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Making difficult choices

Introduction

Every discipline claiming to be a science must be based on some fundamental propositions, but those in economics may seem tenuous and imprecise. There are two: (i) human beings' behaviour patterns are consistent and human nature is constant in time and place; and (ii) every human choice involves a cost, represented by the alternatives forgone.

It is a characteristic of brilliant scientific minds to question the fundamentals of their own subject or at least to consider the consequences of assuming that they may not hold. Characteristically, Keynes offered the prospect that, in the long run, the world would be so replete with resources that the problem of the alternative cost of one's actions would disappear; at the same time, the removal of this constraint on human action would transform human nature so that we would become more contented and more civilized human beings, but his argument was based on the strong assumptions that man would limit the growth in his numbers, wars would become less frequent, and people would be prepared to listen to those, like himself, who could introduce them to the joys of the intellect and the imagination.

There has been much misunderstanding of the first proposition, even by eminent philosophers. It is based on simple observations over the centuries, such as the familiar relation between the demand for some product and its price, but does not entail passing any judgement on the individuals' choices of goods and services or enquiry into the reasons why they buy them. No moral imperative requires an economist to judge the actions of individuals by specifying some 'hierarchy of choices'—that, we are told, is best left to theologians and moral philosophers. There is a splendid little interchange between Benedetto Croce, famous Italian philosopher, and the equally famous Italian economist Vilfredo Pareto in which Croce argues that economic actions can imply approval or disapproval but that one cannot do the same for a mechanical action, for example the movement of the foot. Ergo, according to Croce, economic facts cannot be examined in the same way as mechanical facts. Pareto replies that if one man kicks another, then the movement of the foot is a mechanical phenomenon, but the act itself may be subject to approval or disapproval; ergo, the distinction is otiose and observation by economists of acts of exchange are no different from observations by medical scientists. The use of economics to show how individuals rank their preferences for goods and services does not entail a statement about the value, whatever that means, of their actions. When Oscar Wilde made his famous remark 'a cynic is a man who knows the price of everything and the value of nothing'—it is believed that he was lampooning economics—he was exercising his talent to amuse, but was nearer the truth than he realized. 'An economist is a man who knows the price of many things but is no more competent than others to evaluate pricing decisions' is a more accurate, but much duller, statement!

Economists examining human actions may see themselves in the modest role of an observer and calculator, but we have more difficulty in explaining the implications of the second proposition. It is known colloquially in the trade as the TANSTAFL principle: 'There Ain't No Such Thing As a Free Lunch'. Every act of choice means weighing the benefits of the action against the benefits of the next best alternative course of action. Furthermore, there is no means of proving whether one course of action is 'better' than any other, and, moreover, one cannot even be certain that the course of action one takes has precisely the consequences that one expects. One can try to reduce the uncertainty attached to one's course of action by seeking more information about its consequences, but the acquisition of information itself involves costs in the form of time and money.

For example, you have taken a conscious decision to read this book. The information you would have about it would be bound to be imperfect for it would be difficult for you to assess the anthropological characteristics of the authors. You chose under conditions of uncertainty, and paid the cost in terms of the other things you might have done with your time and energy. The occasion may have surprised and disappointed you, but at least you have acquired knowledge of what these sorts of occasions can be like, knowledge which may be put to future use!

The 'opportunity cost' problem is fittingly demonstrated in a talk given some years ago in a French colonial province by the French Minister for Development which some Berber tribesmen were persuaded to attend. It was the Minister's custom to obtain 'feedback' from his talks about cooperation between villagers and planners and an embarrassed official was asked to report back to him what the tribesmen had thought about his speech. Pressed for an answer, the official said: 'they thought that their attendance had too high a cost because it had been a beautiful moonlit night, so they had forgone perfect conditions for horse stealing'!

Don't shoot the economists—they are doing their best!

It is common for professions to have a code and in medicine this is demonstrated by the taking of the Hippocratic Oath on graduation. There is no counterpart amongst economists, although it is commonly accepted that we have the rather grave responsibility of helping those we advise to consider and to face up to the consequences of alternative courses of action which require the use of physical resources and human skills.

