

Determining the value of cultural goods:

How much (or how little) does contingent valuation tell us?

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1. Introduction

Almost twenty years ago – in 1983 to be exact – Glenn Withers and I undertook what we understand to be the first ever application of contingent valuation methods (CVM) to the arts. We carried out a random-sample survey of the adult inhabitants of Sydney which sought to measure the community's willingness to pay (WTP) for the perceived public-good benefits of the arts. Around 825 respondents were questioned about the nature and extent of the nonmarket benefits they enjoyed from the existence of the subsidised arts in Australia – literature, visual arts, music, theatre, dance etc. – and they were asked to nominate the dollar amounts they would be willing to pay out of their taxes to support the arts, under conditions of both liability and nonliability for actual payment. With appropriate caveats, we concluded from our research that aggregate WTP for the public-good benefits of the arts in Australia at that time exceeded the then-prevailing tax-price of cultural subsidy.

What did we think we were measuring in this study and what did we actually measure? As far as the arts were concerned, our work was predicated on two principal

motivations, one theoretical and one practical. The theoretical drive came from a desire to test the longstanding proposition that the arts were a case of market failure. This hypothesis, first articulated in the 1960s (Baumol and Bowen, 1966; Peacock, 1969) and elaborated at length in our own book of 1979 (Throsby and Withers, 1979), remains to this day a cornerstone of efficiency-based arguments for public support for the arts, yet at the time of our early 1980s study it had remained empirically unexplored. The practical motivation for our work sprang from the political and economic trends affecting Australian

cultural policy at the time: a sense that the arts needed to demonstrate their economic importance, and the fact

that public expenditure programs were coming under sharper scrutiny in times of increased budgetary stringency.

We used the rhetorical question "What Price Culture?" as the title for the report on our study that was written for a popular audience (Throsby and Withers, 1984), reflecting our belief that we had indeed been able to place an economic value on the nonmarket output of the arts. We argued that art has its price: for those producing it, for those consuming it for their private enjoyment, for those making voluntary donations to support it, and for those required to contribute to it by way of compulsory taxation. The prices received or paid by the first three groups could be readily observed; our work, we suggested, rounded out the picture by placing a value on those benefits not captured in market transactions.

Nevertheless, despite any satisfaction we might have felt at having brought art so decisively into the economic calculus for the purposes of formulating cultural policy, some doubts have lingered. True, our work did seem to help make some sense of arts support programs in Australia in the years that followed, and our study was replicated in at least one other country. But the view has continued to be expressed by politicians, artists, cultural theorists and others, whenever economists try to estimate the worth of cultural goods, that ultimately the value of art cannot be expressed in monetary terms. Are these doubters simply ignorant of the power of economic analysis, are they trying to impose their own preferences on the rest of us, or are they expressing something that we as economists would rather not contemplate? These are fundamental questions which I have raised here in reference to one particular study, but which could equally be asked in connection with any of the multitude of CVM applications to culture which have appeared over the last decade or so.

In this paper, I want to explore some of these issues. What does CVM tell us about the value of cultural goods and services, and what does it leave out?

2. Strengths and limitations of CVM

It is important at the outset to remember that CVM is predicated on a model of an economy comprised of

individual decision makers who behave rationally in striving to maximise their own utility in the face of known constraints. It is assumed that preference systems between goods are well behaved, that individuals are the best judges of their own welfare, that each individual carries equal weight in the aggregation of preferences, and that the social welfare function contains no arguments other than the welfare of the individuals of which society is composed. In this model the distinction between *private* goods, over which property rights can be asserted, and *public* goods (or external effects) where property rights are ill-defined or non-existent, is fundamental, as is the assertion that exchanging rights through market processes is the appropriate way to lead towards a welfare-maximising allocation of resources.

