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Seminar in Economic Methodology

Spring 2008
Term Paper

The “Value Difference” in Art Economics

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De gustibus non est disputandum

I. Introduction to Art Economics and the Purpose of this Paper

History of Art Economics

If economics is a relatively new science[1] - most commonly recognized as beginning in 1776 with Adam Smith's *Wealth of Nations* - then the economics of art is brand new. The first book on art economics was Carl Kindermann's *Volkswirtschaft und Kunst* (1903), the *Journal of Cultural Economics* has been published since 1973 and is now edited by the Association of Cultural Economics International, 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 book of collected readings in art economics was Blaug 1976 and the first textbook was Throsby and Withers 1979.[2] In 2003 *The Handbook of Cultural Economics* (Towse, ed.) was published.[3] Art economics might now be considered

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

[2] Milestones on cultural economics through 2000 given in Frey 2003:1-8. However it should be noted that Frey is missing Ruskin 1857 which is about the political economy of art.

[3] Note that I am using "art economics" and "cultural economics" interchangeably. This might offend some as art could be rightly considered a subset of culture. Towse 2003 in her Introduction to the *A Handbook of Cultural Economics* states that the field was original called "economics of the arts" and notes that this terminology has been changed to "cultural

to be an ‘established’ research program in that the literature now has two stock-taking articles, “Where Are We Now in Cultural Economics?” (Blaug 2001) and “Contingent Valuation and Cultural Resources: A Meta-Analytic Review of the Literature” (Noonan 2003). In addition, Hutter (1996a) studied how cultural economics impacts on economic theory itself. Despite the growth of interest in art economics, it is a relatively unknown field, “There is a surprisingly large number of professional economists who never heard that there is such a thing as the economics of art” (Frey 2003: 8).

Purpose of this paper

The purpose of this paper is two-fold. The first goal is to define the field of art economics itself. We explore the research program of art economics, specifically we analyze the research program in philosophy of science terms. We also look at the definitions of culture and narrow this broad concept down to what it means and how it has been defined in terms of the field of art (cultural) economics.

The second and main purpose of the paper is to explore the theories of value in art economics. What are these theories of value and what do practicing art economists say about value and thus the role for institutions in society relating to art? This inevitably means exploring arguments for and against government funding of the arts. During the process we analyze the major writers and writings on art economics, and contribute to the dialogue ideas of our own that may be missing

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economics” to broaden the scope to include the economics of not just *high art*, which in Europe, where the art economics movement is the strongest, means the performing arts. In that I am specifically interested in the economics of easel paintings, which in the U.S. usually means “art”, I prefer the term “art economics”. In the culture of the U.S. the experience of going to a museum or gallery generally means going to look at paintings. This is especially true for *modern art* (1890s to 1950s) – again the type of art I am interested in - as opposed to *contemporary art* which is more multi-media in orientation and alternative in venues.

It should also be noted that Towse (*Ibid*.) states that the label for the field was expanded to enlarge the research program to include art that is not funded by European Ministries, who most typically fund the performing, as opposed to visual, arts. In my larger work on art economics I am evaluating the political economy of these public institutions themselves, so to keep things simple (Leibniz’s rule on the efficiency of reasoning) given my specific area of interest, I maintain that the use of the term art economics is most appropriate though do use the terms “cultural economics” and “art economics” interchangeably depending on the context, the former most often to delineate the political economy of art.

from the discussion thus far or that may help to clarify the issues as we explore them.

II. Definitions: Art Economics and Culture

What is art economics?

In order to answer this question we first need to define economics. The most commonly accepted definition of modern economics is that it is a science which studies "human behavior as a relationship between given ends and scarce means which have alternative uses" (Robbins 1932:15). However I believe that this definition may not be appropriate for art economics in that it is well known that the supply of art is greater than the demand[4] (which of course gives credence to the conventional wisdom of the 'starving artist') and thus art is not a scarce good. I prefer Chick's (1998:1867) proposed definition which is that "economics is defined by its subject matter." Therefore, by Chick's definition, art economics is the economic study of art.

[4] That the supply of art – and here I am talking about painting – is greater than the demand should be self-evident. Many people paint but never sell anything, only the lucky few "make it" as an artist, history is full of stories of painters who could not earn a living painting, some are "discovered" after their death, most are not. Frey 2003:29-30 deals with this topic by proposing an equilibrium framework of supply and demand which avoids the oversupply problem by assuming that only those who earn money from their art should be considered an artist. This however seems unfair to those who devote their passions to producing art and consider themselves artists. This of course too applies to the many actors and musicians who try to "make it" or to become "discovered" and never do.

The oversupply of art can be borne out empirically by visiting a gallery (those that accept art unsolicited) and trying to interest them in selling your art; the waiting list of those wishing to sell their art can be quite long, or by visiting a flea-market and seeing the many artists who try to sell their art outside of the establishment. Some trained artists earn a living producing 'pop-up' ads for the internet, something which cannot be too fulfilling. It does produce income, but can it be considered art? "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.

The research program of art economics

Imre Lakatos [5] 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 hypothesis which have to bear the brunt of the tests.” Blaug 1980:36 writes “the hard core is treated as irrefutable” by the research program . In my study of the foundational and most recent writings on art economics my conjecture is that there is indeed a metaphysical ‘hard core’ belief by those studying art economics, this belief is that art is ‘different’ from the other resources in society. The study of this *value difference* manifests itself in many different ways, the rest of this paper is on this ‘difference’ in art and how this difference is studied in the realm of art economics.[6]

Around the hard core of the value difference 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,

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[5] The discussion on Lakatos is from Blaug 1980:36-37.

