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ALAN PEACOCK AND CULTURAL ECONOMICS*

Ruth Towse

Professor Sir Alan Peacock has worked in cultural economics for over 35 years and he pioneered much of what is now the core subject matter of the field. This paper traces the development of his theoretical work on the economics of the arts, heritage and broadcasting, and shows how it interacted with his role as adviser to and chairman of several prestigious committees in the cultural sector.

‘Subsidising the Arts involves the same kind of issues as subsidising particular industries or services in the economy, however distasteful this may seem to those who are conditioned to think in terms of a moral ordering of consumption expenditure ... Apart from any predisposition of the author to oppose paternalism, the assertion of any imposed value judgements is too easy a way of deriving support for public intervention designed to give the public not what it wants but what it ought to have!’ (Peacock, 1969, p. 323).

For a minor field of economics, cultural economics – the economics of the arts, heritage and cultural industries – has been blest with the attention of some major players: besides Keynes, Robbins and Baumol, whose contributions are sketched below, Ashenfelter, Boulding, Caves, Feldstein, Galbraith, Rosen, Scherer, Scitovsky and Shubik have all actively engaged in it, and Coase may also be included on account of his work on broadcasting. Some topics in cultural economics, such as museum entry charges, the finance of public service broadcasting and the size of the subsidy to opera, seem to be perennially controversial and the growing interest in cultural industries and the role of copyright look set to experience a similar future. As with other areas of applied economics, such as the economics of education, of the environment and of health, the analytical basis of cultural economics is welfare economics. It is no surprise, therefore, to find Peacock with his combined interest in welfare economics and cultural policy in this august company. Indeed, he may rightly be called *primus inter pares*, for he has arguably contributed to more areas of cultural economics than any of the others.

Alan Peacock has had a long career as an economist, university teacher, university administrator, government adviser and arts administrator. He also has been an active composer and musician. He has continuously worked in cultural economics since the mid-1960s, having a seminal influence on its development, particularly, but by no means only, in the UK; he was in at the start of the subject and is still contributing to it. He has written his autobiography as a cultural economist, *Paying the Piper* (Peacock, 1993), in which he lays out his lifelong commitment to applying economics to understanding the arts, drawing on his

* This paper was originally written for the Luce conference on ‘Economists’ case for government support of the Arts’ organised in 2002 by Neil De Marchi and Crauford Goodwin of Duke University. I am grateful to Alan Peacock for his factual corrections to this article; also to William Baumol, Mark Blaug and Muriel Nissel for their helpful comments on an earlier draft and to three referees for theirs.

experience of over 20 years as expert adviser, committee chairman and arts administrator.

Given his considerable output of academic work and practical participation in cultural economics, it is amazing to realise that it was essentially a sideline to a long and distinguished career as Professor of Economics in four UK universities, specialising in public finance, welfare economics and public choice theory. He was Chief Economic Adviser to the UK Department of Trade and Industry (1973–6), member of a number of UK government committees, and the first Vice Chancellor of the University of Buckingham (1980–4). He was appointed Chairman of the Committee on Financing the British Broadcasting Corporation (BBC), for which he was knighted in 1987, and was Chairman of the Scottish Arts Council from 1986 to 1992 (and therefore *ex officio* a member of the Arts Council of Great Britain). These high profile public positions would attract criticism to even the most bland incumbents. Peacock, however, has never shunned controversy – indeed he revels in it – and sails into choppy waters with guns blazing. As a Scot, he certainly does not mind criticising the English Arts Establishment (whom he has called the ‘greatish and goodish’!). He lives and works in Edinburgh where he is Honorary Professor of Public Finance at Heriot-Watt University and continues his connection with the David Hume Institute, of which he was Executive Director until 1991.

In *Paying the Piper*, Peacock concentrates on his involvement with music and says little about his work on heritage and broadcasting, which have been perhaps even more important in shaping cultural economics. In this article, I show how these ideas evolved and trace the development of the field from the 1960s. Peacock’s expertise in public finance and the economics of government – to him part and parcel of the liberal tradition in political economy originating with Smith and Hume – underlies his theoretical work in cultural economics and has guided his practical work in administering the arts, heritage and broadcasting. In 1996, Peacock was made the first Distinguished Fellow of the Association for Cultural Economics International (ACEI) in acknowledgement of his contribution to the subject.

