CHANGE AND CHALLENGE: TWO DECADES IN THE ECONOMICS OF ART AND CULTURE

di DAVID THROSBY *

1. Introduction

Twenty-first birthdays are usually seen as an indication that maturity has been achieved at last. In the case of the cultural economics profession in Italy, it could be said that maturity was attained some years ago and hence that its twenty-first birthday is long overdue. Whatever the interpretation, there is no doubt that the coming-of-age of the Associazione per l’Economia della Cultura marks a significant milestone in the economics of art and culture. The anniversary is a testament to the vitality and strength of the many Italian cultural economists whose work has made such a significant contribution to research, analysis and debate in this field, not only within Italy itself but also in the broader international arena.

The last two decades have been a period of considerable change in the scholarly discipline known as cultural economics. Following the original and seminal work in the field by such eminent economists as Galbraith, Baumol, Robbins, Peacock and Blaug, the subject grew rapidly, and by the end of the 1980s, i.e. at the time the Italian association was inaugurated, it had accumulated a number of important applications of economic theory and analysis to problems in the arts. Such applications continue to this day and still comprise a primary focus for theoretical and empirical enquiry in the field. At the same time the scope of the subject has expanded considerably, taking on a broader interpretation of the adjective «cultural» in the nomenclature «cultural economics». To put it simply, the notion of culture, as is well known, embraces not only the functional aspects of creative expression as manifested particularly in the arts, but also extends to the wider concept of culture as a way of life, i.e. culture in an anthropological or sociological sense. Culture in this sense has a number of interesting economic dimensions – how does cultural identity affect economic

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behaviour, for example, or what are the interactions between cultural policy and economic policy, or what is the role of culture in formulating development strategies for countries in the Third World? These are questions that can be fruitfully considered by economists sensitive to the subtleties and complexities of culture in its broadest terms.

In this paper I consider the development of cultural economics at an international level over the twenty-one years of the Italian association’s existence, as a means of providing a context within which contributions to this issue of the journal, dealing specifically with the Italian experience, can be placed. This paper is not intended to be a comprehensive survey, nor a review of the literature, but rather a selective view of some significant areas of the economics of art and culture that have engaged the attention of researchers and writers in the field. The paper discusses the performing arts, labour markets, heritage, the cultural industries and cultural policy, and culture in economic development. A list of the principal surveys of the field, which contain plentiful references to the (English-language) literature, is provided at the end of the paper.

2. Performing arts

In regard to the live performing arts – theatre, dance, opera, music in various genres – the attention of economists over the last two decades has been engaged particularly on the not-for-profit form of business organisation, in parallel with efforts to understand the workings of the nonprofit sector in other areas of the economy such as health, welfare and community service. Firm sizes in the industry have ranged from small theatre groups and music ensembles up to international enterprises such as major opera companies and symphony orchestras. Regardless of size, efforts have been focussed on trying to understand the decision processes of these firms – how weighting is determined between quantity and quality arguments in the firm’s objective function, for example, and how budget constraints can be coped with in times of increasing economic uncertainty.

The application of formal models of non-for-profit behaviour to the performing arts can be undertaken across all sectors of the industry, with differences in firm size being reflected only in the relative magnitudes involved. However, size is important when it comes to public subsidy. Government assistance to the arts usually has, as one of its objectives, to encourage innovation. In areas such as drama, the production of new, risky and adventurous work tends to be concentrated amongst smaller and sometimes ephemeral companies for whom small amounts of public funding means a great deal. The marginal productivity of the extra euro of subsidy to such companies could be quite high, measured in terms of innovative yield. By contrast, the corre-
sponding marginal productivity of the extra euro to large enterprises that are more generously funded in absolute terms is likely to be relatively less, given not just their size but also their tendency to rely on safer and more conservative programming.

Underlying all the work that has gone on in the economics of the performing arts has been the spectre of the so-called cost-disease, the well-known and well-understood phenomenon of the productivity lag in live production first articulated by William Baumol and William Bowen in 1966. While the essential income-gap hypothesis remains more or less unchallenged, the context in which it applies has changed dramatically. Performing companies now inhabit a very different world from that of twenty years ago. Almost everywhere public arts budgets have shrunk in real terms, forcing subsidised companies to look further afield for additional revenues, and to become more like their entrepreneurial cousins in the for-profit sectors of the economy. Indeed there has been growing interest on both sides of this fence in forging links between arts companies and the corporate world, with new models for public/private partnership emerging not just in the performing arts but in other cultural sectors as well.

