People in the cultural sector usually think of their financing need as a matter of getting money, somehow. They usually do not think that how and where they get the money matters. “Money is money,” they may respond when asked about their money getting behavior.

The inclination is, therefore, to go where the ‘money’ is. When the government is the source of financing, cultural organizations will be totally oriented to doing whatever is necessary to get their share of that source. When the government is indicating to reduce its budget for the arts and culture, they tend to turn to the most obvious alternative, and that is the market. In the market you sell tickets and get sponsors. So that is what cultural organizations are doing now, at least they intend doing so. In my experience they do not give it much thought, as long as they are able to get the money. Yet it is not this simple. And doing it this way is not doing the right thing. At least, it usually is not. 1

When I am involved with cultural organizations to discuss their need for money I run into the following: 2

a. The all but uselessness of the standard economic vocabulary and tools;
b. The tendency to adopt business concepts and models;
c. The need to involve the entire organization, to change the organization, often to change the people involved, and;
d. The difficulty of thinking through the consequences of the elected strategy.

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1 This paper is based on research I did for a book in progress Doing the Right Thing.
2 The Dutch government decided last year to slash the subsidies for arts. My department organized a competition on the most creative idea for alternative financing of the arts. We published a booklet with 100 of the best ideas and since then set up a company to support cultural organizations in implementing some of those ideas.
Especially striking for an economist like myself is the all but uselessness of the standard economic vocabulary. The reason for this may be that the bulk of work in cultural economics thusfar has been directed at the rationalization of cultural policies or the critique thereof. Cultural economists have introduced the notions of public good, merit good, Baumol’s disease, externalities, option value, economic impact, the multiplier and the methods of contingent valuation, hedonic pricing and willingness to pay to justify subsidies or to critique them. We have studied art markets and labor markets to investigate the effects of subsidies. But all that work is of no use whatsoever when I sit down with people of cultural organizations to discuss their financial needs.

Take the case of the Dutch organization that serves the interests of the design world.³ They had commissioned an extensive study on the economic impact of their sector. The numbers that the research bureau produced were far from remarkable, except for the increasing trend. It may be interesting to know about the economic size of the sector and its impact on other sectors. But what follows? The people of the organization had commissioned the work as they thought they needed the information to impress policy makers, to convince them of the economic relevance of their sector. They thought that it would be an argument for more subsidies. The conclusion that the responsible politician drew, however, was that the sector was doing so well that it could do with less subsidies.

This is not to say that standard economics is without merit entirely. With a little bit of good will we can attribute the dynamic pricing approach to insights that industrial economics brought about. There will certainly be other insights that economists have generated but they are far from obvious. At any case the harvest of 40 years of work is embarrassingly small.

Having to deal with cultural organizations directly, I felt compelled to develop another perspective, a perspective that can work. I am articulating this perspective in a book in progress, entitled Doing the Right Thing. It is intended to offer an alternative to the business models and marketing talk that come straight from the world of business. My presumption is that cultural organizations are sufficiently different to warrant a different approach and this approach requires a great deal of creativity in the current circumstances.

The starting position is the one that Aristotle and other classical thinkers already formulated, and that is that all activity is directed at some good. In that light cultural organizations strive to realize certain values or goods. Artistic organizations are set to realize artistic values, like performing Hamlet well, or making a great exhibition. They may also strive to realize societal values in the sense that they want to add to the attractiveness of a town, or raise political awareness or contribute to the education of people. Another set of values to strive for are social. These involve goods such as a community, friendship, and collegiality. A fourth set of values to realize are personal, in the sense of goods that matter to specific people. An artistic organization could have as its goals to advance the career of artists, to be a venue for human flourishing, for the development of skills, of knowledge.

³ The organization is called Premsela
Naming such values is answering the question what for: what purpose does the organization have, why does it exist? These values determine the mission of the organization.

Anything it does is to be directed at the realization of these values. So when it engages in a financial strategy the people of the organization should determine whether the strategy is going to support the realization of those values.

This first step is not always easy to make, as people in cultural organizations are not used to articulate their values. In practice it requires some probing, some questioning, that is. So what is it that you really want? What is really important to you?

Note that the classification of goods to strive for does not include generating customers and generating income. Catering to the tastes of customers and the generation of income are instruments that serve the realization of other goals; at least they are in principle. “Why not selling shoes? Or guns? Why not prostituting yourself? …Oh, you do not want to do that. So what is it that you want to do? What is so important for you in making theatre, or painting?”

