Ilde Rizzo
Ruth Towse *Editors*

The Artful Economist

A New Look at Cultural Economics

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Cover illustration: The music is "Siciliana Academica" composed by Sir Alan Peacock in honour of the Faculty of Economics of the University of Catania, when he was awarded the laurea honoris causa (November 20, 1991)

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In memory of
Professor Sir Alan Turner Peacock
1922–2014

Foreword

Alan Peacock, a Lucid, Rigorous, and Pragmatic Academic

The first time I met Alan Peacock was in Catania, Sicily, in a seminar on heritage economics. I was amazed by the very high standards he set for himself and for the other economists as well (a kind of "desire for excellence"). The participants shared a strong concern for the "future of the past" and a sincere willingness to imagine sustainable economic models for the conservation of heritage. Alan Peacock was able to reconcile a normative and a positive approach and to apply his expertise and knowledge of the general question of public policies for culture to the concrete problems of the conservation of heritage.

With his impressive understanding of culture and the particular importance of music in his life, Peacock was an anti-conventional thinker. His writing was precise and elegant (a rare quality among economists). Peacock did not hesitate to be ironic or self-deprecating. He had a great sense of humour. Concerning heritage, he thought that in a growing economy it was paradoxical to ask the present generation to finance the conservation of monuments and sites for the next generation who will be richer than the present one. Peacock would probably have agreed with Groucho Marx's question: "Why should I care about future generations? What have they ever done for me?"

I would like to stress three features about Alan Peacock's writings that cross the different contributions to the seminar that was held in Catania in 2015, which forms the basis of this book: firstly, the wide scope of his commitments, secondly, his specific view of public economics, and thirdly, his interest in cultural economics.

1. Peacock had a wide vision of the world and of economic science. He wrote important reports, about 30 books and hundreds of papers. He was able to speak to different audiences (academics and less-specialized audiences). He was a liberal, but—I would say—an informed and enlightened liberal: he was always attentive to the issue of public action. He was an expert for the British Liberal party, but also, later, an independent advisor. This is probably the reason why he

wanted—in his book written with Charles K. Rowley (1975)—to challenge a mere Paretian approach of welfare economics by putting forward policy suggestions, such as negative income tax, antitrust action, etc. Peacock wanted to draw the boundaries of public action beyond which such action becomes ineffective. He was especially sceptical about the evaluation of quality in the arts: maybe he was overall aware of the inability of economists to build reliable indicators of quality.

2. Alan Peacock's interest in the economics of culture arose from public economics, with a clear issue: circumscribing public action without neglecting intervention in the presence of market failure (and for merit goods as well). Should the State provide subsidies to support infant industries or declining activities? Governments have to take into account that budgetary deficit shifts the burden of the public expenditures to future taxpayers who are not able to vote. As a public choice economist, Peacock was more aware than others of the respect for human values and individual choice. Market price should be considered the best indicator of an individual's choices. A thread of his different contributions to cultural economics is this respect for individual preferences: "we do not need to specify a set of values at all. All we need is a set of mechanisms by which individual members of society can express their preferences for cultural goods, and we shall soon find out the extent to which it seems necessary for them to take combined action in order to give effect to their desires" (Peacock 1992: 9).
3. Alan Peacock theorized reconciliation between individualism and interest in public action and translated this reconciliation in terms of public policy, especially—but not only—in the case of TV (the choices of individuals should prevail). Peacock's most famous contribution to British public life was his chairmanship of *The Committee on Financing the BBC* in 1985 and 1986. Among the report's conclusions (Peacock 1986), we can stress the forward-looking view about the future of TV and especially about "the disruptive potential of the new technologies of distribution". The report can be considered a summary of the ability of Peacock to be pragmatic and visionary simultaneously: the market must be based on consumer sovereignty on pay-tv and also provide diversity of programme suppliers. Besides the laissez-faire model based on broadcasters competing to sell audiences to advertisers, there is a place for publicly funded provision of high-quality programmes.

Alan Peacock's expertise in the practical application of economics of the arts was much wider than only the case of broadcasting. He was interested in all the arts. He served on the Arts Council of Great Britain and chaired the Scottish Arts Council from 1986 to 1992. His focus on the field of heritage especially benefited from his twofold concern for the conservation of the past and the need for sustainable economic growth. He was aware of the fact that what we call heritage is not considered as having any particular importance at the time it is created or produced. He was pragmatic, considering "that a government policy should be directed towards identifying, maintaining and preserving what might be called 'representative' historical artefacts, instead of giving into the magpie-like proclivities of those who would preserve almost every physical manifestation of the past" (Peacock 1997: 231). It was a way to emphasize the first duty of policymakers—making the best choice among different alternatives—and the first duty of economists: to stay modest and aware of the limits of their models. As Professors Tim Besley, FBA, and Peter Hennessy, FBA, write in their *Letter to Her Majesty*, about another side of economists' issue, the inability of economists to foresee the crisis: "The events of the past year have delivered a salutary shock. Whether it will turn out to have been a beneficial one will depend on the candour with which we dissect the lessons and apply them in future". (Letter to Her Majesty The Queen, British Academy, London, 22 July, 2009).

