

FROM AUSTRIA TO AUSTRALIA – MARK BLAUG AND CULTURAL ECONOMICS

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1. INTRODUCTION

This paper discusses the legacy of Mark Blaug for cultural economics. It revolves around two basic questions: first, what is the scope and purpose of cultural economics according to Mark Blaug? Second, what do we learn about Mark Blaug's take on applied economics from his contributions to this field?

The first question is of particular interest because Mark Blaug played a formative role in the economics of the arts and culture. He pioneered what he called the 'economics of the arts' in the 1970s, and he kept contributing to what came to be called 'cultural economics' ever since. Over more than four decades, he played an important role in establishing cultural economics as a recognized discipline in applied economics – even though he was not too fond of this term himself. A noteworthy constant in Mark Blaug's writing is that it reflects a genuine interest in what many others have written. Similar to his work on the history of economic thought or the economics of education, for example, he kept taking stock of the literature on cultural economics, pointing out achievements, gaps and desirable extensions, which provide a useful point of orientation and inspiration for anyone concerned with cultural economics.

Regarding the second question, Mark Blaug is of course much better known for his work on the history of economic thought and economic methodology.¹ Yet, his publications on the economics of art and culture illustrate how Mark Blaug practiced what he preached. They entail useful insights regarding Mark Blaug's take on applied economics.

Early on, Mark Blaug insisted that a rational discussion of costs and benefits would improve cultural policy, and that applied economics provided a useful framework to do so. Over time, he changed his emphasis regarding the merits of cultural economics, however. In later contributions, Blaug stressed the special role of cultural economics as a testing ground for economic theory. The title of this chapter therefore alludes to native-Austrian Karl Popper (1959) and his famous illustration of falsification. Mark Blaug saw the cultural sector as a type of Australia – a foreign place where black swans dwell. Next to Karl Popper, another native Austrian who inspired Blaug is Joseph Schumpeter. Mark Blaug favoured an understanding of the market process as dynamic and open-ended. He argued that the topics of innovation, entrepreneurship and Schumpeterian competition should be much more central in economics, and cultural economics seems to have been a case in point.

Entrepreneurship is also relevant to appreciate another dimension of Mark Blaug's contribution to cultural economics. As one of the founding fathers of the field he saw an opportunity,

¹ Among Mark Blaug's twenty most cited works, two are on the economics of art and cultural economics (according to www.scholar.google.com as of February 2012).

promoted the subject early on, developed a platform and helped it gain critical mass, and then sat back and appreciated the highlights of what an increasing number of active participants came up with. There are similarities to what an Internet entrepreneur might do today.

To be sure, this paper makes no systematic attempt at historic reconstruction. The reason is straightforward. To place Mark Blaug's work in its broader biographic and historic context, others who have worked extensively with him are more qualified. Here, our contributions would eventually be more speculative.² For this paper, there is enough to discuss just focusing on what Mark Blaug wrote.

2. A CHRONOLOGICAL OVERVIEW

Mark Blaug himself consistently dates the beginning of the economics of the arts in 1966 with the publication of Baumol and Bowen's *Performing Arts: The Economic Dilemma*. Six years later, Mark Blaug started publishing on the economics of the arts himself with a call for more comprehensive "cost-effectiveness analysis" to inform the allocation of public subsidies to the arts (King and Blaug, 1973). The controversy that ensued at the time did not stifle his interest.³

In 1976, Mark Blaug published an edited volume on *The Economics of the Arts*, which also marked an important step in the emergence of the field. The volume brought together leading authors such as William Baumol, William Bowen, Michael Montias (with whom he used to share an office at Yale), Alan Peacock, Lionel Robbins, Tibor Scitovsky and Mark Blaug himself. It signalled clearly that there was a fledgling field of the economics of the art and that seasoned scholars were involved.

A year later, North American academics founded the *Journal of Cultural Economics* (JCE). Mark Blaug published in the second volume of this new journal on pricing of opera tickets (Blaug, 1978). In 1981 he became the first member of the board of editors of the JCE who was based in Europe (with fellow Briton Alan Peacock).

Mark Blaug never published as extensively on cultural economics as he had on the economics of education. Nevertheless, in the 1980s and 1990s, Mark Blaug was an active member of the *Association of Cultural Economics International*. After serving in the board of editors, he became book review editor of the association's JCE, working with his wife Ruth Towse who served as joint editor of the journal from 1993 to 2002. Mark Blaug did participate in the discourse on economics of culture, as his comments and responses in the JCE and elsewhere illustrate. In 1983, for example, Mark Blaug (1983:19) responded to F.F. Ridley's attack on cultural economics, challenging sceptics not to point out problems that cultural economists had identified themselves already but to develop constructive suggestions on how to improve the "rational discourse in the field of cultural policy". He also seemed to appreciate Dick Netzer's (1978) *The Subsidized Muse*, and he commented on that work in several shorter publications, if not quite as frequently as on Baumol and Bowen (1966).

