Measuring Intrinsic Value

How to stop worrying and love economics

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Abstract

This paper seeks to transcend entrenched misunderstandings between economists and arts policymakers, leaders and funders. These misunderstandings, which have long dogged discussion on arts funding in the UK, are most evident in the long-running debate about 'instrumental' and 'intrinsic' approaches to public expenditure on culture and the arts.

As a general theory of public choice, economics provides tools for measuring the intrinsic as well as instrumental value of art in a way that is commensurable with other calls on the public purse. The reluctance to use rigorous economic methods has hindered rather than helped the case for the arts. This paper offers a provocative reconsideration of the outdated and poorly-informed prejudices which lie behind this reluctance.

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Introduction

This paper seeks to transcend entrenched misunderstandings between economists and arts policymakers, leaders and funders. These misunderstandings, which have long dogged discussion on arts funding in the UK,[1] are most evident in the long-running debate about 'instrumental' and 'intrinsic' approaches to public expenditure on culture and the arts. Our argument here is simple: bad economic decisions are the outcome of bad economics. If, economic decisions have therefore failed to take account of the intrinsic benefits of the arts, the solution is not to exempt arts spending from economic criteria, but to improve the economic practice used to judge such spending.

Nobody says we should get rid of the arts because there are many bad paintings in the world. This is because the arts do not cause bad art: bad artists do. Likewise, 'economics' does not lead to bad funding decisions: bad economics does. Both camps will therefore benefit from an engagement, which can improve the economics used to reach decisions about how to spend public money on the arts. Most critics of instrumentalism have bypassed, instead of engaged with, the economics used to make these decisions. It is time this changed.

'Good Economics' includes what Bruno Frey (2004) calls 'the economic approach to the arts', which, for brevity, we will refer to as 'cultural economics'. This body of theory makes a distinctive, and vital, contribution to the theory of public choice and its relation to consumer preferences. To dispel superficial prejudice, Frey distinguishes this from 'the economics of the arts' – the routine macroeconomic measurement of employment, output, and productivity, associated with the 'creative industries'.

Cultural economics has not figured in the UK debate on the value of the arts. The arts community is the loser, because cultural economics squarely addresses the issues raised by instrumentalism's critics: it shows how one might estimate the intrinsic value of art. Properly-conducted investigations informed by its approach find that the public places a considerable value on art and its availability, a value often greater than the public funding actually allocated. This fills an undesirable gap: it offers authoritative estimates of the 'public value' of art which permit fair comparisons with other uses of funds.

[1] *This paper refers to 'arts policymakers', 'arts funders' and 'arts leaders'. The boundaries are not always fixed, but useful. Roughly speaking, 'arts funders' covers the bodies who allocate funds, for example Arts Council England and the Scottish Arts Council; 'arts leaders' refers to individuals and bodies who promote the arts, and 'arts policymakers' refers to those in government (such as DCMS and the Treasury) who set the policy framework for funding decisions.*

Cultural economics can in fact provide precisely those guarantees required by the critics of instrumentalism, that choices about arts funding should be freed from the prejudices which arise if intrinsic value is neglected. 'Good' economics – the rigorous application of cultural economics – can thus reverse a traditional but obstructive line-up which pits economists, cast as architects of instrumentalism and all things philistine, against arts leaders, cast as beleaguered defendants of intrinsic value and all things aesthetic.[2]

It is therefore a great pity that cultural economics has not figured more prominently in UK debates on funding. Economic policymaking in the UK largely refrains from applying or making use of it, whilst the prejudices of too many arts leaders against economic methods have held them back from referring to it.

We think, therefore, that frustrated arts defenders will make more headway with clear arguments for better economics, than with muddy arguments for immunity from it. This approach also averts the risks of appearing élitist or unaccountable, which arise from any attempt to exempt the arts from public choice. Money spent on the arts is not available for other purposes; if the case for funding them rests too heavily on their 'uniqueness', then by default, the merits of all other claims are discounted. These too, however, have their intrinsic benefits. Of course, the intrinsic value of health and education is not the same as that of the arts, but it certainly exists. Even if not intentionally, the effect of arts exemption is to request money that could be spent on other things, without assessing what society loses by forgoing this expenditure. The arts will back themselves into a needless corner if their case rests on the false claim that only artistic value matters.

We aim to provoke a shift in debate away from uninformed rejection of economic criteria for arts spending towards informed discussion of the actual criteria employed. Critics have established a case against bad economic decisions. It is time to consider the case for good ones.

[2] *This paper mainly uses the term 'economists' to mean 'government economic decision-makers and advisors'. Occasionally we use it in a broader sense, referring to the general profession of economists and including academic economists. When we use the term in this sense, we will speak of 'economic theorists'.*

Two caricatures

When funding is at stake, it is all too easy for misunderstanding to veer into misrepresentation. Debate on cultural spending is dogged by caricatures, particularly the portrayal of economics as 'philistine' and the arts as 'impractical'. Both caricatures are rooted in fallacies.