More generally, Alan Peacock had a distinctly independent mind. He never yielded to the temptation to make proposals that lobbies were expecting. For example, in 1970, he recommended that London should have only two fully grant-aided orchestras rather than four, giving birth to a strong controversy. In the same way, he did not hesitate to recognize in his report on TV that there was not enough advertising revenue to support both BBC and ITV companies in the short term. Therefore, he concluded that it was not time to replace licence fee TV by advertising revenues, in spite of the pressure of many figures in the Conservative Party. This is why I especially like the conclusion of his contribution to the *Handbook of the Economics of Art and Culture* edited by Victor Ginsburgh and David Throsby (2006): "Keynes looked forward to the days when economists would act and be regarded rather like dentists, more concerned with the immediate realities of improving the human condition than with impressing the public with the profundities of their statements about the good life. One suspects that Keynes's hope may be the way that cultural economics will develop in relation to its policy relevance. That will be all to the good, but the author still regards it as essential that economists will retain a watching brief on those who claim that their expertise entitles them to pride of place in policy decisions. If we do not continue to demonstrate that their judgments of value are arbitrary, then we must not be surprised if they continue to invent the economics for themselves." (Peacock 2006: 1139).

At the time this book is published, the economic crisis in emergent countries, the rise of inequalities, the worries about the effect of globalization on the preservation of cultural diversity, and the issue of migrants challenge the future of Europe. We will miss academics with this scope and elevation of view.

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Contents

Introduction

Ilde Rizzo and Ruth Towse

Cultural economics has been fortunate in attracting eminent economists to contribute to it and none has made so comprehensive a contribution as Professor Sir Alan Peacock. The contributors to this book, many of whom are the current intellectual leaders of our field, honour Peacock's legacy not directly in encomia, several of which have been published following his death in 2014,[1] but by taking a new look at cultural economics. The authors are friends, colleagues, admirers and former students of Alan Peacock, several fitting into all three categories. Contributors were invited to write a chapter on a feature of Peacock's work that has been important in their own work in cultural economics or in a related discipline and to present it at a conference hosted by the Department of Economics and Business of the University of Catania in September 2015, whose financial contribution and support is gratefully acknowledged. Peacock was an honorary professor at the university and he loved to visit it and Sicily. The book accordingly includes a wide range of topics from broadcasting to welfare economics, offering both an evaluation of research on the topic and suggesting new insights for further research in cultural economics.

Peacock was not only an eminent professor of economics, however; he was also a lover of and participant in the arts. He was a keen amateur musician who studied composition with Hans Gál, now recognised as an important member of that group of refugee Jewish Austrian musicians who so altered the face of UK music. He put his understanding of both economics and music together in early advisory work on the

[1] Rizzo and Towse (2015), Peden (2015). The David Hume Institute has also published collected essays dedicated to the life and works of Alan Peacock (Perman 2015).

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London orchestras and later as consultant to the PRS (the Performing Rights Society) in the UK, investigating the economic situation of composers (explored in this book in the chapter by David Throsby). His work on the market for musical composition also produced what could be the first empirical study of copyright in music (the subject of the chapters by Hector MacQueen and Ruth Towse). Each of these three authors pays specific tribute to the inspiration of Alan Peacock's trailblazing book with Ronald Weir *The Composer in the Marketplace* published in 1975. In the 1980s, Peacock took on two of the main institutions of the UK arts establishment: the Arts Council of Great Britain and the BBC. His weapons were his detailed knowledge of and empathy for the arts and his ability to apply economics to seemingly intractable problems. His detailed work on inflation in the arts in the 1970s, commissioned by the Arts Council, failed to 'come up with the right answer' and was hastily buried.[2] His chairing of the committee into the funding of the BBC was equally controversial and again, did not produce the answer everyone expected (see the chapter by Peter Goodwin). Later, Peacock became Chairman of the Scottish Arts Council and faced the practical problems of the public finance of the arts.

A notable feature of all Peacock's work in economics, which spanned public finance, public choice theory, political economy, welfare economics and its applications, as well as cultural economics, was that it was fully integrated. As Françoise Benhamou suggests in the Foreword, the binding thread was the question of the relative roles of the market and the state, of individual and public choice. Francesco Forte, Martin Ricketts and Hector MacQueen capture that feature in their respective chapters in this book, ascribing this *Weltanschauung* to Peacock's knowledge of and reverence for his Scottish Enlightenment intellectual forbears, Adam Smith and David Hume. In cultural economics these fundamental questions are manifest in relation to the public finance or subsidy for the arts and in the decision-making of public and subsidised bodies, whether ministries of culture, arts councils or the managers of arts, media and heritage organisations.