² Mark's wife and cultural economist Ruth Towse provided helpful comments and background information. Mark Blaug (1994) himself discussed his intellectual journey in its wider biographical context. He reports that reflections on research methods took the shine of Marxism, and that he came to Popper via Friedman, in spite of Friedman's politics. Blaug stuck with central elements of Popper's philosophy of sciences even though he experienced Popper as a remarkably unpleasant teacher – referring to the native Austrian as too 'Prussian' for his liking. Blaug's autobiographical account also documents that he had an impressive sense of humor and optimism that contrasts starkly with the hardship that he experienced during the second world war.

³ The story goes Mark Blaug was refused entry to the premises of the Arts Council shortly after the publication of this paper.

Blaug's (2001c) literature survey turned out to be his most widely cited individual contribution to the field. The paper provides an inspirational account of the achievements of what had become a substantial literature. It also points out gaps and desirable further development to be discussed below.

Blaug (2005) is an interesting paper on the economics of copyright – a topic he kept pointing out since the 1970s but which has only recently received attention by cultural economists. In this paper, Blaug demonstrates how popular concepts (mis-)guide our thinking. In particular, he argued that the concept 'intellectual property' was no necessary aspect of Schumpeter's theory of economic growth through innovation, even if it is ubiquitous in the contemporary literature on innovation.

Finally, Mark Blaug's contribution to the first edition of the *Handbook of Cultural Economics* (2003) contains a concise and lucid version of his criticism of Paretian welfare economics and how it relates to the discussion on art subsidies. In the second edition of the same volume, he also discussed the definition of cultural entrepreneurship (Blaug and Towse, 2011).

3. THE SCOPE OF CULTURAL ECONOMICS

In the introduction to the edited volume of 1976, Mark Blaug (1976a: 14) focused on economics of the arts in a narrow sense: "*opera, ballet, modern dance, orchestral concerts, theater, museums and galleries, but unfortunately not television, radio and films, and not jazz or pop music.*" He explains the exclusion of television and radio with a distinction between 'entertainment' and the arts. He concedes immediately that this distinction may be "*artificial and conventional*" but reckons it is necessary to avoid the inclusion of spectator sports, which would leave the scope of the endeavour too broad. Film is excluded for a different reason: there were no concise economic studies available. Jazz and pop music are excluded because of the "*deplorable*" lack of interest of professional economists for these topics at the time. Cultural economics continues to struggle with the definition of the arts, the cultural, creative industries or entertainment industries to this day. At the time, Mark Blaug's solution was to admit the absence of a universal and definite criterion for in- or exclusion, and to get on with exploring the economics in a core of the arts.

By 2001, cultural economics had begun to cover an increasing range of "*artistic phenomena*". Arguably, this expansion justifies the switch from 'economics of the arts' to 'cultural economics'. Nevertheless, the main focus of the literature according to Mark Blaug (2001c: 123) remained the "*performing visual and literary arts*". Blaug called for greater coverage of "*low arts*" and "*cultural industries (...) such as pop music, movies and television*" and book publishing without detailing what precisely greater coverage of the cultural industries would yield.

Blaug (2001c) paid little attention to a branch in cultural economics that revolves around the broader, anthropological definition of the term 'culture' in the sense of shared norms, routines and values (Klamer, 1996; Throsby, 2001). Instead, Blaug (2001c: 124) emphasizes that to bring about advances in economic theory, there is still great scope for cultural economists to cover the full range of "*outlets of artistic creativity*" more comprehensively.

3.1 The ignition point: subsidies to the arts

Subsidies were clearly the main theme of the economics of arts in the 1960s and 1970s. From the various contributions in Blaug (1976, entire volume) related to public subsidies to the arts, he

derives several topics that have become central themes of cultural economics in their own right such as characteristics of cultural products as partial public goods and taste formation.⁴

The riddle is still the same today as it has been throughout the twentieth century: the arts are subsidized in almost all countries but subsidies differ substantially in scale and scope. This raises the positive question, what economic reasons would explain these differences. Mark Blaug repeatedly raised the caution that differences in public subsidies may well “*reflect custom and historical tradition*” (1976a:15; see also 1976b:135), or in other words that they were subject to path-dependence (Blaug, 2001c). Differences in subsidies also raise normative questions about the appropriate amount and type of subsidies to the arts. Mark Blaug’s skepticism about standard welfare economics came up time and again in his writing on cultural economics. Blaug stressed the importance of studying the economic history of the arts, and to him it illustrated that there was nothing inevitable about contemporary art subsidies. In any case, it seems that the discussion of the adequate scope of subsidies requires some attention to those types of artistic or cultural expressions that are hardly subsidized or not subsidized at all – which is one reason to agree with Blaug that non-subsidized, popular culture requires some attention in the economics of the arts.

