

## Tyler Cowen

People generally agree that markets are the most efficient way to allocate resources. In short, they deliver the goods. One exception, some critics say, is culture. Markets respond to mass demand and, as a result, produce inferior, homogenized art. Consider movies. Hollywood makes plenty of special effects laden blockbusters but neglects thoughtful dramas and documentaries.

You might be tempted to dismiss such arguments as mere snobbery. After all, a lot of this criticism boils down to one person wishing to substitute his own (supposedly refined) preferences for another's (supposedly gauche) tastes. But there is a larger point to be made, says Tyler Cowen, an economist at George Mason University. We don't live in an either-or world. Many different types and forms of art can — and, in fact, do — peacefully coexist. Markets cater to a multiplicity of wants, and nowhere is this more apparent than in the United States. To borrow from the title of his forthcoming book, we live in a world of both good and plenty.

Cowen started his academic career largely pursuing topics in monetary economics. But his interests have always been eclectic, and in the early 1990s, he began to shift his attention toward the economics of culture. The result has been a string of books and papers that examine the current state of the arts and the conditions under which they flourish. In addition, since 2003, he and his colleague Alexander Tabarrok have maintained one of the most popular economics blogs, [marginalrevolution.com](http://marginalrevolution.com).

Aaron Steelman interviewed Cowen on the George Mason campus in Fairfax, Va., on November 21, 2005.



RF: How did you become interested in looking at the arts from an economic perspective?

Cowen: When I first started learning about economics in the 1970s, economic conditions were very bad. We had sluggish growth and high inflation. My early work tended to focus on macroeconomic and monetary questions because they seemed very pressing and important. But for the past 20 years, macroeconomic conditions generally have been good, and the policies pursued by the country's central bankers have improved a great deal. This, obviously, is wonderful. But, in a sense, it has made those fields much duller. Don't get me wrong: I don't think all the key problems and questions have been solved, but their policy relevance has become less pressing.

My professional interest in the arts began to emerge about 15 years ago when I spent some time in New Zealand. Their central bank had one of the first versions of inflation targeting, and I was hired as a consultant to come in and look at that. While I was there, I realized that I didn't want to do just money and macro. So I started thinking about some of the niche areas in microeconomics. One of these was the arts. I thought that this was an area that had been underexplored and

where I had some original things to say. I started my work on the topic around 1990. The output came quite a bit later because there was a lot of work involved, more than just doing conventional economics. I spent five or six years writing my first book in the area, *In Praise of Commercial Culture*, and from there my next few book projects became pretty clear. They were just extensions of that first book. In fact, much of their content came from chapters that had been cut from the original manuscript of the first book.

**RF: What are your thoughts on the “cost disease” as it relates to the arts?**

**Cowen:** In the mid-1960s, William Baumol and William Bowen advanced the hypothesis that the arts would experience lower productivity gains than other sectors of the economy, and therefore would suffer from the “cost disease.” The analysis gets a little complicated, but one thing I have tried to argue is that the initial assumption that productivity gains would be low simply isn’t true. If you look at music, in the last century we have seen the introduction of radio, compact discs, and now MP3 files. In addition, it’s easier than ever to order music through places like Amazon, and it’s cheaper to sample many different types of music. Also, the reduced cost of travel has made it more affordable to go to concerts and experience live music. So I think the cost of consuming music has fallen dramatically, and people enjoy much more music in a much more comfortable way than they did in the past.

Consider how people consumed music throughout most of the 19th century. There were no recordings until the latter part of the century — and the recordings that were available were much more expensive than they are today. Instead, people had to travel by wagon, often for many hours, to see a live performance. And when they got there, the acoustics often weren’t very good. It was simply very difficult to listen to music. So I think that the premise of the argument made by Baumol and Bowen has been overstated. Some subsectors will experience a lower than average rate of productivity growth. But, on balance, there is plenty of room for the arts to reap productivity gains, and we have seen it time and again.