In Continental Europe, both West and East, state ownership and management of cultural organisations has long been the norm, though recently subject to some privatisation. In the UK, USA, Australia and other countries with similar institutional histories, performing arts provision—theatre, music, opera and ballet—is typically by non-profit organisations that are supported by national and local governments but which are also expected to finance themselves through ticket sales and to a varying extent, through private donation. The built heritage is similarly owned and maintained by a mixture of private non-profit and public, though museums and their collections are more often owned by the state. Despite these institutional differences, economics applies to the basic issues of supply and demand—incentives to and motivation of producers and consumers—and cultural economics has tackled these issues in the 'core' topics of the field: public finance of the arts and heritage, art prices, demand and participation in cultural activities, costs

[2]Peacock (1993) gave a detailed account of these activities in his book *Paying the Piper*, dedicated to the memory of Hans Gál.

and supply of the arts and heritage, artists' labour markets and more recently, the creative industries. A range of basic economic theories are utilised: welfare economics, public finance, public choice, industrial organisation, labour economics and human capital theory, albeit with adaptation to the specific features of the cultural sector. Over a lifetime's career of more than 60 years, Alan Peacock contributed to each of these areas through theoretical and empirical analysis. It is hardly surprising, then, that in a book that takes a new look at cultural economics, we take as a starting point Peacock's seminal contributions to the subject.

For a long time, starting from the 1960s, cultural economics was concerned with two aspects of the same problem, the finance of the arts and heritage. Those aspects were: explaining their increasing costs; and the justification of state involvement in their finance. The first exercise (still ongoing) was understanding the underlying economic structure of arts organisations, to which Baumol and Bowen (1965, 1966) made such a significant contribution with their theoretical and empirical analysis of what has come to be called Baumol's Cost Disease. The second, to which Baumol and Bowen also contributed, though with lesser emphasis, was the application of the Pigovian welfare economics concept of market failure as making the case for subsidy.

The performing arts, initially the focus of their analysis (though the ideas were later widely applied to museums, libraries and a whole range of civic services), was shown to have costs of production rising faster than price inflation. The reason lies in the inherent characteristics of the arts and other such services, namely they are labour intensive with fixed factors, at least as far as labour inputs are concerned. As productivity rises in the rest of the economy, wage rates rise but similar productivity increases are limited (at least for what might be called the 'standard repertoire') and push up labour costs in the arts disproportionately. Assuming that demand falls as ticket prices rise, earned revenue could not keep up with increases in costs and 'if the arts are to survive' (the commonly used phrase in the discussion), the revenue gap has to be closed by some external means, either state subsidy or private giving.

The Pigovian solution of state subsidy could be justified on the grounds of external benefits and cultural economists have been at pains to make the case on these grounds, some going further claiming that the arts and heritage are public goods. While there is indeed a case to be made for some external benefits of some art forms, perhaps more strongly for heritage (museums and built heritage) on the grounds of preservation for future generations, it is less convincing for every type of performing art. Peacock (1969: 330) made the point in his inimitable style:

> ...(it) is difficult to trace the way in which spillovers from the 'culture vultures' attending live performance to others is supposed to take place. It would be interesting to poll the public at large in order to confirm whether they derived an uncovenanted benefit from the attendance at publicly-subsidized symphony concerts or modern plays by those whose median income is almost twice as large as that of the employed population.

Nevertheless, the presence of external benefits (proven or not) has been the underlying assumption of much work in cultural economics. Having rejected the more widely held view that culture is a merit good (and if one takes that route, there is no need for fancy theories to make the case for paternalistic intervention), in this early article in cultural economics, Peacock proceeded to lay out his views on the role of government in relation to the arts, promoting his favoured solution of vouchers to selected groups of people with low-incomes organised by local government. Francesco Forte's chapter traces the development and applications of Peacock's policy prognostications as he moved away from welfare economics to public choice theory and outlines the opportunities that new technologies offer for the implementation of vouchers. Giacomo Pignataro's Afterword on economic advice reflects Peacock's thoughts on the subject which he often had cause to apply.

More generally, though, the whole edifice of welfare economics, both Paretian and Pigovian,[3] has long been criticised and re-evaluated. Martin Ricketts' chapter on welfare economics brilliantly provides a succinct overview of these debates. One element of that debate has been the question of distribution—or redistribution—of any subsidy or tax. The above quote from Peacock identifies one of the main problems of cultural subsidy: attendance at arts events and museums is dominated by better-off and more highly educated people (the two are generally correlated). Moreover, attendance does not appear to be greatly affected by prices; even free entry does not necessarily attract a wider spectrum of the population while demand by the 'culture vultures' is relatively inelastic.

Those are mere details, however, in a much broader assault on arts and heritage subsidy from critics adopting the approach of public choice theory. Indeed, that theory provides a major critique of welfare economics in general, regarding it as naïve in its implied view of the political decision-making process. In their chapter, Giardina and Mazza expound the origins of this approach in the Italian school of public finance, a topic on which Peacock also wrote. Peacock was the co-editor of *Classics in the Theory of Public Finance*, (Musgrave and Peacock 1958) one of the first books offering to the international audience an overview of the contribution of Italian scholars of public finance to the theory of public goods and its implications for public policy.

The stance of public choice theory sees the provision of cultural goods and services, especially in countries in which they are directly provided by the state, as being determined almost entirely by supply-side considerations, namely the interests of policy-makers and bureaucrats who have little incentive to consider demands by consumers and, given typical city hall accounting practices, little incentive on the part of the arts organisation to respond to them or to innovate. That is an underlying concern of Bruno Frey's chapter advocating greater innovation in museums and Michele Trimarchi's on opera. Those concerns are particularly strong in relation to the finance and management of cultural heritage, a topic which concerned Peacock for the last 20 years of his life. Chapters by Ilde Rizzo, Anna Mignosa and Ezra Zubrow deal with quite diverse aspects of cultural heritage: Mignosa's chapter on cultural policy reflects on the differences between the centralised and decentralised model and on the role of public-private partnerships;

[3]See Blaug (2011).

