

A Textbook of Cultural Economics

What determines the price of a pop concert or an opera? Why does Hollywood dominate the film industry? Does illegal downloading damage the record industry? Does free entry to museums bring in more visitors?

In *A Textbook of Cultural Economics*, one of the world's leading cultural economists shows how we can use the theories and methods of economics to answer these and a host of other questions concerning the arts (performing arts, visual arts and literature), heritage (museums and built heritage) and creative industries (the music, publishing and film industries, and broadcasting). Using international examples and covering the most up-to-date research, the book does not assume a prior knowledge of economics. It is ideally suited for students taking a course on the economics of the arts as part of an arts administration, business, management or economics degree.

Ruth Towse is Professor of Economics of Creative Industries at the Centre for Intellectual Property Policy and Management (CIPPM) at Bournemouth University and Professor Emerita at Erasmus University Rotterdam. Professor Towse is one of the world's leading cultural economists and has taught in universities in the United Kingdom, the Netherlands, Italy and Thailand. She was joint editor of the *Journal of Cultural Economics* from 1993 to 2002 and president of the Association for Cultural Economics International from 2006 to 2008. She was president of the Society for Economic Research on Copyright Issues from 2004 to 2006 and in 2008 was appointed to the Copyright Expert Panel of the Strategic Advisory Board for Intellectual Property Policy in the United Kingdom.

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Abbreviations

A&R	artist and repertoire
ACE	Arts Council of England
AEI	average earnings index (UK)
AR	average revenue
AVMS	Audiovisual Media Services (EU directive)
BBC	British Broadcasting Corporation
CBA	cost–benefit analysis
CBC	Canadian Broadcasting Corporation
CD	compact disc
CNC	Centre National de la Cinématographie (France)
CPB	Corporation for Public Broadcasting (US)
CTEA	Copyright Term Extension Act
CV	contingent valuation
DCMS	Department for Culture, Media and Sport (the United Kingdom’s ministry for culture)
DJ	disc jockey
DRM	digital rights management
DVD	digital versatile disc
EC	European Commission (executive arm of the European Union)
FCC	Federal Communications Commission
GATS	General Agreement on Trade in Services
GDP	gross domestic product
GNP	gross national product
GVA	gross value added
IFACCA	International Federation of Arts Councils and Culture Agencies
IFPI	International Federation of Phonographic Industries
IP	intellectual property (patents, copyright, trademarks, etc.)

IPR	intellectual property right
ISIC	International Standard Industrial Classification
IT	information technology
MFN	most favoured nation
MPAA	Motion Picture Association of America
MPB	marginal private benefit
MPC	marginal private cost
MR	marginal revenue
MSB	marginal social benefit
MSC	marginal social cost
NAICS	North American Industrial Classification System
NBC	National Broadcasting Company (US)
NEA	National Endowment for the Arts (the arts council of the United States)
NPV	net present value
OECD	Organisation for Economic Co-operation and Development
PI	Pareto improvement
PLR	public lending right
PPI	potential Pareto improvement
PPP	purchasing power parity
PPS	purchasing power standard (used in the European Union)
PRS	Performing Rights Society (UK)
PSB	public service broadcasting
ROH	Royal Opera House (UK)
RPE	relative price efficiency
RPI	retail price index (UK)
SIC	Standard Industrial Classification
SOC	Standard Occupational Classification
SOCAN	Society of Composers, Authors and Music Publishers of Canada
TPMs	technological protection measures
TRIPS	Trade-Related Aspects of Intellectual Property Rights (WTO)
TV	television
TVWF	Television without Frontiers (EU audio-visual directive)
UN	United Nations
UNCTAD	UN Conference on Trade and Development
UNDP	UN Development Programme
UNESCO	UN Educational, Scientific, and Cultural Organization

VAT	value added tax (the sales tax used throughout the European Union)
VCR	video cassette recorder
VoD	video on demand
WCT	WIPO Copyright Treaty
WIPO	World Intellectual Property Organization
WPPT	WIPO Performances and Phonograms Treaty
WTO	World Trade Organization
WTP	willingness to pay

