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PRESIDENTIAL ADDRESS

The value-based approach to cultural economics

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Fifty years ago two economists came out with what at the time seemed to be a rather meaningless and pointless study. It was the quite renowned economist William Baumol who, together with his student Bowen, applied that rich and powerful economic apparatus to the insignificant world of performing arts, insignificant in an economic sense, that is. Possibly thanks to these economists and their audacious effort we are here (Baumol and Bowen 1966).

Thanks are also due to William Hendon who started a group of cultural economists and began the Journal of Cultural Economics in 1973. The first international conference of cultural economics took place in 1979. In 1993 the association added International to its name and became ACEI. The journal of cultural economics became academic. In 1993 I discovered the field because of an opening for a professorship in the economics of art and culture at the Erasmus University. Werner Pommerehne had refused an offer, and they were scrambling for another candidate. That happened to be me. I was not the obvious candidate as I had published in the field of philosophy of economics and not in cultural economics. In 1994 I attended the conference in Witten, organized by Michael Hutter. It was the beginning of a fruitful conversation with quite a few of you.

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1 The diagnosis is somber

The ambitions of the first cohort of cultural economists—a few of them are still in our midst—were great. They wanted to show all other economists that their tools are applicable in a study of the arts, too, and looked for recognition for their exercise. At the same time they expected to influence cultural policy, bringing in a much needed economic perspective. Maybe some hoped to influence the world of economists as well.

So where do we stand, 50 years later? What have been our contributions to the science of economics? To the world of art? To cultural policy?

An enthusiastic master student of mine, Dorottya Kiss, decided to try to answer the latter question. She interviewed many Dutch civil servants responsible for the development of cultural policy and discovered to her dismay that most knew little to nothing of the work of cultural economists that she had been studying, and, worse, they did not even seem interested (Kiss 2015). She was disappointed. I myself saw confirmation of a suspicion that I entertained already for some time. I still remember an interview with Rick van der Ploeg, an academic economist who served as secretary of culture in the Dutch government at the time. The interview took place during the 2002 conference of our association in Rotterdam. It was the time that we had a keen interest in contingent valuation and economic impact studies. I asked him what use he had of the work that we cultural economist were doing. Van der Ploeg can be blunt and that he was this time. He answered: "none at all". I repeated the question and he repeated his answer. He added that our studies do not work in policy discussions. I thought it to be a stunning observation. Here we are, cultural economists who target a great deal of their research at policy makers and here is an economist who knows about cultural economics and who is responsible for Dutch cultural policy, and it has to be him who concludes that our work is of no relevance. I have found further confirmation in my current work as a governor of a Dutch town: when we discuss the subsidies for cultural institutions findings of cultural economics do not enter the discussion. Apparently, we do not serve our intended consumers well.

How, then, is our impact on the discipline of economics? We still fall under category *Z* in the Journal of Economic Literature, get small rooms in the major economic conferences and articles in our journal get rarely cited in other economic journals. Let's face it: not many of our colleagues care about what we are doing here.

Maybe I make the current situation seem too gloomy. You may evoke Baumol's disease as one of the outcomes that has affected the world beyond cultural economics—although some of us are quite critical of this contribution. I am looking at people who have made a mark by participating in discussions and research projects of major international institutions like the UNESCO. Several of us participate in important forums on intellectual property rights. And we get called upon to conduct and comment on economic impact studies. Some well-known economists have attended our conference and contribute to our discipline. You may think of other achievements like in the field of creative industries. But do they

amount to so much that we can conclude that the ambitions of the founders have been realized? I doubt it.

Then again, I suspect that quite a few do not really care about the impact that we have as cultural economists. I often hear from fellow members that they do research in this field for fun. They just like the subject of the arts and are satisfied applying their tricks. That they get paid for that is to them a welcome miracle.