1. The Development of Cultural Economics in the 1960s

Although many economists in the eighteenth and nineteenth centuries gave examples from the arts and cultural sector in their writings – Adam Smith (famously) on opera singers and dancers, Jevons on public libraries, Marshall on music – it was not until the 1960s that economics was systematically applied to the arts. During the 1960s, the subject was known as ‘economics of the arts’ and concentrated mainly on the ‘high’ arts, which in most countries were being subsidised by the state by the latter half of the century; in the 1970s, the field of enquiry broadened to include heritage and the cultural industries (in no small part due to Peacock’s work) and the title ‘cultural economics’ came into use to accommodate these areas.¹

¹ The *Journal of Cultural Economics* was first published in 1977. The *Journal of Economic Literature* began listing ‘Cultural Economics’ in 1991 under Z1; in 2001, it introduced sub categories with ‘economics of the arts’ as Z11. This unfortunately is now a source of confusion.

Two major economists preceded Peacock in his work in the arts in the UK: Keynes, who had been the founding Chairman of the Arts Council (the body that dispenses state subsidies for the arts), and before that had had a long connection with the arts (Moggridge, 2002) and Robbins, who held a number of important honorary positions in the arts world (among them, Chairman of the Board of Directors of the Royal Opera Covent Garden and Chairman the Trustees of the National Gallery). Keynes had published nothing applying economics to the arts, and Robbins, who began to investigate the political economy of the arts in 1958 (Howson, 2002), published 'Art and the State' in 1963, following it up with 'Unsettled Questions in the Political Economy of the Arts' in 1971 (Robbins, 1963; 1971).

However, it was Baumol and Bowen's (1966) book *Performing Arts: The Economic Dilemma* that proved to be seminal to the field of cultural economics, becoming the focus for subsequent work both on theoretical justifications for state subsidy to the arts and for empirical work on data collection in the cultural sector. Their central argument was that the live arts, where the performers' labour is the main output, experience little if any productivity growth in contrast to the rest of the economy, in which increased productivity from technological progress and capital investment fuels wage rises; even though performing artists earn less than other workers, their incomes must eventually rise alongside other wages, causing prices for arts performances to rise in excess of inflation (Baumol and Bowen, 1965). This has subsequently come to be called 'Baumol's Cost Disease'. The 'classic' example is that of the Haydn string quartet, which requires the same input of labour, musical instruments and time as it did when written, while other goods and services have become vastly cheaper to produce. Baumol and Bowen concluded that ever-increasing costs (and prices) would eventually exceed the limits of private finance of the arts and therefore 'increased support from other sources' – the prime candidate being the public sector – would have to be found to maintain the existing quality and quantity of the arts.

Peacock's reaction to Baumol and Bowen's thesis took two forms: his immediate response was a theoretical article considering the case for state subsidy to the arts and the second, which inevitably took longer to produce, was a stringent empirical study of the 'Cost Disease' in the arts in the UK. They are discussed in turn below.

2. Peacock's Case for Public Subsidies to the Arts

The first article by Peacock on cultural economics, 'Welfare Economics and Public Subsidies to the Arts' was published in the *Manchester School* (Peacock, 1969). The quotation at the beginning of this paper is taken from the first paragraph of that article and it sets out the *credo* that has guided all his subsequent work. In it he criticised Baumol and Bowen on two counts: first, he questioned whether the prognosis of the Cost Disease was as 'pernicious' as they claimed and secondly, he thought that the welfare case for public support was weaker than they implied. One might say that these differences were about magnitudes – the extent of the 'damage' of the Cost Disease, the size of the externalities and the extent to which the arts may be said to have 'public goods' properties. However, the chief differ-

ence between them was essentially the willingness to accept a role for government in the arts: Baumol, tending more to views somewhat left of centre, was more ready to embrace state involvement than Peacock, the classical liberal. This quasi-political difference between the two men, who in many ways had much in common, was to dominate their intellectual interaction over the 1970s and 1980s. As they have both had a leading role in cultural economics, their interaction may well be said to have been a significant factor in the subject's development. It also should be said, however, that both share a concern over equity issues and advocated policies for income redistribution; they differed in how that may be achieved, particularly in the arts.

In this article, Peacock provides an elegant mathematical formulation of the Baumol and Bowen model. He perceived that they not only assumed fixed factors in production, but also that they had a concept of a fixed output in terms of both quality and quantity of 'a performance'. Baumol and Bowen implicitly assumed that maintaining these supply side features of the arts was the objective of government policy. By contrast, Peacock emphasised the consumer sovereignty aspect, arguing that people's preferences about how they consume the arts, say by listening to music on record or on the radio instead of attending live concerts, should be given priority over some expert, elitist view of the form that enjoyment of the arts should take.

