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DISCUSSION
OF
ACCOUNTING FOR SOCIAL AND CULTURAL VALUES*

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*Discussion of Arjo Klamer’s “Accounting for Social and Cultural Values”, presented at the conference on culture, ethics and economics, organized on the occasion of the 150th anniversary of “De Economist”, Amsterdam, 8 February 2002.
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1. **INTRODUCTION**

An economist who visits the land of the Arts and Culture will certainly be bewildered about all the nice and strange things that he sees there. Those economists that try to understand this foreign world seem to fall in two camps. On the one hand there are those that, by taking the economic perspective, try to make as much sense of this field as possible. Typically, economists belonging to this group would claim that, while the economic perspective does not give a perfect understanding, it certainly helps in understanding this area. Of the speakers in today’s conference, I would classify Van der Ploeg, Frey and Casson as belonging to this camp. The other group of tourists are those that conclude that the economic perspective is at a loss to understand what is going on in the Arts, and that economists should change their perspective. With the present paper, Arjo Klamer posits himself squarely in this second group. He argues that economists should approach the field of Arts and Culture in a very different way.

I have not been convinced by Arjo Klamer’s arguments, and in this discussion, I argue why I found the arguments to be not convincing. This discussion is organised as follows. In Section 2, I summarize what I perceive to be the essential point of Klamer’s paper. In Section 3, I argue that Klamer’s perspective of economics is one-sided, that he focuses exclusively on the production side, while the demand side may be most relevant for understanding the world of culture. In Section 4, I discuss Klamer’s motivating examples and argue why I find these fully unconvincing. In Section 5, I wonder why Klamer convulsively tries to avoid the notion of utility throughout his paper, and I discuss in somewhat greater detail his proposal of recognizing, besides economic capital, also social and cultural capital. Section 6 concludes. My overall conclusion is that it would not be wise to follow Klamer’s proposal to measure the cultural values that, at present, are not yet measured. I give two arguments. First, since Klamer’s proposal amounts to a certain form of economic imperialism (he proposes to give economic notions of capital a more important role in the cultural domain) and since these economic concepts may be foreign to those that lobby for cultural values at the moment, the proposal may backfire, since requiring the lobbyists to use this language may make their lobby less effective. Secondly, instead of exporting concepts of capital, economists could also show that their basic
concepts are so flexible that they can incorporate insights and ideas from the world of the arts. Rather than exporting, we may be on the receiving end and join in the lobby. Of course, if trade is voluntarily, it will benefit both sides of the transaction.

2. **KLAMER'S THEOREM**

   In order to try to understand Klamer’s paper, I tried to extract a testable hypothesis from it. While I am not sure that the following statement is actually testable, I believe that it summarizes to a great extent the argument made in the paper:

   **Klamer’s Theorem**

   Since:
   (i) economic thinking guides policy making,
   (ii) only economic goals are being measured at the moment,
   (iii) the economic goals are not ends in themselves, and
   (iv) what is really of value (the ultimate ends) is not measured,
       it follows that:
   (v) policy makers pursue measurable ends,
   (vi) the wrong policies are being followed at present, and
   (vii) in order to realize the ultimate ends, we should measure what we really value.

   The last point in this Theorem is Klamer’s proposal: at present we possess much more than what we account for in our balance sheets and in order not to lose track of these, we should develop indicators for “the good life”, for those things that we really value. Before discussing this proposal, let us investigate the assumptions and the conclusions of the Theorem.