Consider the following example of what Guido Calabresi, a remarkable academic lawyer who employs economic analysis, would call a 'tragic choice'. Under public pressure, a government is obliged to seek ways of reducing fatal accidents on roads. If, as we may prefer to think, the value of human life is infinite, then resources must be found and regulations introduced, which would reduce the number of fatal accidents to zero. It is clear that the resource cost of achieving this objective without preventing people driving at all, would be enormous. If any attempt is made to prevent accidents by raising the cost of accident liability to careless drivers as an alternative to investment in safer roads, there would be an outcry at the restrictions that would be necessary. In very poor countries, any attempt to reduce fatal accidents on roads to zero would entail the use of scarce resources which could result in people dying of starvation as an alternative to being knocked down on the public highway. An analogous situation arises in considering the implications of a health service policy which assumes that its object is to prolong human life as much as possible. It is usually the poor economist who has to think the unthinkable and take the responsibility of giving voice to it—for whether we like it or not policy makers are forced to price human lives.

Now consider what is involved in government decisions to support the arts. One naturally accepts that aesthetic judgements about the quality of artistic productions are best made by those who command the respect of their fellow professional artists, although an economist is bound to point out that even these informed judgements are matters of disagreement amongst themselves about what is 'good art'. However, it would be a false step in the process of policy making if we defered entirely to the judgement of such professionals about the allocation of resources to further their cherished projects. A Royal Commission on Ancient Monuments in Britain, in keeping with many other countries, has taken great pains to list buildings of historic interest and one suspects that they have enough work on hand to employ them for nearly a century, by which time the stock of 'heritage' will have been replenished by buildings now being constructed. The implication of this activity is that resources have to be found to preserve all the entries on the list. An analogous approach is implicit in those who make judgements on the output of new artefacts, musical compositions, and plays, not to speak of the conservation of works already in existence. Our opera, ballet, and theatre companies all complain about being 'underfunded' and sincerely believe that the term has some technical meaning. The optimal expenditure on cultural pursuits, as in our previous examples, is illimitable. A funding body, with limited resources, is forced to make unpopular, if not tragic, choices, in which those who obtain funding claim they do not get enough and those who are refused funding complain that we neither know how valuable their contribution to society is nor care about their aspirations.

But the matter does not end there. Artists and writers, and their promoters, are no exception to our first law of economics and employ their particular talents in trying to induce governments to exempt them from resource constraints; and these talents, as we shall see, may be formidable. Only the sustained clamour by so many professions to be given special treatment by government makes it possible for politicians to resist the histrionic displays of outraged artists who call them 'philistines'. Worried at the growth in public spending and finance in the late nineteenth century, William Gladstone observed that 'the income tax is turning us into a nation of liars'. Bearing in mind the large number of supplicants for public funding from all sections of society, the corresponding aphorism today might be: 'the prospect of government subsidy is turning us into a nation of special pleaders'. Of course, the 'special pleaders' are always the others! 'I am underfunded, you are looking for a cash hand-out, he/she wants a pension for life', as the selective declension of 'to subsidize' might be stated. Economists are left with the unpopular task of disentangling the effects of such special pleading.

You may be left wondering why any sensible person would want to be an economist. The training is hard, the scope of the subject is vast, the subject matter, human action, cannot easily be observed under controlled conditions, and so the practical results are in dispute. Worse still, more often than not, the conclusions reached are unpalatable, indicating that the imaginative schemes of industries and governments are often unrealistic. Do we hear psychologists muttering, *sotto voce*, 'a clear case of sado-masochism'? One is almost forced to agree with them, for the obvious alternative explanation—economists are paid more than others for being in a dangerous occupation—does not seem to be true. It is not even as if an economist's skills make him a fortune on the stock market. 'As you are so smart, how come you are not rich?' is the common jibe of businessmen to economists. The reply is: 'being a ballistics expert does not turn one into a good tennis player.'

There are two reasons why we survive and, indeed, may sometimes flourish as a profession. The first and most obvious one is that there is a demand for our services in all walks of life, even in the field of culture and the arts. We have our uses, even if we are regarded as a necessary evil. As the Nobel Laureate, Stigler, has remarked, 'the tedious humour about the differences of opinion among economists . . . or our infatuation with abstract thinking are really envious jibes. . . . How much sweeter is envy than pity.' His words over-emphasize, perhaps, our remoteness from those we try to advise and instruct. More often than not, economists are brought in as members of a team, searching for a solution to a common problem. Their contribution must not only be substantial but seen to be such. While this may not always happen, when it does suspicion and envy can give way to understanding and even admiration, however grudging.