One purpose of this set up is to distinguish goals from instruments. Economic reasoning has fed the confusion, maybe inadvertently, that makes people think that everything revolves around the market transaction, that the price of that transaction is decisive and conclusive, and that the maximization of profits is the goal. Yet, a market transaction is the means to an end. A theatre sells tickets in order to be able to realize its values. Profit enables a firm to expand its activities and thus to better realize its values.
Another set of values concerns the way an organization goes about realizing its goals. Following Deirdre McCloskey and Alasdair MacIntyre, among others, we could call these values the virtues as they pertain to the actions and interactions of the people of an organization. Virtues are, for example, innovative, respectful, collegial, entrepreneurial, willing to learn.

How then to generate money?

In order to generate money the organization needs to have something that is valuable for others. In conventional economic parlance you are made to think of products or commodities that have use value to potential consumers who in their turn are willing to pay to gain ownership. Yet that perspective turns out to be too constraining.

Here I propose a few moves to broaden the perspective and to see more possibilities to generate “money”.

The first move is to problematize the good that the artistic organization (or artist) realizes for others. We are taught to think in terms of private goods and public goods. Private goods have property rights; because they can be privately owned, they can be sold and bought for a price. By paying the price the buyer acquires the property rights of that good and that gives him or her the right to consume that good.

Because “art” often does not fetch a price at or above the break-even point, we are made to think of their public good character, or of merit goods, as that would warrant subsidizing. A related argument points at the externalities of the producing and consuming of arts. I want to develop this argument further as it provides an eye opener.

The point is that we cannot buy “art”, and organizations or artists cannot sell it either. A gallery can sell an object—let’s say, a canvas with paint on it—and a theatre can rent a chair for a few hours. You and I can buy the object or rent the chair. The object becomes art only when you and I see it as art. You and I have to recognize music that we hear when sitting in our chair. In a way that is nothing all that remarkable. After all, when you and I buy a metal object on wheels with an engine in it, we have to do something, that is, drive, in order to turn that thing in a car. Food we need to eat, and from a house we need to make a home. Even so, this insight is particularly relevant for the world of the arts as the issue is what artistic organizations can do or should be doing in order to stimulate our experience of what we see or hear as art.

An artistic organization interested in realizing art needs you and me to do so. They have to get us involved somehow. That is why I propose to substitute the metaphor “art is a product” with the metaphor “art is a conversation.” It helps thinking about what is at stake when artists and artistic organizations present something as art. We can think of their work as a contribution to the conversation. (That is how scientists think about the work; they actually speak of contributions, see Klamer, Speaking of Economics, 2007).
Viewing art as a conversation evokes the notion of a social good. Social good is like the club good that Buchanan coined, but it is more general. Social goods are goods with the following characteristics:

- a limited group of people, but at least two people, shares ownership;
- the ownership is social or moral, not legal;
- the good cannot be appropriated by means of market transactions or governmental actions;
- they do not have a price yet have value for those owning them;
- people gain ownership of a social good by making contributions of some kind;
- “using” the good usually implies contributing to it.

An example of a shared good is friendship. A friendship is a good as it is costly to acquire and provides benefits. Friends gain the friendship by doing something for the sake of the friendship. They will lose the friendship when they stop contributing. Science is another good example. Scientific knowledge is shared by those who participate in the conversation called science.

Social goods are different from public or collective goods as they exclude those who do not share the good and as they can be the cause of rivalry (when others are seeking the friendship of a friend). They are different from private goods because you cannot buy them in the market place. It may be interesting to note that social goods do not allow for free riding (free riders tend to lose out) and that contributing to a social good is easily interpreted as altruistic behavior. And that is because economists do not have the concept, yet.

When we view art as a social good, it becomes clear why transforming it into a product and focusing on the buying and selling, does not do justice to its shared feature. A theatre group may sell large quantities of tickets, but the fact that people show up for the performance does not necessarily imply that they participate in the conversation.

Accordingly, when an artistic organization has as its purpose to contribute to the conversation that is called art, it will want to appeal to those already in the conversation and seduce others to join. The purpose it to get others involved somehow, to get people to cite their contribution, to speak about it, to elaborate on it in their own work. Just as scientists are seeking to do.

We can now be more specific as to the financing of the arts. The organization needs to figure out what values it has to offer for which people are willing to pay, or to contribute. From its perspective these are its financial values. A museum provides an option to spend an afternoon with the family on a rainy day. People may be willing to pay for that. A painter has something to offer to hang above the couch. If he has a name in the bargain, people are willing to pay for that as well. People are willing to pay for status, for entertainment, for inspiration maybe, or for their education; they are also willing to contribute of that gives them a sense of ownership.
The creativity of financing is the figuring out of new ways of enticing people with new propositions to induce them to pay or contribute. Organizations and artists can work in four different logics.

