Discussion Paper: The 'economic' benefits of art

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1998

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"If memories are pain, fiction is anaesthesia."
The Mind as a Consuming Organ, Thomas C Schelling.

Introduction

The phrase the 'economic benefits of the arts' has gained currency in arts sectors around the world, largely as a result of a new 'economic' rationalism in public policy. As with all areas of public policy, arts and cultural policies have come under the scrutiny of economics. But popular economic models have translated uneasily into the artistic sphere. The relatively young subject known as 'cultural economics' is only just beginning to mature. It is hardly surprising, then, that much of the application of economics to the arts has been less than satisfactory.

Some interpretations of how to apply economics to the arts have been at odds with acceptable economic and analytical practice: 'economic benefits' and 'economic impacts' arguments are an example of this. In their application to the arts, these analyses are only partial economic analyses and are typically associated with exaggerated claims. The word 'economic' has been misrepresented and the tools of economics misused with perverse results; the concentration on the financial elements of arts economics has distracted attention from more useful discourses on arts policies, has weakened arts advocacy and has caused undesired policy responses.

This paper is intended as a discussion document as part of Creative New Zealand's project to outline the benefits of the arts. The overall objective of the paper is to clarify the phrase 'economic benefits of the arts'. In doing so, the discussion illustrates many of the analytical weaknesses in focussing on the financial aspects of artistic activity.

The analysis is necessarily drawn out. Preconceptions of both art and economics cloud the issues of art economics and arts policy. This paper looks at both art and economics separately, investing particular attention on building a simple notion of economics. The paper then attempts to combine systems of economics with systems of art, as petitioned for cultural economics by Throsby (1996). A number of important lessons are highlighted in the process. The following structure is adopted:

- a definition of 'economics' (and an examination of the term 'economic benefit')
- a definition of 'art'
- a integration of the two into the 'economics of art'
- an investigation of the economic benefits of art, theory and practice

Part 1: Economics

> "It is pretty clear that an economist, like a poet, uses metaphors. They are called 'models'" McClosky (1990).

Economic analyses are, habitually, consciously flawed. Economics treats as standard behaviours we know do not always hold. It simplifies things we know are complex. It 'assumes away' things we know are real. Economic 'schools of thought' discredit each others' analyses. If economists have anything in common, McCloskey suggests, it is that they tell stories. The effectiveness of economic analysis is, then, measured in its ability to convince, through argument, that something is 'best', better, or likely.

So there are a variety of ways of viewing economics. Textbook characterisations commonly, however, portray economics as the study of how 'scarce' (or limited) resources are utilised or managed. This paper builds a model, derived and adapted from Barker (1997), that is based on this view of economics. The model is highly abstract, but is useful in translating some of the most important perspectives of economics into a digestible form. The story is built up step-by-step, with the full model summarised diagramatically in figure 4.

The economy as a system

Adam Smith marveled at the apparently magical management of resources that resulted from the free actions of individuals seeking out their own benefit. As if guided by an 'invisible hand', the system of 'market' interactions seemed to utilise resources at least cost. That system is known as the economy, and its study is known as economics.

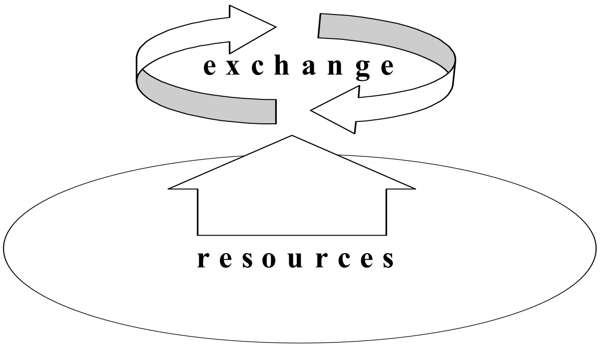
Smith's awe is less common today. As Heyne (1994) points out, the imperceptible is prone to neglect: "[w]hen we have long taken something for granted, it's hard even to see what it is that we've grown accustomed to." Schelling (1978) reminds us:

> "Somehow all of the activities [of individuals and agents] seem to get coordinated. There's a taxi to get you to the airport. There's butter and cheese for lunch on the airplane. There are refineries to make the airplane fuel and trucks to transport it, cement for the runways, electricity for the escalators, and, most important of all, passengers who want to fly where the airplanes are going. The fact that there is never a taxi when you need one in the rain, or that you can fly 3,000 miles more comfortably than you can fly 300 and flights are occasionally overbooked, reminds us how spoiled we are. We expect this fantastically complex system to be even better coordinated than it sometimes is."

The systemic functionality personified by the 'invisible hand' remains the essence of how economics views the economy, even though much of the subject is devoted to understanding situations in which the management provided by the 'invisible hand' is undesirable. It is the notion of the economy as a system – be it a benign or malignant system - that serves as the foundation for the model of economics developed here.

In utilising resources, people can be self-reliant, using their resources to try to meet their own needs. They can also enter into exchange, swapping their own goods or services for items that they cannot provide for themselves (or could only provide for themselves with greater effort). Although economics is interested in all modes of resource utilisation, it is particularly concerned with the exchange process, which is the dominant means of resource utilisation. In essence, therefore, the economy is a resource-constrained system of exchange. The diagram in figure 1 illustrates. Each of the main components– resources and exchange – are investigated in more detail below.

