

A Textbook of Cultural Economics

Now in its second edition, *A Textbook of Cultural Economics* is an established resource for many courses, including economics of the arts, the cultural and media industries, and the digital creative economy. Authored by Ruth Towse, a widely recognised expert in cultural economics, the book offers a comprehensive, up-to-date overview and analysis of the field in the digital era. Written in an accessible style, and with suggestions for further reading, it covers a range of topics, from the more traditional arts to the creative industries (such as music, film, games, broadcasting, and publishing), as well as the economics of artists' labour, markets and copyright. This second edition considers the creative economy up to the present, emphasising the role of digitisation across the creative industries. It will appeal to students taking courses in the economics of art and culture, and can also be used in courses on arts management and cultural policy.

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A Textbook of Cultural Economics

Second Edition

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In memory of my late husband, Mark Blaug (1927–2011)

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Preface to the First Edition

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; that is not surprising because every country has a different history and set of institutions. However, meeting this aim of international coverage is inevitably biased by my own experience and limitations. 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; however, data are not always easy to read even for UK citizens like myself (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. So, I am conscious 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 roughly indicated the 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 are now accessible in euros via the concerted effort 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 recommend it to 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 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 and WIPO (the World Intellectual Property [IP] Organisation), 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 done. I do not think it has ever been so easy to do research as it is today with sources like Wikipedia and online sources of all kinds, many of which are excellent; however, you do need to exercise judgement as to the validity of websites. But I also believe 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 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, that is intended as a definitive collection of essays representing the state of professional level cultural economics 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, 2003) which has sixty-one short chapters, most of six to ten pages 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; Chapter 3 sketches the organisation of markets for cultural products; Chapter 4 describes economic organisation of the creative industries; Chapter 5 deals with the theory of production, costs and supply of cultural

goods and services; 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 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; 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 would 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. That 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; Chapter 19 is on the economics of festivals, creative cities and cultural tourism.

Section IV of the book, combined with Chapter 11 could be used as a one semester course on the economics of cultural industries. Finally, Chapter 20 reviews the whole book and offers some conclusions about the strengths and

weaknesses of cultural economics and suggests where 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; that is reading I know from experience that 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’; however, the term ‘creative industries’ was already well established (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 often is bothersome: a billion in this book means a thousand million (ten to the power six).

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. However, it is important always to check that up on websites, 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; however, it may well happen that some items have subsequently changed.

My Thanks

No-one can write a textbook without the awareness of how great a debt one owes 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 M. Sc.(Econ) course at the London School of Economics frightened me to death it was so hard but at the same time gave me the intellectual basis that has lasted me a lifetime and led to my first appointment as a lecturer at the age of 23 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. But my really lucky break 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 Master's 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. And, of course, my greatest debt is to my husband Mark, to whom this book is dedicated and to whom I have been married for 40 years. Among all the other things, he has given me enormous encouragement throughout my career and has been my most constructive critic and advisor, including for this book.

Preface to the Second Edition

This book is written as an introduction to cultural economics. It 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 second edition expands that approach in two ways: by incorporating the economic models that apply to the digital world into cultural economics and by exploring the ways that digitisation has influenced the creative economy. It has been quite a journey for me and I hope that it will inspire others to follow what is after all only a stage in an evolving story.

The term creative industries which I adopt in the book is widely used, though in some governments and in many international organisations, the term cultural and creative industries (CCIs) is used. As an economist I find that not very helpful, as it leads to hair-splitting about terminology when the issue is the allocation of disparate activities into categories we can use for analysis and for understanding trends. What I have learned in researching this second edition is that there is ever more integration of the various parts of the cultural economy and it seems to me that it is important that we have a convenient language for studying it. That said, the term creative industries used in this book includes the ‘traditional’ subjects of the arts and heritage of cultural economics along with the cultural industries. As before, copyright in the creative industries is treated as an important element, though one whose nature is changing in the ‘new’ economy.

As in the first edition, I have tried to make the book as ‘international’ as I can; that has proved more difficult than anticipated and more challenging than the first time round, especially for European data. The Council of Europe/ERICarts’ online ‘Compendium of Cultural Policies and Trends in Europe’ on which I relied heavily before has changed course. The *EU Cultural Statistics 2016* edition uses somewhat different categorisation, making it impossible to update some individual country data. Time and again when one looks for data, sources have changed or have not been brought up

to date. I still believe that it is a vital part of learning cultural economics to learn about data sources as well as about empirical research. I make the distinction because having the right data source for testing a theory is often as important or even more so than the econometric analysis, though all too often the latter is emphasised in preference to details about the data in publications.

I repeat here what I wrote in the first edition: having started out in cultural economics by collecting raw data, 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 are important aspects of studying economics – hence the considerable amount of data in the book. But without theoretical hypotheses or at least a theoretical framework for analysing them, just having the data does not mean anything. Facts do not speak for themselves, though outside academia it is widely believed they do. As before, 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*, the international academic journal specialising in cultural economics, or other publications, including those of governments and international organisations.

