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Part I

General issues in cultural economics

Introduction

Chapters 1 to 7 introduce the subject matter of cultural economics. Chapter 1 is a general introduction to the topics covered in the book and the history of cultural economics. Chapter 2, on the economic profile of the cultural sector, is concerned with the definition and measurement of the creative economy. Chapter 3 investigates the working of the market economy in the cultural sector. Chapter 4 is on the economic organisation of the creative industries. Chapter 5 deals with the production and supply of creative goods and services, and chapter 6 similarly deals with the consumption, participation and demand aspects. Chapter 7 looks at the way cultural economics analyses policy using welfare economics. These chapters therefore lay the foundation for analysing and understanding the creative industries studied in subsequent chapters.

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1 Introduction to cultural economics

This chapter introduces cultural economics and explains how cultural economists set about analysing the cultural sector – the arts (performing arts, visual arts and literature), heritage (museums and built heritage) and the creative industries (the music, publishing and film industries, broadcasting, and so on). It provides a guide to the terms used throughout the book and prepares the way for the concepts and subject matter of subsequent chapters.

What is cultural economics about?

Ten questions we ask and answer

What determines the price of a pop concert or an opera? Why is there a star system in the arts? Why are many artists poor? Why does Hollywood dominate the film industry? Can we predict the success of a film or record? Does illegal downloading damage the record industry? Does free entry to museums bring in more visitors? Why does the government support the arts? How much are we willing to pay to protect the cultural heritage? What are the reasons for public service broadcasting? These are ten of the many questions that cultural economists have asked and tried to answer. This book asks and answers them through the lens of cultural economics.

Cultural economics

Cultural economics studies these (and other) questions using economic analysis. As a discipline, economics uses theory – economic principles – to analyse problems and it also uses empirical evidence – the use of statistical data – to try to answer them. Cultural economics uses this analysis and applies it to the cultural sector; it confronts theoretical hypotheses about the production and consumption of cultural goods and services with empirical research.[1] Cultural economics is a branch of economics but it is also part of the wider investigation of the world of the arts and culture by other related disciplines, especially the sociology of culture and arts management; there is considerable overlap of subject matter with media economics as well, especially in the area of the broadcasting, audiovisual and publishing industries.

Why 'cultural' economics?

Why *cultural* economics and not just 'economics'? One reply is that there are many areas of applied economics each with its own designation, such as the economics of education, the economics of health and environmental economics (each, by the way, having some affinity with cultural economics). Any applied area requires a knowledge of the specific features of the sector it studies: you cannot look at the economics of the electricity industry without some understanding of the technology of the generation and distribution of electrical power and you cannot do cultural economics without some understanding of the performing and visual arts, museums and heritage and the media industries such as film and broadcasting, as well as of creativity and the training of artists. It is not just a matter of being well informed about these things, however; it is also that economic ideas have to be adapted where necessary to take into account issues that are distinctive to the cultural sector. Just using 'ordinary' economic theory of labour markets is not enough for understanding artists' economic behaviour, for example. Cultural economics adapts economic ideas to the specific features of the cultural sector.

What economics is and does

Economics is a well-developed and, in many ways, powerful discipline but it has its limitations and drawbacks. At its best, it studies the reaction of people and organisations to incentives, such as rewards or benefits (such as income or profit, but also satisfaction), and to disincentives, such as raising the price or being made to pay a charge. These reactions are co-ordinated through the institution of the marketplace, mostly using the medium of money, and result in the production and supply of goods and services that are sold to people who

[1] The term 'services' covers a wide range of items, including financial services such as banking and insurance down to everyday items such as haircuts and car repairs. In the cultural sector, a theatrical performance and a museum visit are services, while a book and a CD are goods.

are willing to pay for them. Markets are both real and virtual: online buying and selling, such as downloading a track on iTunes or buying a book online, is just as much a market as a car boot sale or a shop. Not all goods and services are sold for a price, though: a few are made available to people without payment and their supply is provided by some organisation that is financed not by the money from sales but from a source such as taxes or gifts. Entry to a national museum may not be charged for, nor is going to school, but these services are not free, because their production takes up resources that have other uses, and therefore the question of how much of them to produce and how much to spend in doing so is an economic one.

Opportunity cost

This brings us to what is probably the most powerful single idea in economics: opportunity cost. Even if things do not have a price, resources are used up in producing them – people's time (labour), money and equipment (capital) and, for some things, space or land. While time and other resources are being spent producing one thing, they are not available for use in producing another; when you spend money from your budget on one thing, it cannot be used to purchase another. Opportunity cost means that people and organisations have to make choices, and that is why economics is sometimes described as the science of making choices (and also why it is called the 'dismal science'!).

Social choice and welfare economics

It is not only individual consumers and producers who have to make choices, however. Governments have to make choices too: how much of people's incomes and profits to take in taxes, how much to spend on education or the arts or heritage or on health or defence. Public finance is the branch of economics that studies these matters, and cultural economics uses a lot of the ideas from it. Public choice theory studies how government officials and politicians behave – for example, what influences their decisions about how to distribute tax funds to the many arts and heritage organisations or in listing heritage sites.