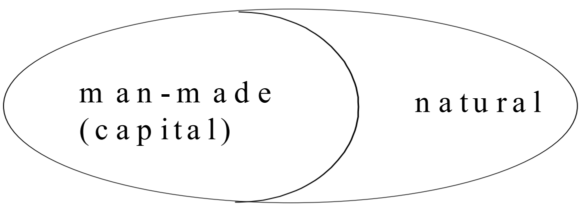
Figure 1



Resources and capital

At any one point in time, the stock of available resources is ‘scarce’ (ie limited, or fixed). Resources consist of two main elements: 'natural' resources; and man-made resources, or capital (figure 2).

Figure 2



Notions of capital and resources are constantly changing. ‘Capital’ has a variety of meanings in different contexts, and is still prey to a largely unresolved conflict in economics known as the ‘capital controversy’. Received wisdom on the relationship between natural and man-made resources is also being constantly challenged by developments in genetics and biotechnology, and by the evolution of new knowledge in areas such as environmental economics (in which the term ‘natural’ capital has been coined).

This paper bypasses many of the controversies surrounding natural resources. Instead, it concentrates on notions of capital with the aim of developing insight into the nature of 'cultural capital'.

Capital

Controversies aside, the essence of the economic view is that capital is something that yields an ongoing stream of benefits, as opposed to consumption items whose benefit is used up in the act of consumption. Capital was initially viewed in economics as the inputs into production. Over time, however, the idea has been expanded in recognition of the existence of wider classes of capital. Three fundamental types of capital are now commonly identified:

> Physical capital: physical objects that yield a stream of benefits over time. Traditionally inputs into the production process (machinery, land), but now also consumer durables (fridges, motor-mowers) and more, such as objects endowed with symbolic meaning (statues, totem poles, genealogy sticks).
>
> Human capital: knowledge and competencies embodied in people. Traditionally seen as the skills acquired through education and training that yield a stream of marketable services, ie abilities that are exchangeable in the labour market for money (salaries and wages). More recent concepts of social and cultural capital bring new challenges to accepted ideas of human capital, and these new concepts are likely to further broaden the horizons of human capital.
>
> Social capital: the newest and a largely underdeveloped notion of capital, which recognises that people are able to derive an ongoing stream of benefits from relationship building. Social capital is commonly seen in a benevolent light as the 'glue' that binds communities, but this ignores the power potential embodied in relationships that may also be malevolent (eg criminal networks rely heavily on forms of social capital).

Cultural capital

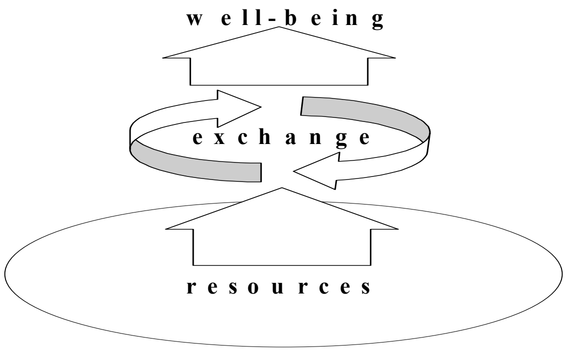
The notion of cultural capital has also gained some traction in the social sciences. Its inception is commonly attributed to Sociologist Pierre Bourdieu (Throsby 1998). Bourdieu's notion of cultural capital has spawned a generation of research into explaining attainment differentials in formal education with differences in individuals' endowments of 'cultural capital'.

The term deserves expansion. Throsby (1998) argues that a distinct notion of cultural capital would vastly improve our knowledge of sustainable economic growth and well being. However, the case for separating cultural capital from other forms of capital remains undeveloped and complicated. For the purposes of this paper, cultural capital will be characterised as a 'meta-capital', ie forms of capital with some (as yet undefined) cultural specificity that are composed of one or more of the fundamental types of capital set out earlier. As physical capital, cultural capital is represented by codified objects that yield symbolic meaning over time (eg paintings, ornaments, film celluloid, and structures such as pyramids, statues and obelisks). As human capital, it is embodied in the cultural knowledge and competencies of people (eg knowledge of Kaumatua, singing ability and story-telling skill). In terms of social capital, the link between social and cultural capital is more subtle and remains to be comprehensively examined (it may be, for example, that in its social manifestation, cultural capital is a generic and endowed form of social capital that creates a relationship between strangers of the same culture).

Exchange

As described earlier, the reasons why people enter into exchange are rooted in the benefits from trade: exchange allows people to specialise in utilising resources for which they have a comparative advantage. The result is a more efficient utilisation of resources and, consequently, a greater level of well being (see figure 3).

Figure 3



In its essence, the exchange process is the exchange of benefit. This reciprocity is easy to comprehend in the case of barter, where people swap items of direct benefit to them; my eggs for your sugar. When money is used, the reciprocity is less subtle, but is still present; other people buy the eggs that pay *my* wages, which allows me to buy the commodities that pay *theirs*. The greater complexity in the second example is due to a greater level of interdependency between people. It is a good illustration of the tendency toward higher interdependency and complexity in economic systems. Over time, as technology and organisational specialisation progress, the variety and complexity of exchange arrangements increases. The results are manifest in the modern industrial system. Complex as modern economies may seem, however, the essence of the system is still reducible to the exchange of benefits.