Such a justification bothers me every time I hear it. Many of us tend to be critical of spending tax money on the arts. Some of us see sufficient externalities to justify public subsidies but we all are aware that the argument is problematic. We could follow the same argument here. Tax money finances a great part of this conference and covers the cost of most of us. The same question can be asked that we pose concerning the subsidizing of the arts: why would tax payers fund our work when that work only gives pleasure to us and has no clear societal or scientific benefits? What justifies the spending of tax money on what we are doing here? What is out impact? What is our return on investment?

The lack of justification for spending tax money on the work of cultural economists, or, for that matter, economists in general, has intrigued me for quite some time. Economists are eager to seek economic justifications for whatever, except for their own activities and programs. Why should we not account for our costs like we expect others to do? What economic or other impact do we have? How consumer oriented and entrepreneurial are we, really? Who are our consumers? Policy makers? Theater makers? Museum directors? What if van der Ploeg is right and they really do not care? Honestly, what are our answers to such questions?

We have a great number of new members in our midst. I do not want to scare them off by posing these questions. On the contrary my point is rather that facing such questions will help us further our cause rather than set us back, despondent and all. Let us face it: anyone who would try to answer such questions would quickly find out that the actual impact is very difficult to point out and even more difficult to pin down. When policy makers say that they are not influenced by our work, that does not mean that they really are. They might be influenced even if they are unaware of the influence. It is not that they copy-paste our results and apply them. It is usually a matter of opinion or interpretation. Is that not interesting? I would say so, and more so now I am at the governor's table myself.

To continue the probing: the conclusions are even more dramatic when we shift our attention to the world of the arts. What use do the producers of the arts have for our work? What findings of standard economic research have had an impact on what is happening in the world of the arts? Maybe you can think of instances. I do not know of any. Oh sure, our colleagues who focus on cultural management can brag about their impact on practices in the world of the arts. We should not be surprised, therefore, that most students interested in cultural economics expect to learn about management and entrepreneurship. Does that mean that the work of cultural economists is irrelevant in the world of the arts?

In the meantime, colleagues in other fields have adopted the brand of cultural economics. We can encounter cultural economists now in the fields of business studies, social geography, history, language studies, and sociology. Are we about to

be run over and bypassed? Do we have to conclude that we are running out of steam, that our research program is ceasing to be progressive?

2 A proposal to innovate in order to face the future

For the sake of our future I have a proposal for you to address the rather depressing situation in which we find ourselves. It is a proposal to bring back agency in our work, to recognize the moral in our science, and to inspire people working in the arts. Who knows, the proposal may inspire young economists and all those others who are interested in another economy and for that reason seek another economics (For the elaborate account see Klamer 2016).

It may be too radical a proposal for some of you. I apologize to those in advance. It is not my intention to offend anyone here, to tell you that you are not doing the right thing. It may come too early and too sudden. We will have to see. All I ask of you is an open mind for now and the willingness to consider what I have to say. You are of course free to ignore and dismiss the proposal.

With this proposal I want to pick up and accelerate an undercurrent in our conversations that has been perceptible for quite some time, but that has been hardly noticeable in the journals and the handbooks to which we are contributing. I refer to work of David Throsby, Michael Hutter, Bruno Frey, Erwin Dekker, Jenn Snowball, Trine Bille, Anna Mignosa, Francois Benhamou, Ilde Rizzo, Kazuko Goto and others who bring in nonstandard notions into the discussion, such as values, cultural and social capital, play, happiness, and creative commons. In these contributions the standard rational choice approach and the standard transaction rigor is relaxed. They are thinking "beyond price" as Throsby and Hutter named a volume of articles (Hutter and Throsby 2008). I will bundle all these contributions, add a few twists and call the outcome the value-based approach to cultural economics. My book *Doing the Right Thing: A Value Based Economy* (2016) provides an elaborate account. Students at the Erasmus University apply it, and with Anna Mignosa, Ludmilla Petrova, and Priyeteja Kotttipalli I conduct workshops all over the world. I also apply it in my work as a governor in a Dutch town. The approach has, so it has been shown, practical consequences.