Economists use the notion of social welfare as the basis for analysing economic decisions for the whole of a society, such as a nation state, and think in terms of overall social benefits and social costs as well as in terms of private benefits and costs to individuals. It is assumed that the aim of good government and of society in general is to improve social welfare – the utilitarian concept of the greatest happiness for the greatest number. Welfare economics is used to rationalise state intervention in the market mechanism, whether through laws or other regulation, financial subsidy (subvention) or the direct provision of goods and services. Chapter 7 goes into these topics in detail and chapter 10 uses these theories to evaluate cultural policy.

Positive and normative economics

One of the strengths of economics as a discipline is that it makes a distinction between 'positive' and 'normative' analysis. Positive statements are ones that can be tested by evidence; the statement that downloading music without payment damages the music industry can be tested by seeing if there is a relationship over time between an estimate of the number of tracks downloaded illegally and the number of tracks sold or the number of record companies in existence. (Notice that the statement has to be translated into a testable hypothesis.) Normative statements cannot by their nature be tested because they revolve essentially around a matter of opinion. 'People ought not to download music without paying for it' is a value judgement, and it is a question of whether or not you believe it or agree with it. Often, two things get confused: you might say 'Why shouldn't people download music without paying for it?' and get the answer 'Because it damages the music industry'. If you can show by using empirical evidence that the second statement is not true, then you have invalidated the reason they give; but, while it may be the wrong explanation, you still have not proved that it is or is not morally wrong.

Value judgements and economics

One thing economists try to be very careful about is making the distinction between positive and normative statements but it can be difficult for even the most dedicated to do this all the time, and one of the strongest criticisms of economics is that it does not and cannot succeed in wiping out all value judgements. This view has been put forward in cultural economics and we shall explore it later on. You may already have spotted a value judgement or two in the text above. One area in which most economists agree that it is not possible to get away from value judgements is welfare economics: the utilitarian belief in happiness as the gauge of welfare is a value judgement. So, say the critics, is the idea that people respond rationally to incentives, and others say that, especially in the arena of the arts and culture, people do not act just as individuals but are strongly influenced by what others in their society do: that tastes are not given, but are learned from these others they admire and want to copy or join in with. Another value judgement that is widely used in economics is that consumers best understand their own needs and wants and demand goods accordingly – the so-called doctrine of consumer sovereignty. These are some of the underlying beliefs of economists that are not always made transparent.

Limitations of economics

There are limitations to the use of economics in general and specifically in relation to the arts and culture; an obvious example is artists' production: few would say that artists are motivated to supply works of art just for the money. Nevertheless, economic analysis, even of the 'traditional' kind, does throw light on artists' labour markets and highlight how artists differ from other workers in their supply decisions; moreover, empirical research by cultural economists has been able to map out and analyse information about artists' earnings and hours of work. It would be a serious mistake, however, to think that economics can provide all the answers, and many cultural economists are content to offer their analysis without making such claims. Some critics dwell a lot on these problems in order to highlight alternative approaches that they favour. Criticism is important to keep a discipline vibrant and 'on its toes' but it is not always easy for beginners in the field to sift out the valid criticisms. In particular, some critics make much of the limitations of 'neoclassical' economics in the arts – some features of which were criticised in the preceding paragraph – but it is important to understand that cultural economists in fact use a range of different approaches, not only the neoclassical one. In the appendix to this chapter, some of the approaches used by cultural economists are briefly summarised as a guide to the reader.

Relation of cultural economics to other disciplines

Cultural economics does not have a monopoly of the study of economic phenomena in the cultural sector. Cultural sociologists study some of the same topics that cultural economists do. It can fairly be said that they have displayed far more interest in the cultural industries than economists have. Sociologists have also studied artists' labour markets and participation in the arts, for instance. Because of their different intellectual backgrounds, economists and sociologists may draw different implications from their research; for example, the study of artists' career development in sociology relates it to the role of professionalism, whereas the economist might relate it to the study of incentive structures. Arts management has emerged as a specialist subject over the last ten years, studying the internal management of individual arts organisations and their environment. Some topics, such as performance indicators (see chapter 10), bring cultural economics and arts management close together. Within arts management, marketing the arts relates to a joint interest in participation in the arts and in taste formation. The latter topic can also be studied by psychologists and by cultural anthropologists, who 'observe' cultural consumption and production.

Economic geographers and urban analysts are interested in the location of cultural facilities and in the distribution of employment. The role of the arts in urban development and the role of 'cultural clusters' come close to work on economic impact in cultural economics and in urban economics. On a global level, the cultural sector is viewed as a means of economic development in South countries, not only for its tourist potential but also because cultural industries are regarded as dynamic and important sources of economic growth. Chapter 19 of this book looks at the economic literature on these topics.

A brief history of cultural economics

What we now call cultural economics started life as the economics of the arts, and in recognition of that some authors still use the term 'economics of the arts (or art) and culture'. The first systematic work that stimulated the birth of cultural economics was that by William Baumol and William Bowen on the performing arts.

Baumol and Bowen's book *Performing Arts: The Economic Dilemma*

The origin of present-day cultural economics is widely held to be the publication in 1966 of Baumol and Bowen's book *Performing Arts: The Economic Dilemma*. There had been some previous interest in economic aspects of the arts and museums before then by a few economists (particularly Lionel Robbins; see below) but this was not yet recognised as belonging to a coherent body of work. Baumol and Bowen presented a thoroughly researched, systematic empirical study of finance, costs and prices in theatre, orchestras, opera and ballet, and also of payments to and employment of performing artists in the United States (with some comparative material from the United