Today, money mediates most exchange. Bartered exchange can be clumsy. Money is a response to this clumsiness. A stable currency means that a potato farmer who needs a new truck does not have to search for a mechanic with a penchant for potatoes (and then negotiate how many potatoes, over what period, would be fair exchange for a truck). Just how broadly economic principles may apply to all types of human 'exchange', or interaction, is a matter of debate. The behavioural assumptions of economics tempt economists to apply their analyses to a wide range of interactive situations that may appear only tentatively related to 'exchange' in a classical sense. For example, economists have offered their opinion on issues such as the wearing of seatbelts, traffic congestion, family size and fertility, marriage, religion, culture and conflict resolution (many examples can be found in Lansberg 1993).

Financial exchange is, however, still the bread and butter of economics. Financial exchange is more easily measured than other forms of exchange, and this tangible quality has made it the dominant proxy, or indicator, of overall benefit or well being. The dominance is reflected in the widespread attention to the measure of national income, or Gross Domestic Product (GDP). GDP represents the sum of financial transactions in an economy, and is used as an indicator of changes in aggregate well being over time and of differences in well being between nations.

Because GDP is an aggregated statistic, particular sectors are able to use GDP data to isolate the financial flows in their area of interest. The data has a number of specific uses, as will be discussed later. In arts advocacy, the financial data has commonly been used to lobby governments for stable or increased funding to the arts and for comparing the financial size of the arts sector to other sectors. Such uses have come to be associated with the economic 'importance', 'impact' or 'benefit' of the arts (for example, Myerscough 1988 and Casey et al 1996). But what does economics tell us about how well financial measures such as GDP reflect levels of economic benefit or well being?

The relationship between money and benefit

Money derives its value from the goods and services for which it can be exchanged. This implies that there is some correlation between the level of financial exchange and the level of benefit exchanged. But the relationship is often tentative, particularly for the following reasons:

1. The existence of consumer surplus

The theory of consumer surplus tells us that, due to the way that markets work, the price a person pays for an item is not necessarily equal to what they are willing to pay. Nor, therefore, is the price paid equal to the benefit they receive from that item.

For example, the ticket price of a touring rock band may be set at $30, but a die-hard fan may be willing to pay more than the set rate, say $80 (given that the fan is limited by a budget constraint). The difference between what the fan is prepared to pay and what they do pay, in this example $50, is known as consumer surplus. There will undoubtedly be more die-hard fans, albeit with varying degrees of obsessiveness and therefore different levels of consumer surplus at the market price. The sum of the surpluses of each of these people measures the total consumer surplus of the rock concert (ticket touts work to convert the consumer surplus of these people into their own financial gain and, ultimately, their own benefit from the purchase of goods and services). Similarly, the sum of individual consumer surpluses in the arts is the total consumer surplus of the arts, and should rightly be added to the financial elements of the arts to reflect more accurately the total benefit received through the exchange of arts goods and services. That said, the existence of the budget constraint implies that adding consumer surplus to price paid will not always reflect the 'true' level of benefit derived from consumption (the budget constraint places a ceiling on preparedness to pay that can clearly be lower than the actual perceived benefit).

2. The existence of non-financial exchange and 'intangible' benefits

Financial measures of a transaction will not take account of benefits and costs that are intangible or unable to be assigned a monetary value. There are a limitless variety of non-financial exchanges in the economic system - barter and unpaid work are obvious examples. Other, more complicated forms of financially intangible exchanges also occur. The sphere of art and culture is rife with examples: every time a person views a publicly visible mural, an artistic exchange occurs, but not a financial exchange (a financial value may be imputed based on the cost of producing the mural, but this is unlikely to reflect the actual value of benefit exchanged).

3. The existence of social costs and benefits

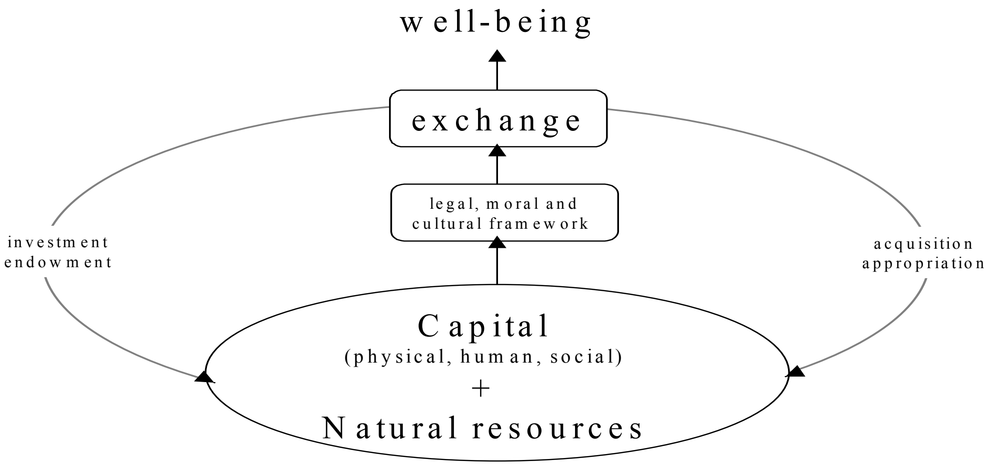
The financial measure of an exchange will not always account for all costs and benefits resulting from the exchange. In particular, people entering into exchange may not take account of the effect of their actions on someone else. From a societal point of view, where everybody's benefits are equally valid, such exchanges fail to represent the total net benefit to the exchange. If I buy Christmas lights for my house, based solely on my family's anticipated enjoyment, the money I have paid will not account for the benefits (or costs!) that my neighbors receive when I switch on my festive spectacle. I have paid too much if my neighbors share in my enjoyment. I have paid too little if they wish they had a less demonstrative neighbor.