Peacock's analysis of the case for state subsidy rested on his understanding of public finance but it was influenced in addition by his classical liberal aversion to 'state monopoly'. He questioned the nature of spillover effects that had been claimed as production externalities of the arts, arguing that if they were pecuniary not technical, as he believed them to be, they did not support the 'case for national public action' (though he believed there could be a weak case for subsidy from local taxation). As to consumption externalities, he found it hard to 'trace the way in which spillovers from the culture vultures' attending live performances is supposed to take place' (Peacock, 1969, p. 330). He pointed out that the economist making the case for public support to the arts based on production and consumption externalities must rest the argument on the assumption that the arts provide greater marginal benefits per unit of expenditure than would other activities, such as sports or education. And if such were the case, then public finance for the arts should take the form of vouchers so as to maximise consumer sovereignty and reduce government monopoly, a policy Peacock strongly advocated in other areas of public policy (and one that Baumol and Bowen had also proposed).

A further argument for subsidy that had been put forward by Baumol and Bowen was concern for future generations – that we should preserve the arts for our successors so that they can make effective choices; if, say, theatre were to die out for want of support by the present generation, our grandchildren would not be able to experience it. Peacock questioned their view that 'a program to preserve the arts for the nation's posterity is a case of indiscriminate benefit par excellence' (Baumol and Bowen, 1966, p. 385). He asked the classic public finance question 'who is to benefit and who, in consequence, will make the sacrifices?' (Peacock, 1969, p. 331) and adapted Tullock's point that redistribution of income to future

generations from the present one was a 'negative' subsidy since future generations are likely to be wealthier. He pursued this argument further with respect to the economics of heritage (see Section 4). He did, however, believe in subsidies to the arts in schools to form the tastes of the 'next' generation, thus overcoming the Cost Disease income gap by shifting demand in the long run.

By 1969, therefore, Peacock had a well-developed analysis of public support for the arts that was to serve him in subsequent practical involvement with public policy in the arts in the UK as adviser and administrator.

3. The Real World of the Arts

Shortly after writing the 1969 article, Peacock was appointed as Chairman of the Arts Council of Great Britain's National Enquiry into Orchestral Resources (called ORE hereafter) that reported in 1970. Here was an opportunity to marry theory with practice and it meant dealing with people who were not only unfamiliar with the economist's way of thinking but often positively hostile to it. The prevailing arguments for subsidy to music by the profession and by the Arts Council (King and Blaug, 1976) were that musicians were the best judge of orchestral provision and that funding should follow their decisions.² Peacock, however, was not willing to be 'captured' – his head always ruled his heart in such matters, however close they were to his heart – and set about providing the ORE Committee with an economic analysis of the arguments typically used in arts circles to elicit subsidy. The opening proclamation was this: 'The existence of a subsidy to orchestras implies that money is diverted from private pockets to public use and this money would be spent in an entirely different way than would be the case if subsidy did not exist'. (Quoted from Peacock, 1993, p. 60). This obvious economic truth can be read in different ways; though it signals to an economist that the case has to be made, many in the arts world respond 'yes, quite right – that *is* the point!'

He also warned: 'those who organise concerts should not be surprised if authorities disbursing the funds insist on some clear statement of the concert budget and some form of accountability, if only as a protection to the taxpayer who is footing the bill' (Peacock, 1993, p. 29). Such thinking in arts circles was anathema until Mrs Thatcher's reign, and it was then regarded as Philistinism. At the time, incidentally, UK orchestras received about half their income from subsidy (by 2000 that had reduced to 15%).

Uncomfortable with his dual role as hard-headed economist and music-lover, Peacock made the case for orchestral subsidy in these words:

'We should recognise that we (the ORE Committee) are a pressure group who share the 'value judgement' that orchestral music confers important benefits on the community as part of the complex pattern of culture, although we probably differ among ourselves as to the extent to which these benefits accrue to the community at large other than concert-goers' (reported in Peacock, 1993, p. 63).

² It should be noted that several of the main London orchestras are self-managing co-operatives.