   Clearly, the Theorem pictures a stylised situation. It certainly is not completely true that only economic indicators are being measured and that only economic goals are being pursued. For example, consider development. The United Nations adopts a development index in which not only bbp per capita, but also other indicators, such as life expectancy at birth, literacy rates, etc. play a role. Hence, other indicators of the “value of life” are being measured and, therefore, presumably also taken into account.
in actual policy making. There is no reason to assume that this would be different in the field of culture. But, for the sake of argument, let us accept that assumption (iv) holds and that important indicators of the good life are not being measured. Should we then conclude that these aspects would not be taken into account when policy is made? Perhaps we could accept that there is a bias towards measurable indicators; these will be available, they cannot be easily neglected and they will always be on the agenda. But, non-measurable indicators can come on the agenda as well; if they are important, there will be lobby groups that will lobby to get them discussed, and there is no reason to assume that these groups will not be successful. Consequently, conclusions (v) and (vi) seem too strong in its present form; they assume policy makers that are very boundedly rational, or perhaps even irrational. Of course, we know from the theory of the “multi-task principal agent problem” that, if there are both measurable and non-measurable goals, and policy pursues only those of the former type, those of the latter type will suffer, but exactly since we are aware of this, enlightened policy making will simply not just focus on the measurable goals.

My conclusion, therefore, is that the positive part of Klamer’s Theorem has not been demonstrated. I concede that there may be a bias towards measurable goals, but we do not know how strong that bias is and further empirical study seems called for. What about the normative part of Klamer’s Theorem: if there indeed is a bias, how to correct it? One possibility indeed is to come up with measures of those value indicators that are not measured at present, and this is what Klamer proposes. An alternative, of course, is to stress the points (iii) and (iv) of his Theorem and to keep these aspects on the agenda without actually measuring them. Klamer’s paper does not contain a discussion about this alternative, and we cannot judge at the moment how it compares. Arguments may, however, be given for why this could be the preferred route. The measurements that Klamer proposes may be very difficult to do, as he admits, and, even if they are possible, they might result only in very imperfect proxies of those aspects that one is really interested in. Hence, policies aimed at the measured indicators may still not accomplish what one wants. Even more importantly, these indicators may be foreign to the workers in the cultural sector. If they cannot identify with these indicators, their lobbies may be less successful than before, hence, the policy outcome may be even worse. I conclude that, without further study, it is not clear whether following Klamer’s Proposal will lead to an improvement. Hence, those
that share Klamer’s discomfort with the present situation would better think twice
before actually accepting the medicine that is recommended.

My own intuition is that it actually may be best not to follow Klamer’s proposal.
I will argue below that rather than imposing measurement on the cultural sector, it is
better to show that the economic approach and formalism can make room for
arguments from that sector.

3. KLAMER’S MOTIVATION

The motivation underlying Klamer’s Proposal is that the standard economic
perspective is not helpful in understanding the world of the arts. He writes

“Ever since I began to consider the world of the arts from an economic
perspective I have been dealing with the restrictions of the standard
economic perspective. It was as if that perspective did not allow me to see
things particular to that world. The standard categories fell short, or
restrained me too much in grasping what I saw. The questions then spilled
over to other realms of the economy to end up infecting everything that we
economists tend to view as part of our domain.”

Note that the claim extends beyond the world of the arts, Klamer actually states
that he doubts whether the standard economic perspective is useful at all. There are
two issues here: what is the standard economic perspective, and what is the domain of
economics?

In my opinion, the only meaningful answer to this last question is “the domain
of economics is everything to which an economic scientist can make a meaningful
contribution”. In my view, it is not so easy to identify ex ante the set of problems to
which economists may, or may not, make useful contributions, hence, the domain of
economics cannot be easily identified. However, it does seem to make sense to speak
of the, or at least of an, economic approach to solve problems, hence, economics is a
method of analysis. Consequently, it indeed makes sense to speak of an economic
perspective, and perhaps also of the standard economic perspective. For my purposes here, it suffices to identify this (standard) economic approach with that described in Gary Becker’s Nobel Lecture “The economic way of Looking at Life” (Becker, 1993). While it is not so easy to give a brief description of what that approach amounts to, one recognizes it immediately when one sees it. As Becker writes [economic] “analysis assumes that individuals maximize welfare as they conceive it...their behavior is forward looking, and it is also assumed to be consistent over time” (Becker (1993, p. 386; emphasis in original), hence, individual preferences (utility functions) seem to form the core of the economic approach. In this respect, I find it quite remarkable how much trouble Klamer takes in trying to avoid the concept of the utility function, an issue to which I return in the next section.