Economics suggests that some form of concerted intervention may be necessary to address the distortions created by such 'externalities'. In practice, societies enter the fray through the mechanism of government, essentially by 'establishing legal rules that allocate and define rights…[and therefore] influence the efficiency of exchange' (Barker 1997). Government deliberately 'interferes' with the exchange process and can be seen as a pre-constraint that guides and directs exchange (other less formal constraints exist, such as morals and norms). Moreover, the way in which governments intervene affects the financial measure of exchange. If government decides to compensate my unhappy neighbors with cash from the consolidated fund, the financial quantum of my Christmas light purchase remains unchanged. If government decides to place a tax on Christmas lights in an attempt to discourage my purchase - or reduce the ostentatiousness of my display - the financial measure of exchange will be altered.

The full model

The main elements of a model of economic processes have now been discussed. The full model of the economy that will form the basis of this paper is set out in figure 4 (adapted from Barker, 1997).

Figure 4



A note on economic 'benefit'

The model constructed in the preceding pages clearly indicates that the phrase 'economic benefits' is more subtle than has been used in relation to the arts. Some simple implications are:

(1) economics is concerned with more than money.

(2) the economy is a system by which people exchange benefit.

(3) money facilitates exchange (with the implication that, as will be stressed later, money exists for art, art does not exist for money).

(4) many of the 'economic benefits' of commodities and activities are merely embodied in the specific nature of those commodities and activities, ie in the way they help people be happier, more comfortable, less frightened, more excited, satiated, intoxicated or oblivious.

(5) economic benefits over and above this are systemic; eg expansions of the resource base, better resource utilisation (ie productivity improvements) and increases in the level of exchange.

(6) wealth improvements are not beneficial *per se*: their benefit derives from the extra commodities and activities that can be bought by the extra wealth; and they are subject to collective welfare criteria.

(7) industries and firms (and, similarly theatre companies, dealer galleries and professional artists) can be seen to arise out of a desire to gain higher levels of 'benefit' through specialisation and exchange.

(8) There are a number of specific reasons why financial measures of benefit are different to actual levels of benefit.

Part 2: Art

A great deal has been written in response to the question ‘what is art?’ But art remains essentially indefinable. To define it is merely to create boundaries for artists to destroy. In the philosophical musings about what art is, however, two useful themes recur that provide a basis for intimating how the worlds of art and economics might be integrated. These are only very briefly investigated here.

Functions of art

Art can be seen as functional, ie as a set of activities or objects that exist to perform some common functions (see for example Levinson and Ember 1996). This type of notion of art fits most comfortably with the behavioral assumptions of economics. Economics suggests that people act on perceived net benefit. Observed artistic activity is, then, the result of people acting on perceived artistic benefit. To understand those benefits is to understand the economics of art.

A variety of functions have been attributed to art through the ages. A survey of contemporary literature reveals remarkably similar claims in diverse spheres of interest. Claims of artistic benefit tend to fall under one or more broad categories:

- the affective function – art and emotion/affect
- the psychological function – art and sanity, insanity and personal functionality
- the cognitive function – art and the transmission of knowledge and skills
- the integrative function – art and identity, cohesion and social functionality.

It is beyond the scope of this paper to fully articulate these functional elements of art. Discussions of various aspects of each can be found in Beatson and Beatson (1994) and Bonetti and Madden (1996).

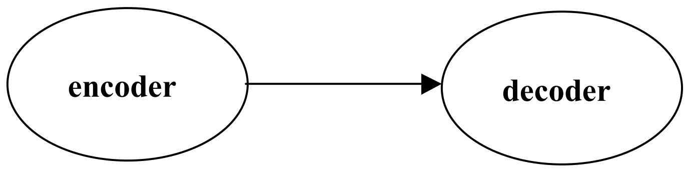
From an economics perspective, these functions of art are the benefits of art. For example, if one of the *functions* of art is to create sensual pleasure, then one of the *benefits* of art is the creation of sensual pleasure. The transformation is made possible by assuming that people are ‘rational maximisers’.

Money exists for art, art does not exist for money. The economic model tells us that people use money in exchange for artistic benefits, particularly those with an artistic ‘comparative disadvantage’. By their nature, however, many ‘economic’ studies of the arts reverse this causality (Sociologists are also prone to this error: one of the functions of art asserted by Beatson and Beatson (1994), the ‘economic function’, implies that art exists to ‘generate’ wealth).

Arts processes

One particular model of the arts as a process is well established in sociology and cultural theory. In this model, art is seen as a process of symbolic, communicative interaction between an encoder (artist) and a decoder (audience). The basis of the artistic process is set out in figure 5 (adapted from Statistics New Zealand and Ministry of Cultural Affairs, 1995).