Changing technology has also had a profound influence on the environment in which performing companies operate. In common with other areas of the economy, business organisation and management has been transformed by new information and communications technologies. For example, performing arts organisations now make extensive use of the Internet to extend their audience reach and to handle their bookings and ticketing. Economic modelling still has some way to go in catching up with these developments.

The sector of the performing arts where technology has had perhaps the most significant effects is music. New technologies for production, distribution and consumption of music have had a radical effect on the way in which the global music industry functions. Old platforms give way to new with a speed that makes it difficult for the production sector to adjust. Furthermore the digital environment presents a profound challenge to the administration of rights in creative output. Although economic analysis of the complexities of intellectual property rights in cultural goods and services has been going on for a long time, the new technological world we now inhabit makes old forms of copyright protection obsolete and requires the invention of new means to achieve the twin goals of rewarding creative effort and maintaining public access. Interestingly, however, the ubiquitous spread of digital means of consuming music and the resulting escalation in the amount of music consumed does not seem to have spelt the death of live performance. On the contrary, musicians and music ensembles, from classical to rock, are using the Internet shrewdly through devices such as free downloads as a means for increasing audiences at their live performances.
3. Labour markets

Another area of continual and significant change in the economic environment over the last twenty years has been in labour markets. Partly as a result of the pressures of globalisation, and partly as a deliberate policy measure by governments pursuing neo-liberal economic doctrines, labour markets in many countries have become more open. A trend is observable away from long-term employer/employee relationships in the workplace towards greater casualisation of the workforce, with labour markets tending to become dominated by short-term contracts and increased labour mobility. These developments have had an effect on labour markets in the arts. Research on arts labour markets over a number of years has demonstrated the peculiar features of these markets, including their instability, degree of risk, and relatively low pay structures.

The widespread changes in the overall labour market noted above have exacerbated the adverse effects of these characteristics. Whilst some artists who have achieved financial success or who are otherwise financially secure can afford to ignore these trends, the majority have to find ways of responding. Traditionally the source of more reliable remuneration that artists have turned to is multiple job-holding, with second or subsequent occupations in arts-related or non-arts work. There is evidence now that the increasing flexibility being observed elsewhere in the labour market is being adapted by some artists to suit their own purpose. For instance it has been noted that some artists have been looking for more diversified ways in which to utilize their creative skills, in particular in areas outside their normal arts practice and in industries that may be far removed from the arts. Illustrations include: actors taking advantage of new approaches to the training of business executives to conduct classes in role-playing, etc.; visual artists finding lucrative contracts in designing corporate websites; and craftspeople able to contribute to industrial design using their familiar materials of metal, glass, wood or ceramics.

These developments have meant that the conventional linear career path of the creative artist, from initial training through established practice to eventual retirement, has almost universally been superseded by a more unstable and unpredictable pattern. The implications for arts training are significant. The standard lament that art schools and music conservatoria are producing more artists than the arts labour market can absorb is gradually being replaced by a recognition that creative skills can be deployed across a much wider range of activities than simply an artist's «pure» creative practice; hence a training in the arts can equip an individual for work in a variety of occupations. Graduate destination statistics compiled by arts training institutions indicate that by no means all students finish in a core artistic practice; many are productively and happily occupied using their training in other ways.

Research on the working behaviour of artists over the past twenty years has mostly located itself within the labour economics field. Yet it
is apparent that many artists operate as small businesses rather than as workers in the traditional sense. Writers, visual artists, craftspeople and composers rarely work for wages, and the contracts they enter into for supply of their services are generally framed in terms of physical output – a book, a painting, a music score, etc. – rather than as a number of hours worked. Even performing artists tend to supply their labour under a lump-sum contract rather than on an hourly, daily or weekly basis. In these circumstances it would seem more appropriate to regards artists as small businesses rather than as workers. Nevertheless the standard analyses involving estimation of earnings functions and modelling of time allocation decisions can still be seen to apply. In the latter regard, the «work-preference» aspects of artists' behaviour, and the elusive concept of psychic income, continue to intrigue researchers.

4. Heritage

Of all the areas of the economics of art and culture that have been discussed by Italian economists, the field of cultural heritage must be one of the largest. This is hardly surprising, given Italy’s role as custodian of one of the biggest recognised stocks of tangible and intangible heritage in any country anywhere in the world. The fundamental question that continues to dominate the analysis of cultural heritage is one of value and valuation, and it is no accident that Italian economists are amongst the world leaders in the theoretical and empirical application of non-market valuation techniques to cultural projects.