The motivation for the value-based approach came about in the study of the world of the arts. As many of us have experienced, people in that world do not take easy to the standard economic approach. As Susana Graca has documented in her Ph.D. research, theater makers cannot make sense of their own world in terms of "products", "rational choice", "efficiency", "elasticities", "sunk costs", and "opportunity costs" (Graca 2016). They even have visceral emotional responses when they hear our standard concepts. Some of you may respond saying that their being able to make sense of what we are saying is not what is important as long as they accept our conclusions. But they do not even do that.

Ever since I took on cultural economics as my research field, I have focused on this tension between the standard economic perspective and the way people in the world of the arts perceive and talk about their world. I wanted to bring an economic perspective while doing justice to the life world of artists. That has led to the value-

based approach that I am introducing here. It is good for several new concepts and for another, more comprehensive picture of the world than the one that standard economics provides.

The value-based approach begins with what theater makers and others involved in the arts world find important, that is with their values, or with the qualities that they want to realize. Usually those values, or qualities, are artistic in kind; they concern theatrical or musical or multimedial qualities. Often they will mention social and societal values, like when they want to contribute to local communities, social cohesion, justice and such.

The proposal is to start thinking about the realization of such values. The realization has two sides. For theater makers and other artists it begins with the awareness of what is really important for them, what they are making art for. Some may have as a primary motive to entertain and to gain an income—then their values concern their own life, their family, their hobbies and all that they can realize with the money they earn—but most artists will point at artistic values and sometimes social or societal values. Their values are social when they want to contribute to a particular community. They are societal when they aim at a political impact, when they make art to contribute to social justice, political freedom, human rights, or national identity. Their values are artistic when they care most about an artistic practice, want to make art for art's sake, or sustain cultural heritage or a cultural tradition (by performing Shakespeare, classical music or classical dance, or preserving a Rembrandt). This awareness part of the realization of values proves to be quite a challenge for artists and art producers, as I found out in my research. It requires a serious effort to get them articulated.

Having or cherishing such values is one thing, it is quite another thing to make them real somehow. That makes for the other side of the realization of values: *valorize* them. When economists hear or read about valorization they think in financial terms. They point at the market where things can be sold as products in exchange for money, as the place for valorization. Their influence is great. When university officials speak of valorization of our research we are made to think of sponsors who are willing to finance it or pay for the outcomes. That representation of valorization is one sided, misguiding and even mistaken. Artists show why that is.

When artists want to make their artistic values real, they first of all have to make art. That usually requires that they take a degree at an art academy, study what other artists are doing and figure out how to get recognized in the ongoing practice that is called art. During that process they will have to realize works of art that somehow embody and express their artistic values. It is essential that other artists in their very practice, or connoisseurs of that practice, will recognize and appreciate their works as contributions to that practice—classical dance, conceptual art, hip hop or whatever. All that is a matter of artistic or cultural valorization: the attribution of artistic and cultural meanings to the work. It is a big part of what artists do every day. It is an activity on which culturalists, like art critics and art historians—zero in and which economists tend to overlook. The value-based approach includes the cultural or artistic valorization.

Realizing a work is an essential part of the process of valorization. An artist needs a work to make his or her artistic values real, just like we need to generate and

maintain a friendship in order to realize the value of friendship. It is like with preferences: we need to buy a good to reveal our preferences. A work of art is a good, too, in the sense that its generation requires sacrifices and generates benefits—people can enjoy, admire, appreciate and own the work. But it is not a commodity, yet, and it is not a "normal" economic good. Let me elaborate.

In the value-based approach an artistic work is first of all a *shared good*: it has to be shared, or be part of a common practice in order to qualify as art. A work of art is a contribution to a shared or common practice and has to be recognized by others apart from the maker as a contribution. It is commonly owned, shared by the group that identifies with the common practice. Accordingly, the valorization is not only cultural or artistic, but also social by becoming shared by a group of people. That part of the valorization, too, is not acknowledged in standard economic approaches.

The part that economists understand well is the valorization that generates financial means. We tend to call that economic valorization but I would suggest it is financial valorization that we mean. For in this part of the process the purpose is to transform the good into a pecuniary amount, that is, a bunch of money. Those means enable the realization of other values such as a home (In this approach a monetary amount is not a value in itself but holds a promise to realized values).