In the short run, at least, he felt able to rest on the argument of taste formation. He noted later that he 'received some good-natured ribbing from my fellow liberal economists'.³ He proposed tax concessions for private sponsorship of the arts, then common in the US but unheard of in the UK (no such tax provisions were made in the UK until the late 1990s). These, he argued, were a way of avoiding cultural monopolies especially that of 'one patron – the state'. He evidently succeeded in persuading the Committee of some of his economic arguments because their recommendations included devolving a greater proportion of public funding and tax relief for donors as well as proposing to raise the earnings of regional orchestras to equal those of the London orchestras.

The Arts Council was outraged by the Committee's recommendations and told Peacock and the Committee to revise them or face public rejection. The Arts Council objected to the very idea of using the price system – the 'cash nexus' – to enhance the position of the regional orchestras and to using public subsidy as a lever to achieve policy objectives. This was the reception of what Peacock calls 'a landmark in the discussions of public policy towards music' (Peacock, 1993, p. 71). As he noted, the 'great and the good' in England, even if not drawn from patrician stock, aspire to it and discussions of money are not 'good form'.

Despite this cold-shouldered reaction to this foray into the real world of the subsidised arts, Peacock had now got the bit between his teeth. He set about tackling what has become a recognised aspect of the principal-agent problem, the appropriate performance indicators for assessing the effect of subsidy, in this case measuring the output of orchestras. He used existing measures of output – the number of orchestral performances and number of seats sold – to develop a methodology of measuring 'performed output' rather than 'marketed output' in order to provide a basis for comparing costs of production and for drawing up productivity indices. That required assigning weights to compare an orchestra's different activities, such as performance of new works or 'out of town' concerts, that reflect the choices orchestras make about how to deploy their resources. He made it clear that the weights should be chosen by the orchestras themselves (though they could also be chosen by a funding body intent on eliciting particular outcomes for their grants). The resulting productivity indices would allow comparisons to be made between different orchestras. He thus developed a set of measures that he was later to apply to the whole arts sector in testing for Baumol's Cost Disease.

This work formed part of a wider inquiry that he pioneered with others into what was at the time called 'cultural accounting', the quest to provide systematic data on the finance of the arts, which in the late 1970s and the 1980s was being sponsored by the Council of Europe, a task now carried on (though far from being completed) by Eurostat. It is only in this century that we now have reasonable cultural data in the UK provided by the Department of Culture, Media and Sport.

³ Scitovsky, well-known for his arguments for subsidy as a means of taste-formation (Scitovsky, 1976) claimed Peacock was a 'striking illustration of 'the conflict between the music lover and the good economist' (Peacock, 1993, p. 65).

By the 1980s, the Thatcher governments' stance on subsidy was tightening funds to the Arts Council and was also making more public accountability necessary. The Arts Council therefore decided to bring Peacock back into the fold as a 'hired gun', in his own language, a supposedly biddable economist who would produce the results they needed to convince the Treasury of their case for more subsidy. Peacock had spent three years as Chief Economic Adviser at the Board of Industry and Trade and had therefore learned the ways of government and, more relevantly, of the Treasury. It should be said that the Arts Council at the time did not have a research team (unlike many European ministries of culture and the National Endowment for the Arts); its research staff consisted of one Research Officer. Thus any research had to be commissioned from the outside, though it rarely was. Even basic information on its spending patterns, for example, per capita expenditure by region, was undertaken without its support and it strongly resented any 'interference' from the outside (King and Blaug, 1976). By now Baumol's Cost Disease was well known. It was perceived as a strong argument in favour of subsidy for the arts. So, the Arts Council commissioned Peacock to produce evidence of the Cost Disease in the UK.

In order to do the analysis, data had to be collected from a selection of (subsidised) arts organisations; opera, ballet, orchestras and theatre companies were included, as well as one art gallery. A team of researchers gathered data from their accounts and applied a system of weighted index numbers to measuring cost inflation of the inputs used in the various productions. It was thought, following Baumol and Bowen, that a large proportion of the costs of running performing arts organisations were those of artistic personnel. As it turned out, that was really only true of the orchestras; theatrical performances required considerable inputs of 'ordinary' materials and the costs of wood and paint were rising at well above the rate of increase of consumer prices. What soon became obvious was that the earnings of artistic personnel not only did not rise at the same rate as the Average Earning Index (AEI) but they had actually fallen in real terms. The only labour costs that were rising at the AEI rate were those of carpenters, secretaries and arts managers! Artists were 'trapped' in the arts but the others were not and this dragged down the measured inflation in the performed arts (these findings had in fact been anticipated by Baumol and Bowen's 1966 research).