In his paper, Klamer gives a somewhat peculiar view on the economic perspective. In brief, he identifies economics with accounting. He writes

“Study economics and you learn to think in terms of capital and return, savings and investments, circular flow, profit, national income and national product, all of which are accounting categories.”

All of those aspects are related to the production side of the economy. But, economics also considers the demand side. Students of economics also learn about individual preferences and utility functions, and these demand side concepts are notably absent from Klamer’s paper. In my view, therefore, Klamer’s perspective is one-sided and distorted. Furthermore, the tools of economics were shaped by the work on several domains and here Klamer focuses on the business domain. He cites Hicks, who writes

“Economics is the science which deals with business affairs”,

which clearly is a much narrower definition than what I have given above, and which is a much narrower domain than to which economists, following Becker, have applied their tools. Klamer focuses on that part of the economic tool box that was developed in the study of business, and, as he writes, in that study
“economists carefully cut away, shredded, and threw away elements non-
economical. And so social, moral and psychological elements, common
features in classical writings, got marginalized and disappeared from the
discourse”.

While the statement is not completely true even for the economic study of
business, since the elements that Klamer mentions have come in again, see e.g.
Bewley (1999), it is definitely way off for those parts of economics that do not mainly
focus on business problems. It suffices to refer here to the most recent Annual
Congress of the European Economic Association, for which the President, Jean
Tirole, had chosen “Behavioural Economics” as the unifying main theme. The
interested reader may consult the papers by Tirole, Rabin and Fehr in the Papers and
Tirole (2002) focuses on the theory of commitment and he shows the value of
theoretical model building in this domain. Fehr (2002) discusses his work on
individuals’ social orientation, which investigates the important consequences, also in
the traditional economic domain, of people not being completely selfish. To
complement these perspectives from economics and sociology, Rabin (2002)
discusses the need and possibilities to enrich the present theory by taking cognitive
limitations into account.

To sum up, Klamer presents somewhat of a caricature of economics, and it is, of
course, not too surprising that such a caricature is found wanting. Klamer’s
perspective is limited to the supply side and, hence, is one-sided. As I will show in the
next Section, when I discuss Klamer’s examples, the “demand side” of economics
offers a perspective on the arts that is illuminating.

4. KLAMER’S EXAMPLES

In this Section, I argue that the examples that Klamer gives to demonstrate that the
economic perspective is wanting are completely unconvincing: they qualify as
examples only since the economic perspective is misrepresented.
1. **The contrast between the culturalist and economic perspectives**

The “contrast” that is described under this heading is simply the result of a basic fallacy. Of course, it is simply not true that an economist identifies “value” with “price”. Even in the simplest economic setting, it is only for the marginal consumer that value coincides with the price that is paid, while all infra-marginal consumers obtain positive surplus. The fact that our accounts make use of prices does not imply that economists would not recognize consumer surplus. In fact, the “heaven and hell ‘paradox’” illustrates that consumer surplus (and welfare) is highest where gross national product is smallest: if everything is abundant and there is no scarcity whatsoever, prices are zero and value added through production is zero as well. Van der Ploeg discusses this issue and the different concepts of value in more detail. There is no need for me to further discuss this point.

2. **Consumption of cultural goods is not really consumption**

Klamer writes “it is unclear what people consume when they visit a museum”. The remark applies not only to museums, but also to other “experiences” and becomes more relevant in the new economy in which consumption of virtual goods becomes more important (see Van Damme and Dellaert, 2001), but this does not imply that economics would not take this into account. Similarly, the remarks that tastes are acquired and that one has to learn to appreciate art are not peculiar to the cultural sector. The Dutch saying “wat de boer niet kent, dat eet hij niet” refers, in the first instance, to ordinary consumption. At the formal level, satisfaction depends on what arguments are in the utility function, and nothing tells us that this can be consumables only. Indeed, the work of Akerlof shows quite clearly that taking a broader perspective can yield important insights, see for example, Akerlof (1997). The “acquired tastes” argument alerts us to the fact that the utility function may depend on certain parameters and that these parameters may depend on previous consumption levels, but such modelling (of “rational addiction”) is also bread and butter for modern economists, see Becker (1993).