[6] Blaug 2001:125 writes “cultural economics lacks a single dominant paradigm or overarching intellectual theme that binds all of its elements together.” It should be noted that this paper takes a different position and proposes that the ‘binding factor’ sought by Blaug is the *value difference* between art and other economic goods. This value difference conjecture may be borne out of over time, “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).

Blaug (*Ibid*.) also states that ‘Baumol’s cost disease’ - where economic development due to technological advancement prices out consumption of the arts because art, which is more labor-intensive than other good in the economy, becomes relatively more expensive (Baumol and Bowen 1966) - may be art economics’ ‘binding factor’ but I don’t think this is a hard core of the research program, see for example Elizabeth Currid’s *The Warhol Economy: How Fashion, Art & Music Drives New York City* (2007) for an argument against the ‘cost disease’. Blaug also agrees that the ‘cost disease’ may not hold true, “Nevertheless, if greatness lies not so much in being right as stimulating others to find out what is right, then Baumol’s unbalanced growth model is one of the great ideas in economics” (Blaug 2001:131).

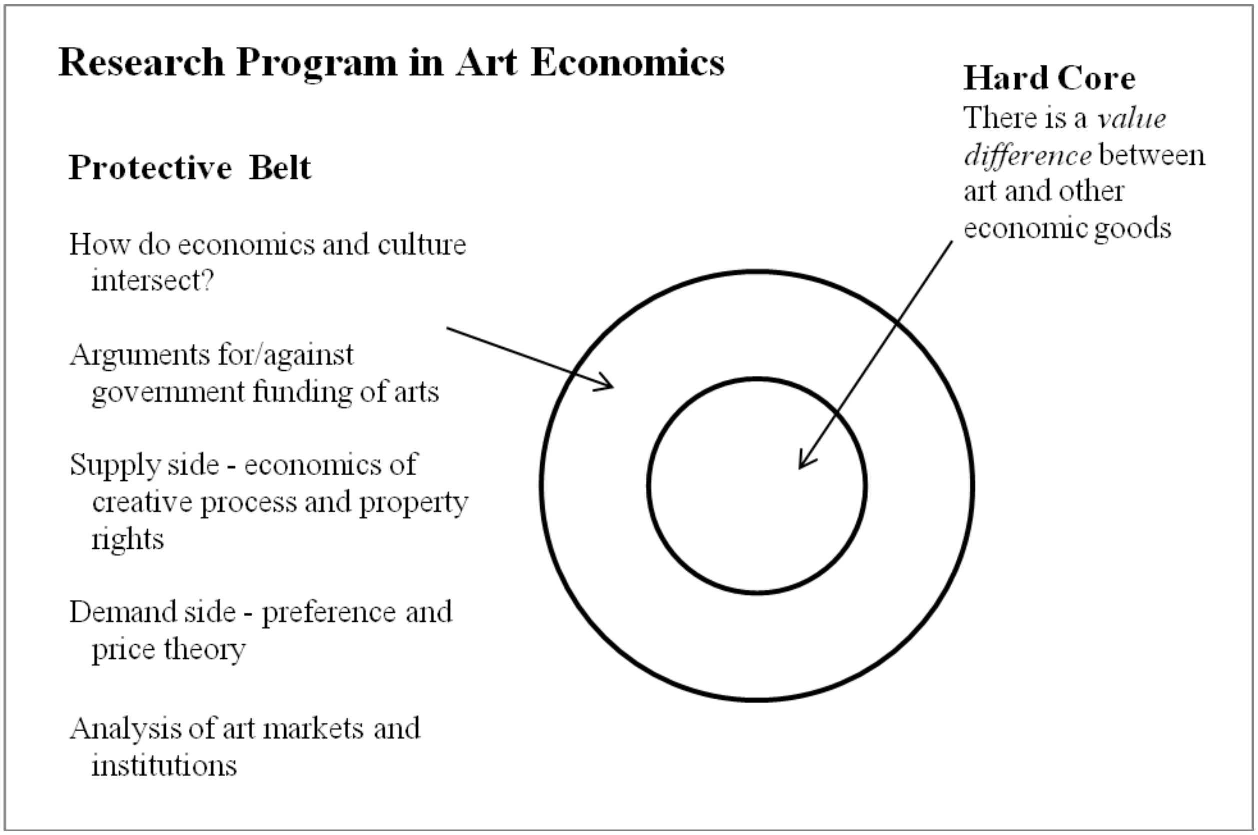
sociologically and psychologically the value difference in art. This would seem to lend itself to art economists redefining the mainstream economic approach, with its assumptions of set preferences no matter how formed, when applied to art. However this is not the case, some art economists argue strongly that the neo-classical approach is applicable and appropriate for the study of art[7] whereas of course others disagree and say that heterodox approaches are necessary[8].

The value difference also manifests itself in other areas of the research program. It is beyond the scope of this paper to survey the entire *oeuvre* of art economics (we are concerned here with a survey of theories of value) however I will summarize what I have found to be the main research areas in art economics, see Illustration 1. below.

[7] See Towse 1996 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. Gary Becker and George Stigler.

[8] See Klamer 1996 for a collection of writings from other disciplines on art and culture and Klamer's argument for a heterodox art economics.

Illustration 1.



The first item in the protective belt is labeled, *How do economics and culture intersect*? Art is seen as something different, something that encompasses the culture of a time and place and thus is than a commodity in the economic sense. 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 and as 'merit goods'. These concepts are explored, in terms of public goods under welfare economics, later in this paper. The intersection between culture and economics is also used to critique mainstream economic method itself, again touched upon later in this paper.