The first fallacy, simply stated, is that artistic goals will be thwarted if economic criteria are used to decide whether to fund the arts. Economics, it is said, can only 'value' art through its non-artistic effects, and fails to take into account the 'intrinsic' or artistic benefits. The second, equally misguided, fallacy is that the specific nature of the arts excludes them from economic analysis.

Yet, ironically, most statements purporting to defend the arts against instrumentalism turn out to be economic statements. For example, it is argued that artistic judgements cannot be the subject of economic analysis because they are subjective. But, modern microeconomics is founded on the analysis of subjective preferences. Or, it is said that the benefits of art arise from our enjoyment of the art itself, and not from any secondary results such as the jobs created. But, in this respect, preferences for art are no different from any other kind of preference. We eat chocolate not because it produces more jobs but because we enjoy eating chocolate. The idea that a good should be judged in terms of its instrumental benefits is an exception to the theory of choice, not a product of it.

In fact, the problem is a different one: it is that the intrinsic benefit of art needs to be properly taken into account. If this isn't happening, it is not the fault of economic theory, but the failure to apply it. This weakness is precisely what cultural economics sets out to correct, with some considerable success.[3]

Frey (2004:2) draws to our attention a tradition of cultural economic theory – neglected both by arts policymakers, and also by many economists – dating back to the nineteenth century: "[t]he … normative question of why the state should support the arts was also taken up by famous British economic theorists such as Lord Lionel Robbins (1963,1971) or Sir Alan Peacock (1969) both of whom, incidentally, were actively involved in the arts", he writes, "as was the towering economist of the 20th Century, Lord John Maynard Keynes".

The birth of art economics as a discipline of its own within modern economic science can be dated exactly: it occurred with William Baumol and William Bowen's book on the Performing Arts – the Economic Dilemma, published in 1966…subsequent to Baumol and

[3] *Joss (2008) makes a different point, namely that "unless intrinsic benefits arise, instrumental benefits are unachievable".*

Bowen's pathbreaking book, cultural economics has started to flourish. In Anglo-Saxon countries, the books by Thomas Moore (1968) on the American Theatre, Sir Alan Peacock and Ronald Weir on the Subsidised Muse are good examples. Soon, Mark Blaug (1976) collected the first book of readings, and Throsby and Withers wrote the first textbook on The Economics of the Performing Arts. Cultural economics was early on taken up in other countries, in particular in France, Italy and Switzerland.

As early as 1910, a special issue of the *Volkswirtschaftliche Blätter* ('Economic Papers') was devoted to art and economics. Throsby (2001) notes that John Ruskin, in his intervention into the founding debates on the classical theory of value, clearly formulated the idea that art possesses intrinsic value. Indeed, he argued that the quality of the artistic labour in all products should be a measure of their worth to society.

There is thus a rich tradition to be called on. The problem is that it is not. On closer examination, most criticisms do not address flaws in economic theory but its misuse. Smart supporters of the arts would be far better enlisting economics on their own behalf - against the practices that lead to their concerns. This is not to argue that there is no debate to be had if these fallacies are abandoned, rather that the debate could be a better one.

Value, public value, and the economic consequences of the arts

Economic theorists include, among their numbers, not just some of the strongest supporters of the arts, but the most effective. "We destroy the beauty of the countryside because the unappropriated splendours of nature have no economic value," wrote John Maynard Keynes in 1936.

"We are capable of shutting off the sun and the stars because they do not pay a dividend. London is one of the richest cities in the history of civilization, but it cannot 'afford' the highest standards of achievement of which its own living citizens are capable, because they do not 'pay'. If I had the power today I should surely set out to endow our capital cities with all the appurtenances of art and civilization on the highest standards of which the citizens of each were individually capable, convinced that what I could create, I could afford – and believing that the money thus spent would not only be better than any dole, but would make unnecessary any dole"

A Bloomsbury group member who was as dedicated to the arts as to the reform of economics, Keynes regarded each as parts of a single endeavour. But he also put money where his mouth was: his achievements include not just the framework of most postwar economic policy but *also* the foundation of the long-surviving Arts Council.

Why was it that an economist was able to achieve what three generations of philanthropists had merely yearned for – a recognition, entrenched in the public understanding, of the need for institutionalised state funding and support for the arts? Fundamentally, because economics permitted him to pose a central question which successive generations of cultural economists have refined and developed: what is it about the arts which requires the state to fund them? What is in fact the case for using the "money thus spent", rather than spending it on the dole? It is that the arts yield value, in and of themselves. This value, however, is neither fully measured through the market, nor realised in the market. How can the extent of this value be measured?