Figure 5



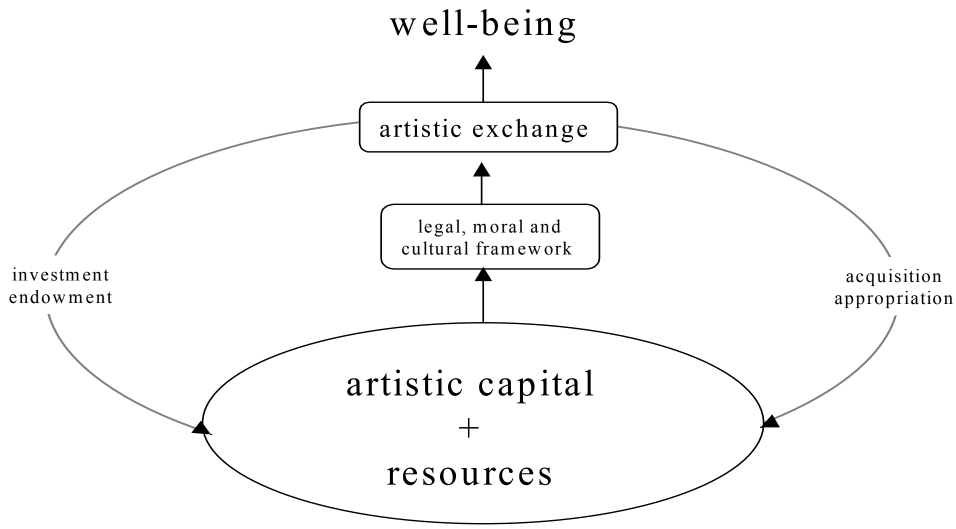
The parallels between the arts process and the economic process are obvious. The ‘supplier’ of artistic benefit is the 'encoder', while the ‘demander’ of the artistic benefit is the 'decoder'. Consequently, the model in figure 5 can be used to derive a model for the arts industries such as that set out in figure 7 in the appendix to this paper.

These two views of art, coupled with the model of the economic system in section 1, form a useful backdrop to understanding the term ‘the economics of art’.

Part 3: The economics of art

By integrating the models of economics and art set out in the previous two sections, a model of the arts economy can be constructed (figure 6).

Figure 6: The Arts Economy



The following logic applies:

- At any one point of time, the stock of artistic resources is fixed;
- People use these artistic resources for specific benefits that input into their well-being;
- People can utilise their own resources for artistic benefit; or
- enter into exchange to improve their well-being by profiting from more art and/or better art; and
- The arts industries are the manifestation of this simple process of specialisation and exchange between 'encoder' and 'decoder'.

Note that the capture of artistic benefit for well-being remains the heart of the process. An understanding of these benefits is required to fully describe what the true economic benefits of art are.

The 'economic benefits' of art: myths and misconceptions

With these models as background, it is now possible to gain some understanding of the meaning of the 'economic benefits of art'. This paper looks at this question in a reverse logical order: it looks at how the economic benefits of art have been articulated in practice, points out what the economic benefits of art are *not*, and then makes some suggestions as to what the economic benefits of art *are*.

Past practice

> "[E]conomic impact studies can be faulted for the fact that those who use them, frequently draw incorrect or misleading inferences from them and the form and content of the studies virtually incite such errors" Heilbrun and Gray (1993).

When articulating the economic benefits of the arts, arts advocates have in practice concentrated on displaying the level of the financial flows associated with artistic activities. This may be justifiable if politicians are swayed by such arguments. But it is neither intellectually rigorous nor objectively compelling. And in the long run, the results have been to the detriment of the arts.

The rise of a 'new rationalism' in public policy has challenged all policy spheres. The new ideology has, however, been founded on an often misguided sense of economics (Lansberg 1993). The results for the arts has been disastrous. Arts and cultural agencies have responded to the new political obsession by emphasising the pecuniary economy of their trade. They have done this through a set of evaluative tools, to be loosely referred to here as 'economic' impact studies. A variety of methodologies fall within this broad methodological category, including raw 'size' analyses (eg Myerscough 1988), multiplier analyses (eg Australian Bureau of Statistics 1995) and attempts to measure 'flow-on' effects of artistic activity (eg Port Authority of New York and New Jersey 1983). The common element of these studies is their focus on the financial elements of artistic activity. It is this financial focus that has created dissatisfaction: at best, these studies have prompted governments to append arts policies to policies for wealth and job 'creation', even though artistic and financial objectives are not always in agreement (Pulford 1995); at worst, the studies have diverted attention away from fundamental issues of arts policy (Bille Hansen 1995).

It is interesting to note that the bulk of 'economic impact' and 'economic benefit' studies have been largely associated with arts-agency advocacy to governments (Schuster 1994 and Van Puffeln 1996). The political preoccupation with economic impact studies has not been mirrored in academic economics. In the twenty-year history of the Journal of Cultural Economics, the academic flagship for the economics of the arts, only a handful of articles (approx. 5) have been devoted to analyses of this type. Indeed, articles attempting to restrain the epidemic of 'economic' impact studies appear periodically in cultural economics literature (eg Seaman 1987, Schuster 1994, Bille Hansen 1995 and Van Puffeln 1996).

Some of the main issues are investigated below by looking at simple examples of common 'economic' analyses.

Size arguments

The simplest form of 'economic impact' and 'economic benefit' analyses is the 'size argument'. Size arguments attempt to show how important the arts are in 'economic' terms by calculating the financial quantum attributable to arts activities. They are often presented as a case for government intervention in – or increased support to - the arts because the arts are a substantial 'economic' entity (an aging example, but one that has received much credence, is set out in Myerscough, 1988. See also Casey et al 1996).

The size argument is usually based on data indicating that the arts sector represents some proportion of GDP. This measure is typically purported to indicate not just the economic benefits of the arts, but often the economic 'significance' of the arts. The argument is analytically and economically weak:

- The theory of consumer surplus tells us that the financial benefits of a sector may bear only a tentative relationship to the personal well-being generated by the sector, and an even more tentative relationship to overall well-being as defined within the appropriate social framework (ie due to the existence of externalities, public benefits, etc).