The second item in the research program: *Arguments for and against government funding of the arts*. The value difference perceived by art economists then requires art economists to explore the public policy connotations of this difference. In fact the first textbook on art economics (Throsby and Withers 1979) specifically contained economic rationale for public art funding and was devoted to the management of arts institutions and public resources. A recent treatise (Cowen 2006) is a history of, and arguments for, arts funding in the U.S. and how decentralized funding best achieves a richer supply and greater access[9].

The study of the supply (artists) and demand (individuals and institutions) are among the most studied areas in art economics. Demand side research can range from labor-supply analysis (entry, exit, incentives), to property rights (copyrights and in Europe the right to proceeds from onward sales and performances, e.g. *droit de suite)* effects on supply and pricing, and, theories on creativity and institutional effects on creativity. A lot of attention on the supply side is given to the value difference and how consumer preferences may or may not capture the value in art and the role of government and not-for-profit organizations in the supply of art. 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), comparisons of investments in art versus financial markets, optimal ticket pricing theory and empirics, and the analysis of transaction costs.[10]

On definitions of culture used in art economics

Culture is a very general term that means many things to many people[11], therefore a precise and complete definition of culture is beyond the scope of this paper. However we do need to understand what we mean by culture in order to understand how it relates to cultural economics. Leo Strauss (1959), one of the most respected American philosophers (who coincidently taught at the New School for Social Research), states, "'Culture' means derivatively and today chiefly the

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[9] My position on arts funding is that, if given (this is only determined through the democratic process), it should subsidize public access to art, specifically museums, not the production of art.

[10] See Towse 2007:xiv for a collection of recent papers on cultural economics which represent "some distinct trends in cultural economics over the last ten years." I have tried to capture these trends in my summary of the research program in cultural economics.

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

cultivation of the mind, the taking care and improving of the native faculties of the mind in accordance with the nature of the mind." Alternatively, anthropologist Clifford Geertz (1973:5) states,

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

Therefore, perhaps like art itself, culture has a different definition depending on whom you ask. For Strauss it is self-based learning, for Geertz it is the patterns in society derived from individual agency and societal interaction.[12]

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

Klamer What about the value of culture?

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

Klamer What I am particularly concerned with is the absence of any sense of culture in current economic theory. Culture does not play a role in economic analysis.[13] [...]

Van Heudson I would go further than that. Listen, economists study human behavior and human behavior is in a large part cultural, that is, semiotic behavior. So if economists leave out culture

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[12] See Sewell (2005, esp. 175-196) for a recent and excellent critique of the work of Clifford Geertz. Sewell describes Geertz as the 'Ambassador' of anthropology to scholars in the other social sciences.

[13] It should be noted that in the Austrian School 'market process' theory culture plays an important role in determining the behavior of actors in the market, however Klamer is speaking of mainstream economics, of which the Austrian School is not part. See Hayek's last (or any for that matter) book *The Fatal Conceit* (1989) for an example of the Austrian School's interdisciplinary approach.

from their theories of economic behavior, they have at least the duty to explain how this human being, cultural from head to toe, suddenly leaps out of culture when s/he is being "economic".

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

Van Heudson […] As such cultural behavior is definitely rational, although the rationality is semiotic, rather than logical.(46-47).

Klamer proposes that economics is indeed the study of rational choice based on a notion of value, however he proposes that this concept of rational choice in economics needs to be expanded to include cultural and societal variables, not solely the utility (value) maximization of individually-predetermined consumption bundles. Value is determined in society and through cultural norms.[14]

Throsby 2001:111 solves the culture/economics dualism in a different manner by defining the *cultural industries*. "The argument here is that if culture in general and the arts in particular are to be seen as important, especially in policy terms in world where economists are kings, they need to establish their own economic credentials; what better way to do this than by cultivating the image of art as industry, bigger (in the Australian case anyway) than beer and footwear." Throsby defines the cultural industries, "cultural goods and services involve creativity in their production, embody some degree of intellectual property and convey symbolic meaning." (112). This definition of culture nicely embodies some of the specific areas of research in art economics.

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

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[14] Blaug 2001:1 states that Klamer's approach has "sought to widen to widen it [art economics] from a sub-discipline of economics into a sub-discipline of anthropology." However, I believe that Klamer's approach is a heterodox one within economics itself trying to advance mainstream economics into embracing endogenous (socially-constructed and changing) taste preferences. Throsby 1999 also falls into Blaug's anthropological (e.g. "not economics") classification.

III. On Economic Value

The history of economic value

Economics since the time of Adam Smith (and before) has looked for the meaning of value in economic life.[15] The mercantilists (1500s – 1700s) believed that economic value arose from precious metals (usually gold) held by national governments and the physiocrats (mid-1700s) believed that value came from agriculture production.[16] The classical economists (mid-1700s to late 1800s) wrote that value came from the inputs to (costs of) production. For example Adam Smith 1994:36-37 writes that value came from productive labor. "Labor alone, therefore, never varying in its own value, is alone the ultimate and real standard by which the value of all commodities[17] can at all times and at all places be estimated and compared. It is their real price; money is their nominal price only."

The 'marginal revolution' of 1871 changed the conception of value in economics, from one of objective value based on inputs (labor, land and commodities and a competitively- equalized profit rate) to one of subjective value in the minds of the consumers based on economic "goods". The marginal revolution was in part based on utilitarian philosophy where "good" was measured in pleasure and "bad" was measured in pain. Of course, the idea was that people try to maximize the good and minimize the bad. This concept of subjective value through the consumption of economic goods then became *utility* in economics.[18]

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[15] It is well-known by classically-trained economists that the search for an invariable measure of value occupied David Ricardo (1772-1823) his whole life, "The fact is there is not any measure of absolute value which can any degree be deemed an accurate one" (Ricardo 1823:xlvi in Sraffa, ed).

