics in order to discover the art economics subject matter. In presenting the

[1] The concept of 'pre-analytical vision' is from Schumpeter (1986: 41), who writes, "In other words, analytic effort is of necessity preceded by a preanalytic cognitive act that supplies the raw material for the analytic effort. In this book, this preanalytic cognitive act will be called Vision". In this article we find that a vision of art's value in the economic sphere as a paradox is a common value-system shared by art economists and that this shared vision forms the Lakatosian, unfalsifiable and metaphysical, "hard core" of the art economics research program.

[2] 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.

literature review I attempt a systematic classification of the categories in the art economics research program.

We 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, 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. We therefore devote the main section of the article 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* is the specific categories of applied and theoretical research against which the hard core is irrefutable (is pre-analytically axiomatic). Below we 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 article.

We begin by a brief summation of the history of economic value since the early modern period and then describe and define the development of art economics as a sub-discipline of economics in order to specify the object of analysis (we also find that art economics is a sub-discipline – a precursor - of what is now known as cultural economics more generally).

Next we introduce a typology of the research program categories in art economics in Lakatosian terms and illustrate how art economics is currently re-introducing other, non-exchange, values into economics. The main body of the article follows where we discuss some foundational and contemporary writings in art economics in order to give specific examples of the *value paradox* to support the claim that art economists in general share a common irrefutable pre-analytical vision. We conclude by summarizing the findings which leads to introducing a political economy of a self-interested state to show that art production can have instrumental value as well, something missing to date in the art economics literature.

3 On Economic Value

3.1 A Brief History of Economic Value

Economists look for the meaning of value in economic life.[3] The mercantilists or early modern political economists (ca. 1500 – 1750 CE) believe that economic

[3] 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

value arises from precious metals (usually gold) held by national governments and the French Physiocrats (ca. mid-1700s) believed that value comes from agriculture production. The classical economists (ca. mid-1700s to late-1800s), including the Physiocrats, wrote that value came from the inputs to (costs of) production. For example, Adam Smith (1994, 36-37) writes that value comes from productive labor (for the Physiocrats agriculture labor is productive labor).[4] "Labor alone, therefore, never varying in its own value, is alone the ultimate and real standard by which the value of all commodities can at all times and at all places be estimated and compared. It is their real price; money is their nominal price only."[5]

The 'marginal revolution' of 1871-3 changes the conception of value in economics, from one of objective value based on inputs (land and labor) and a competitively- equalized profit rate for capital in the long-term) to one of subjective value based on individual perceptions of economic "goods" at a (marginal) moment in time and what has to be given-up (the subjective opportunity cost) to obtain a good. The marginal revolution was in part based on utilitarian philosophy where "good" was measured in pleasure and "bad" was measured in pain. The idea of course is that people try to maximize the good and minimize the bad. This concept

absolute value which can any degree be deemed an accurate one" (Ricardo 1823 in Sraffa, ed. 2004, xlvi).

[4] Adam Smith finds that the performing arts are 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).

[5] Smith 1994: 33.

of subjective value through the consumption of the most economic goods with the least work then became *utility* in economics, where utility is realized through market exchange and with a prioritization at the subjective, individual and household level of economic activity. This utility maximization model lends itself well to modern mathematical economics.

3.2 Vulgar Economics

David Throsby (2001) believes that Adam Smith in *Wealth of Nations* was the first person to differentiate between what economists refer to as *use value* and *exchange value*. In a famous passage from Smith we find,

> The word VALUE, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called "value in use;" the other, "value in exchange." The things which have the greatest value in use have frequently little or no value in exchange; and on the contrary, those which have the greatest value in exchange have frequently little or no value in use. (Smith 1994: 31).

John Ruskin in 1872 uses the term "vulgar"[6] political economy to criticize the post-classical marginalist economists who believe that all value is exchange value.[7]

> For Ruskin, following Carlyle, the idea that the value of a commodity 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.

[6] At the time "vulgar" meant "common."

[7] See Throsby (2003 and 2011) for discussions on the history of value in economic thought relating to art, including Ruskin's critique of the marginalists.

> 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 the creative production process imparted value to a painting or a sculpture which became embedded or intrinsic to the work itself (Throsby 2001, 22).[8]

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 and reductionist unity of value.