Intrinsic to the concept of value when applied to cultural heritage is the matter of who are the beneficiaries. This question has both sectoral and locational dimensions. In the first instance, a distinction should be made between those benefits experienced as private goods by an individual consumer – for example as an owner of a heritage property or as a tourist visiting a heritage site – and those benefits accruing as public goods to the community at large. In regard to the locational dimension, the issue is one of how widely those enjoying non-market benefits from a particular heritage item are dispersed – are they confined to the local community, to the national population, or do they extend to the citizens of the whole world? These questions have implications for financing of heritage conservation. The public-good component of heritage output provides, of course, a prima facie case for public support, and the larger this component is relative to the private benefits from a given item of heritage, the stronger that case is likely to be. But the locational issue, which should in principle indicate the appropriate tax base from which the relevant funding should be derived, is likely to be more difficult to resolve. If the beneficiaries extend to other countries, as they do for Italy’s iconic «superstar» heritage, the problem of finding an equitable financing arrangement becomes vir-
Actually insurmountable since no workable means exists for the tax revenue to be collected. Voluntary financing, and actions by international cultural organisations, may be of some assistance but a significant burden no doubt remains, to be shouldered by the Italian taxpayer.

Economic analysis of cultural heritage has placed the interpretation of heritage as asset firmly within the context of standard economic analysis by developing the concept of cultural capital. This is a term that is well known in sociology and cultural studies following Pierre Bourdieu, but has taken on a different meaning in economic analysis, being derived directly from the classical and neoclassical economic theory of capital in production. Cultural capital in the economic sense exists as a capital stock that gives rise to a flow of capital services over time. The characteristic of cultural capital that serves to distinguish it from physical or natural capital relates to the value it embodies as a stock or to which it gives rise as a flow, namely its cultural value, which exists in addition to whatever economic value it might posses. Although the theory of cultural capital in economics is progressing, empirical elaboration of the concept as applied to heritage has been slow, due mainly to difficulties in finding a workable means for representing cultural value.

In regard to heritage policy, the use of regulation as a primary instrument for ensuring heritage conservation remains a somewhat contentious issue amongst economists. As is well known, free-market economists have a distaste for regulatory interventions because of the market distortion and inefficient resource allocation to which they can lend. Nevertheless, listing continues to be a favoured policy measure in most countries, partly because of the directness and certainty of its operation, and partly for reasons of administrative convenience. Occasional efforts to propose voluntary or market-based solutions to listing decisions have tended to break down because of difficulties in constructing quasi-markets on which to negotiate the public interest.

5. Cultural industries and cultural policy

In recent years the idea of the «creative economy» as a dynamic sector within the larger macroeconomy has begun to take hold. It has its origins in the proposition that creativity, whether in art, science, technology or commerce, is a key factor in generating economic success both for individual businesses and for whole economies. At its broadest, the creative economy extends well beyond the cultural sector, but there are grounds for seeing the cultural industries – those industries producing cultural goods and services – as being an essential component. Economists studying these industries have adopted a straightforward industrial-organisation approach to examining them, asking about their structure, conduct and performance; their contractual re-
relationships; how they contribute to the standard macroeconomic indicators of output, value added, employment, trade, etc.; and what are the economic relationships involved in terms of production functions, cost functions, supply functions, demand relationships, equilibrium price formation, non-market effects, and so on. The work of these economists, spreading as it does across a full spectrum of the cultural industries, is indicative of the ever-widening scope of cultural economics over the period under study.

How have the cultural industries been received into the domain of cultural policy? Given that public policy in the developed countries of the world is increasingly driven by governments’ economic agendas, it can be suggested that a focus on the cultural industries might help to legitimise culture in the eyes of hard-headed economic policy-makers. Such policy-makers have tended to be uneasy with a cultural policy whose primary focus is public assistance to the arts; typically they have believed that there is no special case for governments to support activities that should be commercially viable, and have probably been inclined to the view that existing arts funding is the outcome of regulatory capture, or of bureaucratic inertia where traditional modes of public assistance to culture are simply repeated year after year. These sceptics have remained unconvinced as to the existence of public-good benefits from the arts, and doubtful that the community would be willing to pay for them, even if they did exist; hence a market failure justification for public intervention does not impress them. But the cultural industries are a different matter. Within this paradigm the arts can be seen as part of a wider and more dynamic sphere of economic activity, with links through to the information and knowledge economies, fostering creativity, embracing new technologies and feeding innovation. Cultural policy in these circumstances is no longer seen as a «soft» area, but as a forward-looking strategy for economic growth. The cultural industries, seen in this light, have a particular role to play in urban and regional policy. Increasingly over the years these industries have been seen as part of a package capable of revitalising depressed urban areas and stimulating regional growth. The industries involved range from heritage, the performing arts, museums, galleries, etc. as magnets for inbound tourism, to high-tech content-creating industries such as video-game production, website design, etc. as significant contributors to regional incomes and employment. Towns and cities around the world strive to be described as a «creative city» or as the «cultural capital» of their region. Furthermore the concept of the «cultural district» has taken shape, describing concentrations of cultural production that share agglomeration externalities and produce a distinct locationally-specific output.