The Arts Council's reception of this bad news and the cost of the research included a remark by the then Chairman that Peacock loves to quote to this day: 'the survey would have been cheap at the price if it had come to the right conclusion' (Peacock, 1993, p. 93). The resulting report *Inflation and the Performed Arts* by Peacock, Shoesmith and Milner (1982) barely saw the light of day. It was deliberately published in a manner designed to attract as little notice as possible, being merely a photocopy of the original manuscript stuck in a plain red cover, not at all like the Arts Council's usual glossy publications.⁴ Needless to say, this was the punishment for failing to produce what Peacock calls 'bespoke analysis', that is, delivering the hoped-for goods.

⁴ Excerpts are reproduced in Towse (1997) and the quality of presentation may be seen there.

These studies show that in addition to theoretical arguments for public subsidy to the arts, Peacock was also analysing the type of information necessary for the implementation of cultural policy. It is not just a question of whether subsidy is merited but how the government can deliver it so as to achieve policy objectives and, more importantly, reveal to taxpayers what the economic choices are. But the taxpayers' right to know requires explicit policies, open administration and the information from which to judge, all of which were missing in the arts. Peacock has always favoured policies that move decision making away from the national government, influenced as it is by arts lobbies and establishment preferences, towards local administration, local groups of consumers and, preferably, to individual consumers rather than arts organisations. That is why he pressed the Arts Council for a survey of public participation in the arts (the first survey of participation in the arts in the UK was only carried out in 1990 after over 40 years of the Arts Council) and persistently advocated subsidy to the arts by means of vouchers in order to maximise consumer choice.

As early as 1969, Peacock had argued for the use of vouchers in the arts as a way of overcoming equity problems of access for 'poorer' consumers.⁵ The well-known economic rationale for vouchers is that they achieve equity objectives – redistribution of spending power – without distorting allocative efficiency objectives as is the case with subsidies to producers. Vouchers as a way of delivering arts subsidy have several advantages for the classical liberal: they put the power of deciding what is art in the hands of consumers rather than in those of a paternalistic cultural monopoly (such as the Arts Council), partly overcoming a persistent problem with subsidy to the arts, which is that the 'high culture' arts appeal to better-off consumers who therefore benefit more from tax transfers than do poorer taxpayers. In addition, arts organisations are freed from having to please the funding body in order to qualify for a grant because vouchers enable them to charge consumers a commercial price; the organisation at which the voucher is spent 'cashes in' the value of the voucher from the issuing agency and thus obtains its subsidy. As a result, arts organisations become viable only if their product is appealing to the consumer. The voucher scheme can be restricted to a list of 'certified' arts organisations, the certification being a mark of recognition that aids the consumer. The issue of vouchers can be restricted to a target group, for example, young people, and senior citizens; however, it is difficult to target 'the poor' without means testing. Ways round that problem have been suggested, such as issuing them via trade unions.

Peacock has come to accept that there are serious problems with the administration of vouchers for the arts, in particular with transferability; if consumers do not want to go to arts events 'at any price' (even for nothing), they could 'sell' their vouchers, contravening the purpose of the voucher. By contrast, vouchers for education, from which the idea of arts vouchers is derived, do not present problems in this respect as schooling is compulsory, so failure to use the voucher would mean parents paying the full price. However, Peacock also came to realise from his

⁵ The first Institute of Economic Affairs pamphlet on vouchers for education was written by Peacock and Wiseman (1964). Alan Peacock reminded me of this.

contact with Arts Councils and the like that their main objection to vouchers essentially arises from their loss of power to dispense patronage to arts organisations directly (Peacock, 1993, pp. 128–30), an observation entirely consistent with public choice theory.

4. Political Economy of Heritage

Besides his work on the performing arts, Peacock also did important early work on museums and built heritage, publishing his first articles respectively in 1974 and 1978 (Peacock and Godfrey, 1974; Peacock, 1978). Peacock's contribution to the discussion on museums (initiated by Robbins, 1971) was, quite simply, that he applied the welfare economic reasoning he had developed earlier and he adopted an empirical approach to the public finance of museums, treating them as 'firms' at the microeconomic level. This was a marked contrast to Robbins' patrician rhetoric proclaiming museums to be public goods. In the case of built heritage, Peacock appears to have been the first economist to write on the subject and his continued contributions have been definitive in what has become a thriving area of cultural economics. He perceived that on the supply side, no heritage item is produced as such but instead what counts as heritage is determined by expert designation, a particular type of regulation; though the stock of potential heritage items is fixed and their costs historic, heritage authorities have the power to administer the 'supply' of heritage, for example, by listing. The role of experts gives rise to the exercise of bureaucratic power and thus lends itself to the application of public choice theory to heritage administration.