**RF: Looking at the music industry today, we see that while the cost of traveling to concerts has been going down over time, the cost of concert tickets has been going up. Are artists trying to make up some of the revenue they are losing through illegal downloading of their studio albums by raising the price of attending a live show?**

**Cowen:** Yes, I think so. The people who download illegally tend to be younger listeners. That means you are left with a market of older listeners, richer listeners, and less price-elastic listeners. So for concerts and some CDs, the cost will go up.

I think we have moved from a regime where de facto copyright enforcement was too strict to one where it is too relaxed. Illegal downloading, in one form or another, will continue. Lawsuits will put a dent in it, but it won’t fundamentally stop it.

As a result, commercial music won’t dry up, but some margins will get squeezed. World music will do just fine. Jazz will do just fine. And classical will do just fine. The average listener of those types of music is going to purchase it, not download it illegally.

But if you think about popular music, there is one segment that I think will be hurt: musicians with moderate-size fan bases whose work requires a lot of studio time. It will be very hard for them to recoup their production costs. Popular groups that don’t spend much time in the studio will do fine. They don’t require a lot of capital, and they earn a lot of their money from touring anyway. And the huge superstars, like Madonna or Eminem, will be fine also. Their CDs will sell because there’s a fraction of the population that will always want to be part of the club, so to speak. So, as I said, I don’t think illegal downloading will mean the end of commercial music. But some segments of the market will be hurt quite badly.

**RF: People who support the National Endowment for the Arts (NEA) and the National Endowment for the Humanities (NEH) claim these agencies are necessary to remedy market failures that are present in the arts. What do you think of that argument?**

**Cowen:** I think that the American way of subsidizing the arts has mostly been indirect, through the tax treatment of nonprofit organizations, through the public funding of universities, through copyright laws. Those policies have done quite a bit to remedy the market failure problems that do, in fact, exist in the arts. But direct subsidies have not been at the forefront of the approach. And those direct subsidies, in purely quantitative terms, are very small.

I think the more important issue is how tax reform would affect nonprofits and the arts. To me, that’s a more fruitful debate than how the NEA should spend its money. For instance, the President’s tax commission came up with a proposal to reduce tax deductions for some kinds of nonprofit organizations. In my view, that would be a mistake. I have a Tocquevillean sympathy for the proliferation of intermediate institutions which we call American civil society. I think the strength of those institutions enables us to get by with less government intervention than many other developed nations. So in the long run, if we moved to a truly flat tax system that removed the favorable tax treatment for nonprofits, I think we would harm the decentralized production of ideas and art.

**RF: I would like to consider the issue of market failure more broadly. How widespread, in your view, are examples of market failure? And have economists who generally favor a hands-off approach to public policy not adequately addressed those cases where market failure arguments are plausible?**

**Cowen:** I believe market failures are virtually everywhere. The key question is comparative: Where will government do better? I think of myself as a libertarian, and compared to public opinion as a whole, my views certainly are libertarian. But the case

for the market is empirical, and I think that there are plenty of cases where it is desirable for the government to do something. One example is the avian flu, which I hope we will get to later. I also think, though, that there are many cases of market failure where the government shouldn't do anything. In principle, we could come up with programs that would improve social welfare, but in practice those programs would be difficult to implement effectively. Also, I think there is a good argument for the notion that a government can do only a limited number of things well. In the big picture, you have to choose priorities, and that means you have to let some share of market failures slide.

**RF:** Please tell us about your next book, *Good and Plenty*.

**Cowen:** The book is coming out in the spring from Princeton. In it I attempt to unify the economic perspectives on the issue of art with the aesthetic perspectives, and to ask what are the types of policies that would produce a system of artistic production that is both efficient and aesthetically pleasing. I argue that the American system, to a considerable degree, does that. It is not perfect on either dimension. But on the two taken together, I think it does better than any other. In one sense, then, the book is a defense of and apology for the American system. And in another sense, it's a return to the classic social science question of how America and Europe relate to each other, and what are their relative virtues and drawbacks.

**RF:** Is there a real danger that globalization will lead to the effective loss of some cultures' most important and distinguishing characteristics? And if so, is this something that we should worry about?