In his first own paper on subsidies to the arts, King and Blaug (1973) had investigated the UK Arts Council’s reasoning behind subsidies. They were concerned that the allocation of subsidies to the arts was not based on explicit and clear objectives, an understanding of priorities and systematic assessments of success. King and Blaug (1973) still contains an important lesson for applying economics in the cultural sector: it may often not be clear what the exact aims and objectives of policy makers are. Decades later, Blaug (2001c) kept highlighting the challenge for economists to establish what would constitute efficiency for non-profit art organizations with their multiple objectives and variety of stakeholders (see also Blaug, 1978: 127). Besides the debate on direct subsidies to the arts, this seems to be a challenge for producing relevant economic analyses of copyright policy or industrial policy regarding creative industries, for example.⁵

In another paper on the Arts Council, Blaug (1976b) defines the central elements of a “*cost-effectiveness analysis*”, which will be elaborated on in section 4.1. On this basis, Mark Blaug discusses the various activities of the Arts Council and how they relate to the stated objectives of promoting (1) the diffusion of performing arts by region and to new audiences, (2) artistic standards, and (3) new art forms. He derives a number of tentative suggestions, for example that museums should introduce entry charges (not common practice in the UK at the time) and the money be distributed to the performing arts.

In the third issue of the Journal of Cultural Economics, Mark Blaug (1978) published a further article related to public subsidies. He addressed the prices of opera tickets in Covent Garden (Blaug, 1978). The paper is not concerned with ‘optimal pricing’. In line with his insistence that “*ultimate ends are a matter of value judgment*” (Blaug, 1976b), he develops various alternative scenarios in order to “*put every reader in a position to make up their own mind about seat prices*” (Blaug, 1978: 1).⁶

⁴ He points to the troubling observation that the highest subsidies go to art forms that are consumed almost exclusively by a tiny educational elite. The volume also contains a discussion of intergenerational considerations regarding the arts (developed in the contributions of Baumol and Bowen and Peacock) and of vouchers (Blaug, 1976a).

⁵ That holds in particular if policy objectives change over time, as King and Blaug (1973) illustrated.

⁶ Blaug (1978) emphasizes that there is not enough information to predict the impact of price changes on the number of tickets sold, and he does not extrapolate the observed price elasticity of demand to make precise predictions about hypothetical price changes beyond the range of price changes actually observed. Blaug (1978) also contains an enlightening discussion of the difficulties in pricing cultural products. Not only is it hard to establish the

3.2 Other topics and achievements of cultural economics

Besides direct subsidies, the collection in Blaug's edited volume (1976) already contains pioneering work on a number of other topics in the economics of the arts and culture – tax exemptions and duties, decommissioning and the modernization of collections, or the calculation of price and income elasticities of demand.

Twenty-five years later, Mark Blaug's (2001) literature survey took stock of what had become an extensive literature of cultural economics. This paper was part of a small series of survey articles of research areas in applied economics, together with surveys of the economics of education (for example Blaug, 1978; 1985) and of health economics (Blaug, 1998a). These overview articles reminded Blaug (2001c: 133) that “*neither analytical nor empirical progress is assured in a subject like economics*”, but as we shall see, cultural economics held up reasonably well under his scrutiny.

Mark Blaug (2001c) does not recognize a pervasive theoretical fundament that would distinguish cultural economics from other areas of applied economics. Besides the formative topic of Baumol's cost disease (Baumol and Bowen, 1966), Blaug regarded the literature on cultural economics to be largely empirical, and applying “*rational choice theory (...) in the loose Adam Smith sense of self-interested action constrained by costs, incomes and the norms of economic institutions (...)*” (cf. Cowen, 1996). Regarding Mark Blaug's emphasis on empirics and his critique of formal-mathematical economics, this is not a negative assessment.

Up to the late 1990s, Mark Blaug (2001c) saw particularly noteworthy empirical advances in cultural economics on such standard economic fare such as the price elasticity of demand. He highlighted a number of topics where cultural economics had pushed the boundaries of standard economics. This includes taste formation and the social value of the arts as the more fundamental issue underlying public subsidies.

4. WHAT IS THE PURPOSE OF THE ECONOMICS OF THE ARTS?

4.1 From “economic imperialism” ...

Drawing together a number of articles – mostly from the late 1960s and 1970s – Mark Blaug (1976a) was among the first to elaborate on what exactly the economics of the arts have to offer. He introduced the economics of the arts as an aspect of the “*intellectual imperialism of economics*”, which spreads the economic “*way of looking at the world*” in a “*logic of rational action*” to unfamiliar territories. In Blaug (1976), this has no negative connotation. To him, there was much to gain in the process, and he stressed that “*... in a surprising number of instances (economics) yields immediate, insights. So it is, I believe, in the case of the arts*” (Blaug, 1976a: 13). Similarly, in Blaug (1976b: 146), he had concluded that in arts policy, economic methods such as “*cost-benefit analysis (...) is just as applicable (as) to defense, health or education*”. He called for a clear definition of objectives in the funding of the arts and systematic investigations whether these objectives are met.