Heritage necessarily entails transfers between generations; the present generation's decisions about conserving artefacts and buildings determine future heritage because, if they are neglected or destroyed, there is nothing to hand on; though it may be possible to revive defunct performance traditions, restoration of objects presents a different challenge; recreating or rebuilding them cannot meaningfully replace the original.

Peacock and Godfrey (1974) was published four years after the introduction of entry fees to public museums and art galleries in the UK so the (now perennial) question of the merits of charging entrance fees was being hotly debated. Robbins, then Chairman of the Board of the National Gallery, had opposed charges. The analysis by Peacock and Godfrey characteristically began with tabulations of the public finance of UK museums, which provided hard data on the income and expenditures of the national museums – another difficult exercise in cultural accounting, and it still is (Peacock, 2000; Peacock, 2001) – to inform the debate. Unlike performing arts organisations, which in the UK normally are private non-profit institutions constituted as charities, museums and art galleries were at the time publicly owned and managed either by central government or local authorities. And, unlike performing arts organisations, most did not charge entry fees until this change of policy in 1970. At the time, the national institutions received grant-in-aid from the Arts Council, while the buildings and running expenses, including the salary bill, were maintained by the Department of the Environment.

The second innovation of Peacock and Godfrey's analysis was to apply micro-economics to the question of museum 'output' which, they pointed out, consisted not only of exhibition to the public, which could be measured by the number of attendances⁶ but also of restoration, cataloguing and research services, which may be offered to other museums as well as 'in house'. Devoting more resources to one function alters the input mix but inputs are not homogeneous; more visitors require more attendants and possibly more exhibition space but more research requires more art historians. What 'weight' should be given in the museum's objective function and to its multiple outputs and who should decide upon the output mix were questions Peacock addressed in line with his analysis of orchestras. He seems to have accepted the now contested case that museums could not finance new acquisitions from the sale of their existing collections (of which a great deal is normally held out of public view in the vaults⁷). He did not agree with Robbins about the public good nature of museums and argued that prices could be charged to raise some part of revenue with exemptions for the young and others who might not be able to afford them. Subsidy should be used to cover prices below average fixed costs. Peacock believed that charging for entry would allow consumers to signal their preferences so that museums would then have the incentive to respond by offering better visitor services. The question of charging for national museum collections (as opposed to charging for special exhibitions, which has become the norm) has become an unresolved issue in the UK, despite considerable changes in the governance and subsidy of museums. Current government policy (in 2004) is that entry to subsidised national museums' collections should be free.

Built heritage has some of the same features as museums. However, the case for regarding built heritage as a public good is much stronger because entry to heritage cities or viewing beautiful old buildings from the outside is non-excludable and (with the exception of congested sites such as Stonehenge and Venice) non-rival and Peacock recognised, therefore, that the associated free-rider problem provides grounds for public intervention. Nevertheless, as entry charges may be made to the insides of buildings, access to all built heritage is not non-excludable, as with museums.

Peacock accepted that in the pure public goods case 'it would be difficult not to support both public financing by taxation and public responsibility for provision of the service, it being an open question whether that provision means public operation of the service or some form of franchising or executive agency arrangement' (Peacock, 1994, p. 203). How much public finance there should be depends on the demand for the public good, which is difficult to define,⁸ and on

⁶ Attendances not attendees – the Arts Council has a long-term tendency to equate the two, as if each recorded visit were by a different individual! All surveys of arts participation reveal that people make multiple visits (and, moreover, the same people visit museums, theatre and opera). The counting of attendances is not very systematic, however, when entrance is free.

⁷ Grampp (1989) and Montias (1973/1997) have strongly criticised this policy – the 'maggie' attitudes of museum curators. This is sometimes called the 'Prado Disease' since the Prado (the Spanish national art museum) is reputed to have less than 10% of its collection on permanent display.