I rehearse these well-known propositions because they provide the context within which the assignment of value to commodities in the economy is assumed to operate. CVM accepts that consumers have well-defined preferences for public goods and that this demand can be measured by the amount of other goods they are prepared to give up in order to acquire a unit of the good in question. Quite a lot of progress has been made in refining CVM techniques to overcome the formidable difficulties in its application. First and foremost, Samuelson's point-blank assertion in 1954 that rational behaviour would always compel individuals to reveal a zero WTP for pure public goods has been shown to be misplaced; not only have workable means of dealing with the free-rider problem been developed, it has also been shown that many individuals will not take the opportunity to free ride even when it is offered, such that honest revelation of preferences in hypothetical markets can indeed be obtained under certain conditions. Furthermore, other biases affecting WTP studies such as the embedding problem, starting-point bias, mixed-good bias, etc. can now be effectively controlled for, or at least their effects on estimated WTP can be understood and acknowledged in particular applications.

Nevertheless, even if we accept the standard economic model in its entirety, there is one problem with CVM that takes on a specific significance when WTP techniques are applied to cultural goods, namely the problem of information, or more especially its converse, ignorance. It is well known that the amount of information provided to respondents in CVM has a critical effect on their WTP judgements, with the general assumption being that better-informed judgements are more useful than ill-informed ones. In a CVM study of an "ordinary" public good such as street lighting or national defence or even environmental amenity, it is presumably possible, at least in principle, to provide enough information for an informed response to be generated. But it has long been asserted that a distinguishing feature of cultural goods is that acquiring a taste for them takes time, i.e. they are classed as experiential or addictive goods, where demand is cumulative and hence dynamically unstable. If these demand conditions do indeed obtain, it can be suggested that CVM will not be able to provide fully-informed WTP estimates for cultural goods.

Two observations arise from this. First, it may be that, as in many CVM applications, we should distinguish between *well*-informed and *fully*-informed preferences, where the former might be regarded as sufficient for policy-making purposes. In other words, all consumers may not need to become art connoisseurs or experts in order to express valid WTP judgements for cultural goods. Perhaps in particular cases there can be a level of information provided that is not "complete" but enough to reduce the cumulative-taste problem which arises with cultural goods to manageable proportions. Second, if that

line of argument is *not* accepted – that is, if appreciation of art and culture is so arcane and refined a taste that there is no possibility of its being acquired instantaneously – a persuasive argument might be made for appeal to expert appraisal. For example, it might be considered reasonable to accept the opinions of art historians as to how much a public art gallery should pay to acquire some historic painting (where the assessment might be construed as their estimate of the discounted present value of aggregate WTP judgments of members of the public, were they to be fully informed). Such cases, where the preferences of experts were being allowed to override those of the general community, might be seen not so much as instances of preference imposition (as with merit goods) but rather as correction of information failure.

But suppose that none of the above problems arises, such that CVM could be regarded as providing a fully accurate measure of individual WTP for the nonmarket component of cultural goods. Does it provide us with a complete picture of value for such goods? One way in which it could be wrong would be if value were somehow absolute or intrinsic to goods, such that their worth existed independently of any evaluation by consumers. This is a view with a long provenance in the history of art. If it were true, individual WTP judgements would be irrelevant in the determination of the real value of a good, and indeed these judgements could give a quite misleading picture of the good's value. Nevertheless, despite the lengthy debate about absolute value not only in art history but also in economics, I propose to leave intrinsic value aside here, preferring to regard value as something which is socially constructed, i.e. formed only by the instinctive and/or deliberate thoughts and actions of human beings.

Let us return to the model of a world comprised of individuals whose assessments of value are what matters. The question now is: accepting this model, does individual WTP provide a complete view of the nonmarket value of a cultural good? The answer will be in the negative if there exist categories of value which an individual may recognise but cannot express in terms of WTP. Let us consider some possibilities.

First, I may acknowledge that a good has value to me, but I cannot trade this benefit for other goods – in other words I cannot meaningfully represent the benefit I gain from this good in monetary terms. For example, I may experience some pleasure at my sense of identity as a human being (sharing a common humanity with my fellow citizens) but neither I nor they are likely to be able to express the value of this identity in monetary terms, since it is not exchangeable for other goods.