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 we explore in detail later the "hard core" of the art economics research program is that the value of art varies from the value of other economic goods in society (art for many art economists has the nature of a public good) presenting the art economist with a paradox as a starting point in her analysis in that as we have find below there is an over-abundance in the supply of art produced in society.

[8] For Ruskin then the cultural *wealth of nations* is the aggregated labor production of a nation's artists.

4 Defining "Art Economics"

4.1 History of Art Economics: Literature and Professional Association

If economics is a relatively new science - most commonly recognized as beginning (in the English language) in 1776 with Adam Smith's *Wealth of Nations* - then the economics of art might be brand new. The first book on art economics is 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*.

The first collected readings in art economics is Blaug, ed. (1976) and the first textbook, devoted to the economics of the not-for-profit performing arts sector, is Throsby and Withers (1979).[9] The next textbook, Heilbrun and Gray (1993), covers in addition to performing arts, the public broadcasting and fine-art painting and museum sectors, also mostly not-for-profit institutions. David Throsby (1994) introduces art economics to the mainstream in the *Journal of Economic Literature* and in 2003 *The Handbook of Cultural Economics* (Towse, ed.) was published. Art economics might now be considered to be an 'established' research program in that

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

the literature now has at least two stock-taking articles, "Where Are We Now in Cultural Economics?" (Blaug 2001) and the New Palgrave entry on the "economics of art" (Throsby 2008).

In addition, Hutter (1996a) studies how cultural economics impacts on more general economic theory, and Towse (2010) is an influential textbook on cultural economics which explicitly includes for-profit industries as opposed to a focus on non-profits as in previous texts (more on this later). Despite a 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).

4.2 What is Art Economics?

In order to answer this question we first need to define economics. The canonical 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 in this article we 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").[10] As stated we prefer Victoria

[10] Many visual artists, actors and musicians try to 'make it' or to become 'discovered'. "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 in defining and analyzing artist labor markets.

Chick's proposed definition which is that "economics is defined by its subject matter," in our case, fine art.[11]

4.3 Enlargement of the Field

We now describe how the object of study in "art economics" has expanded in order to further delimit our specific research program category. "Art economics" is now considered "cultural economics"; the application of economic reasoning has been expanded from the 'fine art', mostly not-for-profit sectors, to the 'cultural industries' or the 'creative industries' whose production occurs in commercial or for-profit sectors.[12] These for-profit industries must include 'creative content' however defined and by whom and when and for what reason in order to be part of cultural economics.

Towse (2010, 376) finds that one of the reasons for the consecration of the commercial into the field is that UNESCO created the 'cultural industries' classification to include measurement of such industries as multi-media, internet,

[11] 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. Artist behavior does not fit the orthodox model of income maximization.

[12] Towse (2014, 66) states, "The creative economy is a term that slipped into use almost unperceptively and it seems to have somewhat different meanings in different contexts." The goal of this article is not to help define the creative or cultural industries only to highlight the fact that art economics once was primarily the study of not-for-profit arts sectors and "fine art" markets, but has now grown to include for-profit industries as well. Our value paradox claim is necessarily for the fine art, art economics, sector alone.

print and music publishing, sports, musical instruments, advertising, architecture, crafts, design and cultural tourism to help enlarge jurisdictional domain.[13]

A public choice explanation for this expansion of Chick's "subject matter" could be an attempt by UNESCO (and related national-level and other bureaucracies) to gain more funding for programming, or indeed to prevent a decrease in funding. Throsby (2001, 111) also has a public choice take on the enlargement of the field of art economics into cultural economics, "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."[14]

Including for-profit industries into the art (cultural) 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 sector in his discussions on cultural policy.[15] In our present discourse on value theory in art economics we follow Throsby and Frey in that it is best to narrowly define our category as "art economics", to exclude (and avoid) the slippery slope

[13] Throsby (1994) delineates the microeconomics of industrial organization between the profit and not-for-profit arts sectors. Towse (2010, 2014) divides her textbooks between the "traditional" (not-for-profit) sector and the newer "creative industries."

[14] Although we might ask do not beer and footwear contain creative content?

[15] 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 patronage is less implicitly credible.

of determining what entails "creative" content in the commercial sector and then to argue positively for one intervention over another.