Rizzo discusses the implications of the increasing use of digital technologies by museums and heritage managers, while Zubrow, from a different disciplinary perspective (which is not necessarily consistent with a strict economic approach), considers a tragically old topic in a new way—the destruction of heritage through warfare.

Besides a concern with the underpinnings of policy, cultural economics has a long tradition of empirical analysis. Over the years, data on the creative economy—the arts, heritage and cultural and media industries—have improved significantly, enabling statistical tests to be done. Besides quantitative research, qualitative research also has a place in understanding and informing policy questions. The chapter by Roberto Cellini and Tiziana Cuccia offers a detailed quantitative analysis of public spending on culture, an abiding topic in cultural economics, using data on Italy. It offers insight into a fundamental aspect of the political economy of culture: the impact of decentralization and the consolidation of fiscal policies upon the amount of public spending on culture in a 'top-down' and state-driven system. And last but not least, Victor Ginsburgh analyses issues in evaluation, in theory and practice, using wine as an example and showing that the evaluation of wine is similar to art, and particularly to music (two of Peacock's great passions).

The claim of this book is that it provides a new look at cultural economics. Many of the chapters offer an evaluation of where we are now and provide pointers to new directions. The theoretical underpinnings of applied economics, including to our subject, have evolved over the last 50 years and continue to do so. There have been fundamental critiques of the now standardised 'market failure' position from various sources: from within welfare economics, from public finance, from public choice theory and from applied areas, including cultural economics. For the latter, difficulties in utilising our understanding for practical cultural policies abound. The tendency of arts and heritage policy-makers and administrators to vulgarise concepts economists know to be profound and to struggle with intellectually is often difficult to work with. The desire of such people for 'a number' that is used to clinch the argument often over-rides any reservations that accompany it. The prime example of this has been cost benefit studies which ignore the breast-beating of welfare economists and blithely go ahead with crude measures of social benefits, however carefully constructed and the results circumscribed, which are then touted about as gospel. The same tendency is rife in measurements of the value of the creative industries. Peacock loved to see this problem as the role of the economist as a 'hired gun'. So, evaluation of the fundamentals of cultural economics has to be part of any new look. Sources of new inspiration come from other areas of economics—behavioural, neo-institutional, law and economics—as well as from looking more carefully at the wider perspectives opened up by multidisciplinary analysis.

The need for a new look at cultural economics arises in practical terms because of the fundamental changes taking place in the cultural economy due mainly to digitisation. New technologies affect supply and demand: on the supply side they offer new services (as Ilde Rizzo shows in her chapter) but unless they are adopted on the demand side, they will not succeed. A further aspect is the cost of switching to them and the investment needed, especially in ICT. In the market economy, investment comes from private entrepreneurs, many of whom will not succeed. Technological progress in capitalist economy is based on the finance of failure as well as success. In the public sphere, loss and failure is more problematic for governments using public finance, especially when technologies are not stable. Regulation is also subject to this problem, in the cultural sector in particular in copyright law. Cultural economists have a great deal to contribute to the understanding of this type of regulation.

Digitisation has profoundly altered the cost of disseminating goods and services. Internet has become the virtual shopping mall for cultural products, such as books and has turned products into services. Products that were once sold for a price are now rented out on a licence (ebooks being a prime example), cutting distribution costs. The same process has made stealing vastly easier and piracy, especially of music and film has had its impact on those industries. Some losses can be regarded in the scheme of things as switching costs. Cultural economists have been busy measuring them, which has proved a challenging problem. New business models have emerged to combat them. There is much work ahead to understand how they can be applied to all areas of culture and to evaluate their effects on the economic organisation of the creative economy. The opportunities that digitisation offers the subsidised arts and heritage are immense and further research is needed to analyse its overall impact. The occurrence of a cultural 'digital divide' across social groups and heritage institutions is likely to put at risk less 'starry' performing arts and heritage institutions and to enhance inequalities. Narrowcasts of live performances can reach parts of the public who would otherwise not have access, either by virtue of geographical location or socio-economic barriers. They have proved very popular. They may also set unrealistic standards for the local live performing rights organisations, however—an unintended consequence. These developments in the creative economy have considerable implications for public finance.

The book shows how much our subject owes to Alan Peacock. It also demonstrates the breadth of his interests and accordingly, the chapters cover a wide range of topics. There is a consistency, however, in the approach to political economy, broadly defined. In that sense there is something for everyone, not just those interested in cultural economics. There is still a big divide between those who see government action as intervention and those for whom it is interference. Peacock managed to respect both positions and, liberal that he was, found a middle way. This book is dedicated to the memory of a man whom we admired, respected and loved. He was a devotee of economics, the arts and heritage and a good bottle of wine. He was an inspiration to cultural economists past, present and, we hope, future.