Economics can help. If they simply demonise and caricature economic arguments, arts leaders will fail to connect with their most effective potential allies. Claims for the arts based on flawed understandings of economic value will fall increasingly on deaf ears when competing with other equally credible claims on public resources – especially in time of recession when resources are tight. With this in mind, we start by addressing the body of recent work which has been developed to measure 'intrinsic' value.

Fallacy 1: Economics cannot take intrinsic value into account

Since the early 1990s, successive governments have sought economic benefits from their funding of the arts. And there have been a growing number of well-argued critiques of this change of approach. Emily Keaney (2006), in a comprehensive summary, links the difficulties to the introduction of 'New Management' techniques. These criticisms focus on issues of process (how we might find out what benefits will arise from a public investment) and valuation (what these benefits are).

These are two different things, as discussed later at more length. Here we focus on the second. The fundamental issue is what 'counts' as value: it is from here that the 'instrumental versus intrinsic' debate arises. Art has its own merits, it is argued, which transcend any non-artistic side effects. Sara Selwood (2002) gives a succinct account:

The gathering of evidence about the impact of the sector has assumed centre stage in the management of the subsidised cultural sector in England. It is closely associated with an extension of government control over the sector, and the tendency to value culture for its 'impact' rather than its intrinsic value.

This is amplified by John Holden:

[A] growing sense of unease pervades the cultural sector as it sets about justifying its consumption of public money. Instead of talking about what they do – displaying pictures or putting on dance performances – organisations will need to demonstrate how they have

contributed to wider policy agendas such as social inclusion, crime prevention and learning. (Holden 2004:13)

These passages describe two types of benefit or outcome, those arising from the art itself, and those arising from its effects. The problem of public choice, say the critics, is that the second is treated as more important than the first, when the first is really more important than the second.

This is actually an 'economic' argument. It is about choice and is expressed in terms of value. Intrinsic are seen as more valuable than instrumental benefits. Yet the decision-making process, the argument goes, wrongly fails to select these higher-value activities. If so, then the solution is to make good decisions – which are in fact based on a proper assessment of intrinsic value.

Can such assessments be made? Most certainly they can. A seminal study by David Throsby, Glenn Withers and Beverley Thompson, for the Australia Council in 1982[4] surveyed a large sample of people over 17 years of age, for cost reasons confined to Sydney, who were questioned in depth about

- Their interest in various art forms
- Their attendance at arts events
- Their active participation in the arts
- Their perception of the general benefits or costs arising from the arts as experienced by the arts community at large
- Their approval or disapproval of government financial support for the arts in Australia
- Their precise willingness or unwillingness to pay out of taxes for arts subsidies under a variety of conditions.

This enquiry thus sought directly to assess the public's own valuation of the arts. It didn't even refer to external effects such as employment, output or any other such 'instrumental' variable. This independent academic research

sought balance and objectivity which has been exposed to close professional scrutiny…the Australia Council provided funding for survey costs without knowing whether the results obtained would support an "arts line" and knowing that the authors would publish the results whether favourable to the arts or otherwise.

[4] *Throsby and Withers (1982)*

The results were unexpected, even to one of the authors, who was “convinced that the survey would show that arts funding was a middle class rip-off”. They “paint a picture of a solid core of the Australian adult population, somewhere around one quarter of all adults, with some real active participatory involvement in an art form, especially music of all types”, and “a little less than half the population with more than just a sporadic attendance pattern at arts events…these data suggest that the popular image of the average Australian as a philistine ‘ocker’ is inaccurate”.

The survey yielded one more surprising but vital result. It showed that even among those who do *not* participate in the arts, the arts are appreciated – a finding echoed in the Arts Council of England’s recent public value inquiry (Bunting, 2007). Cultural economics has brought this important understanding to the study of rational choice. It arises because the arts are to a large degree consumed collectively. The public, consequently, takes collective pleasure in the arts, often even when they do not directly participate as individuals. The survey found that Australians, on the whole, took pride and pleasure not simply in attending arts events, but also, crucially, in their very existence.

People are pleased to have a theatre, museum or gallery in their town or neighbourhood, regardless of whether they visit them (cultural economics calls these ‘existence’ benefits). People are also happy that their descendants will receive benefits after they are dead (‘bequest’ benefits), and they enjoy having access to an increased range of arts genres, activities and artistes, even if they do not see all of them (‘option’ benefits).

This leads us to the special significance of such studies. They do not merely record the fact that the public like the arts, but allow a figure to be placed on it. Growing experience of ‘Contingent Value” (CV) and related ‘Willingness to Pay’ (WTP) estimates of public value – which ask the public what they would be prepared to pay, faced with a choice of spending the money on something else – have given considerable authority to this technique.