**Cowen:** There are plenty of cases of small, indigenous cultures using the market to make a living without people having to migrate to big cities. That being said, I think it's true that some very small cultures — their language is spoken by 50,000 people or fewer, they have their own tribal rituals, etc. — are, in fact, disappearing. But I think they are disappearing largely for good reasons. People want jobs, access to antibiotics, and better schools for their children, so they move to urban areas. However, those people are not completely abandoning their identities or ceasing to be creative. They are blending with their new cultures, rather than being overtaken by them. We see this in places like Mexico, Brazil, and Nigeria, where people are moving from rural to urban areas. This process, by itself, doesn't bother me, as long as it is being driven by economic growth. I think it's hard to dismiss people's desires to improve their own lives and the lives of their children, and for many, this is what moving to cities means.

**RF:** Your last answer suggests that it is sometimes difficult to divorce normative concerns from positive economic analysis. What do you think is the proper role for normative evaluations in economics?

**Cowen:** I don't think we have ever had a good welfare economics.

When you think of Paretian theory, it's very useful, but we never have been able to explain to the common man or to philosophers why efficiency should be the only relevant value. As economists, we have taken a real beating on this, time and again, and we have lost those debates. For example, when Richard Posner debated wealth maximization with Ronald Dworkin in the early 1980s, I think it's pretty clear that Dworkin got the better of that exchange, yet economists are still looking at wealth maximization.



So I think there are a lot of interesting normative issues in economics. I'm not sure we will ever have definitive answers, but I think we should be willing to entertain more values than what is possible by doing simple Paretian analysis. This is important for its own sake, but I think it would also help us understand why economic recommendations are often found to be unpersuasive. In my work on the economics of the arts, I have come across this all the time. Most people don't accept the efficiency argument at all. They want art for art's sake. I would like to think that we have some way of speaking to people like that and developing a common language. And I think that a good system for the arts would do well on both economic criteria and aesthetic criteria.

**RF:** Why do you think so many people object to the way economists think about rationality?

**Cowen:** Well, I think there is some blame on both sides here. Economic models of rationality are centered around self-interest. It's true that you can factor in altruism in these models to some extent, but the self-interest idea remains paramount. And that may not be entirely realistic. But I also think that many people don't like these models because they strip away a veneer of self-deception. You often hear the claim that various social phenomena are so complex that they can't be explained by mere self-interest. Perhaps, but I think that is a way of whitewashing some very unpleasant things that go on in society.

**RF:** You clearly have a significant interest in cuisine. And many people clearly value your opinions on the topic — your "Ethnic Dining Guide to the Washington, D.C. Area" is now in its 19th edition. How can economics help us understand food and the way people eat?

**Cowen:** This relates to my work on globalization and culture more generally, which asks the question: Does greater trade,

investment, and migration across borders give us more or less diversity? And a great deal of those debates are about food. For instance, you see a great many people who are upset about McDonald's and Pizza Hut establishing restaurants around the world. So my attention was drawn to the food area, and I think from an economic standpoint, it offers a case study of the diffusion of innovation.

Why is barbecue in Lockhart, Texas, so much better than barbecue in Fairfax, Virginia? The answer is not immediately obvious. One would think that there is considerable demand in both areas, yet the markets are very different. In part, I think it has to do with the spread of social customs and regional identity. And, in part, I think it has to do with differing legal and regulatory structures; for instance, Lockhart's barbecue establishments would not meet the fire, health, and safety codes that exist in many areas, including Fairfax. Also, why do some types of food lend themselves to chain establishments while others do not? For example, most doughnut shops now are part of chains, but barbecue chains generally haven't done very well. To understand that question, you need a fair amount of economics. So what I hope to do with my work in this area is to use food as a vehicle for discussing larger economic truths, and to reach an audience of people who might read books about food, but not necessarily books about economics.