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Part I
Cultural Policy in Theory and Practice

The Individual Choice-Public Choice Perspective and Cultural Economics

Francesco Forte

Abstract This chapter deals with the application to cultural economics of the individual choice-public choice perspective. The first section reviews the creative contributions of Alan T. Peacock to this concept and its application to cultural economics. The second section is devoted to the presentation of the fundamentals of this theoretical and policy construct for theoretical welfare economics and public economics, focusing on the interacting games between households as electors-taxpayers and consumers of public services, government, bureaucracies, and firms. The third section is devoted to the applications of this perspective to cultural economics—performing arts, heritage and broadcasting—with the focus on the relations between individuals as suppliers and consumers of cultural services and the other players of the public economy. Pricing and vouchers versus subsidies for the supply of cultural goods and quasi-privatization and privatization devices are examined as ways to enhance the individual freedom of choice, while increasing the efficiency and effectiveness of the supply of cultural goods in the interaction between market forces and the public economy.

1 Introduction: A Creative Economist

Alan Peacock made numerous and significant contributions to a wide range of topics, including cultural economics, all of which had the focus on the individual choice-public choice question. Full details of this argument are provided in the Appendix with a review of Peacock's works, in which this creative economist made his main contributions to this approach (see Ricketts 2015) including its application to cultural economics (see Towse 2005).

In this chapter, Sect. 2 is devoted to the systematic presentation of the theoretical and policy principles of Alan Peacock's individual choice-public choice approach

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to economic theory. Section 3 is devoted to some of the applications to cultural economics: performing arts, museums and built heritage and broadcasting. Pricing and vouchers versus public subsidies and the various quasi-privatization and privatization devices to enhance the consumer freedom of choice in a competitive setting and to increase efficiency and creativity, are discussed in this context.

As its label suggests, the individual choice-public choice approach consists of the fusion of two perspectives: one for the normative relevance of the individual choice principle and the other is about the positive relevance of the interacting decision game among different players in relation to public choices. The adoption of the individual choice principle implies acceptance of value judgements about the superiority of individual freedom in public choices and of consumer sovereignty. The recognition that real life public economy decision-making takes place through interaction among different players with their own interests implies limiting the public sector and adopting in it market economy devices as far as possible. A distinctive feature of this approach as a positive-real life oriented approach is the importance of empirical research, both at macro level through social accounting and at micro level through cost-benefit and cost-output analysis.

From the individual choice-public choice perspective, the basic value judgments about individual freedom and consumer sovereignty are neither a priori postulates of an ethical nature nor armchair hypotheses. They appear as anthropological values embedded in human nature, such as that of mutual respect (Buchanan 2005: ch. 2).[1] Their recognition implies taking these moral values as data, from which originate positive economic laws, on the lines of David Hume, of Adam Smith and of the Italian tradition of the school of 'Scienza delle Finanze' (Buchanan 1960).

From an anthropological perspective, the spectrum of individual subjective preferences goes much beyond the notion of utility conceived by Bentham as pleasure, to include the immaterial values of knowledge, of the arts and of culture, an area of wants for which the individual freedom of choice appears to be inborn. For economists such as Wilhelm Ropke (1958, 1960), Luigi Einaudi (1949) and Alan Peacock, this was a 'neo-liberal credo'. But the term 'neo-liberal', in this perspective, is likely to be overly restrictive.[2]

[1]There is, however, a difference between James Buchanan and Alan Peacock as for what the first defines as the 'ethics of benevolence' of the 'moral community' (Buchanan 2005: ch. 5 and 8). For Peacock it implies a much broader recognition of the principle of equality, as equality in the basic rights and as equality of opportunities (see footnote 2).

[2]An important example of the likelihood of this observation is the Memorandum of Dissent by Lord Norman Crowther Hunt and Alan Peacock (1973). Crowther Hunt, who shared the dissent, was an eminent exponent of the British Labor Party. As noted by Ricketts (2015) and in this book, Peacock thought had greater affinity with that of the German neo-liberals of Ordo and Ropke, whom he categorized as 'end state' liberals.

2 The Interacting Games of Public Economy and Individual Choice

From an individual choice-public economy perspective, a double critique leads to the refusal of the dominance of the elitist theories of welfare economics (Rowley and Peacock 1975: ch. 3; Peacock 1992).

The 'imperial construct' of social welfare functions of the Bergson/Samuelson type has to be rejected because it does not represent the real choices of individuals; it imagines what they might be from an artificial, abstract point of view from the top down and from the bottom up. This formulation implies the fiction of a unitary will of the society as a whole, while the society consists of interacting individual members. It overlooks the bargaining among the various players of the decision games. Arrow's 'impossibility theorem' relating to the instability of the decisions by majority rule indeed shows that individuals do differ and there is not such a thing as the general will of the community as theorized by Rousseau, because the community is not a unitary being.

On the other hand, the neo-Paretian conception of maximum welfare, which leads to approving any decision that improves the welfare of somebody without damaging others—which corresponds to Wicksell's unanimity rule—is untenable as a real life solution because merely leads to a point on the maximum efficiency curve. It does not say anything about the equilibrium point. Furthermore, that curve, considered in mere utilitarian terms, might violate basic values, such as those of freedom and of equality before the law (Rowley and Peacock 1975: ch. 6; Forte 1992, in the 'Comments' at the end of Peacock 1992).