Furthermore, in the application of economics to the arts, Mark Blaug (1976a: 13-14) insisted that:

desirable share of market income and subsidies. It is also difficult to devise adequate price discrimination, and to promote the accessibility of high culture while avoiding that the public finances much of the costly habits of the wealthy.

(...) the tools and concepts which prove to be most fruitful are those which are acquired in any first-year course in economic principles: (1) the response of demand to variations in prices and incomes; (2) the role of prices in rationing scarce supplies; (3) the notion of substitution at the margin in both production and consumption; the distinction between fixed and variable costs, and between average and marginal costs; the idea of a preference function underlying all private and public decisions; the strengths and the weakness of 'Pareto optimality' as the definition of 'efficiency'; the problems created by applied welfare economics by such phenomena as externalities and public goods; and so on."

This quote may contain an invitation for non-economists to use basic economic tools and concepts. It also suggests that Mark Blaug saw no immediate need to alter the basic repertoire of economists in conducting positive research on the adequate allocation of resources to the arts. There is one important exception: Blaug doubts whether standard welfare economics is a useful tool to derive relevant normative statements.

An article first published in an edited volume on public expenditure contains Blaug's most fundamental discussion of the economic approach to arts policy (Blaug, 1976b). He laid out the central elements of a *"cost-effectiveness analysis"* that represent the *"implicit logical structure of every decision, private or public"* (Blaug, 1976b: 134): first, identify objectives and develop scales for them; second, consider alternative policies to achieve these objectives and assess their costs and benefits regarding the stated objectives; third, develop numerical weights for each objective according to their relative importance and establish what policy produces the *"highest weighted effectiveness cost-ratio"*. He emphasized in particular the difficulty of the third step of setting priorities. He observed that *"Often, in public expenditure analysis, the difficulty is that of discovering what the goals really are"* (1976b: 146). Furthermore, he acknowledged that real world decision-making is restricted by an institutional framework and *"never achieves more than a second-best solution, if only because the time required to collect information is the ultimate scarce resource"* (1976b: 135).

This approach is characteristic of Blaug's work, which stresses the comparison of relevant alternatives instead of the search for general optimal solutions. Using a phrase coined by Popper (1945), Blaug (1976b) argues that *"piecemeal social engineering"* can improve arts policy. He insists that rational arguments as those developed by economists are limited. They do not determine why we appreciate the arts, but they develop useful information on the costs and benefits of specific policies compared with their alternatives. Blaug puts this more generally: *"Ultimate ends are a matter of value judgments, but means to achieve ends are capable of being objectively assessed"* (Blaug, 1976b: 146).

Blaug even expected that rational, economic assessments would help to develop a consensus. *"It may be impossible to agree on the ultimate value of Stockhausen's works. But it is not impossible to agree whether a 'new music grant' to an orchestra does, or does not, gain new concerts to modern music"* (Blaug, 1976b: 146). He argued that aesthetic judgments and policy assessments should not be conflated:

"(The Arts Council) has neatly avoided the issue of self-evaluation up to now by assuming that the Arts cannot be assessed 'objectively'. This confuses aesthetic judgments with the question of measuring the consequences of disbursing funds to the Arts one way rather than another."
(Blaug, 1976b: 146).

There are problems with that position because many benefits of the arts are hard to assess empirically. For example, it is relatively easy to count the number of attendants of a performance. It is harder to assess the surplus derived from attending. Externalities are also hard to incorporate into a cost-benefit analysis, as Blaug was well aware. A related problem is that quantitative performance indicators are likely to cover some consequences of the arts more than others, and in particular the immediate financial costs are rather obvious. Therefore, a debate on arts policy that emphasizes measurable impacts will regularly be incomplete and biased. Surely it

is desirable to establish precise measures of those costs and benefits of the arts wherever feasible. It seems questionable, however, whether the interpretation of partial evidence will reliably improve policy.

Be that as it may, in later publications Blaug put less emphasis on the way that economic assessments would improve cultural policy. Instead, he developed a greater interest in what could be learned about economics from studying arts and culture. In 1976, Blaug had already stated that: “*The application of economics to the arts, however, teaches us almost as much about economics as about the arts*” Blaug (1976a: 14). Over the years, this dimension of cultural economics came to be his main interest (Blaug, 2001c), and we discuss this noteworthy shift in the following.

4.2 ... to induction and analytical progress

Over time, Mark Blaug’s emphasis regarding the purpose of cultural economics and its relation to economic theory shifted substantially. In a nutshell, his interest went from improving cultural policy to improving economics. In his early writings on the economics of arts during the 1970s, he paid most attention to the application of standard economic theory and empirical methods to inform policy (King and Blaug, 1973; Blaug, 1976a; 1976b; 1978). A quarter century and many economic studies of the arts later, Mark Blaug (2001c: 133) set a different priority:

“Cultural economics is clearly a rich area for the application of economic theory and econometric techniques but what we have all been hoping for is that it might actually suggest and promote developments that would spill over with benefit to economics and econometrics outside its own domain.”