⁸ Nowadays, these are increasingly being measured by contingent valuation methods (see, for example, articles by Cuccia and Signorello, chapters 9 and 10 in Rizzo and Towse, 2002). Frey has always advocated the use of referenda as a means of eliciting voters' support for heritage expenditure decisions, a practice adopted in Switzerland (Frey, 2002).

consumers' perception of consumption externalities, part of which may be expressed through voluntary donations of money or labour. Whatever the desirable amount of subsidy, Peacock advocates, as ever, devolution of decision making from the central government to bodies that are more susceptible to taxpayers' preferences, that is local authorities or, preferably consumer membership organisations, such as the National Trust. State support for such organisations can come from indirect subsidy in the form of tax waivers rather than direct provision or finance.

The National Trust (NT) is a favourite model for Peacock. It is a private non-profit club with a broad membership that owns and operates a very large number of properties in the UK, ranging from great 'stately homes' to coastal paths and it receives no direct government funding but benefits from tax concessions: membership fees are tax deductible and the NT acquires many of its properties 'acceptance in lieu of taxation', that is, death duties and inheritance taxes are waived if the property is donated. One can see immediately the appeal of this model for Peacock. Organisations like the National Trust, English Heritage and Historic Scotland provide competition for state owned and managed heritage, achieving what he calls freedom of entry into 'the heritage business'.

Peacock's work on heritage has had a major influence on cultural economics, not only because he introduced it as an economic problem, but also because he emphasises the public choice aspects of heritage regulation (designation by experts who are both judge and jury of their own decisions), asking what fiscal and institutional arrangements can assist voters/taxpayers in asserting influence over these experts. In his 1994 Keynes Lecture (Peacock, 1994), he briefly discussed the relevance to the economics of heritage of different schools of thought in public choice theory, Chicago versus Virginia, with his sympathies being towards the latter. Chicago economists argue that public expenditure reflects voter preferences because politicians have the incentive to reflect them so as to be re-elected; the Virginia School (Buchanan, Tullock) emphasises the opportunities bureaucrats have for discretionary behaviour without reference to voter preferences; asymmetric information about art history, unclear concepts of the output of heritage and the costs of preservation and, perhaps even more importantly, concern over the judgement of peer groups, such as fellow museum directors or art experts, all offer bureaucrats considerable opportunity for such behaviour. This approach has proved to be very fruitful and has set in motion what might be called somewhat of a 'paradigm shift' in the way cultural economists think about cultural policy (see, for example, chapters by Rizzo and Mazza in Towse, 2003).

The cosy relationship (otherwise known as 'regulatory capture') between client cultural organisation and the funding bureaucracy that creates immunity from market forces is a theme to which Peacock has returned time and again in *Paying the Piper*, in which he has a detailed discussion of these problems in arts administration drawn from his experience as Chairman of the Scottish Arts Council.

5. Economics of Broadcasting

Peacock's major contribution to the economics of broadcasting began when he was appointed Chairman of the Committee on Financing the British Broadcasting

Corporation (BBC), which reported to Parliament in 1986; here he again consistently applied his understanding of welfare economics and public finance to a topic on which very little had been written by the mid-1980s, the notable exception being two pioneering papers by Coase (1948, 1966).⁹

The BBC was then (and still is) financed by a compulsory licence fee, payable by all households and other institutions owning a TV set, with the licence fee set by Parliament. By the 1980s, advances in broadcasting technology (cable and satellite transmission) had provided alternatives to wireless broadcasting and commercial broadcasting financed by advertising had been introduced but did not receive revenue from the licence fee. A competitive market therefore became feasible but not on a 'level playing field' as long as the BBC was financed by the licence fee.

Peacock's first analytical objective was to establish the aims of broadcasting policy, which he pointed out: '... just as war is too important a matter to be left to the generals and economic policy too important to be left to economists, broadcasting aims are too important to be left to those who do the broadcasting' (Peacock, 1986, p. 3). He therefore asserted the explicit value judgement that the aim of a broadcasting system is to maximise the satisfaction of those who listen or watch; that, however, necessitates a mechanism whereby consumer preferences for programmes can be transmitted to the broadcaster.¹⁰ A competitive market, offering a large number of channels and a direct payment mechanism, would seem to be the obvious low-cost method of communicating consumer preferences to the supplier. However, Peacock considered the case for public service broadcasting (psb) on the equity grounds that it should be universally available in remote parts of the country and also offer good quality information and entertainment to the less well off, and on the efficiency grounds that private finance alone would give rise to free-riding. That would lead to under-provision of educational and cultural programmes with external benefits. Even so, Peacock concluded that meeting these objectives did not require that they be supplied by a public corporation with a monopoly.