The logic of the market: this is the logic people usually think of when they consider the financing of the arts. It is the logic of the quid pro quo, of the exchange in equivalents, usually a good in exchange for a specific amount of money called the price. The logic works well when people do not know each other for goods that have distinct characteristics that people can value without too much trouble. The nice feature of this logic is that once the product is paid for, and ownership has changed hands, the accounts have been settled. There is no need for an ongoing relationship.
The logic of the market requires the clear identification of a product and the possibility of measurement in terms of money, or an equivalent. A bottle of wine can be turned into a product, or commodity, by offering it for sale and by attaching a price on it.

Even a bottle of wine poses a challenge to the logic of the market, as the quality of its content is not immediately clear for a potential buyer. That is why conversations appear in which wines are being discussed, in which experts develop and share their knowledge of wines. The market for wine needs such an ongoing conversation in order to function. As a matter of fact, expert knowledge has financial value as people are willing to pay for it to make sure that they wine they buy is a good one.

The conversation about wine takes place outside the logic of the market, as we will see shortly.

Artistic organizations that work by way of this logic need to figure out what their products are and what price to attach to that product. They want to use marketing techniques in order to find out who their potential customers are and what they are willing to pay. A theatre group may find out that it can charge more when it has a famous actor in its play as people are willing to pay to see that actor perform. Or people may be willing to pay more for a play that is popular and talked about on television and in the social media. Artists may find out that their work can be of interest to companies, or to rich people interested in buying themselves an artistic reputation. They may learn from Andy Warhol, Jef Koons and Damien Hirsch who show that playing with the logic of the market is an art form. Warhol, for example, figured out that people would value his work more if he priced it higher. We, economists, would call that "crowding in". Then again, other artists experience crowding out, that is, the phenomenon that raising the price brings about a decrease in artistic value.

The logic of governance is the logic that governments use but that also managers apply within organizations. It is the logic by which subsidies are provided. Foundations use this logic as well. So when an artist or artistic organization seeks to acquire a subsidy, it needs to offer values that the subsidizing agency will appreciate. It may be that the agency seeks educational value, or experimental or innovative value, or work of high artistic value. Furthermore they will have to be accountable by submitting clear plans, budgets, entrepreneurial initiatives and the like.

The logic of the oikos applies in the personal sphere. Oikos stands for home. It is the logic of love and care, of loyalty and dependency. The oikos is a significant source of finance for the artistic world. The great majority of artists contribute a great deal to their own work, by putting in long hours and accepting low financial compensation. Their opportunity costs are high, an economist would say. They realize their financial value themselves, by having a job on the side (taxi driving) or having a spouse who agrees to work for the necessary income.

The social logic draws on the logic of the oikos to extend it to the social space. This is the space in which people socialize, form relationships, friendships, clubs, parties, societies. It is in this space that social goods come about, by way of the contributions that people make. This is also
the space for giftgiving, for reciprocity, for sharing. In this space we become colleagues, members of club or participants in the conversation that is called art.

So how to realize the values of an artistic work or activity? How to realize the financial values?

All four logics present opportunities. Yet it matters what the focus is. An organization that is focused on the logic of governance will function differently from an organization that wants to exploit the logic of the market. The latter will have to be clear about its product and will need to cater to its customers somehow.

Operating in the social space is different altogether. Ever wondered why directors of American art institutes sound so idealistic compared to their European colleagues? The reason is that they operate in the social logic. They are dependent upon gifts, donations by individuals, and individuals will give only if they have a sense of sharing in an ideal by way of the gift. The entire organization is set up to involve donors and to recruit additional donors. Curators, for example, are expected to be able to socialize with donors, to get them enthusiastic about the work of the museum.

Case

Let's pursue the case of a museum. A museum is good for all kinds of things. A museum has societal values as it stands for the cultural heritage of a society, contributes to a national identity, adds an important cultural quality to a city, increases its cultural capital, may provide education. Such values appeal to citizens and their representatives and induce governmental support. (in the US the governmental support for the Smithsonian is unquestioned: the institution is just too important for the nation).

The museum has furthermore value as a way to spend a free afternoon, to learn something, to have a special experience, to buy interesting stuff, but also as a good and interesting space for a venue such as a party or a conference. And the museum may have a name - it could be a brand as people like to name it nowadays - that is worth associating with. All these values are to be realized in the market sphere, by way of the logic of the market.