The second is that there is no shortage of recruits both to the economics profession as such and to those professions where a knowledge of economics is perceived as useful. There seems to be an inherent attraction in studying a subject in which oneself and one's colleagues are part of the subject matter. The human instinct to analyse and to measure can be satisfied. If we derive satisfaction from trying to improve the welfare of others, economics appears to be of assistance, even if its role is to cast doubt on feats of human imagination. After all, mainstream economics' forecast of the inevitable breakdown in collectivism finds its own roots in the principles of economics, although it was beyond the scope of economics to forecast precisely when, where, and how it would happen.

Misunderstandings

Economics is therefore a human science which formulates and tests hypotheses about how individuals alone or in some form of association—communities, governments—use their material resources. It studies human behaviour rather as biologists study animal behaviour, which immediately gives rise to two doubts: whether human behaviour is predictable and the suspicion we all have at being observed and subjected to experiments.

Biologists and the like are interested not only in the features of the animal kingdom. They regard such study as helpful in understanding the 'big picture', which for many of them is the origin and evolution of species, and associated environmental changes. Economists, too, after drawing conclusions about human behaviour based on 'micro-analysis', are interested in 'big pictures'. From the very start of modern economics this has included such matters as what makes economies grow and what causes differences in growth between countries and also what are the consequences of growth. This leads them to consider questions about the effect of growth on the distribution of the world's wealth, and its long-run consequences for the use of the planet's resources. But it is only recently that this interest has been extended to the economic aspects of the conservation of the artefacts of the past, the main subject of this work.

Decisions about how the resources of a country are used have increasingly been taken by central and local governments, formally at least, on behalf of its citizens. This has tempted economists to extend their study of behaviour to situations where decisions are not taken about resource use simply by private purchases and sales. Hence the adaptation of their analysis to cover group behaviour, including political behaviour, and bureaucratic behaviour. This gives rise to analytical difficulties, including amassing empirical evidence, and it also entails questioning the assertion that when people act 'in the public interest' somehow their behaviour changes, and they think only of the 'public good'. Those engaged in public service of one kind or another may resent this intrusion by economists into the study of their motivation and what its consequences are. We have no option but to do so, and simply ask for the chance to show where it leads.

The analytical approach to the study of human behaviour is frequently the source of misunderstanding. This is particularly true in the study of attitudes towards heritage as a source of enlightenment and enjoyment. Economists might label it the 'Ruskinian myth'. John Ruskin thought that 'political economists', by studying how individuals produce and allocate material resources, were only concerned with material ends and gave such ends precedence over the 'finer' aspirations of man, a misunderstanding which is still prevalent amongst his intellectual successors. He missed the simple point that all forms of human endeavour, representing what for him and many of us are the most laudable ends, require the giving up of material resources which could be employed in other uses. Yet this fallacy seems to be embedded in the psyche of art historians and art experts, even to this day.

Another source of misunderstanding arises from the economist's concept of a 'market'. The popular idea of a market is one where there are buyers and sellers, with the former exchanging command over resources in the form of money for goods and services supplied by the latter. Certainly, this idea describes a large proportion of economic transactions, but the idea of a 'market' can be extended to cover all forms of exchange where negotiation takes place and contracts are made and which involve the exchange of property rights. This extension is exemplified in negotiations between government departments funding museums and galleries and the management of the latter over the annual grants, which entails 'bargaining' over the funding provisions. This avoids the trap of assuming that 'market' situations, in the narrow sense, bring into play less worthy ends, such as maximizing the satisfaction of buyers or maximizing the profits of sellers, than those in 'non-market' situations where motivation is claimed to be of a higher or superior order.

Characteristics of the heritage 'market'

The demand for heritage services has now reached a dimension where it should become an identifiable item in individual and collective expenditure, and where simultaneously there is concern about the availability of the supply of historical artefacts to satisfy this demand and how far this is determined by geographical and institutional factors, such as the location and ownership of property rights.

A 'potted' history of the evolution of heritage demand as an economist might regard it—an admitted travesty of historical analysis—may be helpful. The first stage in Europe is represented by the aristocratic interest in historical artefacts aroused by their classical education and opportunities to purchase them from individuals and public authorities whose 'reserve price' was low. They purchased them as 'positional goods', that is goods which enabled them to impress members of their own class. Italy was a fertile source of supply, both in terms of immobile heritage such as Venetian *palazzi* and mobile items such as painting and sculpture (that is not to say that they did not derive a personal aesthetic satisfaction). Concurrently an art market developed with art dealers. Of course, this is still an active element in heritage demand.