[16] See Marx 2000:44-68 for a summary of the physiocratic theory of value and Marx 2000:308-343 for a discussion on what is considered the first "model" of the economy, Quesnay's "Tableau Economique" first published in 1759 which shows the source of value and wealth being based on recursive periods agriculture production.

[17] Every work of art is, by definition, unique and therefore not a commodity. The exception to this rule might be limited edition prints.

[18] See Little 1958 for a discussion of welfare economics which is based on a theory of the societal aggregation of individual utility.

The marginal revolution also introduced the concepts of scarcity and opportunity cost (what one must give up to get something else) into economic value.[19] It is this subjective value, and the notion of scarce goods, which is most often used when one thinks of value in mainstream economics today. However, economics is a *social* science, this implies that any theory, any philosophy, of value in society cannot be subjective to individuals only. This attempt to transfer individual value to societal value became what is known as welfare economics[20], where every individual tries to maximize their subjective utilities through an exchange that does not harm anyone else in the process. To simplify and generalize, when the utility of every individual is maximized and no one is harmed in the process, this means that the welfare of society is maximized.

A philosophy of economic value

The notion of turning subjective individual value (utility) into objective value can be seen in the philosophical approach taken by the Austrian School of economics which was founded by Carl Menger at the time of the marginal revolution. The Austrian School has at its hard core the theory of the 'market process' as the organizing principle in society. The market process concept states that prices adjust as people interact voluntary to trade with each other decentrally in order to maximize utility and as entrepreneurs try to maximize their profits (and where everyone is limited by local knowledge and cultural norms and time constraints).

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[19] Just as Leibniz and Newton are credited to have independently and simultaneously discovered calculus, Menger, Jevons and Walras are credited with independently and simultaneously revolutionizing economics. It is called "the *marginal* revolution" because value is created at the margin. The consumer finds value in goods depending on place and time, and value in consumption is based on one (marginal) unit of a good. This resolved what is known as the "water-diamond paradox" (what Samuelson 1976:437-438 calls the Paradox of Value) in classical economics; why was water, essential to life, virtually cost-free, whereas diamonds, unnecessary for life, so valuable? Because to a person dying of thirst, water is priceless and diamonds worthless. One (marginal) glass of water can save someone's life, whereas an infinite amount of water can kill someone. It is consumption at the margin which has value. Diamonds are valuable to a person not dying of thirst because diamonds are scarce. Later, the calculus of extremas was used to formalize the concept of "marginal utility" and was foundational to what later became known as "neo-classical" economics, the dominant school of economics today, often called 'mainstream' economics.

[20] See Varian 1987:508-531 and Varian 1992:314-335 for the "textbook" discussions of Pareto efficiency and welfare economics.

These adjusting prices through decentralized trade and profit-seeking (note that there is no concept of a competitively-created equalized rate of profit) help to best distribute the scarce resources in society, to bring the most economic value to society and to provide stability in society through adjusting prices and voluntary interactions. Only an individual knows what goods or activities bring her or him utility and it is only through this voluntary exchange in the market that these subjective utilities can be brought to bear in society.

This concept of the market process[21] can be seen as creating a happy marriage of the seemingly irresolvable Rationalist and Empiricist philosophies.[22] Rationalist philosophy states that reality is created out of perception, and that reality originates with the mind. Subjective value and utility can be seen as a Rationalist idea. Whereas Empiricist philosophy states that only things of the phenomenological, empirical, world create reality, reality starts "outside" then moves inward. The market can be seen as an Empiricist reality.

The Austrian School's belief in markets as the key organizing principle in society allows subjective values to be manifest objectively through markets. Market exchange is material, it is phenomenological. It is two (or more) people exchanging voluntarily because they both gain from the exchange. This exchange is objective and is quantifiably, empirically, manifested through the terms of trade in the exchange. These terms of trade can either be goods for goods (or services for services or some combination of goods and services) or most commonly, goods or services for money and money for goods or services. This voluntary market exchange creates an intersection of two otherwise disparate worldview philosophies.

The following quote, which could actually be about art, from a second generation Austrian School economist Eugen Bohm-Bawerk, captures this idea of the subjective meeting the objective in the market.

> Value is not produced at all, and cannot be produced. We never produce anything but forms, shapes of materials, combinations of material, that is to say, goods.…The most that production can do is create goods in the hope that, according to the anticipated relations of demand and supply, they will be of value. (Bohm-Bawerk1959:90).

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[21] See Hayek 1980 for more information on the "market process."

[22] Rationalist philosophers include Descartes, Spinoza and Leibniz; Empiricists include Locke, Berkeley and Hume (Robinson and Mayblin 2004).

So it is this *market value*, this marriage of the subjective and the objective, which allows us to, according to Austrian School theory, measure value in the economic sense.[23] Of course art is a unique good in a good many ways. It is not destroyed in its consumption, if displayed or stored correctly does not require maintenance to prevent depreciation in value from physical wear, and it is not needed for our day-to-day existence against natural elements. Some might say that art is a luxury or a status good whereas others might say that things of beauty are necessary for the human soul and therefore are beyond any economic (market) empiricism. This non-empiricist nature of art is also held by semioticians who view art as non-phenomenological signs which give mean meaning to our lives.

Many art economists say that art cannot be measured objectively in the market and therefore art's production and distribution should not be left to the market. An Austrian School economist would counter this by stating that only individuals know what they value and it is only through the market (or non-market voluntary exchange) that individual values become realized socially (empirically), anything that interferes with this market exchange realizes a net loss in value to society.