**RF: Some people have argued that globalization will induce more countries to adopt the type of "neoliberal" policies that characterize the United States, and abandon a more interventionist approach. How has your work on globalization led you to think about that issue?**

**Cowen:** I don't necessarily agree. My prediction is that, in general, welfare states will increase in size in most places around the world. We can expect most areas of the world to become wealthier because of globalization as well as other reasons. And if you look at countries that are wealthy, they tend to have very generous welfare states. Also, I believe that the human desire for security is extremely strong, even when it is not efficient or rational. So as long as we experience economic growth, I think we can expect welfare states to grow.

**RF: If the process you described in your previous answer is correct, what does that mean for economists who favor a**

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### ➤ Present Position

Holbert C. Harris Professor of Economics, George Mason University

### ➤ Previous Faculty Appointments

University of California, Irvine (1987-1989)

### ➤ Education

B.S., George Mason University (1983); Ph.D., Harvard University (1987)

### ➤ Selected Publications

Author or co-author of several books, including *Explorations in the New Monetary Economics* (1994), *In Praise of Commercial Culture* (1998), *Creative Destruction: How Globalization Is Changing the World's Cultures* (2002), and *Good and Plenty: The Creative Successes of American Arts Funding* (forthcoming), and papers in such journals as the *American Economic Review*, *Journal of Political Economy*, *Public Choice*, and *Ethics*

### ➤ Other Activities

Serves as General Director of the James M. Buchanan Center for Political Economy and the Mercatus Center, both at George Mason University. Maintains the economics blog, [marginalrevolution.com](http://marginalrevolution.com), with his colleague Alexander Tabarrok.

**less interventionist, more market-oriented approach to social policy? Do their arguments become futile?**

**Cowen:** I don't think so. Free-market economists are unlikely to see their most preferred policies enacted. But their work can help slow down or even stop very bad ideas from becoming policy. So their arguments do matter. That's important. Still, there is a broader issue here. As social scientists, our foremost concern should be trying to understand the world. That means asking and perhaps answering very hard questions. Trying to convince the public — and especially trying to get people to march in lock step — should be a secondary concern.

Having said that, I don't want to give the impression that academics should look only to the frontiers of their disciplines. For instance, the work being done in economics now is very rigorous and very good. But if I have one criticism of the profession, it's that there is too much emphasis on doing highly specialized research and not enough emphasis on consuming what is already out there. Most of us could benefit a great deal from a better understanding of work that has already been done.

**RF: You wrote a paper called "Why Only Nixon Can Go to China" that was published in *Public Choice*. Can you talk about that paper and some more recent applications where the argument is relevant?**

**Cowen:** The basic premise of that paper is that it often requires a politician who is believed by the public to be tough on a particular policy to make a significant change in that policy. In short, Nixon was able to open diplomatic relations with China because he was seen as such a staunch anticommunist. But George McGovern would have had a hard time doing the same thing because his anticommunist credentials were not as strong.

We see a similar thing happening now with fiscal policy. The Republicans campaigned on a platform of fiscal austerity. But even on domestic discretionary items, they have been spending through the roof. There are two possible mechanisms by which this can happen. One is a signaling argument. If the party that you think ought to naturally oppose a policy instead supports it, some people will think that it must be really important and that we must really need it.

The second is an interest-group argument. If you think of parties on each side of the spectrum as having natural interest

groups — Democrats have unions, Republicans have Wall Street — then the party and the interest group have a long, ongoing relationship, and the interest group is going to be reluctant to break it. So even though the Republicans' interest groups might oppose increased federal spending, they are going to tend to stay quiet, but if Democrats were in power, they would scream bloody murder. The same thing is true on the Democratic side. Clinton was basically for free trade and fiscal restraint, and he was fairly moderate on regulation. Many Democratic interest groups didn't like those policies, but they weren't particularly vocal in opposition because they felt they had no place else to go.