Mark Blaug saw the potential for cultural economics to make more of its peculiar empirical findings and to drive analytical/theoretical progress in the wider discipline of economics. An inductive element in economic work on cultural economics had been envisaged in Blaug’s early writings on the topics. In Blaug (1976a:14), for example, he stated: “*The economics of the arts may (...) constitute something of a testing ground for the practical relevance of fundamental economic concepts.*” However, this only came to be a dominant theme in his writing on cultural economics later on (Blaug, 2001c). It is noteworthy in this context that Mark produced a list of specific policy implications in his survey of educational economics (Blaug, 1998a). In his early work on the economics of the arts and culture, he had also been prone to develop policy implications (e.g. Blaug, 1976c; 1978). In his survey of cultural economics of 2001, policy implications are almost entirely absent. Mark Blaug put much greater emphasis on the possibility that cultural economics could provide impulses for change in the core of economic theory.

Mark Blaug identified several areas where this could be the case, such as taste formation and supplier induced demand, the industrial organization of non-profit organizations, “*systematic deviations from expected utility maximization*” by suppliers and buyers, historical path-dependencies, and decision-making under extensive uncertainty.

Artists’ labour markets are a particularly noteworthy, early example. Cultural economists produced considerable evidence of uncertainty and negative returns on investment in training for the arts rather than other occupations. Mark Blaug (1976a: 21), who had played an important role in the economics of education observed: “*For those who never have believed that people take up an occupation for purely financial reasons, here is the first well-attested case in point*”. Blaug (2001c) saw empirical and analytical progress in the study of artists’ labour markets. Intrinsic motivation of artists had become a central topic in cultural economics. It may also become an area where empirical findings in the cultural sector inspires alterations in basic aspects of mainstream

economics, especially with a view to more recent topics such as open-source software development and user innovation.⁷

There is a paradox here. Mark Blaug kept emphasizing the need for economists to relate to real-world problems. He loathed economics for economics sake, and he insisted throughout that economics was ultimately about producing practically relevant insights. Yet, in his later writing on cultural economics, he ended up focusing on the impact of cultural economics on economic theory rather than on cultural policy. There are several ways to resolve this paradox. On the one hand, Mark Blaug might have seen an increasingly urgent need for change in economics, relative to the need for improvements in arts policy. On the other hand, he could have perceived cultural economics to go through a cycle of knowledge, in line with his partially Popperian and partially evolutionary view of progress in science through theory-led empirics and advances in theory by incorporating inconsistent empirical results (see also section 5).

It is highly probable that Mark Blaug considered the cultural sector as something special, different from most fields addressed in applied economics. Later in his career, the arts were a field in which economic theory could not only be applied to generate valid predictions and practical insights. It was also a place where the need for economists to refine their arsenal was particularly apparent. His call for change in economic theory and methodology, in particular regarding normative questions, was expressed very clearly in his writings on cultural economics.

5. METHODOLOGY AND PRACTICE IN MARK BLAUG'S WORK ON CULTURAL ECONOMICS

To Mark Blaug, cultural economics is of broader interest because it is a source of novel ideas in economics. This section discusses another issue of broader interest regarding Mark Blaug and cultural economics: how did he practice what he preached? Studying the way that Blaug's own applied work corresponds to his views on methodology is a useful exercise at least for two reasons. First, eventually there is a rift between writing on universal aspects of methodology and research practice. Mark Blaug had extensive experience with applied research in addition to his influential work on universal aspects of economics, so that his work may inform us about how to bridge this rift. Second, Mark Blaug was not prone to advertise his academic work under overly simplistic guiding principles. His work is multifaceted and to do it justice requires some attention to nuance. Mark Blaug's work on cultural economics helps to tease out specific aspects of his take on applied economics and good economic practice more generally.

5.1 Empirics, falsification and induction

Mark Blaug was outspoken about the ultimate goal of economics. Following Karl Popper and Imre Lakatos he insisted: "*economics must aspire to address real-world economic problems*" (Blaug, 1994:

⁷ Peculiar incentives or non-optimal decisions may also occur on the demand side in the cultural sector. For example, to Blaug (2001c) the art market is a suitable arena to explore the shortcomings of the 'efficient market hypothesis'. Regarding gaps in the literature, Blaug (1976a; 2001c) repeatedly argued that cultural economics should cover popular culture and the "media industries". He stressed the potential for more extensive research on the economics of copyright, international trade and sustainability repeatedly (Blaug 1976a:21-22; Blaug, 2001c). An interesting omission in his writing on cultural economics is the spatial issue regarding the clustering of cultural activities, which is surprising regarding Blaug's expertise on David Ricardo's work.