Preface

This book is written as an introduction to cultural economics; it assumes no knowledge of economics, even of supply and demand, and each economic concept is explained as it is introduced in the text. The book represents my kind of cultural economics, and my motive for writing this book is to expand cultural economics beyond its earlier scope to include the creative industries and the issues of copyright law that relate to them. The creative economy/creative industries approach is not just a fad in cultural policy (though it is certainly also that), and it encompasses many economic features that are important for the study of cultural economics. Nowadays, the term ‘creative industries’, which is widely used in government and international organisations, includes all cultural economics’ ‘traditional’ subjects of the arts and heritage along with the cultural industries; as the book shows, copyright in the creative industries is an aspect of that too.

The other motive for writing the book is to make it as international as possible in terms of illustrations and experience. I have worked for ten years in the Netherlands at Erasmus University Rotterdam and have also taught from time to time at the University of Catania in Italy, and doing so has made me aware of just how differently students with different backgrounds think about cultural economics and policy; this is not surprising, because every country has a different history and set of institutions. Meeting this aim of international coverage is inevitably biased by my own experience and limitations, however. Even though there are now very good information sources about many countries in English available online, information in English on some things is still not easy to get or interpret. As it happens, the Netherlands is one of the countries that excels in both the collection and analysis of considerable amounts of data on the cultural sector and it translates a great deal of it into English; the United Kingdom now also produces good data and research on the cultural sector and the creative industries, and naturally I tend to know more about the United Kingdom. Data are not always easy to read even for UK citizens such as myself, however (is it for England and Wales? Is Northern

Ireland included? Data relating to the United Kingdom as a whole should cover England, Wales, Scotland and Northern Ireland.) and monetary figures are in pounds sterling. I am conscious, therefore, that my efforts to illustrate various points are biased towards the United Kingdom and the Netherlands. International comparisons are made more difficult by the presence of different currencies whose values fluctuate over the years; where necessary, I have indicated the rough equivalent in euros or US dollars, but caution should be exercised in reading these figures.

Having said that, information on the cultural sector in the twenty-seven countries of the European Union and Canada is now accessible in euros via the concerted efforts of the Council of Europe and the European Institute for Comparative Cultural Research (ERICarts). I have used a lot of data from this source, and I would recommend every reader to look at individual country data, which are also listed by topic; the reference is Council of Europe/ERICarts, 'Compendium of cultural policies and trends in Europe', 10th edition 2009; see www.culturalpolicies.net. For the United States, the National Endowment for the Arts (NEA) publishes research reports on federal government statistics that are available online, and the governments of Australia, Canada and New Zealand also provide considerable information and data online on their cultural activities. International organisations, especially UNESCO (the United Nations Educational, Scientific, and Cultural Organization) and WIPO (the World Intellectual Property [IP] Organization), the United Nations agency for IP, also provide good information on the creative industries and on copyright.

My own career in cultural economics began in the 1980s with comparative data analysis on the finance of the arts for the Council of Europe; I have retained my interest (and scepticism) of data since then and believe that an understanding of the sources, mode of collection and analysis of data constitute one of the most important aspects of studying economics – hence the considerable amount of data in the book and discussions, as in chapter 12, on details of how research is carried out. I do not think it has ever been so easy to do research as it is today, with Wikipedia and online sources of all kinds, many of which are excellent, though you do need to exercise judgement as to the validity of websites. I also believe, however, that data do not speak for themselves, and without theoretical hypotheses, or at least a theoretical framework for analysing them, just having the data does not mean anything. Therefore, this book outlines and explains the basic economic theories that have been used and continue to be used in cultural economics with which the reader needs to become familiar in order to read the professional literature in this field – whether in the *Journal of Cultural Economics*, which is the

international academic journal specialising in cultural economics, or other publications, including those of governments and international organisations.

