Session 12
Who Creates Wealth?

Can we say that artists are the biggest wealth creators in history?
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On my way to answering this question, I would like to put the creation of wealth in a more rigorous framework. Economists have long recognized that capital is needed for the creation of wealth. From the beginning, economists recognized that physical capital, such as machines, buildings, and transportation infrastructure are necessary for the production of goods. Gary Becker and Jacob Mincer, more recently, developed the idea of human capital. Human capital is the idea that individuals gain experience, skills, and knowledge that are every bit as important for the production of goods as is physical capital. Economists also recognize that both renewable and nonrenewable environmental resources provide a source of natural capital.

In addition to physical, human and natural capital, the cultural economist, David Throsby, has proposed the idea of cultural capital.[1] Although the term cultural capital has been used previously, I specifically use the term here as defined by Throsby: Cultural capital is an asset that contributes to the production of cultural wealth. Cultural wealth is a good or activity that expresses the collective attitudes, practices and beliefs of a society. These collective aspects of a society's behavior are passed down from generation to generation.

Artists, using cultural capital and human capital (and possibly physical and natural capital), create both cultural wealth and more cultural capital. Price can often confound cultural wealth. Picasso's "Women of Algiers, Version O", that recently sold for 179 million dollars at Christie's, is cultural capital. But cultural capital is also created by the local chorus that practices and then performs in front of a local audience in a public venue, a practice rare in the US but apparently common in Spain and Slovenia. Morris dancers performing on a wet afternoon in the center of Oxford also create cultural capital, as do break dancers performing in front of Faneuil Hall in Boston. These activities create not only a culturally wealthy society, but also the cultural capital necessary for future generations to produce additional cultural wealth.

This cultural wealth can be a lubricant that allows the efficient functioning of both business and government, often in unexpected ways. An example of a business deal consummated because of an abundance of cultural wealth is the successful bankruptcy plan of the city of Detroit. The city eliminated 7 billion dollars of debt during its bankruptcy negotiations. Negotiations lasted a mere 16 months, which is unusual with a municipal bankruptcy. How did this happen? All parties, including outsiders, recognized the value of an ongoing art museum, the Detroit Institute of Arts. The emergency bankruptcy manager and investment bankers asked the Institute of Arts to contribute $500 million toward the bankruptcy, in return for ownership of the museum to be transferred from the city to an independent charitable trust. This goal was easily reached. Private foundations contributed $366 million, the state of Michigan contributed $200 million, and private donors to the DIA contributed $100 million.

This deal is just one indication of the business benefits and value of cultural wealth. The political ramifications of cultural wealth are incalculable. As cultural wealth is a valuable resource, artists are indeed great creators of wealth.

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[1] Throsby, David. "Cultural capital." *Journal of cultural economics* 23.1-2 (1999): 3-12.

The dichotomy between cultural wealth and cold cash: A challenge!
Museums exist on a shoe-string, but with an enormous amount of cultural capital. This cultural capital often has high economic value, meaning the amount of money that individuals are willing to pay for these assets is huge. Other physical, human, or natural capital can be purchased with this money.

I would like to demonstrate this dilemma with a story about the Rose Art Museum, the art museum at my university, Brandeis. Shortly after the founding of Brandeis in 1948, Sam Hunter, the first director of the Rose Art Museum, was given $50,000 by Leon and Harriet Mnuchen in order to build a collection. He purchased 21 works of contemporary art, with no work costing more than $5,000. He chose well. He purchased works by Jasper Johns, Robert Rauschenberg, Roy Lichtenstein, Andy Warhol, Claes Oldenberg, Jim Dine, Ellsworth Kelly, and Morris Louis among other well-known contemporary artists. Gifts of works by Robert Motherwell and Willem de Kooning and others, rounded out the Contemporary Collection. Other donors gave works by Pablo Picasso, Paul Cezanne, and George Braque. The collection at the Rose is extraordinary for the size of the museum, and it plays a crucial role in the culture and values of Brandeis University.

The Rose also possesses extremely high economic value, unfortunately recognized by the then President of the University, Jehuda Reinharz, immediately after the financial crisis in 2007. Reinharz decided that works from the Rose should be sold in order to shore up the finances of the university. After consulting with lawyers, Reinharz concluded that, because of various restrictions, the only way to sell the works was to shut the museum. I was there when he announced this at a university faculty meeting, to the horror of almost all the faculty. A media frenzy ensued, which was very damaging to the university.

Fortunately, because of legal restrictions on the donations and the ruckus, his plan did not come to pass. Reinharz left the university the following year, and the Rose has become stronger than ever.

As a side note to this unfortunate part of our university history, the faculty during 2008 involuntarily gave up contributions to our retirement plan in order to help the university finances. As we found out several years later, Reinharz received one of the highest compensation packages among university presidents that year, partly due to an embarrassingly generous retirement package. The President was asking us to close our museum, while at the same point receiving compensation that was out of the order other universities.

This period has left an indelible mark on me. As an economist, I understand that cultural wealth has monetary value and the immediate temptation may be great to turn this cultural wealth into cold cash. Indeed, my research is on art auctions, and I fully understand the marketability of art. Yet, what seemed like a crisis at the time, passed, with no greater effect to the university than a damaged reputation because of the proposed sale, and the slightly diminished retirement accounts of the faculty. If the Rose art museum had been closed and the works sold, the damage to both society and the university would have been irreparable.

Why would society have been damaged? The Rose art museum, with its intact collection, represents enormous cultural wealth. The modern art collectively displayed and stored by the museum expresses the collective attitudes of our society from the period, which has formed the collective attitudes and values of our society today and thus provides cultural value. The mere existence of these items as a collection provides a public good, and the consumption experience of those who visit them, whether paid or unpaid, provides private utility; these public and private aspects of the museum provide economic value in addition to cultural wealth. Finally, an intact Rose art museum is an important source of cultural capital, a necessity to create future cultural wealth.

If the university art museum had been closed, Brandeis would have been irreparably damaged economically as the future fund raising ability would be just about zero as the university had not protected past bequests. More importantly, the university would put itself in the role of a consumer of cultural capital rather than its natural role as a producer of cultural wealth.