The economic uses of public value

One possible reaction to these studies is to say ‘the economists are only telling us what we know anyway”. The arts community already know that their work is valued by the public, because the public consumes its output. It is willing to pay for those artistic products that are marketable, and it flocks to those events that are free or subsidised.

Cultural economics, however, fills gaps left empty by sales and box-office figures. Only the first three of Throsby and Withers’ questions, cited above, relate to these direct individual benefits. The next three refer to the satisfaction which the public feels, not merely by attending arts events, but from the *fact that the arts exist at all*.

It has long been understood, by scholars of the value of art, that artistic value is multi-faceted and that a wide variety of disciplines are required to comprehend it – including not just economics (and not just art criticism) but sociology, psychology, history, philosophy, aesthetics, and many other approaches. This is very clearly expressed, for example, in Hutter and Throsby (2008), a fascinating survey of a very wide range of approaches to artistic value beginning with Terry Smith's (2008) description of the seventy-year encounter between Australian aboriginal art, European artists, and European art criticism. This amply demonstrates, and recognises, the plurality of understandings and valuations which enter into the way any given artistic activity is evaluated by the public.

However, cultural economics makes a number of distinct additional contributions. These do not detract from any of the above but complement and extend them into the domain of public choice. Cultural economics offers a *commensurable* measure of such valuations. It does not replace, but captures and summarises these many-faceted valuations in such a way that when choices are made between spending on the arts and spending on other calls on the public purse, the value set on the arts will be fair and inclusive – that it will, precisely, reflect the public's evaluation of the intrinsic value of the arts.

It thus puts this valuation beyond those allegedly hardnose objections to public funding of the arts which claim it arises from the pure self-interest of the arts community. CV and WTP establish the *public's* own estimate of the intrinsic value of art. Such estimates – if they are based on rigorous analysis – cannot be challenged on the grounds of bias or distortion arising from advocacy.

Cultural economics also achieves this in a 'non-reductionist' manner. It leaves room for the multi-faceted nature of artistic value, extending the boundaries of the crude conception of economic value that reduces it to a direct benefit to individual consumers. Cultural valuation is rooted in a rounded and inclusive conception of value which serious economic theorists, today, accept to be necessary. It extends the concept of value to include benefits to the whole community. The concepts of 'existence', 'option' and 'heritage' benefits have been developed precisely in order to capture the valuation that the public places on such wider community benefits.

A third point about such methods, which should commend it to the attention of arts policymakers, is that they have come of age. They have attained recognition and authority over several decades of development. They cannot, therefore, lightly be discounted by decision-making bodies. Indeed, if the judgements made by such bodies in future continue to rest on the crude economic measures which their critics despair of, then the critics will share responsibility for this crudity, if they do not point to the much more refined methods that the authorities should have used.

The rigorous techniques applied in the 1982 Australian study have been further refined, as explained in a detailed overview by Frey (2004:192). They have been broadly applied: Carson et al (1994) list almost 1700 WTP studies (not all on the arts) in over 40 countries. Noonan (2002) provides an annotated bibliography of Contingent Valuation studies specifically looking at the arts and culture.

The method has also been subjected to rigorous scrutiny, one of its biggest tests being its use to estimate the environmental damage caused by the supertanker Exxon Valdez, which ran aground in March 1989 off Alaska. This led to careful scrutiny in the profession, given the enormous interests and large sums of money involved. The United States National Oceanic and Atmospheric Administration (NOAA) hired two Nobel prize-winning economic theorists – Kenneth Arrow and Robert Solow – to chair a panel to assess the methods. The report (Arrow et al 1993) concludes "that CV studies can produce estimates reliable enough to be the starting point of a judicial process of damage assessment, including lost passive-use values". This last term refers precisely to the non-use values of the environment consisting of existence, option, and bequest benefits – the very same benefits which we have just been discussing in connection with the valuation of art.

Such benefits underlie one of the strongest economic cases for public funding of the arts. Economics talks of a 'free rider' problem, when people can access for free a benefit for which others have paid. Direct receipts from market sales will then understate the value. The 'true value' needs to be estimated, which is where cultural economics comes in.

The 1982 study, like many since, showed that respondents strongly supported an increase in arts funding, even though the questions were rigorously framed to make clear that this would need to be taken away from other public priorities.

Just under three-quarters of respondents favoured an increase in assistance (mostly to be financed by reductions in other government expenditures), and just under one-quarter favoured a maintenance of the status quo. Only 3.5 per cent advocated a decrease in arts subsidies…The study showed a quite marked appreciation by the public of the critical and evaluative role of the arts in understanding our society. (Throsby and Withers 1982: 21)

The authors also used the survey directly to assess the public's Willingness to Pay. "We can state", they noted,

That even after allowance is made for the possibility that people might exaggerate their responses for a variety of reasons, and even if extremely high responses are eliminated arbitrarily as possibly frivolous or biased, and even when respondents are told that they will have to bear the costs of subsidies from their own taxes and know what this cost will be, we

still find an average willingness to pay that significantly exceeds current levels of government arts support in Australia.