The next stage is the development in public education alongside economic growth and growing industrialization. Here we may detect a mixture of motives, ranging from a genuine concern by philanthropists for educating the poor—even claiming that access to the arts would reduce class conflict—to concern by entrepreneurs that artisans should improve their training in design. Such a training should embody access not only to courses in design but to examples of 'good art'. Hence the growth, both nationally and regionally, of local museums and galleries, notably in France, the UK and the USA in the mid-nineteenth century.

A final stage is to be found in a collective interest in the conservation of the past associated with the growth in nationalism and the preservation of a national identity, all this against the background of the fear that artefacts which represented historical episodes of importance were disappearing or in a poor state of repair, or were inaccessible because they were privately owned and could be disposed of abroad. This stage is associated with the expression of an important facet of human behaviour, namely the desire to preserve reputation with future generations who might not be very pleased if cultural resources, including heritage artefacts, were to disappear. However, this stage is also co-terminus with the extension of what was once the preserve of the few to become the interest of the many, that is the growth of domestic and international tourism, and the willingness of tourists to pay for access to historical sites, museums, and the like.

A large proportion of the goods that we generally buy are manufactured, that is they represent the transformation of raw materials into finished products and are easily reproducible. Their selection and purchase depends directly on individual tastes and preferences. However, historical artefacts were not originally produced to satisfy some future demand but to satisfy contemporary tastes, typically those of rich aristocrats and of religious foundations. Artefacts become identified as heritage goods and are demanded when they receive the imprimatur of archaeologists and art historians who recognize their historical or aesthetic significance to carry on the analogy with manufactured goods. We may say that they 'become' heritage as the result, or the output, of a production process in which art historians and archaeologists are the producers (this is discussed in more detail in Chapter 8). The 'stock' of historical artefacts cannot be added to by organized production but only by accretion through their discovery or recognition as part of a legacy of past 'treasures'. Of course, depending on the forces of supply and demand, this does not prevent the production of fakes, often on a large scale, and there are many famous examples.

The demand for heritage goods had a profound influence on the mode of supply because private owners of heritage goods did not initially acquire them in order to profit from their sale or display them to the public. The community and collective demand became satisfied by the setting up of museums and galleries and historical complexes which were not operated at a profit. This generated an interest in giving effect to the transfer of historical artefacts to the control of public bodies, not necessarily by transfer of ownership through sale. In the case of France, a large part of the initial public stock of heritage was acquired through the surrender of property at the time of the Revolution and afterwards through the plunder of Napoleonic armies. In the case of the UK, punitive inheritance taxation led to the government accepting historical artefacts in payment. In both these countries the public authorities have compiled registers of heritage artefacts, classified them according to 'importance' to the nation, have controlled their sale and, where possible, have demanded private owners give access to the more important items. An even stronger case is offered by Italy where the historical artefacts owned by the public sector, if older than fifty years, are considered 'heritage' by definition, unless the lack of any artistic, historical, archaeological, and anthropological interest is assessed through a complex administrative procedure. A different regime holds for the heritage artefacts belonging to private owners which are listed and subjected to a tight discipline of protection. In short, an attempt is made to influence the stock by restricting ownership rights.

The evolution of economic analysis of heritage

Until Ruskin made his outburst, there was relatively little attention in economic treatises devoted to the above described developments. Ruskin's belief that economists were philistines may not have been entirely unfounded, for the famous utilitarian philosopher and economist, Jeremy Bentham, had trailed his coat in arguing that there was no hierarchy of tastes so that trivial games were as 'important' as poetry. It was this attitude which led to Ruskin's attempt to put a ring fence round artistic creation so as to exempt it from the analysis of its 'opportunity cost', that is from the material consequences of assigning resources to artistic supply at the cost of alternative uses of these resources. However this is a quarrel about value judgements, and not about facts and analysis.