A Note on value and "vulgar economics"

According to David Throsby (2001:20) Adam Smith in *Wealth of Nations* was the first person to differentiate between what economists refer to as *use value* and *exchange value*, the former being "its power to satisfy human wants" and the latter "being the quantity of other goods and services that someone would be prepared to give up in order to acquire a unit of the commodity". John Ruskin in 1872 coined the term "vulgar" political economy to criticize economists who believe that all value is economic value.[24]

[23] Indeed, it might be said that the whole of Menger's *Principles of Economics* (1871) is a discussion of economic value.

[24] See Throsby 2001:19-43 for a discussion on the history of value in economics including Ruskin's critique of the marginalists.

> For Ruskin, following Carlyle, the idea that the value of a commodity[25] can be determined by market process and measured in monetary terms was a violation of the principle of intrinsic value upon which the worth of objects, especially art objects, should be assessed. Instead he related value to the life-enhancing labour of the worker who made the commodity; the worker not only pleased himself by his efforts but also bestowed of this goodness upon the user of the product. Ruskin applied this theory to explaining why some artworks were more valuable than others, arguing that the creative production process imparted value to a painting or a sculpture which became embedded or intrinsic to the work itself (Throsby 2001:22).

Modern economics has effectively collapsed use value and exchange into one value, that of the market. It could be stated that the *value difference* research program in art economics is an attempt to reevaluate this unity.[26]

In our discussion on welfare economics and the maximization of utility in society, we stated that societal welfare was maximized during free-market exchange when no one else is harmed during this voluntary exchange. Some economists also have the belief that if the market is not providing enough of a good which is beneficial to society there is a role for government to provide this good, called a public good, through redistribution of assets or income or through other public policy. As stated the hard core of the art economics research program is that the value of art is different than the value of other economic goods in society. In the next section we explore this value difference in art economics.

[25] I favor the term economic ‘good’ (following Menger 1996) rather than the term ‘commodity’ to describe the object of economic analysis as commodity implies homogeneity and this is I believe not indicative of most items bought and sold in the market except of course commodities themselves (agriculture products, metals, etc.) which are by definition homogenous.

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

IV. The *Value Difference* in Art Economics

We have already addressed the collapse of value in modern economics of 'use' (or 'intrinsic' or 'embedded' or 'absolute'[27]) value into exchange value. Throsby 2003:28-29 lists six types of value which make art different than other economic goods, values which differ from values of exchange. I paraphrase these *value differences*.

1) *Aesthetic value*: an artwork has the properties of beauty, harmony, and form; in addition aesthetic value is influenced by style, fashion and taste.
2) *Spiritual value*: an artwork can bring understanding, enlightenment and insight.
3) *Social value*: an artwork can bring a sense of connection with others and may contribute to the conception of a society's identity and place.
4) *Historical value*: an artwork can offer insight into the time and place it was created and may illuminate the present in connection with the past.
5) *Symbolic value*: artworks are repositories and conveyors of meaning, an individual viewing an artwork extracts meaning from the artwork.
6) *Authenticity value*: an artwork is real, original and unique. The authenticity and integrity of an artwork has value.[28]

Although David Throsby provides a list of the value differences in art it should be noted that perhaps a deep analysis of these value differences is not the primary point of interest to 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 these differences as they manifest themselves in the supply and demand for art and implications for public policy. Another art economist of note, Bruno Frey (2003:23) describes the limitations and use of value theory in art economics.

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[27] These terms have precise and differing meanings in economic history, however it is not our purpose to discuss these definitions here only to differentiate use value as something intrinsic to the good and as different from the value at exchange.

[28] Van den Braembussche 1996:40 calls the aesthetic and other intrinsic *value differences* the "old essentialist view."

> The concept of art, as understood by economists, starts with the preferences or values of the individual. This distinguishes the economic concept of art fundamentally from other definitions of art which derive from quite different principles, e.g. from a notion of aesthetic beauty based on deeper philosophical grounds. It also strongly differs from the concept of art defined by art experts (art historians, museum curators, conservationalists, art critics and journalists, gallery owners and artists themselves), who have a superior professional knowledge of the various aspects of artistic activities and therefrom derive the authority to pass judgment on what art is. According to the economic approach, the individual preferences for art are recorded, but no normative judgment about it is given; art in this sense is what people think art is. Economists cannot, and do not want to, say what constitutes "good" of "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.

Thus art economists (with some exceptions) do not explore the value of art in itself but the economic implications of the value difference. In fact the world of art and the world of economics can be viewed as inhabiting two different cultural realms, or 'habitus'[29].

Klamer (1989:13-27) 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,[30] "a strictly commercial transaction ends the relationship." Klamer compares art culture similar to that of family, science and religion where the cultures "fight the encroachment of commercial and political values to sustain the conversation among each other and keep those values alive." "In accordance with philosophers of art like John Dewey and economists like Michael Hutter, my first step is to distinguish the *product of art* from *art as an activity* and *art as an experience*."