Second, I may recognise the value of a good where that value is external to myself, i.e. the value accrues to others. Two possibilities might arise here:

(a) On the one hand the value may accrue to others *as individuals*. In such a situation, if I express a positive WTP for their consumption, it is the well-known case of interdependent utility functions reflecting consumption externalities (and leading to "non-participant" or "disinterested" demand); this situation is consistent with overall utility maximisation if the interdependence is Pareto-relevant and is compensated for. If I am *not* willing to pay for the benefit enjoyed by others, at least they can express WTP on their

own behalf, such that the value would eventually be taken into account in any assessment of demand for the good.

(b) On the other hand, the value that I recognise may not accrue to others as individuals, but rather to others *as a group*, e.g. to "society" or to "humankind". This is an important case. When I say, for example, that Bach's music has value, I refer not just to my own consumption benefits but to the sense of what Bach's music has contributed, and will continue to contribute, to human understanding and enlightenment. This is a reflection not so much of the *universality* of the benefit (although this is undoubtedly relevant in the example I have used – how could one aggregate the benefits over so vast a time and space?) but rather of the *nature* of the value being expressed, and as such relevant to all types and sizes of cultural goods, from Bach's music to the humblest artwork. This category of value, perceived by individuals in what could be called "disembodied" terms, could be argued to be peculiar to cultural goods. Why? Because it derives from the nature of culture and the nature of art. Culture can be defined as the set of beliefs, traditions, customs etc. which identify a group and bind its members together; art is a particular manifestation of these shared experiences which expresses something about the human condition interpreted by artists. So the value of cultural goods that I am discussing here is a value identifiable in relation to the group rather than to the isolated characteristics of individuals. It is apparent that the perception of this sort of value is not going to be captured by an expression of individual WTP.

Let me illustrate this latter type of value by reference to some of randomly-chosen examples of cultural goods. Consider the value to indigenous Australians of the rock paintings of Kakadu, which contain material sacred to Aboriginal culture. Consider the value of T.S. Eliot's *The Waste Land* in illuminating our understanding of industrial capitalism. Consider the value of the French language as symbolic of the cultural inheritance of France. These elements of the value of these goods can be clearly recognised and appreciated by individuals (whether or not they have travelled to Northern Australia, read Eliot, or speak French). But these aspects of the value of these cultural goods cannot, even in principle, be sensibly aggregated from the WTP judgements of individuals, and indeed they cannot be plausibly represented in monetary terms, no matter how they might be assessed.

3. On economic and cultural value

Recently, I have been using the terms "economic value" and "cultural value" in an effort to capture the distinction between the sorts of value for a cultural good that are measured within the standard economic model and those which reflect the worth of the good when assessed in cultural terms. Thus economic value – which is not synonymous with financial or commercial value, although it is ultimately expressible in terms of either a numeraire good or (preferably) money – comprises any direct use values of the cultural good or service in question, plus whatever nonmarket values it may give rise to (which may perhaps be amenable to evaluation by CVM). Cultural value on the other hand is multi-dimensional, unstable, contested, lacks a common unit of account, and may contain elements that cannot be easily expressed

according to any quantitative or qualitative scale.

The characteristics of cultural goods which give rise to their cultural value might include their aesthetic properties, their spiritual significance, their role as purveyors of symbolic meaning, their historic importance, their significance in influencing artistic trends, their authenticity, their integrity, their uniqueness, and so on. These are also the characteristics of such goods that we might identify as economists if we were to adopt a Lancastrian approach to depicting their demand. In other words the preferences of individuals for a cultural good are likely to be formed by many of the same attributes of the good as contribute to its cultural value, suggesting that the economic value of the good as defined above is likely to be closely related to its cultural value in many cases. But if, as we have argued, CVM and other weapons in the economist's tool kit should fail to capture some sources or types of value in evaluating cultural goods, the relationship will not be perfect.