At the time of the survey, average state expenditure was estimated to be $6 per head. The survey suggested a WTP between $15 and $200, with a conservative estimate of the social average as $15. Thus, even on the most conservative possible interpretation of the evidence, the state was found to be spending well under half what the public thought that it should.

In 2003, the British Library used CV techniques to estimate that it provides over £363 million in value each year, the bulk of which is value enjoyed by non-users. This is around 4.4 times the level of its annual public funding (Pung, Clarke and Patten, 2004). In 2005, a CV study of museum, library and archive services in Bolton found that users and non-users valued the services at £10.4 million, 1.6 times the value of their public funding (Jura Consultants, 2005).

Arts leaders naturally fear asking the public whether it likes what they do because they believe the general public won't appreciate its social criticism, novelty or inventiveness; or because the arts do not always yield tangible benefits. Such fears are not supported by the evidence.

We would make no claim that economic methods are perfect. The critical point is whether any errors in this kind of technique – which are, incidentally, already in use to measure the value of public outputs which 'compete' with the arts – are prejudicial to the arts. Do such methods, if properly applied, fail to capture benefits described by the critics of instrumentalism? Are they 'unfair' to the arts – automatically leading people to choose 'tearjerk' priorities such as health and education, because of lack of understanding, philistine prejudice or lack of education? Do they provide the arts with a skewed playing field that underestimates any aspect of the contribution of the arts? On all three counts, the evidence strongly suggests the contrary.

Here is another point where we can see that the problem is not economics, but bad economics. The 'economic approach to culture' is a specialist field. It requires expertise, and like any specialist methodology, has to be done right. Arrow et al (1993) list very stringent conditions that must apply for the conclusions of a CV study to hold. Endorsement of CV methods does not give every unqualified consultancy company carte blanche to ask a few market survey questions on the street corner, and dress it up as 'science'.

We are not arguing that CV methods are perfect, nor are we arguing they are the only way to capture the public's perception of the intrinsic value of the arts.[5] We *are* however saying

[5] *See Brown and Novak (2007) for an alternative measurement approach in the context of valuing live performance, although the metrics they use are not commensurable.*

that such results demonstrate just how much the arts have to lose by turning their backs on economic methods which may provide clear and authoritative support for public funding.

The responsibility of the government in the valuation of art

These are not costless conclusions. One worrying feature of British funding processes is precisely that they don't have enough specialist economists in the field of culture. We know of no major UK university that sees fit to teach its economics undergraduates anything about culture, and few have the resources or the inclination to fund or support cultural economics research. In the civil service, cultural economics is the poor relation of every other branch of economics. When arts funding decisions use methods appropriate for manufacturing or ICT, it is no wonder that the criteria applied seem alien to the arts community.

But if cultural economics is to be applied, due account must be taken, as with any body of knowledge, of the advanced specialist knowledge that is available. It is not possible to evaluate the benefits of arts 'on the cheap' without proper application of the techniques.

Some government ministers have recognised the benefits. When she was Secretary of State for Culture, Media and the Arts, Tessa Jowell said (Jowell 2004)

Too often politicians have been forced to debate culture in terms only of its instrumental benefits to other agendas. . . . In political and public discourse in this country we have avoided the more difficult approach of investigating, questioning and celebrating what culture actually does in and of itself.

But ministers have not taken the actions that would strengthen such arguments, by ensuring a systematic reconsideration of the skills base of the government's own economists, rather than exempting the arts from economic reasoning. Where better to start than a Centre for Excellence for Cultural Economics, in Tessa Jowell's own former Ministry, crowning the brilliant work so far achieved on wholly inadequate resources? Wouldn't an obvious next step be a coordinated attempt by DCMS, the Research Councils, Arts Councils, the Museums, Libraries and Archives Council, and heritage funds, to develop awareness amongst arts leaders and much wider use of Contingent Valuation in the context of arts funding?

All this – and more – can and should be *de rigeur* in any proper, robust calculation of the 'value' of the arts. Holden argues that "targets … are … expressed in terms of efficiency, cost-per-user and audience diversity, rather than discussed in terms of cultural achievement" (Holden 2004:14). This is almost certainly true, but the obvious conclusion is that such targets should instead be expressed and discussed in terms of cultural

achievement. Rather than dispensing with attempts to establish the economic value of the arts, we should demand that a proper value is placed upon them, in their own right and for their own sake.