Michael Hutter builds upon Klamer's concept and looks at how the economy can help the arts and how the arts can help the economy. Specifically Hutter sees art (human creativity) as an inexhaustible resource which becomes value through 'source events' (plays, poems, paintings, films), this value then feeds itself back to

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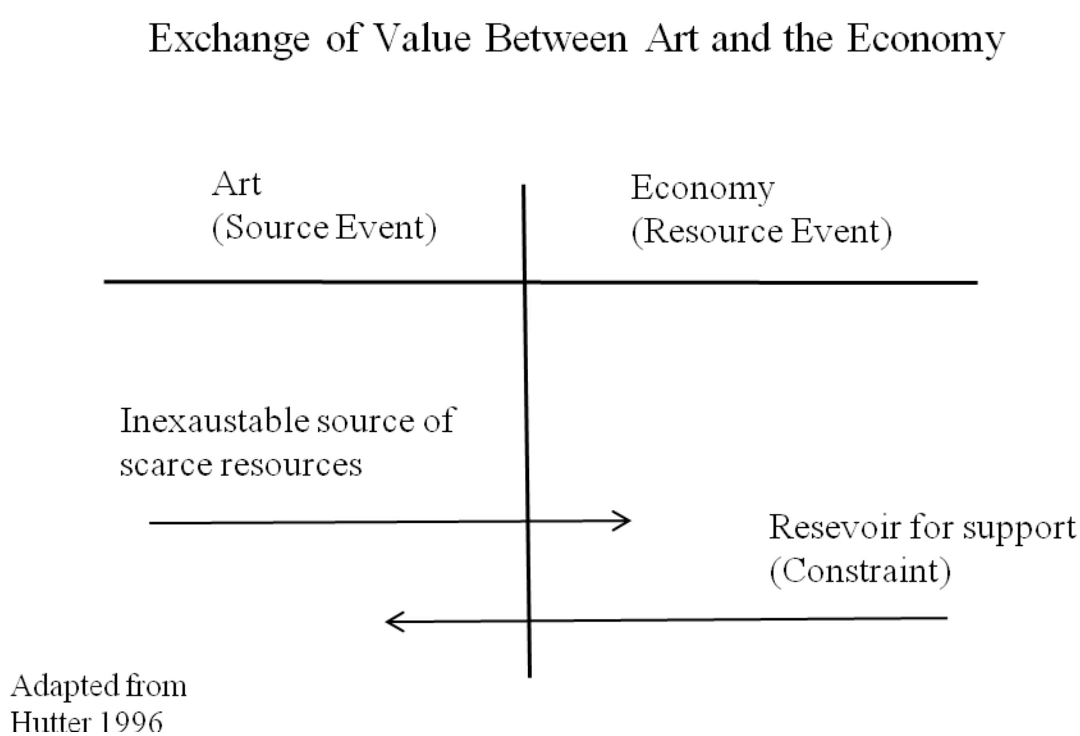
[29] See Bourdieu 1997 on the theory of 'habitus' as social structures in which actors inter-relate.

[30] Note that Klamer's concept of economics ignores 'reputation capital' or the value of personalized relations in a service economy. Discrete transactions are however how mainstream economics most often models the economy.

the economy. "A world that is inevitably running out of natural resources cannot maintain or even increase the volume of material production at length.[31] 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). Art is a flow concept. The economy in turn is a stock concept which helps art, "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 graphically in Illustration 2.

Illustration 2.



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

The last theory of value we will demonstrate here before moving on to art as a public good is that of 'radical commodification'. Antoon Van den Braembussche 1996:39 in a section of his essay entitled 'From Symbolic Value to Radical Commodification' has a different approach to the valuation of art in the market, whereby the mere process of art entering the market the aesthetic value of the art takes on economic value and losses its aesthetic value.

> In the approach of Smith[32] any value-judgment becomes a commodity. This reminds us of the way Baudrillard criticized the concepts of uses value- and sign-value. In his diagnosis of contemporary cultural practices, Baudrillard confronts us with a radical instrumentalization of culture, which rests on a double and parallel reduction. The explosion of commodity circulation reduces any use-value into exchange-value. This goes hand-in-hand with an implosion of 'meaning', in which the signified is reduced altogether with the signifier. The signifier and exchange-value become omnipresent, equal and perfectly interchangeable, leading to a radical commodification of cultural practices (see Baudrillard, 1972).

In this view the depth of the market in today's society is inescapable, the "old notions" of aesthetic instrumentalism loses its essence through market-forces. Although defining away the value difference through a dialectical synthesis, this work can still be considered part of the art economic research program as it acknowledges the value difference while at the same negating it. In addition, we can see this analysis as relating to the intersection between culture and economics, also part of the research program. Note that although different in method the end result is the same subjective valuation meeting social construction through the market as the philosophical underpinnings of the Austrian School of economics.

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[32] See Smith 1988.

V. The Use of the *Value Difference* in Public Policy Analysis

Money is not all the counts, but all things that count are measured in terms of money – Tyler Cowen[33]

Tyler Cowen, one of the preeminent American cultural economists after William Baumol, uses the dialectic of aesthetics and economics to come to terms with the meaning of value in art and to apply the familiar trade-offs between efficiency and distribution in economics.[34] 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. He states that art is beauty and that people in democracies have a right[35] to beauty because of art's "elevating and developmental powers" (Cowen 2006:5).

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

Regardless of the political philosophy arguments (resolvable only in the democratic process itself) for or against the right to art (or for that matter the right

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[33] Cowen 2006:8.

[34] 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 distribution reasons it is said that these policies have made the economy less efficient for *distributional* reasons.

[35] Whether or not people have a "right" to anything in free societies is under debate by philosophers and is, unfortunately, beyond the scope of most economics as we know it today. Followers of John Rawls (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 (Nozick 1974) tend to consider redistribution unjust and the people have the "right" to be from this redistribution.

to anything else in the realm of public policy), let’s assume that Cowen is correct in his assumption that art is a public good and that we need to trade-off efficiency with (re)distribution. Distributive considerations mean that there are non-market (a role for the state) elements in the creation and distribution of art. This trade-off between the economic and the aesthetic can be visualized graphically.

Illustration 3.