This disjunction between an economic approach to the value of art and a broader social or cultural approach has been recognised in recent writings in the cultural arena. Joseph and Lisbet Koerner, for example, suggest that current critical theories of the art object as a source of value are united in their attempt to account for the *irrationality* of art value in opposition to the abstracting *rationalism* of the assessment of art within neoclassical economics (Koerner and Koerner, 1996, p. 300). Michael Benedikt distinguishes between aesthetic, moral and economic values, and argues that they have to be made commensurable, "if only because real life asks us so often to compare and choose amongst them in the name of some 'larger' value" (Benedikt, 1997, p. 54). Contributors to Avrami *et al.* (2000) speculate about economic and cultural values as contrasting imperatives in the assessment of cultural heritage projects. These and many other writings suggest that the standard neoclassical model, despite its considerable theoretical and empirical power, will be unable on its own to provide a fully satisfying account of the value of cultural goods.

In concluding this section, it is useful to ask how cultural value might be determined. This is a critical question for a number of disciplines interested in art, culture and society. If we were to adopt the mind-set of the neoclassical economist, we might suggest that the cultural worth of an artistic good could be interpreted as being formed by a negotiated process akin to a simple market exchange. When a cultural good such as a painting or a novel is made available to the public, consumers absorb, interpret and evaluate the ideas contained in the work, discussing and exchanging their assessments with others. In the end, if a consensus is reached, the assessed artistic value of the work could be interpreted as something like a cultural price – an exchange value reached by negotiation amongst parties to a market transaction, where the "market" is that for the cultural content of the work. In a recent paper (Throsby, 2000), I have argued that creative artists in fact supply a dual market – a physical market for the good, which determines its economic price, and a market for ideas, which determines the good's cultural value. In the goods market, there is a single price at any one time, because of the private-good nature of the physical work; in the ideas market, there are always multiple valuations, as befits the pure public-good properties of artistic ideas. Prices in both markets are not independent of each other, and are subject to change over

time as reassessments of the work's economic and cultural worth occur.

Of course such a theory provides little joy for the empirical analyst, and something more practical will be required if the notion of cultural value is to be made operational so that it can be incorporated into actual decision-making in more than just intuitive terms. One possibility is to deconstruct the idea of cultural value into some components and to seek simple scales to represent judgements based on defined criteria (see, for instance, Nijkamp, 1995).

4. Conclusion

There is a legitimate question to ask at the end of all this, namely: So what? Suppose there *are* other sources of value that are not captured by CVM or any other methods in the economist's assessment of the value of cultural goods. Do they matter for economic decision making? Since both public and private decisions in the cultural sphere ultimately come down to questions of resource allocation, where the resources have opportunity costs, isn't a realistic assessment of the economic value of cultural goods all that counts?

Let me try to give this question a more concrete form. Suppose a cultural policy-maker has a choice between two projects involving the renovation of two different heritage sites, each with a capital cost of \$10 million. Only one of the projects can be undertaken because the budget constraint is exactly this amount and neither project is divisible. The benefit-cost ratio of project A, counting in all market and nonmarket effects correctly measured, is 1.1, that of project B is 0.9. By some means an independent assessment of the cultural value of the projects is obtained, which shows unambiguously that the cultural value of project A is low and that of project B is high. Accepting the validity of these measurements, which project is the policy-maker to choose? An economic criterion would suggest project A, a cultural one would indicate B. The tradeoff between the two sources of value can be framed either as indicating the economic price that would have to be paid to achieve a culturally desired outcome, or conversely the cultural price that would have to be paid to achieve an economically desired outcome, in choosing either project over the other.

The point of this illustration is not just to make the fairly trivial point that trade-offs are inevitable in this life, but rather to advance the more significant argument that cultural value, for all its ephemeral, shifting, incoherent and even irrational properties, is likely to influence peoples' decision-making in regard to cultural goods and might therefore affect desirable patterns of resource allocation in this area in ways that cannot be fully captured by standard economic analysis. If this is so, there is a challenging task ahead, namely to work out whether methods such as CVM and other approaches can be extended to account for these wider dimensions in their application to art and culture, or whether entirely new techniques of measurement, perhaps adapted from other fields, need to be developed.

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Endnotes