In the second edition I have made some fundamental changes – to the subject matter and to the level of the discourse. The helpful feedback that I received from generous anonymous ‘adopters’ of the book, teachers who have used the first edition in their classes, suggested that their students did not need explanations of basic economics and accordingly I have curtailed them to quite an extent. Even so, I believe that there are some bits of economics that one does not fully grasp at first and I have retained some explanations that I hope are revealing. As in the first edition, I have avoided using algebra unless absolutely necessary and I do not discuss econometrics and by and large do not recommend reading that emphasises it either. Making these changes has resulted in some rearrangement of the preliminary chapters. More radical, though, is the addition of two entirely new chapters, one on the digital creative economy (Chapter 4) and the other on economics of the video games industry (Chapter 17). To ‘make space’ for them so that the book did not become too long, I have cut out and reorganised some of the more elementary material in earlier chapters and merged what were previously Chapters 3 and 4, and there is now just one chapter on artists’ labour markets (Chapter 12) that deals with both the theory and empirical evidence

of artists' earnings. In the second edition I have added topics for discussion along with the further reading for each chapter.

The Further Reading that I suggest is at the same level as this textbook; there is much, much more besides but you can that discover that for yourself! Apart from reading the *Journal of Cultural Economics*, there are several Handbooks with contributions of various lengths and levels of sophistication. The *Handbook of the Economics of Art and Culture*, Volumes I and II, edited by Victor Ginsburgh and David Throsby are aimed at the advanced student and professional reader, some chapters of which I recommend; others may be used to access literature. A *Handbook on the Economics of Cultural Heritage* (2013) edited by Ilde Rizzo and Anna Mignosa offers specialist chapters on this topic. Shorter chapters are to be found in two Handbooks I have edited: *A Handbook of Cultural Economics*, 2nd edn (2011) and with Christian Handke (2013) *Handbook on the Digital Creative Economy*; both have chapters written by experts in their subjects, which aim to give a brief summary of research in their field and suggest further reading. The *Handbook of the Economics of the Media* (2015) edited by Robert Picard and Steven Wildman offers an overview of this field of study.

Finally, I have added to the concluding chapter (Chapter 20). It used to be said that in economics exams the questions changed but the answers stayed the same and it is true that much of economics has stayed the same. I suggest, however, that we need to reconsider cultural economics in the light of the fundamental changes brought by the digital revolution.

I take this opportunity to thank the generous anonymous readers who took a great deal of trouble in making suggestions for improving this edition. I have not been able to take all their suggestions on board but greatly appreciated their time and expert advice. I would also like to acknowledge the contributions to the Handbooks I have been involved in editing and the debt a textbook writer has to acknowledge to all other contributors to our discipline; judging from the wealth of research in professional publications, there is a great future for cultural economics.

Abbreviations

AI	artificial intelligence
AR/VR	artificial reality/virtual reality
AVMSD	Audiovisual Media Services Directive
AVOD	advertising-supported VOD
CISAC	International Confederation of Societies of Authors and Composers
CPB	Corporation for Public Broadcasting (in the US)
CUPIX	Cultural Price Index on Goods and Services (in the EU)
DAB	digital audio broadcasting
DCMS	Department for Culture, Media and Sport (the UK’s Ministry for Culture; renamed in 2017 to Department for Digital, Culture, Media and Sport)
DMVPD	digital multichannel video programming distributors
EAO	European Audiovisual Observatory
EC	European Commission
ESA	Entertainment Software Association (of the US)
EU	European Union
FCC	Federal Communications Commission
GDP	gross domestic product
GVA	gross value-added
IP	intellectual property (patents, copyright, trademarks and so on)
ISCO	International Standard Classification of Occupations
ISIC	International Standard Industrial Classification
ISP	Internet Service Provider
MoMA	Museum of Modern Art (in New York)
MTX	Microtransactions
NAICS	North American Industry Classification System
NEA	National Endowment for the Arts (the arts council of the USA)

xxix **List of Abbreviations**

OECD	Organisation for Economic Co-operation and Development
OTT	over the top (avoiding TV distribution)
PBS	Public Broadcasting Service (US)
PEGI	Pan European Game Information
PI	performance indicator
PPP	purchasing power parity
PPS	purchasing power standard
PSB	public service broadcasting
RMT	real money trade
SIC	Standard Industrial Classification
SOC	Standard Occupational Classification
SVOD	subscription VOD
TRIPS	Agreement on Trade-Related Intellectual Property Rights
TVOD	transactional VOD
TVWF	Television Without Frontiers
UKIE	UK Interactive Entertainment
VOD	video on demand
WCT	WIPO Copyright Treaty
WIPO	World Intellectual Property Organisation
WPPT	WIPO Performances and Phonograms Treaty
WTO	World Trade Organisation
UN	United Nations
UNCTAD	UN Conference on Trade and Development
UNDP	UN Development Programme
UNESCO	UN Educational, Scientific and Cultural Organisation
WTP	willingness to pay