5. 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."[16] Blaug (1980, 36) writes "the hard core is treated as irrefutable" by the research program. In our study of foundational and contemporary writings on art economics we 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 ways, the rest of this article is on this paradox in art as an economic good and how this paradox is approached in the art economics research program.[17] We also find a void in the research

[16] The discussion on Lakatos is from Blaug (1980, 36-37).

[17] Mark Blaug, "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, *emphasis added*). Blaug (Ibid.) writes 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."

program, specifically the case of a self-interested state as arts patron, something discussed in this article in exploratory form.

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 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 as experience. 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 art[18] whereas others disagree and say that heterodox approaches are necessary.[19] We summarize what we have found to be the main research areas in art economics in Exhibit 1 below.

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

[19] See Klamer, editor (1996) for a collection of writings from other disciplines on art and culture and Klamer's arguments for a heterodox art economics.

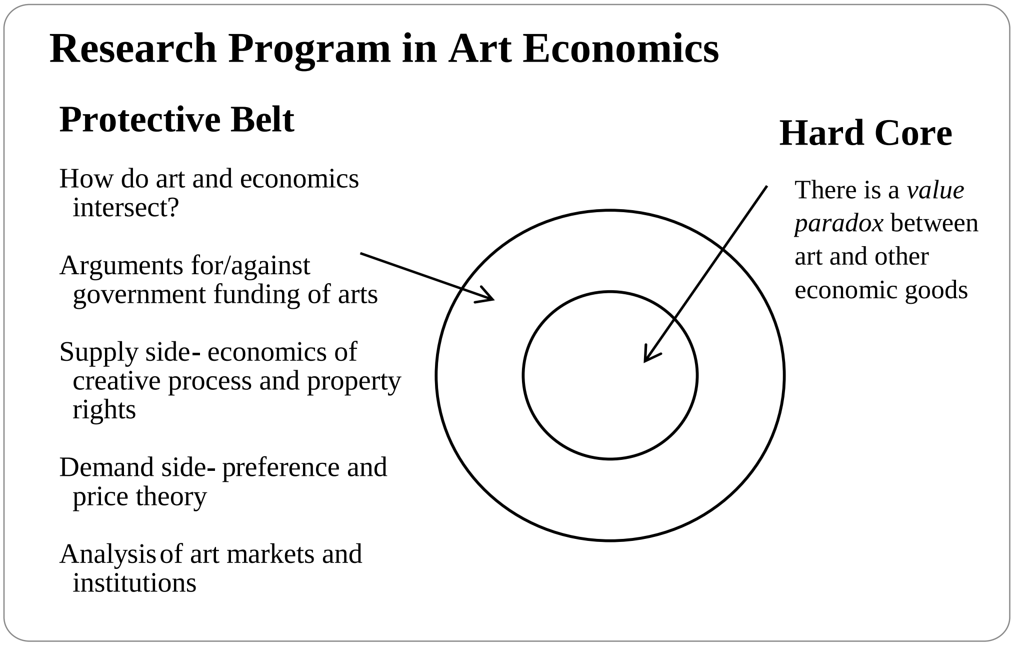

Exhibit 1: Heuristic on the Research Program in Art Economics. Author's diagram.

The first category in the protective belt is labeled, *How do art and economics 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 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 or mixed goods.[20] These concepts are explored, in terms of public goods under welfare economics, later in the article.

[20] 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.

The second category 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 (state as patron, but not as a self-interested patron as introduced later in this article) connotations of this difference. 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 to artists (the supply-side) best achieves a richer supply and greater access.[21] Throsby (2010) is a full text about the economics of arts policy.[22]

The next two categories of research are on the Supply and Demand-sides for art. The analyses of the supply (artists) and demand (individuals and institutions) are among the most studied areas in art economics.[23] Demand-side research can range

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[21] Tyler Cowen seems to be a little inconsistent here when arguing for production subsidies as effective arts policy. When discussing the New Deal publically-funded art of the 1930s (which was managed in a decentralized manner) he describes the over-supply. Cowen (2006, 69, referencing Naifeh and Smith 1989) 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.”

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

[23] Institutional analysis appears most often in the economic sociology literature (see e.g., Currid 2007, Aspers 2010, Kaprick 2010, Raustiala and Sprigman 2012, Wurtzel 2015), with the role of cultural gatekeepers and networks in bridging asymmetrical information during socially-constructed supply and demand. During the research for this article the question was posed, to paraphrase, “why does a Picasso fetch scores of millions of dollars?,” if towards the end of his life he was painting several per

from labor supply analysis (entry, exit, incentives), to property rights[24] 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.