25). To Blaug, economics should not be a goal in itself. He loathed the extensive emphasis on “*analytical rigor*” in academic economics, which in his opinion came at the expense of “*empirical relevance*”. He developed an extensive criticism of general equilibrium theory and its various offspring’s. He argued that formal-theoretical deduction received way too much attention (Blaug, 1994), and that empirical economics was too often about verification rather than falsification (Blaug, 1992: 241). Instead, he argued that the best approach to producing valid predictions is “*the production of theories with empirically refutable implications*”, which are thoroughly scrutinized and improved upon on the basis of empirical work (Blaug, 1994: 25).

A prime example is Mark Blaug’s assessment of Baumol’s cost disease. Baumol and Bowen (1966) argued that the performing arts exhibited lower productivity gains relative to more capital-intensive industries. Therefore, markets for performing arts would shrink without increasing public subsidies over time. On the one hand, Blaug (2001c:131) referred to the concept of Baumol’s costs disease developed there as the “*the jewel of the crown*” of cultural economics. He praised as “*one of the great ideas in economics*”, hatched from an investigation of the arts and applied fruitfully to understand developments in other labour-intensive service industries such as health care, education and the mass media. On the other hand, regarding empirical evidence that many markets for the arts do not shrink, Blaug also came to believe that the application of Baumol’s cost disease in the cultural sector is quite limited. He discusses two countervailing factors to explain why markets for cultural goods do not exhibit a steady decline without subsidies as a straightforward application of Baumol’s cost disease would suggest. The first is change in the composition of spending with increasing incomes over time in favour of luxuries such as expensive types of culture. The second is product innovation as new types of cultural expression are developed that exploit advances in media technology in particular (Blaug, 1996; 2001c: 131).⁸

There are two lessons here. First, in a logic of falsification the best ideas need to be challenged – in this case Baumol’s cost disease. Second, there is no clear-cut process of falsification, rejection and complete replacement of theory because there is no perfectly certain empirical knowledge. Instead, theories are often adjusted gradually (Blaug, 1992: 26). Any scientific work contains an element of personal judgement on what empirical knowledge to accept and how to feed it into theorising (Blaug, 1992: 28ff.). Regarding Baumol’s cost disease, Blaug explained inconsistent empirical results with countervailing factors. As the leading scholar on the history of economic thought, Mark Blaug had of course studied revolutions in economics as well as periods of gradual demise, revisions, and the resurgence of many economic theories. Mark Blaug did not condone simplistic principles in applied research, and it is rarely entirely clear how to deal with theories that are partially refuted.

5.2 Evolution and progress in science and the arts?

The evolution metaphor captures much of this diverse and gradual development of economics. To Mark Blaug (2001b: 148) there was an “*evolution of economics*”. That is “*economic knowledge was path-dependent*”, only fully understood as a selective extension or rejection of the ideas that preceded it, and imperfect (Blaug, 2001b: 156). Economic developed in an imperfect “*market of*

⁸ The archetypal illustration of Baumol’s cost disease is a string quartet, which like a hundred years ago still requires the work of four musicians, and in which innovation seems impossible both in output as well as in the production process. But Blaug and others – notably Tyler Cowen (1996) – have challenged its application to the arts. They have pointed to a wider repertoire, the possibilities of recording and various other innovations available to the string quartet. If one looks at other arts such possibilities for innovation are often even greater. While such innovations are usually imperfect substitutes, Blaug and Cowen have argued that this is not fundamentally different from innovation in other sectors.

ideas". On the one hand, he did lament regress in economics at least in terms of the way that economists address normative questions, and he favoured a return to older practices when economists dealt with real work questions about second best problems, the interpersonal comparison of utility and dynamic efficiency rather than static efficiency. Nevertheless, Mark Blaug did not hesitate to speak of progress in economics.

It is tempting to describe evolutionary change in an imperfect market for ideas as a guiding principle that unites Mark Blaug's analysis of the cultural sector and of the development of economics.⁹ However, Blaug seems to have been sceptical about the idea of progress in the arts, whereas some notion of progress is essential to evolutionary theory, at least in the shape of adaptation to changing circumstances through diversification and selection. In a different context, Blaug (2002: 21) even stated that progress sets the sciences apart from the arts. Referring to Schumpeter, he defined science as "*any kind of knowledge that has been the object of conscious efforts to improve it*". Blaug continues that "*... the concept of progress does not apply to literature, music and the visual arts*". Economics "*is a soft science, indeed a very soft science, but it is a science and not just a peculiar sort of literature*". It thus remains an open question how widely applicable the evolution metaphor was in Blaug's view.