An obvious point of departure for economic analysis was the market for artefacts and, curiously enough, it was a painter who became an art dealer and a museum director who wrote some of the first essays in this area: Roger Fry (1866–1934). Following the thoughts of the American sociologist, Thorstein Veblen, in the latter's *Theory of the Leisure Class*, Fry analysed the art market and put particular emphasis on the importance of purchases as 'positional goods' (see above). However, he did believe in the hierarchy of tastes and its determination by art experts like himself. He took action to try to induce changes in taste so that 'good' works of art would survive and improvements would be made in artistic design (he was, incidentally, a close friend of Keynes). What is also interesting is that he did not believe that government intervention to encourage artists and to preserve the past was a good idea, arguing that government intervention would eventually stultify artistic creation. He was a precursor of the present-day intense interest of economists in the working of the art market and such issues as art as a form of investment.

The real impetus which has directed economists towards the study of the arts is associated with the growing importance of public authorities, not only as an influence on the demand for historical artefacts but also as a supplier of heritage services. Public expenditure and public regulation become policy instruments and therefore enhance interest in the precise objects of official policy, how these policies are carried out using resources, and whether these policies are in some sense efficient (see, again, Chapter 8). In particular, as governments rely for decisions on expert advice, there is a close interest in how this advice is generated. Also the advisers have become a major influence on the *management* of the institutions supplying heritage services to the public.

Hoping that we have clarified how economists approach the study of the conservation of the past, we can now specify how they endeavour to increase understanding of the issues to which decisions about influencing it give rise. In the forefront of our minds is the object of showing what economics can contribute to the practical problems of heritage policies with which arts administrators have to deal.

It seems sensible to begin by painting a general picture of the policy dilemmas and why it is essential to use economic analysis to explain how these arise. The resolution of these dilemmas must be preceded by learning how to examine the data which can reveal the complicated structure of the provision of heritage services, particularly in Western-type economies. This structure is a consequence of decisions taken both by government and private agencies which entails a detailed examination of their motivation. The overriding feature of the heritage 'market' must be the issues that rise in formulating and implementing public policies which are, by their very nature, controversial.

Further reading

This chapter has tried to give the reader an insight into the way the economist's mind works in studying cultural institutions. There are some problems in mapping out a programme of further reading. The majority of readers, one supposes, have a personal knowledge of 'economizing', both at the workplace and in the home, and personal introspection should confirm how, say, the TANSTAFL principle governs their activities. At one time economics teaching, particularly in classes during the nineteenth century, were designed to improve the knowledge of the working man and were zealously conduced by earnest economists, notably Philip Wicksteed (1844–1927), as reflected in his writings such as *The Commonsense of Political Economy*. It is difficult to offer the reader a modern equivalent to this excellent work.

Nowadays, introductions to economics have the same austere and forbidding aspects as equivalent works in physics, and impress on the reader how they must have or quickly acquire a knowledge of calculus. There are, however, two books by young(ish) American economists that fit with our conception of making economics palatable and even enjoyable. They preserve one aspect of the Victorian desire to offer both instruction and entertainment. These are: John Macmillan, *Reinventing the Bazaar: A Natural History of Markets* (Macmillan is Professor of Economics, Graduate School of Business, Stanford University) and Steven D. Levitt and Stephen J. Dubner, *Freakonomics* (Levitt teaches economics at Chicago, and was a winner of several honorific professional awards in the USA at a surprisingly early age. Dubner, journalist and columnist, writes in prestigious periodicals such as the *New Yorker*). Both books contain the message that economics can be fun. Fair enough, but their profusion of examples of economic analysis of human behaviour are confined to private enterprises or to private households. The reader, however, must be convinced that the same choice dilemmas illustrated by these authors have a wider application. We know of no complementary work, other than this one, which fulfils that requirement.

There will be readers already pursuing economics courses or who are already trained in the subject who wish to move closer to the stage beyond being equipped with some economic analysis. A useful standard introduction to cultural economics, which considers in some detail the economic problems of museums and galleries, is James Heilbrun and Charles M. Gray, *The Economics of Art and Culture*, together with Ruth Towse (ed.), *A Handbook of Cultural Economics*.

A test of their knowledge of the economics of the arts is offered by V. Ginsburgh and D. Throsby (eds.), *Handbook of the Economics of the Arts and Culture* (there are several articles dealing, *inter alia*, with analysis of the management and control of historical artefacts. The opening chapter by the editor, a well-known expert in cultural economics, is a first class introduction to the subject for social scientists).

Finally there is a book which has excited a good deal of attention because it shows how the economist's approach to the study of human behaviour can provide a general explanation about the evolution of societies and the particular part that trust plays in their development. This is: Paul Seabright, *The Company of Strangers, A Natural History of Economic Life*.

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