Aesthetic and Economic Value Trade-Offs in Arts Policy Analysis

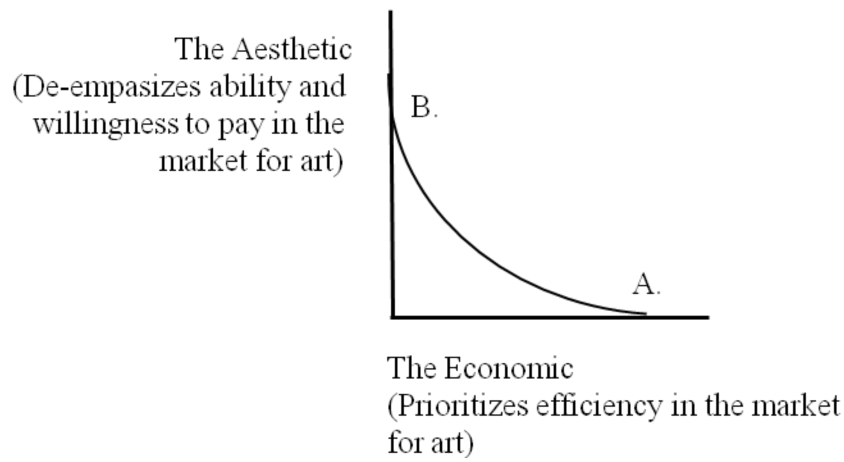

Illustration 3. shows the trade-off between value meanings of art in terms of the aesthetic and the economic. The Economic at Point A. means that society values art only for its economic value as manifested through the market. The Aesthetic at Point B. is the other extreme and means that society ignores economics (individual preferences and endowments) and makes all art available to everyone through government intervention.

Bruno Frey 2003:8-9 states that all societies have a political economy of art which means that all societies operate somewhere along the continuum between A. and B. in their value of art.

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

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.[36]

Most art economists use economic arguments for arts funding beginning with defining art as a public good. There are two main approaches to the value of art as a public good created from market failure (a public good requires government support due to positive externalities not captured 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.[37]

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[36] Cowen's approach may not be all that idiosyncratic. Blaug 2001:12 writes "Is it not time for cultural economists to abandon normative arguments for public subsidies of arts and instead to study the positive consequences of public subsidies, including the rhetoric of public bodies subsidizing the arts?"

[37] Note that the 'merit good' and 'cultural good' concepts are similar to those value differences defined by Throsby 2003 earlier in this paper. It is not the classification schema of the value difference which is important in art economics, only the metaphysical belief that this difference exists however disaggregated and recompiled.

Merit Goods

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

> [T]here is little doubt that that merit-good considerations have probably been the most significant single explanation of government involvement in the arts in all the countries we are dealing with. If the motivations of politicians can be inferred from their public pronouncements, it is clear that most of them believe that the existence of the arts is essential to civilized life. Since governments derive pride in the thought that they preside over a cultured society, they are willing to provide funds to support the arts, eventhough they acknowledge that the resulting activity exceeds that which consumers would demand if left to their own devices. (*Ibid.*:192-193).[38]

Throsby and Wither’s argument that government taste-makers have the right to provide these goods is based on the assumption that the democratic process will remove governments whose tastes and quantities of merit goods fall too far out of line with the 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.[39]

According to Throsby and Withers, Musgrave assumed that, “some goods (not all) are by common consent considered so meritorious that it is agreed they should be

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

[39] See Buchanan and Tullock (1960: especially 283-295), the founding text on public choice theory, on the motivation of bureaucracies to increase their power. Public choice theory applied to arts public policy is part of the research program in art economics, this is captured in my heading in Illustration on the art economics research program, *Arguments for/against public funding of the arts*.

publically provided. The implication of this position is that there exists a distinct class of such goods on which agreement can be reached….it is probably true that the arts in general, and the performing arts in particular could be regarded as paradigm examples of goods where widespread (though by no means universal) consent on 'merit' could be reached." (Throsby and Withers 1979:197). Throsby and Withers also contrast art with "public parks, free school lunches, education and even public transport" because these latter public programs have overtly redistributional effects in addition to being merit goods.

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

> I like to think of them in relation to an individual's place in society, not as an isolated person but as a member of his community. As such he might support certain public services because they are seen as part of the community's cultural heritage, rather than in response to his personal tastes. Support of merit goods thus involves a form of social interaction that is not purely individualistic. I am well aware that once you get out of the safe haven of purely individualistic concerns, there are all sorts of dangers, but, as I said yesterday, I don't think you can reject the concept of community values on those grounds." (Buchanan and Musgrave 2001:95).

For Musgrave cultural heritage goods (art) are merit goods. This argument is similar to the 'positive rights' argument in Cowen in that he is arguing from a normative (the way things ought to be) rather than a positive (the way things are) base point. Economists have difficulty with this approach due to the lack of empirical testability. William Grampp, an art economist who is known for advocating a free-market for 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 relive one of having to follow the ambages of the arguments that employ it. Tibor Scitovsky has said as much, and he is an economist. "None of the standard arguments in favor of financing is really applicable to the arts. The only valid argument for government aid to the arts is that it is a means of educating the public's taste and that the public would benefit from a more educated taste," he said. One is not permitted to object that if art is actually to the benefit of people they will themselves acquire a taste for it (Grampp 1989:253-254).