Many students and others are scared by economics and feel that it is inaccessible because of the techniques and ‘mathematics’ needed (in fact, it is only a bit of elementary geometry and algebra; if it required much more, I would not be able to be an economist either!). Throughout the book, whenever anything technical is explained (and there is not that much of it), illustrations from the cultural sector are used to lighten the burden and to make the material relevant. If you persist, you should have learned quite a bit of economics by the time you have read the book. The ‘further reading’ that I suggest is at the same level as this textbook; there is much, much more besides, but you can discover that for yourself! Apart from reading articles and book reviews in the *Journal of Cultural Economics*, there is the massive (2006) *Handbook of the Economics of Art and Culture*, edited by Victor Ginsburgh and David Throsby, which is intended as a definitive collection of essays representing the state of professional level cultural economics, written by experts whose names crop up all the time in cultural economics; I recommend reading some chapters of this volume, and others can be used to access literature even if you find them hard to read. I have edited *A Handbook of Cultural Economics* (Towse, 2003a), which has sixty-one short chapters, most six to ten pages long, that are intended to introduce readers to a range of topics in cultural economics; reference is made throughout this book to the chapters in this handbook according to the topic.

How the book is organised

The book is organised in five parts and consists of twenty chapters. Part I deals with general issues – the data and theories used in cultural economics and the economic organisation of the creative industries – and consists of seven chapters. Chapter 1 is an introductory chapter that sketches out many of the topics that are analysed in the rest of this book and provides a brief history of cultural economics; an appendix summarises the main types of economic theories used throughout the book and is intended as a reference source. Chapter 2 presents an economic profile of the cultural sector while chapter 3 sketches the organisation of markets for cultural products. Chapter 4 describes the economic organisation of the creative industries, chapter 5 deals with the theory of production, costs and supply of cultural goods and services, and chapter 6 analyses audiences, participation and the demand for cultural goods and services. This is followed by chapter 7 on the theory of welfare economics

and public finance and how they are applied in cultural economics. Together, these chapters provide the background of the historical and institutional aspects of the present-day economic organisation of the creative industries and the theory of production and consumption that cultural economics uses in analysing markets in the creative economy.

Part II covers the ‘traditional’ arts and heritage. Chapter 8 is a long chapter on the economics of the performing arts, a topic on which there has been a lot of work in cultural economics. Chapter 9 is on the economics of museums and built heritage, while chapter 10 provides an evaluation of cultural policy from the point of view of cultural economics. This chapter forms the conclusion to what can be thought of as the scope of ‘traditional’ cultural economics, and chapters 1 to 10 could form the basis of a one-semester course in cultural economics.

Part III mixes work in cultural economics on artists’ labour markets with that on the economics of copyright. Chapter 11 applies labour economics, including human capital theory, to markets for artists’ services and chapter 12 summarises empirical work by cultural economists on artists’ labour markets. Chapter 13 introduces the reader to the economics of copyright and the impact that digitalisation is having on artists and the markets they supply, including those in the creative industries. Putting together these chapters is where the author’s own research interests are centred, and the role of copyright has not previously been included in this way in texts on cultural economics. Part III could be used in conjunction with Parts I and II as an extended course in cultural economics. Alternatively, Part III could be used in conjunction with Part IV.

Part IV is a detailed treatment of the economics of creative industries. Chapter 14 starts the subject off by discussing the definition and notion of the creative industries and policies relating to them. It is followed by the work in cultural economics on the individual industries: chapter 15 on the economics of the music industry; chapter 16 on the economics of the film industry; chapter 17 on the economics of broadcasting; chapter 18 on the economics of the book publishing industry and reading; and chapter 19 is on the economics of festivals, creative cities and cultural tourism. Part IV of the book, combined with chapter 11 could be used as a one-semester course on the economics of cultural industries.

Finally, Part V, which consists of a single chapter, chapter 20, reviews the whole book, offering some conclusions about the strengths and weaknesses of cultural economics and suggesting areas in which further work might be done.

Throughout the book, theory and empirical research in cultural economics are interwoven and evidence is provided from a range of international sources

on the topics covered. Some topics and information of special interest are put into boxes separate from the main text; some contain short biographical sketches of important figures in cultural economics while others are particular pieces of information or data. At the end of each chapter there is recommended further reading, in addition to the references from the work cited in the chapter; this is reading that I know from experience students find stimulating. A set of questions and exercises for students that are drawn from my own teaching is also provided; the examination and essay questions have been used before and work well as assessment and as discussion topics.