3. **Consumption is more than consuming products and experiences**

Again this is somewhat of a triviality. Klamer’s examples under this heading boil down to an individual’s utility of consumption depending on how many other individuals are consuming the same product, hence, there are network externalities in
consumption. Such externalities may be positive, as when I benefit more from reading *Harry Potter* the more others do so, or negative, as with snob goods. We have plenty of formal models that incorporate such consumption externalities and these have, I claim, increased our understanding of the phenomenon.

4. **The values of cultural goods are more than economics can account for**

Under this heading, Klamer raises the question “What do Venice, New York and Amsterdam have that Arnhem and Manchester do not?” Part of the answer is given in Rick van der Ploeg’s presentation, where it comes under the heading of option value for non-reproducible products. Another part of the answer comes from the fact that these unique selling points then act as natural focal points for people to meet. We humans have a basic desire to meet other likeminded individuals, provided that it does not get too crowded. Hence, again consumption externalities are involved. This all is not very much different from such banal things as “frequencies for radio broadcasting”. What is the value of “100.7 FM”? The term “100.7 FM” stands for more than an abstract frequency, it is also a meeting point where music listeners with a certain profile meet advertisers that are exactly interested in listeners having this profile. The economics of “Sky Radio” does not need to be much different from the economics of “Venice”.

5. **Organisations may be worth more than what their balance sheet shows**

This point is accepted, but it is hard to imagine an economist who claimed that the worth of an organisation is what is on the balance sheet. In fact, given the large diversity in value concepts (as discussed more extensively by Van der Ploeg), what is on the balance sheet is simply a convention. The market value of a company is the product of the number of shares and the price of a share, but it is hard to identify this with the value of that firm. The remarks that were made under point 1 above also apply here: at the current stock market price, there are as many traders that think the company is overvalued as there are that think it is undervalued.

6. **A good life must consist of more than the pursuit of economic wealth**

We can be brief here. Certainly, most economists would agree that life is not about getting rich, but about other things. Of course, if somebody would view getting rich as
the goal in life, economists would have no difficulty of analysing the consequences of these preferences either.

7. The important values seem to come outside the sphere of economic calculation and exchange

Here again, it makes sense to distinguish between the (traditional) economic domain (“exchange through the market”) and the economic method. There is a lot of exchange outside the formal market and while such exchange is not governed by the price mechanism, this does not imply that it cannot be sensibly analysed by means of the economic method. Becker’s analysis of the “marriage market” is a case in point. Perhaps, love is governed by rational calculation, but this does not imply that the assumption of economic calculation cannot yield important insights. While the economic approach may not enable us to predict which marriages will survive and which ones will fail, it may be relatively successful in predicting aggregate outcomes of changes in external circumstances, such as better outside job opportunities for females. For a good illustration, see Fernández et al. (2001).

8. So many goods are shared

It is no doubt true that many goods, such as friendship, love and information, are shared. What has not become clear to me from Klamer’s paper is why this is a problem. For sure, from the work of Ronald Coase we know that a clear specification of property rights is extremely important for a certain type of goods, but it does not follow why property rights should be important for all types of goods. Why care about who owns a conversation? In Klamer’s paper, there is an obsession with property. It has not become clear to me why the issue merits that much attention.