The neo-Paretian approach privileges the status quo. However, the adoption of majority rule may privilege the welfare of the majority.[3] The foremost objection to this neo-Paretian theory is its lack of realism. It ignores that public choice processes are complex games, in which on the supply side there are elected politicians interested in remaining in power and bureaucrats with asymmetrical information and, on the demand side, electors-taxpayers with limited decision-making capability.

It follows that other ways must be pursued to maximize the welfare of individuals through their individual choices in the real life network of government sector choices: (a) reducing the amount of public choices; (b) extending the benefit principle in taxation; (c) increasing the role of individual demand and of the market in the public sector.

The prevalence of the benefit principles for public services, however, cannot be adopted when equality before the law is a requirement, which, in this approach, implies both aid to the less favoured and equality of opportunity, including in the area of cultural goods. Market provision and individual choice for the supply of public goods and decentralization of public choice are recommended whenever this

[3]Peacock acknowledges this problem discussing whether Keynes' thought was liberal (Peacock 1997).

does not conflict with efficiency and effectiveness. As Emilio Giardina 1992 notes in the concluding remarks of his comment on Peacock's analysis of the development of public choice theory (Giardina 1992, in Comments in Peacock 1992), this perspective implies no easy boundaries between interests and ideals.[4]

The Players in the Game The positive welfare maximization function W of individuals works within a triangle of bilateral bargaining takes place between four sets of players. They are: (1) the families H, which include the electorate; (2) the government G, formed by elected politicians; (3) the public bureaucracy B; and (4) the firms F and H, as suppliers and demanders of public services and as taxpayers (Peacock 1979b: ch. 1, 1992: ch. 1).

The general panorama now is that of interacting agency relations: (1) between electors and elected politicians, politicians and bureaucrats; (2) bureaucrats and private suppliers of goods and services to the government; (3) between the various layers of the bureaucracies; and (4) between bureaucrats and families and firms as consumers of public services and taxpayers. The electors are principals of the elected politicians, who are principals of the top bureaucrats. They in turn are principals of the bureaucrats at the lower layers. The bureaucrats, at all layers, are principals of the private suppliers of goods and services to the government. The tax authorities are principals of the taxpayers.

These agency relations are not unidirectional, as they work through interacting games in four interdependent markets. In the primary political market, H gives votes for the politicians of G in exchange for public policies in its interest and G influences the political demands of H by taxes and expenditures and by regulation enforced by B. In the political-economic market between G and B, G members demand, and B members supply, alternative packages of public policies. In the economic market of the execution of public policies, G and B are on the demand side, and F and H on the supply side of goods and services for public sector activities.

The market operators try to capture the public operators, conditioning their policies by rent-seeking practices, but also by reactions on the primary political market. In the political market of the execution of the public policies, G and B demand taxes and give public services to H and F, who react by tax avoidance and tax shifting, by rent seeking and other such behaviours and by the interactions in the political sector (Forte and Peacock 1985b; Peacock and Forte 1985).

Bargaining games similar to those in the tax and expenditure sectors also take place in the economics of public regulation, with similar interaction.

[4]The risk of exploitation of the majority on the minority is also the reason why Wicksell (1958) suggested the unanimity rule as the ideal solution and the qualified majority as a compromise. Notice, however, that Wicksell did include in that matter only the allocative expenditure and excluded the pure redistributive expenditures, for which he was invoking ad hoc principles. Wicksell's original work, of which the text published in English in1958 is an excerpt, was originally published in 1896 in German.

The 'Displacement Effect' Let us now consider how, in this model of interacting public choice among different players, the supplier of goods and services to the government, namely, the bureaucrats and the politicians, may increase the size of the government and resist any reduction to it, a theme obviously also of interest in the economics of culture, though the amount of cultural expenditure as percentage of the total is generally small and the growth of public spending is generally due to other, more popular, expenditures.

The 'displacement effect' (Peacock and Wiseman 1961) belongs in the area of the devices adopted by politicians and bureaucracies under the pressure of organized interests. The original example is that of an exogenous shock, say, that of a war, which may constrain a country to tax rises to finance expenditures of the war effort. When the exogenous disturbance is over, that expenditure is no longer necessary but the tax crop required to finance it is still there and may finance a new permanent item of expenditure, without asking taxpayers.

Notice, that under a progressive taxation system, a permanent displacement effect operates by the automatic increase of the fiscal burden on GDP, through the 'drag' of progressive tax rates ('fiscal drag'), which may also take place due to a mere increase of the price level.

A common explanation of the growth of public expenditure is Wagner's Law, which predicts that under the normal majority rule, the extension of the voting rights generates a tendency to increase public expenditures, because the lower class majority gets benefits through taxes paid by the middle-high class minority. That the majority rule, with the extension of voting rights, might create an anomalous increase in government size at the expense of the minority had been foreseen already in the first half of the nineteenth century by Alexis De Toqueville, in his book *Democracy in America* (De Toqueville 1840)[5] and may be represented by the 'Toqueville cross' diagram (Peacock 1983b, 1992). De Toqueville also observed, however, that when the class of property owners becomes the larger one, majority rule might not lead to an increase of the public spending even under universal suffrage because the tax burden could fall on the properties of the middle class belonging to the majority. Peacock demonstrates, with a diagram with a vertical and a horizontal axis forming a cross, that with the increase of median voters belonging to the middle class, the majority rule may not cause an increase of redistributive public expenditure at the expense of the minority.