To analyze the financial valorization we have two types of logics in place, the one of the market and the one of the government. In the market art producers transfer the ownership of their work or sell services of their work (by selling tickets for example); their work becomes a commodity. The sphere of the government provides another option: here they submit plans which are usually being appraised by a committee and if they are lucky leads to a grant or a subsidy. In the latter case there is no transfer of ownership. The standard study into financial valorization has produced Fig. 1.

During the last 50 years we, cultural economists, have preoccupied ourselves mainly with these two logics, and especially the logic of M. We have been going back and forth about the advantages and disadvantages of both. Some of us have advocated the used of G logic when it comes to the valorization of the arts for the reason that art is a public good or generates externalities. Others like Tyler Cowen have been vehement advocates of the M logic in the world of the arts. The great majority of the papers in this conference focus on one aspect or another of the M logic. Just think of all the papers about pricing and willingness to pay. So much for the standard picture.

The value-based approach creates another, more comprehensive picture with the standard economic picture as a subsidiary part. It first of all points at the cultural valorization by which a work acquires its artistic status. That kind of valorization follows a cultural logic, which is the expertise of only a few of us here. We know only too well the scientific valorization for that we have been practicing during this conference. No money has changed hands, no government officials have supervised the proceedings but we have figured out what were good contributions to our practice and which were less interesting and less successful. This is the valorization in C, in Fig. 2.

In the social space, also called society, (the S in the picture) the social valorization takes place. Here artists contribute to a shared or a common practice.

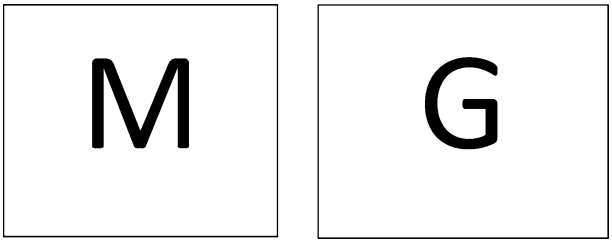

Fig. 1 Two standard logics: market and governance

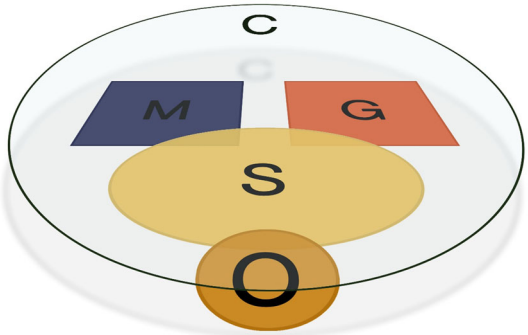

Fig. 2 More comprehensive picture

Whatever their singular work is, they realize their artistic status in that practice. Art is social. Its values come about in a social setting. A singular work derives its values from being a contribution to a common practice, that is, a practice that a group of people, artists, connoisseurs, museum directors have in common.

That is why art is a shared good. Such a good does not appear in standard economics. Buchanan's club good comes close but is still different. Friendship is a good example. It is a good just like a refrigerator that is in the sense that it is costly to bring about and to sustain and because it is good for all kinds of things. Yet, the friends cannot buy or sell their friendship. They have their friendship in common and share the ownership. They maintain the friendship by *contributing* to it (giving attention, helping to move, being present at important moments and so on). A friendship knows rivalry (when others befriend one of the friends) and exclusion (of everyone else). Free riding is silly lest one is willing to lose the friendship. Art is like friendship. It is shared by those participating in contributing to its practice. People may buy a physical object or the right to entry, but they acquire the art, realize the artistic values only when they are willing to make an effort. All this takes place in the S in the picture below.

The O stands for oikos which connotes, as we economists know all too well, household or home. The oikos is most relevant for the valorization of art as it is there that artists convince themselves and their partners to give up all kinds of goods in order to practice their art. The far greater majority of art producers fail to generate sufficient financial means to support their own home and therefore need other

earnings, or have their partners to earn those means. In this way artists make further contributions to the practice of art.