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

William Baumol gives perhaps the most succinct summary of the theory of art as a merit good, and of merit goods themselves. "The argument is that the arts deserve public funding because they are good. If asked why, or how one tests the proposition, the implied answer is that it is self-evident. Whether or not this is accepted as convincing, it must surely be recognized to be an honest reply". (Baumol 2003:23). It seems that merit goods may represent a value difference without a difference.[40]

Cultural Goods

In modern society we are grouped in political bodies, in *polis*. Apart from our daily lives in which we transact and live voluntarily with those we like, our collective actions are guided by the state (local governments) and the State (national governments, e.g. the Nation-State). As mentioned above Frey 2003 believes that all states are involved in the 'market' for arts, and to requote Throsby and Withers 1979:193, "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."[41]. Specifically, states have taken a role to ensure that cultural goods are preserved to symbolize the culture of a *polis*.

Throsby 2003:26 writes, "What is the nature of the value a community places upon the traditions which symbolize its cultural identity? What do mean when we say that Monteverdi's operas or Giotti's frescoes are valuable in the history of art? In neither case does an appeal to individual utility or to price seems appropriate."

[40] Although merit goods seem to be discredited as a valuation method I have included it 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) .

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

Throsby uses the argument that art has two values, the cultural (the aesthetic under Cowen's dialectic) value and the economic value. By denoting the difference we then denote that the cultural is a public good and that there is a role for the state in supplying (or preserving) the cultural value. "Thus we continue to maintain the necessity of regarding economic and cultural value as distinct entities when defined for any cultural commodity, each telling us something different of importance to an understanding of the commodity's worth" (*Ibid.*:33).

Throsby then uses the example of the art museum as the way in which the cultural (public good) value of art is brought to realization and lists many public good characteristics of the museum (I have included a sampling), "the contribution the museum makes to public debate about art, culture and society", "the role the museum plays in helping to define cultural identity, either in specific terms or more generally in its representation of the human condition", "the value to individuals of retaining the option of visiting the museum"[42] , "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).

It is the bequest value argument which is relevant to our survey of the *value difference* in art for this paper; this concept is not too different from the normative notion that one generation owes another generation some degree of preservation of nature.[43] Art that is passed from generation-to-generation is called *built heritage,* whereas natural endowments are referred to, obviously enough as *natural heritage*.

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

[43] This type of normative economics is called *intergenerational equity*, *intertemporal distributive justice* or *sustainable development* (although this latter term is not necessarily intergenerational), see Throsby 2003, and was pioneered by Harold Hotelling 1931. The key to intergeneration analysis is the use of intertemporal discount rates or time-preferences. The discussions around the *Stern Review on the Economics of Climate Change* (Stern 2006) give a recent example of the debate over equity and time-preference. Some argue that Stern used to low of discount rate, prioritizing future generations over the current generation and that this overstated the negative effects of climate change.

It is not clear that government, as opposed to private philanthropy, is required to provide for intergenerational equity in the arts[44], however, history should not be removed from our analysis and the state and prior to that the church has funded cultural heritage so we have seen this valuation empirically over time.

Tibor Scitovsky in the *The Joyless Economy: An Inquiry into Human Satisfaction and Consumer Dissatisfaction* (1976:278)[45] provides an argument for public funding (using government '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.

As stated throughout this paper, it is inevitably the public policy process of each *polis* which determines how and to what extent built heritage is funded and preserved (valued), however, skeptically, it is difficult to avoid the notion of the co-integration of publically-funded heritage and propaganda.[46] It should also be noted that there are 'nation-building', Nationalism, or less euphemistically, 'national treasure' arguments put forth to support government funding of the arts or for protectionism against outside cultural influences (see Throsby 2003:130-133 for a discussion on cultural heritage and national interest). Comparative statistics are widely-used in art economics (as political economy) to measure differences in how various *polis* value their culture empirically by levels of funding (see Towse 2007, Cowen 2004, Frey 2003 among others).

[44] Many museums, great and small, are the result of private philanthropy. The first museums were called "cabinets of curiosities" and were private individuals opening their private collections to their neighbors (McClellan 2003).

[45] 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 (aesthetic) reasons, this leads to the Socratic unexamined life, or in Marxian terms, commodity fetishism.

[46] Thomas 1977:221.

A Note on the Contingent Valuation Method

Using surveys and experimental settings, economics has used the contingent valuation (CVM)[47] to try place an economic value on non-tradeable goods in order to capture the *value difference*. "Contingent valuation is a method of estimating the value that individuals attribute to non-tradeable goods or some characteristics of tradeable goods not revealed by the market mechanism" (Cuccia 2003:119).

Art economics has used the CVM approach to remove decisions about public arts funding from that of experts to include the public at large. This may help government decision-makers to "not adopt a paternalistic approach but try to found their decisions on individual preferences" (*Ibid.*: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

[47] CVM has been used for approximately 40 years in the valuation of natural 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 since 2000. It should be noted that CVM is used mostly for the valuation of "monuments, groups of buildings and sites recognized as being of artistic and historical interest" (Cuccia 2003:119) and is not used for easel paintings, which as noted is this author's area of research.

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

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

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.[48]

VI. Conclusion

This paper has proposed that the hard core of the research program in art economics is that of a *value difference* between art and other economic goods. The study of culture and aesthetics may be more the purview of other disciplines (philosophy, anthropology, art history, semiotics) than that of economics, however economics is the study of human behavior and human behavior is more than (different than) individuals acting alone under resource constraints. It is proposed, here and elsewhere, that this has been a weakness in mainstream economics.

This paper has tried to show that culture and the economy are two different albeit mutually-dependent spheres that operate together to define who we are as humans. The value difference applied to art has been a framework to evaluate how the intersection between culture and economics is approached in the relatively new and growing field of art economics. Economics itself is limited to sets of assumptions which can only get us so far in defining how cultural resources are allocated in society. Political economy - where the study of public policy and democratic 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 primary interest in the research program.

[48] "The validity of CVM has been hotly contested" (Noonan 2003:161).

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