The phenomenon of redistribution in real life does not stop when the middle class electors become the decisive voters, however. One explanation may be found in deficit finance, which creates public debt; the burden falls on future taxpayers, who are not at present voters. It is wrong to assume, though, that present voters do not share any burden of the public debt. The more it increases as ratio to GDP, the more its burden falls on the present generation through the crowding-out of alternative financial investments and through the increase of the risks to financial

[5]The French original edition of the book appeared in two parts in 1835 and in 1840. The English translation was of the same years.

systems due to the increased public debt. Thus, other means may be adopted to shift the burden to future voters without any substantial burden on the present ones: an example is the creation of pension rights (Peacock 1992). Another example may be the creation of rights of protection and restoration for heritage goods by law, thus shifting an increasing burden on the future. Obviously, one may argue that the future elector-tax payers are the ones to benefit most from heritage goods in the future.

The fact remains that future electors have to choose whether to reduce other expenditures or replace the revenue lost with other taxes or to reduce the budget by that amount.

Devolution of Functions In the political market one problem, that is also relevant in cultural economics, is that of the devolution of functions from the national level of government to the sub-national levels, in order to increase the weight of electors' preferences (Crowther Hunt and Peacock 1973; Peacock 1976a; Oates 1976; Peacock 1976b, re-edited in Peacock 1979a, b; Peacock 1996).

In principle, devolution should reduce the dispersion that takes place in centralized government between the preferences of the individuals as taxpayers and as beneficiaries of public expenditures and the quality and quantity of the supply of public goods and services (including the service of regulations, such as those for the protection of the heritage). In real life, however, decisions about devolution are not made looking at the demand side, being—mostly—made by politicians and bureaucrats looking to their supply side interests, under the pressure of organized national and regional interest groups. The results of the games among these interests do not necessarily generate a rational allocation of expenditures and revenues between the different levels of government.

The main point, therefore, in a constitutional reform of the function of the various levels of government is not of choosing which functions to devolve to which level, but how to reform them so as to allow the freedom of choice of individuals to matter. An example may be that of vouchers provided by the central government cultural institutions to lower income persons and young people enabling them to attend concerts and theatres in their communities, as an alternative to the devolution of these functions to the lower levels of governments (Peacock 1969; Crowther Hunt and Peacock 1973; Peacock 1996).

The Theory of Bureaucratic Behaviour Perhaps the most important implications that can be drawn for the economics of culture from this individual choice-public choice perspective of political economy is the theory of bureaucratic behaviour (Peacock 1977, 1978a, 1983a, 1992; Third Lecture, §2 and 3, Peacock 1993[6]; Forte 2000: ch. 5). Indeed there is in the cultural sector an acute problem of paternalism and predominance of the preferences of specialists as to which goods and services are to be produced and preserved and which artists to support, which may give rise

[6]This specifically for the cultural sector, in the area of performing arts.

both to X inefficiency and to their 'idleness coupled with prodigality' (Peacock 1992: 71).

The dominant models of bureaucracy in standard public choice theory, that of budget maximisation of Tullock (1965) and of Niskanen (1971), may thus be replaced by the Leibensteinian X inefficiency model (Leibenstein 1978) and by the Breton and Wintrobe model of interacting games of vertical trust (Breton and Wintrobe 1982). These games take place between top bureaucrats and the politicians and among bureaucrats, who pursue their own welfare, in pure monetary terms, in fringe benefits, in prestige and in 'on the job leisure'. One should also add the rent seeking games among bureaucrats and politicians on one side and the pressure groups of firms and individuals on the other side (Muller 1985; Forte and Peacock 1985a, b). To complete the picture one should consider the power games between members of the government and of the parliament Forte and Peacock 1985a, b) and politicians at the various level of government (Rizzo (1990) reedited as Rizzo (2011) with Introduction by Alan T. Peacock; Forte and Peacock 1985a, b). From this perspective, it is useful to pay some attention to the institutional design of the politician/bureaucrat relationship and to the features of delegation. The arms-length principle (implicitly recalled below) deserves some attention. Differences in culture play a role in determining different institutions and in affecting the conduct of public actors. Therefore, in the more general perspective of interacting public choice games, Niskanen's 'output maximization' may come out as a result of politicians' power games and of pressure groups' rent-seeking games.

Five policy devices may contrast the growth of government and the inefficiency of bureaucracies (Forte and Peacock, in Forte and Peacock 1985a):

1. Introduction of competition among bureaucrats in the supply of public services.
2. Competition of lower levels of governments.
3. Severing the nexus between public prices and taxes and the services for which they represent the payment.
4. Putting out government services to competitive tenders, maintaining government responsibility for the level of the service.
5. As the ultimate deterrent, privatization of public enterprises with removal of restrictions on freedom of entry to the relevant markets for the previously nationalized or municipalized public services.

3 Cultural Economics Conforming to Individuals' Choices

Let us now consider the specific applications to cultural economics of the individual choice principle from the perspective of market economy-public economy interacting games.