In concluding this section, we re-emphasise that we don't claim that CV and WTP measures offer definitive tools for evaluating artistic benefits. We do however claim that their existence, the weight of authority that supports them, the rigorous scrutiny to which they have been selected, and the fact that their results to date support the informed criticism of the arts community, suggest that significant benefits would result from applying them properly. And one of those benefits would be the unblocking of the false and needless polarisation between artists and economists.

We would not deny their potential limitations. A sober assessment needs to be made, however, of whether these limitations are of such scale and scope, that their use for evaluating the arts should be ruled out, or avoided, by the arts community. At the centre of this problem lies the subject of our second fallacy. Are the arts in fact beyond quantification, and is any attempt to quantify their value doomed to fail?

Fallacy 2: The value of art is beyond measure

The notion that economics cannot measure intrinsic value has its inverse proposition in the idea that the value of art is beyond measurement. A constant theme in some critiques of instrumentalism is the suggestion that the intrinsic benefits of the arts are not only omitted from the account, but that they cannot be captured at all.

This idea appears in both UK and US debates. In a long and considered report prepared for the Rand Corporation, McCarthy et al argue that:

Intrinsic benefits of the arts are intangible and difficult to define. They lie beyond the traditional quantitative tools of the social sciences, and often beyond the language of common experience. Although many advocates of the arts believe intrinsic benefits are of primary importance, they are reluctant to introduce them into the policy discussion because they do not believe such ideas will resonate with most legislators and policymakers…the arts community is expected to focus on tangible results that have broad political backing, such as improved educational performance and economic development. (McCarthy et al 2004:37)

The benefits of the arts are, it is argued, irreducible and unquantifiable. The entire project of measuring its outcomes, or comparing these with the outcomes of alternative expenditures, may therefore be ultimately futile. It would then follow that by definition, decision-making

about the arts belongs outside the realm of economic reasoning, since economics necessarily concerns itself with quantities.

There is a contradiction between the plea that the intrinsic value of art should be accounted for, and the idea that it is beyond accounting. If art really is beyond valuation, there is no point complaining that it has been valued improperly. If it really cannot be assigned a value, it cannot sensibly also be argued that policymakers can properly take this value into account. As we see it, the most coherent argument to be addressed is that intrinsic value does exist, but cannot be measured. This is what we see as the second fallacy.

The difficulties of this fallacy are evident in a current policy problem: how should one apply 'excellence' in the arts as a decision-making criterion? This idea, widely embraced by the arts community, was a key element of Brian McMaster's report to the then Secretary of State for Culture, James Purnell in 2008. But if the achievements of art are beyond measure, how do we know what is excellent, and what is not?

This brings us to an initial, and non-trivial, objection to the second fallacy, which will help us clarify the distinctive contribution of cultural economics. Art *does* in fact quantify. As Wijnberg (2005) notes, it sets its own standards. It awards prizes, selects works for performance, ranks and rates performers, composers, writers, and cultivates a fierce critical tradition which passes endless judgements on the relative merits of different types of art. Moreover, the vigorous and growing markets that exists for many forms of art also put a numerical measure on the value of art – its price, albeit only the value which is captured in the market.

Cultural economics does not therefore put itself beyond the artistic pale merely by trying to quantify. It is in fact a particular *method* of quantifying. It is another estimate of intrinsic value. What is distinct about it? Two things: it sets out to measure the value set on art by the public, as opposed to the gatekeepers, of the arts community.[6] And it sets out to establish a *commensurable* estimate of intrinsic value – one that permits comparisons between alternative uses of public funds. On examination, therefore, the root of the difficulty is not actually *whether* one should seek to quantify intrinsic value, but *how* it is to be quantified.

In making this point, some care is needed. Firstly, though we may use economic criteria to allocate resources as between the arts and other fields of public spending such as health, this does not mean that one would use economic criteria to make individual artistic decisions. Art possesses its own methods for making decisions, which (hopefully) take due

[6] *See also Holden (2008).*

account of the fact that artistic choices are highly subjective. This is why many, if not all, artistic decisions are delegated to the arts community.

Herein lies a second point: in the arts, perhaps above all other fields, diversity is an important requirement. Almost everyone has their own personal conception of good art. So, aside from encouraging experimentation and innovation, diversity is an important economic requirement in its own right. The arts world is as dominated by fashions and establishments as any other public sphere, and it is notoriously easy for struggling talent to be overlooked and minority tastes to be excluded. The valuation of diversity itself, as an element of rational choice, is an aspect of establishing intrinsic value that is tackled by economics. But it is entirely consistent with - and should support - artistic autonomy.