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 and even sports 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.[25] We capture these concepts in the *Analysis of art markets and institutions* research program category.

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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, with both economic and "psychic" returns.

[24] Specific property rights issues of interest to cultural economists are copyrights and trademarks and in Europe also the right to proceeds from onward sales and performances, e.g., *droit de suite*.

[25] 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.

6 The “Value Paradox” in Art Economics

Next we explore the value paradox in art economics as applied to the Lakatosian research categories we have just defined. I focus most on the research program categories *How do art and economics intersect?* and *Arguments for/against government funding of the arts* to provide additional evidence of the value paradox in the practice of art economics.

6.1 How Do Art and Economics Intersect?

We addressed above the collapse of value in modern economics of ‘use’ (or ‘intrinsic’ or ‘embedded’ or ‘absolute’[26]) value into exchange value. Throsby (2001, 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 non-exchange 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.

[26] 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 non-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.

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.[27]
6) *Authenticity value*: an artwork is real, original and unique. The authenticity and integrity of an artwork has value.

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.... 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).

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[27] Viewing an artwork does not necessarily mean "consuming" it as it may remain intact for others to view. Art can be an experience good (like education and science), the more one "consumes" the good the more one "produces" the good.

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 the market can be viewed as inhabiting two different cultural realms, or *habitus* (Bourdieu 1984)

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." [28] 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…., my first step is to distinguish the *product of art* from *art as an activity* and *art as an experience*."

Michael Hutter 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.

[28] Note that Klamer's concept of economics here may ignore 'reputation capital' or the value of continual and personalized relations in a service economy.

> A world that is inevitably running out of natural resources cannot maintain or even increase the volume of material production at length.[29] 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, but exercising 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 in Exhibit 2.

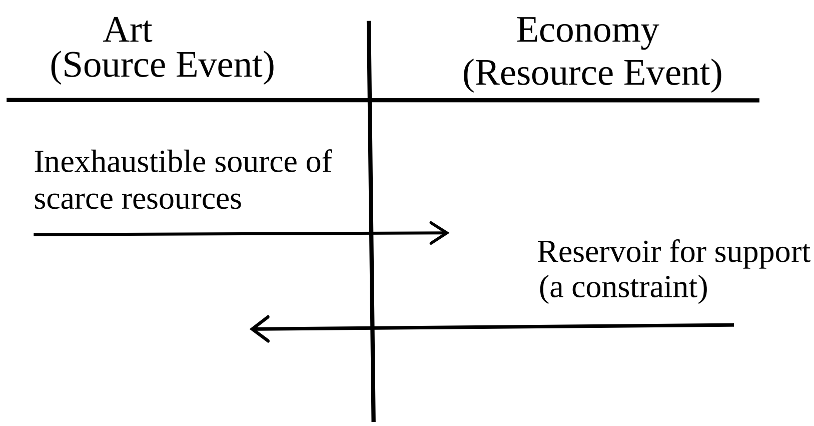

Exhibit 2: Heuristic on Exchange of Value between Art and the Economy. Diagram by author, adapted from ideas by Hutter 1996b.

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

We can see similarities among Throsby delineating the non-exchange values in artworks, 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 and Klamer and Hutter on the relationships between art and the economic as inhabiting different although related *habitus*. Each of these writers have a different take on the relationship between art and economics. Yet they all explicitly acknowledge this value paradox in art economics and explore this paradox in their writings however uniquely.

6.2 Arguments For/Against Government Funding of the Arts

Tyler Cowen 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.[30] 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).[31]

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[30] 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.

[31] 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 redistributional takings. Cowen is using the "merit good" argument for art subsidy although does not say so. More on merit goods later.