In this individual free choice approach, non-pecuniary values inherent to human nature do count because cultural immaterial values have more do to with people's enjoyment of life than those offered by other goods and services (Peacock 2000: Conclusions). Economic resources are limited and those for culture tend to be ‘peanuts’, also because culture has intangible value that is difficult to measure, even with refined economic indicators (Peacock 2003). Public economy reasons for intervening in the supply of cultural goods cannot be merely reduced to their nature as pure public goods because most of them are saleable on the market. However, external economies for consumers and producers, or ‘spillover effects’ may justify public aid.[7] Property rights of immaterial goods, such as those of the performing arts, are not easily enforceable (Peacock 1973; Towse 1999). This may also be true for the visual arts and for museums, while the external parts of the built heritage are a free good.

Spillovers of free supplies of arts and culture goods may benefit consumers because ‘experience goods’ (Nelson 1970) require previous consumption to appreciate them (Becker and Murphy 1991a, b; Mossetto 1993; Forte and Mantovani 2000, 2001). The addictive effect of past consumption may change tastes and modify the demand curves of consumers, shifting them upward, so that the marginal utility of consumption of cultural goods increases though time via adaptive preferences (Becker and Murphy 1991a, b; Peacock 1969, 1993; Forte 2010: ch. 3, sect 2). The upward shift of the demand gives spillovers to the producers too, who may increase and diversify their supply. These effects do not concern only future generations. Indeed, in the first instance, they determine the present younger generations’ tastes when they become older.[8] Other spillovers may derive from the likely positive effect of cultural goods on tourism and on the international reputation of the country.

Spillovers of cultural goods also benefit other suppliers. The products and innovations of artists of the serious performing arts may benefit those of the popular performing arts (Peacock 1973). Similar consequences may take place for the visual arts and heritage goods via the effects of their artistic content on industrial design and architecture. Important spillovers have benefits for future generations by transmitting knowledge and creativity in the arts and culture to them.

In some cases, such as that of museums or theatrical performances, charging prices that cover all the average costs, would imply a loss of welfare because some capacity could remain unused, so that one may argue that the deficit and the subsidy might be justified by the Dupuit-Hotelling theorem. That shows that setting prices at marginal cost in order to exploit unused capacity would imply a deficit under decreasing marginal cost curves (or zero marginal costs in the limiting case) because average costs would be above the marginal costs. Of course, the theorem

[7]Peacock (1969) for the performing arts and the heritage; Peacock (1973) for musical composition; Peacock and Rizzo (2008) for heritage.

[8]When Peacock proposes to support the performing arts via the education system he implicitly accepts the theory of rational addiction for the arts as experience goods, as the knowledge of their meaning increases through their experience, transmitted to students by teaching (see on this J.S. Mill 1848: Book V, ch. II, sect 8; Mossetto 1993: ch. 2, §2.2.3).

may not be applicable to every cultural institution, as some do not have excess capacity.

On the other hand, under the general law of decreasing costs through time, that is, of increasing returns for the national product, the Baumol cost disease may lead to increasing costs through time of art goods and services (Peacock 2000) because their producers must be paid average wages and salaries; thus here the decreasing costs law may not be applicable. However, these costs might be inflated by inefficiencies in their supply by the bureaucracies in state-managed arts organisations, such as those existing in Italy, and by the bargaining power of performers and other cultural workers seeking improvements in their earnings (Peacock 1978a, 1982, 1983a, b).

In real life public choice interacting games that are the origin of public policies, preferences expressed through the individual free choices of the electors-taxpayers may have a difficult reception. In the area of cultural policies there are additional difficulties because of the asymmetric information aspects, in which the 'experts' are powerful 'gatekeepers', for example, defining which of the visual and performing art services to support or the value of the heritage that should be conserved.

In the performing arts, the composers and performers argue that they, not those 'who pay the piper', have the right to choose the music because they know the matter from the inside (Peacock 1993). The reaction of the elite to the thesis that the public must have more to say is generally negative, as they—the musicians—reply that they 'know better'.[9] However, from an individual choice perspective, those who pay the bill, that is, the consumers as taxpayers, should have the right to choose how to allocate and spend the money rather than the élite of managers in charge of the supply (Snowball 2009). In the heritage sector, the opinions of the managers and their advisers and the peer-group assessments by them dominate what should be in 'the public interest'—something that may not have much to do with taxpayers'/ voters' interest in the arts (Peacock 2000; Peacock and Rizzo 2008). In the case of broadcasting, the powerful position of the suppliers subsidized by an ad hoc tax may enhance the (quasi) monopoly power of the public broadcasting company. Public policies to re-equilibrate these games are needed to enhance the role of individual choices.

For guidelines, one may take the five set of policies above sketched above, paying attention to performance indicators whose adoption and manipulations may play an important role in achieving those ends. The five policy sets can be regrouped into two: adopt pricing as far as possible and use vouchers in a competitive space extended horizontally and vertically; undertake general and partial privatizations, particularly by non-profit entities,[10] again in an extended competitive space.

[9] An example may be the review in the *International Journal of Arts Management* of Peacock and Rizzo (2008) in which the thesis that the public should have more to say runs through the entire volume. The book has been judged "informative and helpful, but with an old-fashioned understanding of the heritage field and of the efforts of the heritage industry" (Witcomb 2010).

[10] It is often difficult to distinguish public, nonprofit and private cultural entities. See Schuster (1998) for the case of the USA.