The question of broadcasting as a public good, which would justify centralised organisation of payment, naturally had to be considered; terrestrial broadcasting is often regarded as a public good because transmission is non-rival and for technical reasons non-excludable. Moreover, as it is a natural monopoly, marginal cost pricing would not be feasible. (The electro-magnetic spectrum is rival but, as Coase had pointed out 20 years before, governments had not only 'seized' ownership of it but refused to use pricing methods to allocate it.) Cable and satellite delivery, however, avoid both the technological and economic problems and make pay-per-view possible, and to Peacock, desirable.

⁹ Broadcasting was the topic of Coase's early work under the direction of Arnold Plant at LSE in the 1930s and it was through thinking about the BBC monopoly that he developed his understanding of the 'problem of social cost'.

¹⁰ Peacock responded to the first draft of this paper by adding this note: 'Perhaps it is worth noting that the Report emphasized that we were talking about consumer sovereignty and not just about consumer interest. We thought the only reasonable definition of psb required recognition by the public that its wishes could only be carried out by non-commercial means'. See also Peacock (2004a).

Why, then would psb be retained? His reply in the Robbins Lecture (Peacock, 1986, p. 13) is the cynical public choice response: the BBC is so close to government, its Governors are part of the establishment and bureaucratic inertia makes change difficult. Even so, the BBC could continue as a psb provider in a more competitive market. Although it was widely anticipated that the Committee would recommend advertising as a means of financing the BBC, it did not do so, despite Mrs Thatcher's known preference for it, and the licence fee therefore (so far) has remained the source of finance. The Committee instead recommended that the licence fee be linked to the Retail Price Index and that was accepted by the government. Was Peacock captured? The reported anger of Mrs Thatcher at the *Report* said it all.

Peacock later revisited the 'scene of the crime' (Peacock, 1997; chapters 20 and 21, the first written in 1987 and the second in 1995). The first is interesting for its account of the process and procedures of a government-commissioned investigation and how the recommendations were made. In the later essay, 'The Political Economy of Broadcasting' Peacock states that he 'toyed with the idea of trying to subsidise the viewers and listeners directly, possibly by the issue of vouchers in the form of a card for insertion in a receiver which reduces the price for viewing psb programmes' (Peacock, 1997, p. 306), realising that new technologies might permit such a system. He restated his view that public finance of psb should continue, though all programming, scheduling and transmission of psb content did not have to be done by the BBC. He was also concerned about the 'cosy duopoly' between the ITC (Independent Television Commission), which licenses commercial TV and the BBC, which militates against 'free entry' into the broadcasting business and reduces competition that would increase diversity of choice and reduce costs. Finally, it is worth noting in the light of the earlier discussion of Peacock's views on heritage that he returned to the theme of a governance system for a privatised BBC, considering something akin to the National Trust, that is, a private non-profit organisation controlled by members.

As with the arts and heritage, Peacock again accepts the case for public support but not for public provision and states his usual concern about how to induce the agent (the Arts Council, the BBC) to take more account of the demands of the consumer, the principal. Broadcasting is another case where he believed the free market does not yield the best result for the consumer or, therefore, for the state.

6. Conclusion

This paper does not do full justice to Alan Peacock's contribution to cultural economics to cultural policy in the UK. His work on copyright, for example, which was 20 years in advance of its time, is not discussed (Peacock and Weir, 1975). All that has been done here is to present his views on public expenditure on the arts, heritage and broadcasting as part and parcel of his role as a professional economist and public figure. It shows that early on Peacock had understood that different branches of the cultural sector share common economic problems, even though they are superficially different: in other words, he perceived that cultural economics is a distinct area of applied economics.

His work has influenced cultural economics not only through his writings over a period of 35 years but also through his continuing active participation in the Association for Cultural Economics International (ACEI) and other meetings of researchers in cultural economics. It is appropriate, therefore, to leave the last word to the man himself quoting from a paper he presented at the 2002 ACEI conference on the subject of 'The Credibility of Cultural Economists' Advice to Governments':

As Milton Friedman used to say, being a government economic adviser entails teaching Economics 1 to intelligent people. One can add in the case of culture it is a matter of trying to convince intelligent and sceptical colleagues, reluctant to accept though well aware it is true, that government support for cultural activities involves an opportunity cost (Peacock, 2004*b*, p. 177).

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