Regardless of the political philosophy arguments (resolvable only in the public policy 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 statement 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. The trade-off between the economic and the aesthetic is modelled in Exhibit 3 below.[32]

Supply and Demand for Art in Polity X at a given time

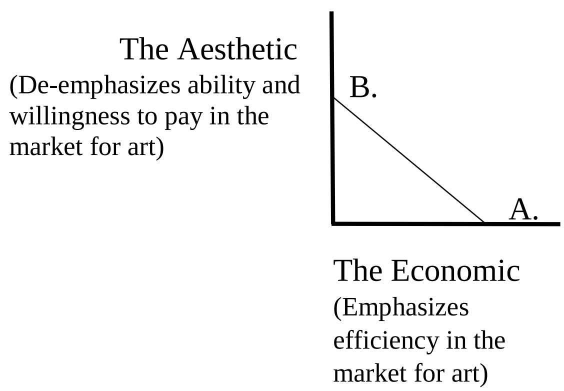

Exhibit 3: Illustration of Trade-Off between Aesthetic and Economic Value in Arts Policy.

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[32] Exhibit 3 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. We 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."

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.

Many art economists use economic arguments for arts funding (state as disinterested patron) 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 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.

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).[33] Throsby and Withers, who give a summary of the discussion around merit

[33] Throsby and Withers (1979, 197) also contrast art with "public parks, free school lunches, education and even public transport" because these latter public programs have overtly redistributional effects in addition to being merit goods.

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.

Throsby and Wither's argument that (disinterested) 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 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 [34] and something explicitly addressed later in our notion of art-statism and a self-interested state using art to create preferences in the citizenry for an increase in the scope of the state's legal monopoly on coercion.

[34] See Buchanan and Tullock (1960, especially 283-295), a 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 categories in art economics.

Robert Musgrave and James Buchanan had a discussion in 1998 around their two differing visions of public economics. In this discussion 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 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 in our case) are merit goods. This argument is similar to the 'positive rights' argument in Cowen in that he is arguing from a normative rather than a positive point of view (arguing for art's paradox of value). 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…. 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 who 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 a 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).[35]

6.3 Cultural Goods

In modern society we are grouped in political bodies, the *polis*. Apart from our daily lives in which we interact and live voluntarily with those we like and love, our collective actions are guided by both local governments and national governments (the nation-state). We will find below that Frey (2003) believes that all states are involved in the 'market' for arts. Throsby and Withers (1979, 193) explain why this

[35] 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 our survey 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.

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.”[36] 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 however defined and by whom.

Throsby (2001, 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 taxonomy) 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) art’s 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

[36] Public art can also 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 dislike. See Klamer, ed. (1996, 87-91) for a case study.

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,"[37] "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 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).[38]

It is the bequest value argument which is also relevant to our survey of the *value paradox* in art for this article. The bequest value concept is not too different from the normative notion that one generation owes another generation some degree of preservation of nature. 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 arts (see the J Paul Getty Foundation and the Mellon wing of the Virginia Fine Arts Museum, for example), however, history should not be removed from our analysis and the state and prior

[37] 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 (or philanthropic) funding of art makes art available to ourselves and others and this gives value whether or not we avail ourselves of this option in the near-term.

[38] See Bourdieu (1984) on the museum as a space for art's consecration.

to that the church have funded cultural heritage so we have seen this valuation empirically over time.

Tibor Scitovsky in the *Joyless Economy: An Inquiry into Human Satisfaction and Consumer Dissatisfaction* [39] 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 that 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 article it is inevitably the public policy process of each polity which determines how and to what extent built heritage (in our case, art) is publically 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 (we explore art-statism later). It should also be noted that there are 'nation-building' [40], nationalism, or less euphemistically, 'national treasure' arguments put forth to support government funding of the arts or for protectionism against outside cultural influences. Too comparative statistics are widely-used in art economics to measure differences in

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[39] 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 thrill of the new as manifested in the sublime) reasons, this leads to the unexamined life. Further elucidation of consumer theory is beyond the scope of this article, however is very much part of the art economics research program under *Demand side - preference and price theory*.

[40] See Anderson (1991) for nation-states as "imagined communities."

how various *polis* value their culture empirically by levels of public funding (see Frey 2003, Cowen 2006, Zuidervaart 2011).

6.4 Note on the Contingent Valuation Method

With surveys and experimental settings, economists have used the contingent valuation method (CVM) to try place an economic value on non-tradable goods.[41] "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).[42]

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

[41] 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.

[42] For example, a Willingness-to-Pay type CVM would survey the masses around the Mona Lisa and ask what they would pay to see it in an uncongested situation. The WTP measure is a measure of how much someone would pay for an improved *quality* (less congestion means a better view) of the art experience. 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 money to visit the museum during less congested times.