A note on terms and references

During the three years I have been writing this book there has been a switch in terminology, towards the ideas of the ‘creative economy’ and ‘creative goods and services’ in place of what were (and still are in some quarters) called the ‘cultural economy’ and ‘cultural products’; the term ‘creative industries’ was already well established, however, though criticised by many social scientists. There is no need to worry too much about all this because any list of industries demonstrates what is being discussed, and these definitions are dealt with in the text. In any case, I have chosen to write about a subset of these industries – the performing arts, heritage, the music, film, broadcasting and publishing industries – with the addition of a chapter on festivals, creative cities and cultural tourism that covers a variety of ‘industries’ because these are the ones for which there is a literature by cultural economists. What it does mean is that you may find different terms applied to the same idea; in other words, I have not necessarily been consistent – and nor have other writers!

One more term that is often bothersome: ‘billion’ in this book means a thousand million (ten to the power nine).

Another change that has taken place over the last few years is that national governments and international organisations publish a great deal of information online, sometimes without there being a ‘paper’ version. Moreover, permission to use the information may be specifically given on the website, provided that the correct referencing is used. That is what I have done throughout this book. It is important always to check that up on websites, however, which also change from time to time. I checked the availability of online sites for data and other information before this book went to the publisher, but it may well happen that some items have subsequently changed.

My thanks

No one can write a textbook without becoming aware of how great a debt is owed to others, both those whose work we know and those whom we know in person. I have led a charmed life as far as my academic career is concerned. I was introduced to economics at my excellent girls' school, Nottingham High School for Girls, where Mrs Edwards taught A level economics and managed to make us feel like grown-ups; at the University of Reading, my beloved tutor Dr Eric Budden opened up the world of academia to me; my MSc(Econ.) course at the London School of Economics frightened me to death it was so hard, but at the same time it gave me the intellectual basis that has lasted me a lifetime, and led to my first appointment as a lecturer at the age of twenty-three at what is now Middlesex University. I also met my husband, Mark Blaug, in those heady days. I taught 'general' economics – introductory micro and macro, location economics, economics of social policy – and began to research and publish in the economics of the arts, the forerunner to cultural economics, in the 1980s. I worked briefly with Alan Peacock, now an old friend, whose path-breaking work in the subject has been so influential for many others besides myself. My really lucky break, though, was to be invited by Arjo Klamer to join the vakgroep Kunst- en CultuurWetenschappen at Erasmus University Rotterdam, where I spent nine years until my retirement in 2008, specialising in teaching and research on cultural economics and the economics of copyright, with generous colleagues who made me abundantly welcome and put up with my English ways. Together we started up the masters course in cultural economics and cultural entrepreneurship, which over the years attracted many fine Dutch and foreign students of the kind that makes teaching a pleasure.

Anyone in cultural economics owes a huge debt to Will Baumol, who, besides being the founder of our subject and one of the greatest all-round living economists, is also a warm and generous friend and colleague; when I edited his work on the cost disease it was just amazing to see how much he had written and how creative it was. Other friends-cum-revered-colleagues are David Throsby and Bruno Frey. I have always said how lucky cultural economics is to have such excellent all-round economists working in the field, and they both typify that. There are many more on their way up the professional ladder, and that ensures the future success of our subject. I am glad to say one of them is my PhD student, Christian Handke, who kindly produced the figures in this book and helped me with various technical problems.

I could not have got started on this book without a year’s sabbatical at the Netherlands Institute for Advanced Studies (NIAS) in Wassenaar, which provides a calm environment for writing and research. A sabbatical also imposes on one’s colleagues, and I am grateful to them for their indulgence. In addition, of course, my greatest debt is to my husband Mark, to whom this book is dedicated and to whom I have been married for forty years. Among all the other things, he has given me enormous encouragement throughout my career and has been my most constructive critic and adviser, including for this book.

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