Note that the working with that logic asks for special skills. You need to be able to reach potential customers and get them to go for your values rather than those of other facilities. You need to be able to get into the conversation with potential sponsors, and, even more difficult, close the deal. People who are good in dealing with foundations and governments are not necessarily good in this logic. And vice versa.

But a museum has so much more to offer. People may like to be part of it; they would like to call the museum theirs. They like the atmosphere, they like to have art in their life, and they like to socialize with artistic people. A museum has social value, therefore. To realize such values the social logic is most effective. Such logic involves reciprocity, and the making and receiving of contributions.
The museum is also a venue for people, curators, guides, the director, and other staff, to realize their potential, to exercise their skills. You might say that the museum caters to personal values.

All these values the people of a museum needs to take into consideration when they seek financial means. The striving should be the optimization of such values.

The issue to consider is the spillover effects of a mode of financing. Money acquired in a certain way represents the realization of financial value. But the process of realization may affect other values, in a positive but also in a negative way. Money from a sponsor with a strongly commercial reputation may cost in terms of artistic reputation; it may also cost in terms of the motivation of individual workers at the museum.

Take the case of the museum of modern art in the Netherlands (Stedelijk museum). We are in the late nineties. The Dutch importer of Audi cars was willing to lend the capital for the financing of an additional wing. All it wanted in exchange was space for an exhibition. The director was excited about the deal but the city government (the museum is owned by the city government) rejected the deal for being too commercial. In hindsight, the excitement of the director was questionable. Apart from underselling of the museum (an exhibition space at such a prime spot was worth a great deal more then what the importer was going to pay), he also was about to compromise the artistic reputation of the museum. Prestigious American museums would not even think of connecting their reputation with that of a commercial enterprise because of the spillover effects.

Another matter is whether the realization of financial value in such a way—by interacting with one commercial party for one lump sum—is contributing most to the good that the museum is striving for. That good is for the Stedelijk museum of Amsterdam Art, in particular contemporary Art. It wants to contribute to the cause of Art and to that end wants to educate the public and to get people involved. In my terms it is interested in the conversation that is contemporary art. It seeks the recognition of those who operate in the core of that conversation, that is, the elite of contemporary art (directors of other major museums, the excellent curators, important artists, influential collectors, important critics). Everything it does, is to be directed at that goal.

Whether having an importer of cars committed, is aiding to that goal, is dubious. How would the core consider such a commitment? What will the people of the importer contribute to the cause? Not much, if anything at all. (The director was open to artistic intervention in its exhibition space. So if the Dutch artist Joep van Lieshout would turn an Audi into a German tank, that would have been fine with him. If so, the deal could add to the artistic value of the museum.)

Deals with sponsors share with major government grants the disadvantage that it involves only a few people. Those people, furthermore, do not spend their own funds in the deal as they act on behalf of the organisation. The car importer spends money that belongs to the shareholders, and the government spends money that comes from taxpayers: those who pay, therefore, not
those who benefit, or those who care. Such deals do little to get people involved and to get them to care about the art of the museum.

The social space provides alternatives modes of financing of the museum. As the social space calls for involvement and is all about relationships, it is most suited to the social and transcendental goals that the museum is striving for. When people donate to the museum, they do so because they care about the museum and what it stands for. By donating they acquire a moral ownership of the museum. The museum becomes theirs. A sense of ownership may stimulate people to become an advocate, to tell others about the museum, to bring people along for a visit. Thus they contribute to the conversation that makes the museum.

The logic of the social space inspires the following solution for the involvement of the car importer in the Stedelijk Museum. Scratch the part of the plan of an exhibition space. And let part of the contribution be dependent on the willingness of the drivers of Audi to contribute. They can express such willingness when they purchase an Audi. If so, the sales people of Audi need to know about the Stedelijk Museum so that can tell about it when trying to sell an Audi. They will talk about the collection of the Stedelijk Museum, hand out an invitation to attend an exhibition. A contribution of 100 euro is a small amount in comparison to purchase price so that will be not much of an impediment. (It would be better to ask for an annual contribution, to maintain the involvement, and to realize moments of awareness of the museum in the life of the Audi drivers.) Audi could make use of this project to advertise exhibitions of the museum to convey the image of Audi drivers as art lovers. Such a deal would contribute a great deal more to the goals of the museum than the deal that the director made at first.

It did not happen, though. I suspect that the responsible people did not picture the social space as I do here. The logics of the market and the government continue to exert their attraction. At least, it does so in continental Europe. I expect this to change. If not by conviction, the social space will have to come into the picture by necessity. According to my framework and interpretation that will be for the better.