Our own world can serve to illustrate. Take the situation where we go out for dinner with colleagues. I may assume that we do not do so just to eat but more so to have a good conversation about our work, other economists, politics maybe and sometimes personal stuff. So what accounts for the value of our dinner? The quality of the food? Or the quality of the conversation? The price we pay may indicate something about the quality of the food (but not necessarily so). How about the quality of the conversation? Who knows, we may hit upon a brilliant idea, or forge a bond that will last for years. The quantitative part of the event, the price, has nothing to say about those qualities. Our willingness to pay is quite irrelevant as well. You see, our standard approach does not do justice to even the most elementary situations. The picture shows that we operate in C—when we discuss our ideas—and S—when we relate to each other. It is in S and C that we realize the most important goods, the shared goods of collegiality, friendship maybe, knowledge and cultural economics. It is our willingness to contribute, to engage in a shared practice that brings those goods about.

This picture is good for all kinds of insights. I name a few.

- The challenge to theater makers and museums is not so much selling tickets but getting others willing to contribute and participate. The point is not to get someone to occupy a seat but to get that person to further the conversation about the performance.
- S and O are sources of financial means too, but they come in the form of gifts and donations. Sponsors usually follow the M logic.
- Public subsidies have as a disadvantage that their acquisition does not involve a real contribution and participation—unless civil servants and politicians feel called upon to attend the venues that their organization financed.

3 So what? Our impact

The value-based approach points to an impact that is inconceivable in the standard approach. The latter makes us think of information and empirical results as input in the (rational) decisions policy makers take. Then, indeed, our influence is unnoticeable.

But according to the value-based approach people, organizations and also governments realize values, that is, they valorize what is important to them. That is not a rational process. I use the Greek word *phronesis* to characterize the process of valorization. Phronesis involves the weighing of values, conditions, interests and findings in order to do the right thing. It is often a chaotic process with a lot of talk, a going back and forth, the making of mistakes, and more talk and deliberation. It should not surprise you that all that I experience in the policy making process. More importantly, I discovered that my civil servants base their policy reports on values. We have to do things because we value “choice”, “efficiency”, “customer-oriented

products", "quantitative results", "evidence", "competition", "markets", "tourist income", and "economic growth" next to values as "equity", "social cohesion", "equal chances" and such. You notice the economic values that standard economics propagates?

So here is the irony. While we preach to each other in the standard approach that we do positive economics and are therefore objective in our advice to policy makers, our influence is normative. Policy makers take over the values that they read in the standard practice. And that normative impact is huge. Civil servants think elementary economics as if it comes natural to them. When I point out to them that our citizens seeking welfare are not our "customers" they look at me as if I am coming from another planet. And since when is the government a business to be run by a concern team? (The actual influence is new public management, yet this discipline is informed by standard economic rhetoric).

The value-based approach provides an alternative vocabulary and with that other values. In my application I stress the focus on qualities and offer the quality impact monitor that make qualities amenable to governance practices. So now we do not talk anymore about the number of visitors that the local museum has received but about its contribution to the cultural and social qualities of the town. We are discussing the qualities of our interactions with citizens, and the qualities of neighborhoods, another dossier of mine.

The same we can do for cultural organizations. Actually, we already are doing so. For where the standard approach bypasses the cultural organizations, the value-based approach targets them even more directly than the policy makers. For it makes them focus on what is really important to them, their values and the qualities that they want to realize and helps them to think about the best strategies to valorize them. In my experience, this approach inspires people in the world of the arts.

Last but not least, the value-based approach makes a difference for the way we understand ourselves and what we are doing here. It makes us aware that the M and G logics are at a distance and that we are engaged to participate, share and contribute to a shared practice, a shared good that we care about, that enables us to earn an income and with that to valorize an oikos, and maybe most importantly, has the potential of a serious impact on the worlds we care for, on the world of the arts, on society and, who knows, on our civilization.

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