5.3 Empirical and methodological pluralism

Mark Blaug's writing on cultural economics reflects his principled views on good economic and scientific practice. To him, good theories have to be falsifiable, and empirics are essential in his ideal of a rational, evidence-based debate on economic policy. He rejects heedless applications of formal economic theory – such as Paretian welfare economics or Stigler's so-called Coase Theorem – for their lack of empirical content and because they distract from practical problems that cannot be captured in this perspective. He is also a staunch defender of a tried and tested core of economics as a relatively good means to produce valid predictions and thus to improve policy.

Within this framework, his writing is characterised by considerable flexibility and diversity. For example, much of his early work on the economics of the arts is qualitative. Mark Blaug was willing to accept empirical evidence in a broad sense. In contrast to a convention in economics that he dates back to Friedman (1951), Blaug considers surveys as an important source of empirical evidence. That includes contingent valuation methods and the use of hypothetical questions in response to data limitations. He was convinced, for example, that this empirical literature supported the view that the arts had a non-use value (Blaug, 2001c).

Blaug further stresses that economic histories of the arts are useful because much of the industrial organization of this sector cannot be explained without acknowledging path-dependencies. He has illustrated the point as follows: "*try to explain without any reference to history why the Vienna Philharmonic and the London Philharmonic are labour-managed enterprises, while most other orchestras in the world are non-profit companies owned by municipal governments, broadcasting authorities and private trusts*" (Blaug 2001c: 130). According to Blaug, historic investigations remind us that the arts have thrived over long periods of time without the specific policies and public support measures that are common practice today: "*(...) in the modern world, it is all too easy to believe that the arts would soon die without public subsidy and yet a slight acquaintance with the history of opera, that most extravagant of all art forms, will show that opera survived for more than a century without public support and with only occasional princely patronage*" (Blaug 2001c: 130). This point resonates with the current

⁹ Mark Blaug was also fond of the works of Rosenberg, Sidney and Winter, or Lipsey on innovation and technological change, but he seems to have avoided the term 'evolutionary economics'.

discussions on cutting subsidies in many European countries or on public investments in copyright protection, for example.

What is more, Blaug (1992: 245) suggests that greater emphasis should be put on combining various pieces of evidence. His survey of the literature (Blaug 2001c) demonstrates how useful that can be.

6. WELFARE ECONOMICS AND THE ARTS

Blaug developed a thorough criticism of the standard, Paretian welfare economics that is based on general equilibrium theory (Blaug, 2003; Blaug, 1976; Blaug, 2001c). To Blaug (2003: 478), any effective public policy requires “*a qualitative judgement (...) of the size of the potential Pareto improvement*” and an interpersonal comparison of utility (ICU). With his insistence on ICU, he rejects the central element in standard welfare economics emanating from Walras, Pareto, Hicks and Kaldor, and Arrow.

He argues that standard welfare economics fails to develop a framework to produce practical insights. The circumvention of ICU leaves it robust but ‘empty’, in the sense that the conclusions of standard welfare economics bear “*no resemblance to the real world outside the classroom*” (2003: 479). Practically relevant welfare economics would instead adhere to “*Pigou’s golden rule of welfare maximization: equalization of marginal private and marginal social costs and benefits of all resources and all alternative uses*”.

This has several implications in the specific context of determining arts policy. First, in this Pigovian perspective there is clear case for redistribution to the less wealthy as long economic growth is not adversely affected, since a Euro is regularly worth more for a poor man than for a rich man. Second, he puts great emphasis on intertemporal effects such as economic growth through innovation or taste formation.

Regarding taste formation through cultural activities, he observes for example: “*There is nothing in economic theory that tells us that a competitive market will bring about an optimal level of investment in the formation of tastes ...*” (Blaug, 1976a: 17). In Blaug (2003) in particular, he applies an alternative that he refers to as “*Pigovian welfare economics*” to address the socially desirable level of support to the arts and culture.

The most elaborate illustration of an alternative reasoning in welfare economics sprang from the discussion of arts subsidies. In order to establish whether, how and how much to subsidize the arts we would ideally be able to assess the social value of arts and how specific policy measures affect it. Mark Blaug (2001c) sees great analytical and empirical progress in economic work on the social value of the arts and culture.

Regarding theory, he argues that the literature on cultural economics has extended on the typical rationalizations of public support based on market failures – positive externalities of production or consumption and public good characteristics, economies of scale, consumer ignorance about the true value of goods and services (Blaug, 2003). Blaug (Blaug, 2003: 476) lists the following “special arguments” that have received most attention regarding the arts:

“... (1) ‘equality of opportunity’, according to which cultural goods are necessarily ‘experience goods’ and yet access to these goods is not equally available; (2) the ‘option value’ of a cultural heritage maintained at public expense across the generations; and (3) the straightforward, self-demonstrable ‘merit’ of the arts independent of any instrumental value.”