Our third point of caution is about the relative autonomy of process. The Harvard Business School scholar Mark Moore, whose *Creating Public Value* (1995) has become something of a benchmark in defining modern ways that decisions within the public service can be made, points out that valuation and decision-making can take into account the tacit knowledge of experts in the public service (librarians are Moore's starting example). This brings the views of professionals into contact with their audiences and decision-makers to yield evaluations, and to make judgements. The BBC famously uses such approaches in evaluating its public value.[7] Similar ideas are already influencing urban planning circles as methods of participatory and consultative decision-making acquire increasing currency, along with criticisms of top-down management techniques. Arts Council England has conducted its first ever Inquiry into the public value of the arts (Bunting, 2007).

So, there is room for a variety of methods in *reaching* valuations, and for much experimentation and difference in *applying* them to decisions. But neither the fact that it is difficult to measure intrinsic value in the arts nor that there are many ways to do it suggest that it should not or cannot be valued.

Finally, it should be reiterated that the problems of measurement are not confined to the arts. Thus the statement that the benefits of the arts 'are beyond the traditional quantitative tools of the social sciences' unintentionally implies that other areas of social spending are not beyond these tools – that such methods have resolved all outstanding difficulties in making decisions on health, crime, education, security and social services. This view would certainly be questioned by their practitioners.

[7] *http://www.bbc.co.uk/bbctrust/framework/public_value_test/index.html*

Are the arts exempt? The problem of public choice

Taking due account of these points, there is a less transparent but fundamental issue: are artistic benefits commensurable? Is there something 'different' about art which makes it in principle wrong to compare its benefits with those of other claims on the public purse: health, education, crime, defence, or housing? To put it another way, is the value of art, by its nature, incommensurable with the value of other experiences? This question naturally arises when we consider statements such as Tusa's (2007:12-13):

The arts can deliver ideas whose final value cannot be predicted or quantified: to curtail them on these grounds is to deny the possibility of an unpredictable benefit. The risk of funding the arts – however uncertain – offers the promise of benefits far greater than any immediate advantages derived from not funding them…The investment in the arts is so small; the actual return so large, that it represents immeasurable value as research into ideas.

However, the public does not actually face a choice between spending on the arts and not spending. It faces a choice between spending on the arts and spending on other things.

The real purpose of measurement in decision-making is commensurability. The point is this: even though it is *difficult* to measure a benefit, it is not really optional. Whether we like it or not, governments choose between alternative expenditures. They cannot spend the same pound twice on a hospital and an art gallery. Choosing between two objectives forces any decision-maker to construct common criteria. If we could have as many hospitals as we wanted, and at the same time as many cinemas, art galleries, or concert halls, there would not be any need to assess which was 'better' or 'worse' because we could have all of them.

There are of course areas of social decision – such as rights and entitlements – in which choices are not expressed in a quantitative form. The law makes it a crime to kill somebody. It does not begin by calculating an acceptable number of murderers. The restriction, in law, is absolute and no-one is exempt. Yet, in reality, governments implement this law in a way that does, in fact, introduce quantities into an apparently qualitative domain: they make what Calabresi and Bobbitt (1980) call 'tragic choices'. All governments allocate a certain number of police, a certain amount of equipment, a certain number of prisons, and so on. We may regret the sordid intrusion of numbers into a domain we desire to be free of limitation, but in a society without limitless resources, this is impossible. Moreover, apparently non-quantitative decisions have disguised quantitative effects which it is disingenuous to discount. When a gallery decides, apparently on grounds of content, to feature works from a particular artist, this has the quantitative effect of increasing his or her income, which is one reason why 'impractical' artists spend so much time cultivating the galleries. Decisions by Charles Saatchi on whether to support or abandon some works have made and destroyed fortunes.

Herein lies the core problem with the argument that a particular kind of benefit is beyond quantification. First, reality itself requires all policy decisions to be quantified. Second, all apparently non-quantitative decisions, even private ones, have quantitative effects. An argument that one particular sphere of activity – the arts – should be exempt from measurements of any kind becomes an argument that this activity should be placed outside the realm of public choice.

No-one could possibly dispute that the benefits of different types of public spending are immensely different. Health, education, and defence satisfy entirely different requirements. In 'being different' the arts are in fact no different. The question is: are they *so* different that there is no basis for comparison?

The growing use of cost-benefit and metrication methodologies in public funding decisions arises because public spending involves public funds. Choices are made by allocating these funds, whether explicitly or implicitly. Every pound spent on the arts is a pound forgone on an alternative public good or service – the intrinsic and instrumental benefits of which may be no easier to measure than the arts. The attempt must be made, however, to establish a common measure to make choices between them. Moreover, public funding operates in place of a market. Where a market operates, decision-makers can excuse the lack of any method for quantifying benefits, by allowing the market to do it for them. A market is just another means of assigning a number to a product, which makes it all the more curious that the energy expended in criticising the arts decision-makers for their use of quantitative criteria is curiously mute when the market performs the same function.

The problem of public choice arises most acutely in precisely those spheres where the market fails to establish a valid measure of the intrinsic value of an activity which is of public merit. In this case, the decision-makers themselves need to establish such measures if they are to make valid choices.