‘value’ this ‘endowment effect’ and thus create an indicator for intrinsic or aesthetic value.

Importantly given discussions of public choice economics related to those involved in cultural institutions, art economics has used the CVM approach to remove decisions about public arts funding from that of experts (technocrats) 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.[43]

[43] “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 2012, 54).

7 Towards a Political Economy of Art

Bruno Frey writes that all societies have a political economy of art which for Frey means that all societies operate somewhere along the continuum between market value and aesthetic value in normative policies for art as manifested by the state over time.[44] However Frey also believes that this political economy has been underemphasized by cultural economists.

> 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, *emphasis added*).

In response to Frey, and to Spolaore (2006)[45], we introduce a self-interested state as arts patron, and observe that art can have instrumental value as well. When we endogenize the nation-state as arts patron we move from economics to political economy. First we visit the state-theoretical approach of Richard Wagner (2007) to

[44] Meaning that the *polis* policy environment for the state's art patronage is somewhere between the trade-offs A and B in Exhibit 3.

[45] "A central goal of contemporary political economy is the endogenization of political institutions, and sovereign states are perhaps the most important political institutions in the world" (Spolaore 2006, 779).

see how he develops a sociology of the state, we then use this foundation to determine how a self-interested state would act as arts patron.

Wagner uses an ideal-type dichotomy to describe two forms of government, the "organization" and the "order" as shown in Exhibit 4 below. We find that state *organizations* have goals and the discretionary power to realize these goals, with the pole of discretionary freedom the absolute monarchy on the left-hand side of the continuum. In the ideal-type an absolute monarchy does not have to negotiate its actions with the citizenry through catallactic exchange. Juxtaposed with an organization we have the *order* occupying the right half of the continuum, with the most democratic order being one with an unanimity rule, or the *liberum veto*. An order is "an institutionally-mediated order of human interaction" requiring consent and legitimacy, in democracy, due to electoral politics (Wagner 2007, 7).

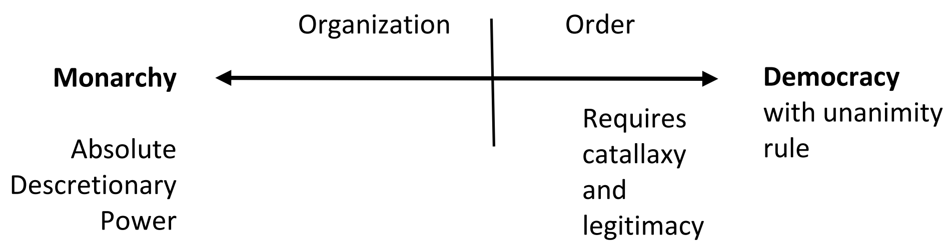

Exhibit 4: Dichotomy and Continuum between the "Organization" and "Order" Forms of Government. Diagram by author, adapted from Wagner (2007).

For our theory of a self-interested state we next draw from Anthony de Jasay (1998). For Wagner the state is in negotiation with the *polis* whereas de Jasay believes that the state must be self-interested to ensure its survival, and that modeling the state as self-interested is more robust that assuming continuous state benevolence. This self-interest means that the state attempts to move leftward along the continuum, towards more discretionary power as an "organization," because less negotiation is required to maintain legitimacy.

By moving towards discretion (as opposed to rules) the state is abler to pursue its goals unhindered, be they benevolent or wealth-destroying. "Instead of saying, tautologically, that the rational state pursues its interests and maximizes its ends, whatever they are, I propose to adopt, as a criterion of rationality, that it seeks to maximize its discretionary power."[46]

In a political economy of art then we find the state uses culture (art) to inculcate state legitimacy (and thus more degrees of freedom for state arbitrary action).

> Thus, it is entirely likely that once the state has made people observe the cult of Bach, *and* they have in due course taught themselves to like it, they will "identify" better with the state which gave them their tastes. Likewise, the splendor of the presidential palace, the achievement of national greatness and "being first on the moon" may in the end implant in the public consciousness a certain sense of the state's legitimacy, a perhaps growing willingness to obey it regardless of hope of gain and fear of loss. Hence, they may serve as a cunning and slow-acting substitute for buying consent (de Jasay 1998, 270, *emphasis in original*).