9. Non-economic goods contribute to economic performance

We can accept this fact, although we should also acknowledge that the relationship need not only be positive: trust may contribute to cartelisation and difference in trust between insiders and outsiders may induce insiders to pre-empty entry from outside, see Casson’s contribution to this workshop. The point I wish to make here, however, is that this relation between economic and non-economic variables constitutes an important and very active research area within economics at the moment, see, for
example, Glaeser et al. (1999, 2000). Hence, the claim that the economic perspective does not take these aspects into account cannot be maintained.

10. **The ends cannot be economic in kind**

We already discussed this point in the previous Section and there is no need to repeat the arguments here. Perhaps one point may be added. Klamer’s claim about the “economisation” of public discourse seems justified. In the Netherlands, for example, the accountability operation “van beleidsvoorbereiding naar beleidsverantwoording” is in full swing. Aim of this bvtb-operation is to be more explicit about the goals of government policy such as to enable better ex post verification of the extent to which the goals have been met. Of course, the idea underlying this operation is that more transparency will ultimately lead to better policy making. Hence, while there is no exclusive focus on economic goals, there certainly is a move towards being more transparent and explicit, and this may lead to more “quantification” as well. It is hard to see how being more explicit about goals and being more transparent about the relation between means and ends could lead to worse policy making and worse outcomes. Whenever possible, “quantification” need not be bad. For example, putting a value to life may make for a more rational risk policy and this may save more lives, Viscusi (2000).

5. **KLAMER ON UTILITY AND CAPITAL**

In the previous section, I have argued that, in contrast to what Klamer claims, the economic perspective can enhance our understanding of the world of arts and culture. At the same time, it will have become clear that the perspective that I have sketched is different of Klamer’s: whereas Klamer focuses on technology, possessions and constraints, I have stressed utility functions and the individual preferences underlying these. Given that it is so natural to start with these demand side characteristics, reading Klamer’s paper I was left wondering why he goes to such great pains to avoid the concept of utility.
Klammer does not succeed in avoiding the concept completely, he discusses it a couple of times on the pages 8 and 9 of his paper. I must admit that the discussion there has left me confused. The discussion starts with

“Mainstream economists are satisfied with utility as the end: we possess a cd player or a painting because its enjoyment adds to our total utility”,

which is fine. Clearly, utility will not be derived only from such physical things like cd players and paintings, but also from immaterial goods such as music, a conversation, a friendship, etc., hence, the need for a broad concept of utility. As already mentioned in the previous section, we may even need to incorporate consumption externalities. Having said this, Klammer, however, goes on to assert that

“This extension of goods to include values will meet resistance with the majority of economists, satisfied as they are with the notion of preference and utility”,

a factual statement that I believe to be incorrect. To be specific, if the statement is that the majority of the economists would be willing to accept only utility functions with certain specified arguments, then I believe it to be false. Up to now, economists have never inquired in great detail into the nature of the utility function, hence, they simply do not have the information to judge which arguments would be relevant and which ones not. Indeed it is very much the opposite, as Klammer writes in the next sentence

“The notion of utility is without content ... Any utility will do.”

From the discussion that follows in his paper, I infer that Klammer views this as a major drawback of the economic approach. I, in contrast, tend to view this as a great selling point. For sure, I agree with Klammer that there is a need to go beyond the vacuous notion of utility, but the fact that the basic concept is vacuous implies that the economic method is unbiased and versatile, hence, in particular, that there is nothing that stands in the way of applying it to the cultural sector.
Of course, there is the important philosophical problem of how a theory without content can be empirical relevant. If any utility will do, how to guard against ad hoc theorizing? Here I can do little more than quote Gary Becker

“A close relation between theory and empirical testing helps prevent both the theoretical analysis and the empirical research from becoming sterile. Empirically oriented theories encourage the development of new sources and types of data ... puzzling empirical results force changes in theory.”

(Becker (1993), p. 403)

In other words, existing work may point to the relevance of a certain type of utility function in a certain domain and we may be content with working with such a function as long as we are not too far from that domain and the data do not force us to do differently. At the same time, when entering new territory, we may experiment with alternative utility functions and temporarily settle upon the one that yields actual insight into that situation. Given the check of the data, I don’t see a reason to be afraid of the utility framework. The work of Ernst Fehr and his colleagues on “social utility” that I already referred to above shows the fruitfulness of this approach.