- Size is not an indication of need. There is no theoretical basis for assuming that financial size of a sector is a justification for government attention (although, politically, large sectors may represent a greater potential for politicians to gain favor at the polls). Smaller industries may in fact represent better returns on government investment in terms of wealth; the counter-argument has even been put forward in the form of ‘infant industry’ arguments.

- There is no accepted level of financial 'significance', no level at which the financial size of a sector indicates that it is 'important' or not 'important'. Even in relative terms, financial arguments are weak: the popular practice of comparing the financial size of the arts with other industries (such as fishing, forestry or communications) is essentially comparing apples with oranges. The importance of various industries is purely circumstantial – the 'impacts' of industries or sectors are primarily embodied in the unique functional characteristics of each industry.

Perhaps wary of these limitations, increasingly sophisticated techniques have been adopted, such as 'economic impact' and multiplier analyses. These analyses have enjoyed an almost religious zeal Schuster (1994) notes: "it would not be unfair to suggest that in the United States our arts-funding agencies have been going through a period of pre-occupation with the economic impact of the arts". Seaman (1987) states less graciously: “’economic impact’ has become the latest version of ego-enforcing psychotherapy.”

These more sophisticated techniques also focus on pecuniary measures of benefit. They have, therefore, also fallen victim to the types of shortcomings outlined above.

'Economic' impacts and multipliers

'Economic' impacts and multiplier analyses typically attempt to gain some measure of the financial 'flow-on' effects of sectors and activities. These studies suffer from serious limitations. The major limitation is in their inability to account for counterfactuals and opportunity costs. At any point in time, resources are limited. This means that $100 spent on the arts represents $100 not spent elsewhere. If we did not spend our $100 on the arts, and we did not spend it elsewhere, we would save it for future consumption and in the meantime financial intermediaries would use the $100 to fund investment activities.

What these studies measure, then, is in essence monetary *transfers* from any number of other activities. One sector's financial gain is another sector's financial loss. To say that arts *inject* money, *generate* wealth or *create* jobs is to exaggerate the case by aggrandizing the gross effect of the arts and ignoring the net effect.

If a government is interested solely in wealth and jobs, then the arts are a bad investment. Indeed, their financial return can be seen as negative: the arts have been shown to have smaller financial 'impacts' than other sectors (Australian Bureau of Statistics 1995). Investing in the arts represents a *net loss* in wealth because greater financial returns can be achieved by investing in other sectors.

Anecdote serves just as well as expensive research and exorbitant consultancy fees. It would be a rare arts organisation that has a higher multiplier than a casino. Yet we are likely to be more tolerant of arts organisations than of casinos: artists bring us benefits that gamblers do not; gamblers bring us bad things that artists do not. The absurdity of the purely financial view is that, if our sole purpose is to make money, we will endorse the gamblers before the artists.

There are a variety of other limitations to these financial 'economic' methodologies. Seaman (1987) provides an exhaustive and technical account and concludes:

> "[I]mpact studies are focusing on the wrong issues, using an inappropriate tool, and perhaps reaching false conclusions."

The risks of financial tools in advocacy

There are a number of problems associated with citing these financial arguments in advocating the arts to government.

They are not the right tool for the job:

> "The use of multipliers to support an argument to justify an increase in government expenditure on culture is … difficult to sustain…[M]ultipliers do not present a very convincing argument to secure more funding from governments." Australian Bureau of Statistics (1995);

> "Spending-based impact studies are not really relevant to decisions on the allocation of public money" Van Puffeln (1996);

> “[A]s…evidence for additional public financial support, [economic impact studies] are an abuse of economics.’ Seaman (1987).

The arguments unnecessarily set the arts up in direct competition to other sectoral interests in the economy. Arts advocates have no recourse when the government to which they have been lobbying chooses to fund another sector, based on a study commissioned by the competition indicating that their sector has a greater 'economic' impact. In responding to demands for funding based on multipliers, a government should at least compare the net benefit of a proposal against providing its citizenry with a simple cash transfer or a tax break. An absurd corollary is that arts advocates who extol the financial benefits of the arts have no recourse if government decides to release $1 million in one dollar bills from the highest buildings in every town rather than investing $1 million into, say, an arts festival. Both actions have wealth and job effects, both have multipliers, but the point of the arts festival is lost.

Advocacy is weakened by not alerting government to the wider and more compelling benefits of artistic activity. As Seaman (1987) notes: “In a sense, [arts advocates] are choosing to play one of their weakest cards, while holding back their aces.”

Financial arguments encourage governments to append arts policies to policies for wealth 'creation'. 'Economic' impacts and multipliers represent only a part of the analytical arsenal of economics and form only a part of the informational needs of cultural policy formulation. In isolation, the cultural economy reflects little on less tangible cultural issues such as the delivery and distribution of the external or social benefits of art. If governments yield to the temptation to intervene in culture in order to profit from the benefits represented by 'economic' impacts and multipliers, their actions will be consistent with monetary objectives, not cultural objectives. Decisions based on pecuniary objectives do not necessarily satisfy non-pecuniary objectives. Cultural sectors are often disappointed with the indifference of governments that append cultural policy to government policies for wealth and job creation (see for example, Pulford 1995).