**RF: Please tell us about your debate with David Friedman over the economics of a stateless society.**

**Cowen:** David Friedman wrote a book called *The Machinery of Freedom: Guide to a Radical Capitalism*, which is very stimulating. He makes the claim that all services — including police, courts, and final adjudication — could be privatized. I'm skeptical that this would work. I'm willing, for the purposes of argument, to accept Friedman's claim that it would have a certain stability. But I think that the final level of adjudication is a type of natural monopoly. Once you imagine these private insurance and protection companies collectively making deals, it's a short step from that to widespread collusion, and you would be back to government. So what I tried to do was to give the anarcho-capitalist argument its fairest hearing, but even then I don't think it would work. I believe you would quickly wind up with government again, so I think of government as a constraint, not a choice.

Also, when you look at places without government, they tend to have many undesirable characteristics. Think of Somalia. Friedman, of course, would point to other examples, like medieval Iceland. But those examples don't show what he believes they show. There is a critical watershed in the developed world in the late 19th century. For the first time you get large institutional structures — in particular, big business and big government. Medieval Iceland did work fairly well, but it didn't have large-scale structures. So to say that it didn't have government I view as correlate with the fact that it didn't have a lot of other things either. To think that system would work in the post-1870 world, I believe, is just not true. You might begin in a world without government, but things would quickly evolve so that government would be present.

**RF: Why did you and Alex Tabarrok decide to launch marginalrevolution.com? What have been some of the principal benefits of maintaining the blog? And what, if any, have been the downsides?**

**Cowen:** It has been about two years and three months since Alex and I launched marginalrevolution. At the time it seemed

clear to us that blogging would become important, but there was very little in the way of economic blogging. Even now, there are relatively few economic blogs compared to many other areas. We thought this would be an opportunity for us to jump in and help define what economic blogging would be. It would be educational, but it also would be fun. And unlike a lot of blogging, it wouldn't consist of personal attacks or partisan politics. Instead, we would try to push the frontiers of how we think about economic issues and see how well that could be communicated in this new medium.

It's gone very well for us. We have found an audience, and judging by the comments we receive, a well-informed, thoughtful audience. It's given us a way of

communicating to people who we couldn't have reached any other way. And I think I have learned more working on the blog than I would have with any other use of the time. The success of the blog actually makes me nervous. I get up every morning and wonder who is going to read us. In a way, that has a disciplining effect — it makes you think hard about an issue before writing about it, rather than just throwing down your first thoughts on a topic.

**RF: As a senior faculty member, how would you advise a more junior colleague who is considering starting a blog?**

**Cowen:** I wouldn't necessarily discourage blogging. My guess is that junior faculty who end up blogging get more research done than those who don't. But that's not because of the blog per se. Rather, it's because those people are probably more ambitious and have more fertile ideas than the typical junior faculty member. So, on average, they would have been high producers anyway, and the blog simply complements their scientific work.

That said, I think that academics who blog have more of a generalist approach to their work than those who don't. Their professional interests usually are not in highly arcane, technical areas, but in fields with more general applicability. And insofar as there is an antigeneralist bias in the modern academic world — and I think there is — bloggers tend to suffer. There is a recent high-profile case of a blogger who was denied tenure that I think is consistent with this argument. His professional work was, by most accounts, very good and the volume was certainly large, but he didn't mine a narrow field over and over again. That was probably a more important factor than the blog in his tenure decision.

**RF: You have written quite a bit about the avian flu. What is the potential magnitude of that problem? And what, in your opinion, should policymakers do — and not do — in response?**

**Cowen:** Right now, there is more H5N1, a particularly dangerous strain of avian flu, in more birds in more parts of the

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## What policies would yield a system of artistic production that is both efficient and aesthetically pleasing?

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world than ever before. It's also the case that many humans are catching H5N1 from birds, especially in southeast Asia. So it's already a serious problem. In the countries where the disease is most widespread, the poultry industry is very important, and most people are exposed to birds regularly. It's a major health issue. But the even bigger danger is that the virus mutates so that it's transmitted from one human being to another. We're not sure what kind of mutation would be required for human-to-human transmission, or how likely that is, so we don't know the probability of there being a pandemic.

It's believed that the 1918 flu virus — which was a form of avian flu — killed 50 to 100 million people worldwide. Transportation is much better now and people move around the world with much more ease, so it's possible that the virus could spread more quickly. And even though the world has much better health care, if there was a surge of demand for services, most people would not be helped, especially in relatively poor countries with large populations, such as China and India. So there's potential for catastrophe.