Of course, the above does not imply that we need be satisfied with existing theory. In particular, the idea that the utility function is fixed and given, while perhaps appropriate for a mature consumer acting in the traditional economic domain, need not be appropriate in other domains. Indeed, in the domain of the arts, it seems that we should leave room for “acquiring tastes” and for the government acting as an agent for future generations since current generations need not necessarily fully internalise the preferences of their children. In this respect, Klamer’s suggestion to distinguish between various types of capital is worthwhile, and it may very well be integrated into the standard (utility) theory.

Klamer proposes to distinguish between three types of capital: economic, social and cultural. He defines economic capital as the capacity to generate economic wealth and, in essence, it is an individualistic concept. The other two forms of capital can, according to Klamer, be possessed by both individuals and organisations, but I will restrict myself to the individual component. Social capital then is the capacity to
generate social values (like friendship and trust) and cultural capital is the capacity to inspire and to be inspired. Even though we can agree with Klamer that measurement may be extremely difficult, economists will probably be able to recognize the different types and the trade-offs involved in investing in these different types.

For example, in the interaction between parent and child, the kid may argue that the best use of her time is to visit a friend or to be on the phone, while the parent may state that it would be better to first do the homework. In essence, this can be seen as a choice between investment in social capital (the kid’s position) and economic capital (the parent’s position). Similarly, a teacher preparing his classes the night before has to decide whether to make an investment in social capital (spending the evening with his family or at the sports club) or in cultural capital (if he better prepares his lectures, he will be more inspiring and will be more admired by the students in class).

One can, more generally, imagine that the utility function of an individual depends on several state variables, including the current stocks of various types of capital. An individual who only invests in economic capital may run down his other capital stocks and, after having done that, may attach only low marginal utility to cultural goods. Formally, the situation resembles that of the rational addiction model, with one important exception: while the externalities involved in an individual not making a rational smoking decision may not be too large, the externalities in the cultural domain can certainly not be neglected. If we destroy unique, non-reproducible, objects of art, or if we destroy our own taste for high culture, we also hurt the next generations, as there are no markets throughout which these can protect their interests.

6. CONCLUSION

In economics one learns to think about the tension between what one has and what one wants. Klamer argues that since we do not account for all that we have, we actually lose sight of what we want. As he writes on page 14 of his paper
“By following Hicks ... we lost sight of the activities that contribute to the good life and the good society.”

Klamer’s solution is to follow Hicks even more, specifically, he proposes to also measure the values in the social and cultural domain. In this discussion I have expressed my reservations about following this proposal. I have pointed to the difficulty of measuring these values and of the risks involved in imperfect measurement: a policy that chases these proxy goals may miss the real ends and, hence, may fail. More importantly, I have expressed the fear that the notions of capital that Klamer wishes to introduce in the social and cultural domain may be foreign to the non-economists that work in, and lobby for the important values of these sectors and, hence, that these lobbies may become less effective when Klamer’s proposal is followed. In short, Klamer’s proposal may be viewed as an act of “economic imperialism” that may receive hostile response from culturalists.

Most importantly, I have argued that there is an alternative route available to not loose sight of the social and cultural values. This route consists in not following Hicks at all, but rather Robbins. The suggestion, hence, is to focus on scarcity and on our wants directly. I have argued that the economic approach is sufficiently flexible so that it can actually incorporate the arguments of the culturalists and provide a firm foundation for at least some of these. I would consider the contributions of Van der Ploeg, Frey and Casson in this Symposium to provide good examples of how the economic perspective actually strengthens the culturalist perspective. The “contrast” between these two perspectives is not a real contrast, it is just a perceived one, and it should be possible to eliminate it by rational informed discussion.
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