It should be noted, however, that much of the speculation about the economic effects of the cultural industries on the economy, whether at the national, regional or local level, remains a matter of
theoretical assertion rather than empirically established fact. For example, the proposition that creative ideas diffuse through the cultural industries and beyond, generating economic payoffs as they go, is a plausible and persuasive one, with some anecdotal evidence to support it. But it remains a hypothesis that has yet to be rigorously quantified. In the area of applied economic research, it is likely that input-output and other tools of interindustry analysis will be useful here. Such applications, however, will need better and more comprehensive data on the cultural industries, hopefully supported in due course with sets of satellite accounts for culture developed along the same lines as those already existing for tourism, the environment, etc.

Moreover, in promoting the economic contribution of the cultural industries, one must remember the underlying motivation of cultural policy. It can be suggested that cultural policy is distinctive precisely because it is not just economic policy, but relates directly to the legitimate social and cultural objectives that democratic governments are elected to pursue. Too strong a concentration on the economic contribution of the cultural industries may shift the focus away from the achievement of desirable social and cultural goals. This problem can be cast as one of getting the balance right between the instrumental role of the arts and culture in producing economic and social outcomes, and their essential cultural purpose. Recent debate in the UK and the US has placed these questions squarely in the realm of value: what are the values yielded by the arts and culture, and how should they be traded off against one another? This debate is consistent with the fundamental distinction in contemporary cultural theory between economic and cultural value as the twin bases for assessment of activities and processes in the arts and culture. In regard to cultural policy, these considerations indicate the desirability of maintaining a similar distinction in policymaking between the economic and the cultural objectives of government.

6. Culture in economic development

Finally in this brief and selective overview of cultural economics across the last two decades, we turn to the role of culture in economic development. As is well known, thinking about the development process amongst economists has shifted quite radically during this period, re-interpreting the concept of development from a goods-based process to a human-centred one. Although the provision of basic needs for food, clothing and shelter, especially in the poorest regions of the world, remains a priority for development agencies, achievement of the goals of poverty alleviation and social advancement has been increasingly recognised as being bound up with the cultural lives of the community. Cultural economics as a profession has been somewhat slow to engage with these questions, despite their obvious economic and cultural dimensions,
but progress is now being made.

An area of particular interest to policy-makers is the potential role of local cultural industries as an avenue for linking economic empowerment and cultural development in the Third World. Many developing countries have enormous reserves of creative talent and traditional knowledge, but lack the entrepreneurial skills to harness that creativity to produce cultural goods and services for sale on local (and perhaps eventually national and international) markets. A number of areas of economic theory and analysis are relevant here, only a few of which have so far been investigated; for example, models of small-business organisation can be adapted for application to local economies where small-to-medium-enterprises (SMEs) are the typical mode of production, and where cultural as much as economic motives underlie the production process.

The concerns of developing countries for their economic and cultural future in the face of relentless globalisation of the world economy have found expression in international cultural policy-making through the adoption and ratification of the UNESCO Convention for the Protection and Promotion of the Diversity of Cultural Expressions. This treaty provides particular encouragement to countries whose cultures are vulnerable to the economic dominance of large transnational corporations in the world trading system. Economists in several countries have been studying cultural trade for a number of years, and the advent of the UNESCO convention provides a renewed focus for their efforts.

7. Conclusions

An anniversary is an ideal time to stop and take stock of one’s past, present and potential future. In this paper I have discussed some developments over the last twenty-one years in the field we know as cultural economics, or alternatively as the economics of art and culture, and I have pointed to some neglected aspects and possible avenues for further exploration. Is it possible to reach a verdict on the state of health of the discipline after two decades of growth? An answer is provided by the most cursory glance at the profession then and now. In the 1980s conferences of cultural economists were few in number, now there are many at different times and places around the world. The number of scholarly books in the field has continued to grow, and the journal literature has expanded immeasurably in quantity and quality. Most encouragingly, the range and imagination of the work that is presented nowadays at cultural economics conferences by the new generation of young scholars augurs well for a bright and continually expanding future.

It only remains for me to congratulate the Associazione per l’Economia della Cultura on its anniversary and to wish it well for the next twenty-one years.
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Further Reading

Most of the significant items of the (English-language) literature in cultural economics over the past twenty-one years are cited in the following surveys of the field:


Summary

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