[46] De Jasay 1998: 270

7.1 Art Statism

If the state uses art patronage to increase its power (to gain more consent for discretionary or arbitrary action) we can call this *art-statism*. The state is using art for precognitive manipulation of voter preferences (in a democracy) or for propagating a more authoritarian regime. We are following de Jasay in this sense. The state's cultural production can be benign ("national cultural") or it can be self-interested ("art-statism") but it is often difficult, or perhaps impossible, to determine intent.[47] However we believe like de Jasay that it is more robust to assume a self-interested state. We can use two examples of art-statism below to illustrate our point that art can have instrumental value for the state, and that art "subsidy" is not necessarily for the public good as we find most often in the art economics research program.

Carol Duncan finds that Jean-Auguste-Dominique Ingres's 1824 painting *Vow of Louis XIII* is used as art-statism. One of the messages to be decoded by the viewer of the work was a fond memory of the divine right to rule prior to the 1789 French Revolution and subsequent turbulence.

[47] For example is placing the US Constitution in the US History Museum in Washington, DC an act of benevolence or an act of self-interest? The constitution overturns the Articles of Confederation and gives for the first time a federal government the right to tax and have a standing army. Shostakovich wrote his war symphony during the Nazi siege of St. Petersburg to help gain support for the war and to arrest fatigue. This symphony was broadcast simultaneously throughout the USSR. Is this national culture-production or art-statism? How about Nazi Germany's suppression, and then display of "degenerate art," see Peters (2014).

The painting depicts symbolism of the 1822 coronation of Charles X returning monarchy to France. The crowning was "controversial" and the painting "affirmed a definite ideology and reinforced one of the most contested doctrines on the Right: the alliance between the throne and the alter" (Duncan 1980, 80). Duncan cites archival documents to argue that Ingres was not motivated by aesthetic reasons alone when accepting the commission for this painting. The 1822 (re-)coronation gains more legitimacy with this commission.

Exhibit 5: Jean-Auguste-Dominique Ingres's painting *Vow of Louis XIII* (1824). Photo courtesy of the Louvre website. The (re-established) King is paying tribute to the Church who gives the King his divine right to a monopoly on legal coercion.

The second example of art-statism is more recent, from the *New York Times*, Sunday, June 21, 2015, "The Chinese Want Their Art Back" (Meyer 2015). We find that the Communist Party (the "Chinese" of the article's title) in the name of President Xi Jinping wants pilferage returned in that traditional culture is "a foundation for China to compete in the world," and that art can "lead people to live a life abiding by the code of morality," in this case of course morality being acquiescence to the one-party state. The People's Liberation Army has created a foundation, the China Poly Group, to purchase Chinese art at international auction to facilitate repatriation. Again it is difficult to assign benevolence or self-interest to the Chinese state, although self-interest seems more plausible in that the Chinese state has made a conscious decision to change arts policy over mostly suppressing pre-communist culture.

This is not say that it is not possible for a state to be benevolent or that art produced with the state as patron is always towards more aggrandizement of power. From Carl Menger in *Investigations into the Method of the Social Sciences*,

> But in this line of argument there are a number of fundamental errors. We admit quite unreservedly that *real* human phenomena are not strictly typical. We admit that just for this reason, and also as a result of the freedom of the human will – and we, of course, have no intention of denying this as a practical category – *empirical laws of absolute strictness* are out of the question in the realm of the phenomena of human activity (1985, 200, *emphasis in the original*).

To date the art economics literature has almost solely focused on a benevolent state with regards to its arts funding. From the Menger quote above we find that this is too narrow of a category for the evaluation of state arts-funding because it categorically de-emphasizes the use of arts funding for the state's self-interested purposes, defined in this article as a state which wishes to grow its discretionary power over others. To address this systemic shortcoming in the literature we could add another category to the art economics research program with the value paradox at its core. Art can have instrumental value to a self-interested state so we should analyze as well *State as patron* (not just as funder) in art economics.

8 Conclusion

We have proposed that the Lakatosian 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 as exchange-value. The study of culture and aesthetics may be more the purview of other disciplines (philosophy, anthropology, sociology, art history, semiotics) than that of economics. However economics is the study of human behavior and human behavior is more than (different from) individuals acting under resource constraints. It is proposed, here and elsewhere, that this has been a weakness in mainstream economics.

We have attempted 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 art 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 created and allocated (valued) 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.

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