As a final note, there is consternation among a number of economists that these studies represent economic malpractice (Seaman 1987, Van Puffeln 1996, Bille Hansen 1995). In theory, ‘economic’ impact studies can provide arts practitioners and policy-makers with an array of useful information, for example: they provide some indication of the financial flows associated with artistic activity; they indicate the extent of the diversion of resources to the arts; they provide some idea of the effect of demand and supply shocks and other structural changes, such as policy changes, on the activities and institutions measured; and they provide a way of comparing vastly different projects based on their financial redistributive effects. But the nature of art places significant constraints on the usefulness of financial analyses; it suggests that purely financial analyses should be applied to the arts with added caution and with particular attention to the contexts and aims of the analysis. By failing to properly attend to this contextualisation, financial studies of the arts have been largely ineffectual. Economics clearly has more to offer the arts than is represented by the methodologies employed to date.

What the economic benefits of the arts are

As shown earlier, the 'true' economic benefits are essentially benefits to well-being, and these are mostly captured by individuals who either produce their own art or seek to purchase others’ art. Theory tells us that they might choose the latter in order to get better, cheaper and more artistic benefit.

First and foremost, then, the real benefits of the arts are embodied in the functions of art. We forgo other consumption and investment activity to capture these benefits. We divert resources to their consumption. We do this, economics suggests, because art gives us something; what it gives us is embodied in its functions.

Economics also provides a framework for collective action to capture or distribute artistic benefits that may be overlooked by individuals. Fully elucidating the functions of art for individuals – the *private* benefits – will highlight many of the social functions of art – the *public* benefits. So too for the private and public *costs* of art (censorship of art is recognition that artistic expression may also have public costs). A full articulation of the nature of the public costs and benefits of art would provide some evidence of the need for government to intervene in the production and consumption of art, and would provide direction on the appropriate policy responses.

Economists have begun to articulate the public benefits of art. They do not, however, make good arts analysts and their arguments have to date been weakened by their artistic naiveté, especially by their fascination with “The Arts”, ie the ‘European’ or institutionalised arts (Throsby 1994 provides a brief summary). Identifying the public benefits of art relies on a more comprehensive understanding of the functions of art, such as the knowledge invested in cultural theory, art theory and sociology. From the comprehensive list of the functions of art set out in Beatson and Beatson (1994), some examples of the type of benefits that may better inform arts policies might be:

Private benefits/functions: excitement and sensual arousal; relaxation; gaining of knowledge, skills and new experiences; and the resolution of internal conflict and early life trauma.

Public benefits/functions: the role of art in social integration, social cohesion and engagement; health benefit spin-offs (particularly psychological health); and human capital investment spin-offs, including promotion of creative and lateral thinking.

Conclusion

This paper has attempted to provide some contextualisation for understanding the phrase ‘the economic benefits of art’. It argues that money exists for art, art does not exist for money. Financial studies have inverted the causality. It argues that the primary economic benefits of art are embodied in the ‘specific’ functions of art; ie in the reasons why art exists and why people undertake artistic activities. Other, ‘systemic’, economic benefits exist (eg in productivity improvements), but these still derive their utility from the benefits that greater wealth can purchase. Again, these are embodied in the functional characteristics of commodities such as art objects and activities. It contends that financial measures of ‘benefit’ are weak and counterproductive arguments for arts advocacy and for policy formulation. A full articulation of the ‘specific’ functions of art is essential for promoting the benefits of artistic investment to government, and, moreover, for suggesting appropriate policy objectives.

Appendix: The arts industries

Over time, individuals have been able to use an expanding array of exchange possibilities to purchase the artistic benefit. Technological and economic developments have increased the breadth and depth of the artistic experience. For example, new cinema technology allowed the performing arts to reach a broader audience. More recently, developments in special effects have heightened the dream potential of movies by creating an ever-realistic altered reality (and virtual reality technology is taking it further).

As with other areas of the economic system, the new technologies have been associated with an increase of intermediaries (editors, manufacturers, distributors), many of whom may have no apparent creative or artistic expertise. The process now has developed to such a degree that for some forms of artistic expression, it is beyond the reach of individuals to create their own artistic version: for example, movies require such a complicated array of contracts, skills, specialised capital and distribution that, accounting for quality, home emulation is impossible. In cases like this, the market is the only place to obtain the artistic benefits offered by these types of goods and services.

These technological and organisational developments represent the 'industrialisation' of the arts. Industrialisation has not made traditional forms of exchange redundant, but the choice of exchange media has expanded. In understanding and defining the arts industries, it is crucial to recognise that at the hub of these industries is the artist and the creative process.

Defining the arts industries

In New Zealand, a precedent has been set in the development in 1995 of a framework for cultural statistics by Statistics New Zealand and the Ministry of Cultural Affairs. In developing the framework, a definition of the cultural industries was required. That definition built up a concept of the cultural industries based on a simple model of the cultural process, and since culture and art are so closely interlinked, many of the concepts are transferable to the arts industries.

Like culture, the artistic process may be seen as a process of communication between artist (encoder) and audience (decoder). Inputs are utilised at each stage of the industrial process, many of which are purchased from other industries. For example, a musician uses musical instruments that are manufactured by a person with expertise in wood-working or electronics. The manufacturer purchases wood from a wood supplier and electronics from an electronics manufacturer. Some activities and institutions in the arts industries may appear to have no specific 'artistic' or creative skills, yet their livelihood or existence depends on those skills as practiced by artists. They often employ highly specialised technologies and skills that are not readily transferable to other sectors of activity.

A model of the industrial process is set out in figure 7, at the core of which remains the process of communication between the encoder and decoder.