Blaug’s criticism of standard welfare economics roots in his skepticism of formal, general equilibrium theory. An important aspect of this concerns the concept of ‘competition’. In

mainstream economics, competition has been defined as a static end-state at which an optimal allocation of resources is achieved. Similar to Schumpeter, to Blaug this conception of competition is misleading because it fails to address the main strength of the market mechanism: its ability to generate long-term economic growth through innovation. Instead he favors a conception of competition as a continuous and open-ended process:

“(A) competitive economy tends to produce the kinds of goods people want at the lowest possible prices because it encourages entrepreneurship and technical dynamism through a relentless struggle for advantage, a struggle that is not confined to price competition but includes non-price variables such as new goods, better old goods, better-served goods and more quickly delivered goods.”

(Blaug, 2002:26; see also Blaug, 1997:255-256)¹⁰

Again, there are early examples and illustrations to be found in Mark Blaug’s writing on the economics of the arts. An emphasis on the long run and protracted changes is apparent in his discussion of taste formation, as referred to in the previous section (Blaug, 1976a:17). Later on, Blaug reports on the growing empirical evidence for taste formation. Tastes for cultural goods appear to change over time, in particular due to formative experiences in consuming culture. In terms of analytical progress, Blaug assumes that work remained to account for these empirical results. He emphasizes that there is an unfulfilled need to study the *“dynamic interlinking of demand for and supply of the arts”* (Blaug, 2001c: 127).

Furthermore, in his discussion of variations in subsidies and opera ticket prices (Blaug, 1978), he does not only focus on the number of tickets sold or the types of audiences. He also discussed consequences for the characteristics of opera supply, a type of induced product innovation. Blaug (1996; 2001c) also regards product innovation to be very important to understand the consequences of technological change on the (performing) arts as addressed by Baumol’s cost disease (Baumol and Bowen, 1966), see section 7.1.¹¹

8. CONCLUSIONS

Mark Blaug insisted that economics was most useful where it aspired to produce valid predictions about the extent to which alternative courses of action would achieve given objectives. To achieve this, he believed that a nuanced application of Popper’s methodology of falsification was the most effective framework: *“What methodology can do is to provide criteria for acceptance and rejections of research programs, setting standards that will help us to discriminate between wheat and chaff”* (Blaug, 1992: 247). He also emphasized that no empirical knowledge is perfect and that no methodology can completely do away with the need to employ some personal judgement, as we see in the continuation of this quote: *“These standards ... are hierarchical, relative, dynamic and by no means unambiguous in terms of the practical advice they offer to working economists”* (Blaug, 1992: 247-248). To Mark Blaug, it was best to own up to these limitations without slipping into a defeatist mode.

Mark Blaug’s writing on cultural economics provides us with useful insights on how to operate in this scheme. Blaug continuously pondered the fundamental question why we would apply

¹⁰ Similar definitions of competition as a process (and the strength of the market mechanism to deliver long-term growth through innovation) are found in classical economics, Austrian economics, evolutionary economics and the colloquial use of the term.

¹¹ See also Blaug and Towse (2011) on the role of exceptional individuals in driving economic change in their article on ‘cultural entrepreneurship’.

economics to a certain area of interest, and what types of topics should have priority. The answer to this question changed over time, perhaps not so much with changing fashions in cultural policy but depending on the state of our empirical knowledge and what he perceived to be “*disturbing currents*” in economics (Blaug, 1998b). Regarding empirics, in the initial stages he was prepared to make do with whatever data was available and to call for formulation of policy objectives that relate to measurable indicators in order to facilitate quantitative empirics. After a sizable empirical literature had sprung up, he synthesized the literature, combining the evidence produced in a great variety of empirical methods. He became convinced that cultural economics had produced many challenging empirical results that should come to trigger analytical progress and inspire progress in economics at large.

This paper was not concerned with historic reconstruction. It is an interesting question, however, how this process of theory-led empirics and subsequent induction worked for Mark Blaug. For example, to what extent has applied work in cultural economics inspired his work on methodology? The sequence of publications gives no clear answer. In any case, Mark Blaug’s critique of mainstream economics were expressed relatively early in his writing on cultural economics. It is also apparent that Blaug found prominent evidence that supported his take on welfare economics in the empirical literature in cultural economics.

In the Blaugian perspective on economics, there is no progress without applied economics. To Mark Blaug, cultural economics was especially promising. Pioneering the field in 1976, he suggested that the economics of the arts “*may one day prove to be one of the most rewarding branches of applied economics*” (Blaug, 1976a: 22). Twenty-five years later, he was convinced that cultural economics was at the brink of producing analytical progress in economics at large on a diverse range of subject from taste formation, non-use value of culture, intrinsic motivation, interdependent demand, cumulative success in markets for experience goods, and so on.

For economists at large, Mark Blaug’s message is that standard economics needs to improve and to double back on several points. He has promoted a methodological framework in which to achieve progress. For cultural economists, Mark Blaug’s message is that this field of applied economics has an exceptional potential to produce new, useful ideas for economics at large. This is another important part of Mark Blaug’s legacy.

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