This is not in vain. There is always a minimal basis for comparing any two social activities: what they have in common is that society does them. We compare listening to music with eating a meal, not because these are the same kind of experience – they are not – but because they are all things that humans do. Whether they focus on the difficulty of resourcing these activities, or the benefits to be got from them, all economic debates about value boil down to finding and expressing the common factors that unite human different activities. The concept of 'public value' has evolved as an expression for the common benefits of diverse activities.

The problem of estimating, measuring and using public value exposes many fundamental challenges in economics – to which it has some not unreasonable answers. Nowhere in this paper are we saying that these answers are perfect. It is, however, currently the most

developed game in town. It simply makes more sense for arts funders to demand a level playing field than to stand on the sidelines.

This leads us to our principal point in this closing section: attempts to exempt the arts from economic judgement will backfire if their real meaning is that ‘art should be left to the experts’. Nobody disputes that decisions on artistic *quality* - and on choices between different forms of art or different artists and their products - require informed tastes and artistic talents. One would not expect a painter to dictate to a brain surgeon, or vice versa. However, the real assumption behind ‘arts exemption’ is rather different. It implies that art funding choices should be made independent of their effects on the rest of society.

The notion that the arts are exempt from measurement really implies, not just that non-artists should be excluded from decisions about art, but that the arts community should make decisions about everything else. For, if the arts community seeks the right to spend arbitrary amounts of money on its activities, without limit on spending, then they must be entitled to take this money *away* from hospitals, houses and schools, independent of public opinion.

Since even the most vigorous opponent of instrumentalism would not go so far, the issue must then be how we ensure that appropriate quantitative measures are applied to the arts and that their results are used wisely?

Arts-led policy

In the end, cultural economics strengthens the case for the arts in ways that have not been taken seriously until now. If we can stop insisting that intrinsic benefits cannot be measured, and start demanding that they should be, then there is no reason not to extend artistic influence in decision-making well beyond its present relatively narrow reach. Aesthetic and other artistic criteria can indeed be taken into account in the sphere of apparently non-artistic decisions, not by exempting the arts from decision-making, but by applying artistic criteria on a far wider basis.

With aesthetic values impinging on all aspects of our lives in an increasingly service-oriented economy, the arts could make a very different contribution which they should not be shy to argue. If ‘artistic’ or ‘aesthetic’ value is a suitable criterion on which to judge the arts, why should it not *also* apply throughout society? Are we really indifferent to whether our hospitals are concrete monstrosities? Do we not want our children’s sense of the worth of art to be encouraged at every step, so that aesthetic accomplishment is once again conceived, as Keynes desired, not as a distraction from ‘production’, but as its highest objective?

In fact, artistic, aesthetic and design criteria could be generally applied in all public decision-making. Hundreds of billions of pounds of public money are spent every year in public contracts whose results are aesthetically displeasing; indeed, insofar as planners make regulatory decisions about even private construction, the entire aesthetic shape of the urban landscape is determined by public decisions. These can and should be subject to aesthetic criteria, and by measuring the aesthetic and artistic contribution of buildings, alongside their practicality, the arts in Britain could take an enormous leap forward, as would the public realm.

The truth is that the special pleading for 'arts exemption' undermines the true case for the arts: that they should *not* be treated as the exclusive preserve of the few but the inheritance of all, neither separate from, nor inferior to, health, education or social care.

The tables can and should be turned. Rather than arguing that the arts should take no account of their 'instrumental' contribution to social inclusion, employment, learning or crime reduction, wouldn't the arts extract more mileage, and more interest, by scrutinising the artistic and aesthetic contributions of education, social services and the police?

Conclusion

We have argued that there is no contradiction between using economic, rational choice methods in making decisions about arts funding. We have also shown that if well-known and well-established economic methods are applied properly, the case for the arts could be significantly strengthened. Finally, we hope we have shown that arts leaders have more to gain by arguing for the proper application of economic methods, to establish the 'intrinsic' value of arts, than by resisting instrumental arguments for them.

This leads to practical conclusions. We have already proposed a DCMS-based Centre for Excellence for Cultural Economics and a wholesale increase in Contingent Valuation studies in our universities supported by the research councils and the arts community.

Other similar steps would help. Because the intrinsic benefits are both difficult and necessary to capture, effort and investment are required to capture them.

Artistic value is not adequately reflected in market measures; much art has the characteristics of public goods. Decision-makers need access to measures of it which do reflect its true value, are more complete than the market, and better than instrumental measures alone. Public investment is therefore needed to secure such measures and improve them.

The reluctance to use rigorous economic methods to attempt this has hindered rather than helped the cause of the arts. It is time to abandon the outdated and poorly-informed prejudices which lie behind this reluctance.

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