Figure 7

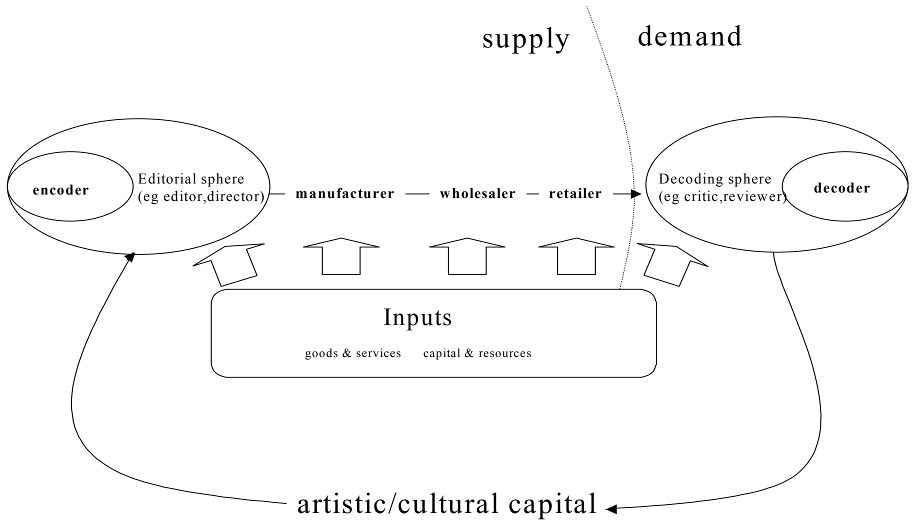
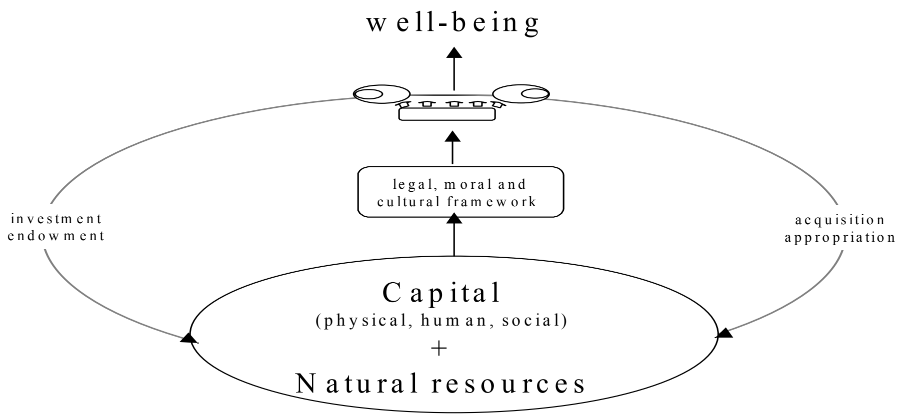


Figure 8 places this model within the broader economic flows discussed in section 1 (figure 4).

Figure 8



Defining the arts industries is an important step to developing ongoing, comparable data on the arts. But there are no established rules for determining what does or does not make an 'industry'. Essentially, definition is up to the appropriate sector to define the industry that best meets their analytical needs. The tourism 'industry' is made up of institutions from a variety of sectors; their common element being their customer, the tourist.

The issue of scope is the main problem. Many of the industrial aspects of a country's arts industries have not been seen as an integral part of the 'arts', yet they owe their existence to the arts. For example, movie theatres may not hire artists or art directors, but they are part of the highly specialised distribution network that is part of the mechanism by which movie-makers communicate, or reach, their audience. The relationship is an economic symbiosis: if movie-makers did not exist, cinemas would not exist; if cinemas did not exist, movie-makers would be unable to ply their art. Cinemas are the art galleries of the movie-maker.

A definition of the arts industries will always involve a level of subjectivity, but it is important that the boundaries are explicitly and formally drawn to improve clarity of analysis, especially data interpretation, and to allow clear debate on improving and developing the definition.

A practical definition of the arts industries should:

- be founded on a clear concept of what art is
- be founded on a clear concept of industrial strata
- provide a clear statement of intent on scope
- provide a basis for developing an arts informational framework, particularly a framework for arts statistics

A precedent for defining and classifying the arts industries is set out in the *Framework for Cultural Statistics Te Anga Tatauranga Tikanga-a-iwi o Aotearoa 1995*. The framework is a development of an international standard for systems that classify data on the cultural industries (particularly UNESCO, Australian Bureau of Statistics and Statistics Canada). The framework would make a useful starting point for defining and classifying the arts industries.

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The 'economic' benefits of art

Objectives: clarify what is meant by the economics of the arts

contextualise the term 'economic benefits'

model the arts industries

Contents: **1. Economics - concepts and models**

Resource utilisation

The economy as a system

Resources and capital

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Reconciled model of the economy

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- what the economic benefits of the arts are

The arts industries

defining the arts industries

From a functional economic perspective, people enter into artistic exchange for similar reasons as they enter into the exchange of other goods and services. The system allows people with a comparative advantage in arts production (eg people with perfect pitch) to concentrate on developing their expertise. Instead of attempting to make their own music, which is expensive and may be of dubious quality, people with less of an artistic 'bent' can use the proceeds from their own specialised resources to purchase art benefits at a lower cost and a higher quality. This process has resulted in the complex of institutions and arrangements known collectively as the 'arts industries' (a note on the nature and definition of these industries is contained in the attached appendix).