The question of what we should do is difficult. We don't have many good remedies at our disposal in the short run. Most of our vaccines now come from abroad, but in a pandemic they wouldn't be exported. So we would be at loose ends. In the long run, we should do more to help the vaccine industry. When it comes to antiviral drugs and vaccines I would argue that we should protect rather than confiscate intellectual property. I would buy the vaccines using government money at a favorable price, because if the government just seized them, companies would have little reason to produce them the next time around.

In the short run, the best we can do is to have well-functioning local health care institutions, especially emergency rooms with good backup plans. Let's say your emergency room is booked up with people who have already contracted the flu. How do you deal with everyone else? Should they stay at home? Do they get sent to another part of the hospital? We are starting to do planning, but we are very much behind.

There are many proposals that put a lot of faith in building up a stockpile of the vaccine. I'm not saying we shouldn't do that, but I think it's probably overrated. If a pandemic came, the chance that the stockpile would be allocated efficiently and in time is small. Also, some people have called for quarantines, but that wouldn't work in a country like the United States. When discussing this, I think it's important to distinguish between "isolating" and "quarantining" people. Isolation would mean keeping an infected person in a different wing of the hospital. I think that makes sense. Quarantine is when you try to close off a particular area — all traffic, commerce, movement — usually through the use of the military. But if a pandemic came, it would hit virtually every major city in the country at the same time. It would be so geographically dispersed that quarantines would be futile. Also, there's the simple question of where you draw the line. Consider Fairfax. Is it Route 236? Is it I-95? Is it the Beltway? You don't know how far it has spread, so the line is arbitrary.

So the bottom line, I think, is that we need to have some humility. If a pandemic occurred soon — and, as I said, no one knows the probability of this occurring — we would be in real

trouble. There is no magic bullet. But we can use economics to help us prepare for the long run, so that in, say, 10 years, we would be in a better position to deal with this problem. Also, some of the things that I mentioned we could do in the short run — such as improve our local health care institutions — would help us deal with any catastrophe, including another terrorist attack. So that would pay off whether or not there is an avian flu pandemic.

**RF: George Mason has a reputation of being perhaps the most market-oriented Ph.D. granting department in the country. Please tell us a little bit about the series of events that led to the department's current complexion.**

**Cowen:** Jim Buchanan, Gordon Tullock, and the Center for the Study of Public Choice came here in 1983. That was a big group all at once. And obviously the people who recruited them — which included some economists who were sympathetic to the Austrian School — liked the work they were doing. Then a few years ago, Vernon Smith and his colleagues doing research in experimental economics arrived. So you had three groups of economists — the Public Choicers, the Austrians, and the experimentalists — who were all pretty friendly to a market-oriented approach to economics. In the meantime, both our department and the law school began to attract a number of people who were interested in doing law-and-economics work. So there were some cluster effects, I think. Academics benefit from being around people who share similar research programs, and we have seen that happen at George Mason.

**RF: Early in your career, you tended to publish mostly in journals, many of them quite prestigious, but most of your work recently has appeared in book form. Has this been a deliberate choice?**

**Cowen:** Yes. I think journals have become less receptive to "big idea" papers that can spark a serious debate and literature, and more inclined to publish papers that make incremental contributions to an existing literature. There is certainly value in the latter type of work, but it interests me less now.

There is also something about writing a book, where you live with a topic for several years, that I find personally attractive and exciting. If there is something that I am really interested in, I don't want to let go of it until I have been able to say what I want about it. With papers, you can do follow-ups, but they just are gone too quickly for my satisfaction.

**RF: Which economists have influenced you the most?**

**Cowen:** Hayek influenced me from a very early age. Thomas Schelling was a mentor of mine in graduate school. And my colleagues have been extremely influential. We have very stimulating conversations every day. Also, I would say that reading broadly in philosophy, fiction, and other areas outside of economics has influenced my thinking and my work. **RF**