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## 20 Cultural industries

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Nowadays also called 'creative industries', cultural industries mass-produce goods and services with sufficient artistic content to be considered creative and culturally significant. The essential features are industrial-scale production combined with cultural content. The cultural content mostly results from the employment of trained artists of one sort or another (creative artists, performers, craftspeople) in the production of goods in the cultural industries, but it may also arise from the social significance that attaches to the consumption of goods. The first aspect has been studied by cultural economists and sociologists; the second is largely the preserve of cultural sociologists, anthropologists and cultural theorists. The possibility of mass production is due to the development of technologies – printing, sound recording, photography, film, video, Internet, digitalization – and the growth of the cultural industries accordingly gathered force during the twentieth century.<sup>1</sup> The term 'cultural industry' (in the singular) was first introduced by Adorno and Horkheimer to disparage 'low' culture, which they believed necessarily resulted from repeated output and to distinguish it from 'high' culture produced by 'true artists' who would not repeat a work of art and who have no concern with commercialization.

The theme of the commercialization of art and culture has dominated the literature on cultural industries, which, until the 1990s, was written almost entirely by sociologists or political economists. Over the last ten years or so there has been a burst of interest by cultural economists in cultural industries; this chapter is mostly based upon that literature. En route, economists have absorbed several sociological concepts in their analysis of cultural industries. The theme of high and low culture and of globalized cultural homogeneity has played little role in economic analysis, which concentrates more on the particular economic characteristics of these industries. There is, however, one striking exception – Cowen's boldly entitled book, *In Praise of Commercial Culture* (Cowen, 1998). Cowen argues that, contrary to the 'cultural pessimism' of many commentators who see capitalism as having a wholly negative influence on culture, it has in fact increased the diversity of cultural production. Wealth increases demand and enables niche markets for cultural goods to develop. Furthermore, he argues, freedom to enter cultural industries has been restricted to some groups, especially to women and minorities when non-commercial decision

makers (the 'Academy' or Arts Councils) control artistic output. The commercial market place allows freedom of entry and is therefore more favourable to unfettered artistic innovation and exploration. Artistic and economic growth go hand in hand.

### Measuring the cultural industries

In the 1980s, when systematic collection of data on the cultural industries began, the question arose of how to define the 'low culture' commercial cultural industries in order to distinguish them from 'high' culture produced by non-profit organizations. The presence or absence of state subsidy seemed a likely criterion. Not so, however. International (or, more precisely, intra-European) comparisons revealed that for-profit firms were in receipt of subsidy for some purposes (for example, publishing contemporary music or poetry) and that industries that were subsidized in one country were successful profit-making enterprises in another (for example, the press). And even if the cultural industries in a country do not receive subsidy, they are often regulated either by copyright law or by specific cultural policy measures.

It is frequently said that the arts economy is ill-served by standard national statistics. That applies particularly to the cultural industries, whose products appear under many different industry classifications. The guiding principle that is increasingly adopted for unifying the cultural industries is their reliance upon copyright law to protect the creative or cultural content, the intellectual property. Thus 'industries protected by copyright' have become virtually synonymous with the cultural (or creative) industries and as such they have been measured for their contribution to GDP in a number of countries. A typical list consists of Advertising, Architecture, the Art Market, Crafts, Design, Fashion, Film, the Music Industry, Performing Arts, Publishing, Software, Toys and Games, Television and Radio, and Video.

There are many problems with the figures that have been produced for these industries because they are often not computed by countries' statistical authorities but by 'interested parties' (organizations with some sort of axe to grind, as with data on copyright piracy, for example): they are measured in different ways (value-added, market size, turnover) and the way the industries are classified and the classifications broken down vary considerably. Data therefore may not be internally compatible or comparable across countries.

In most developed countries in which the size of the cultural industries has been measured, their share of GDP is around 5 per cent; individual industries may also be higher than average exporters (film in the USA, music in the UK, publishing in the Netherlands). In those countries where

measures have been made over several years, the growth rate of the 'creative economy' (usually defined as the cultural industries plus the creative and performing arts – 'low' and 'high' culture) averages about 5 per cent per annum and is therefore higher than that of 'traditional' manufacturing industries.<sup>2</sup> It is also believed that the creative industries offer good employment prospects but the measurement of cultural employment and earnings in this sector is so fraught with difficulties that such claims are hard to verify.

It is worth stressing, however, that what is of more interest to cultural economists than size (and so-called 'economic importance' is not an economic concept!) is the organization and other economic features of the cultural industries.

### **Economic characteristics**

'Are the cultural industries different?' is a question that has been very important in cultural economics. After all, if cultural industries or organizations are no different from those in the rest of the economy, why do we need a special field to study them? The same question applies to artists' labour markets. A quick answer is that what makes them different is their cultural content. This theme is developed below.

The cultural industries share features of other information goods producers. First, the fixed cost of producing the original is high, whereas the marginal cost of making a copy is very low, even approaching zero, the classic characteristics of a natural monopoly, which suggests that either subsidy or price regulation is in order. Second, their products are risky and subject to radically uncertain reception by consumers. The very high failure rate (ratio of financial successes to flops) adds to firms' fixed costs and exacerbates the barriers to entry due to high initial capital requirements for production and global marketing. It is generally held by cultural economists that success of individual titles in the publishing, film and record industries cannot be predicted from any specific characteristic, such as star participation or the amount of financial outlay. Barriers to entry are also present because products are protected by intellectual property law (patents, copyright, trademarks, design rights). Some economists hold that copyright encourages a tendency towards mergers in the cultural industries (Bettig, 1996). These characteristics offer at least a partial explanation for the observed concentration of ownership and control. It could also be argued that heavy reliance on intellectual property law is an important defining characteristic of the cultural industries; however, that is also true of the pharmaceutical industry, among others. There seem to be not only economies of scale but also economies of scope, enabling a few large corporations to dominate the production of all cultural goods. It is this tendency

to market concentration that has led sociologists in particular to the view that culture is being increasingly homogenized worldwide by global capitalism (the cultural pessimism that Cowen opposes).

### **The gatekeeper role**

One concept that cultural economists have gratefully adopted from sociologists is that of 'gate-keeping'. In 'neutral' economic terms, the supplier of a good or service is thought of as simply putting on the market something that buyers are prepared to pay for; the profit motive ensures that consumer sovereignty rules, more or less so, depending upon the degree of competition in the market. Producers will not, at least in the medium to long run, produce goods no-one wants, nor are they or consumers assumed to have an interest in the wider social role of the goods. Sociologists, by contrast, see markets as forms of mediation between buyers and sellers that are social, even power, relationships, forming part of the fabric of society. Firms in the cultural industries (and in others too) perform the task of selecting from an abundant supply which goods to produce and market and therefore they decide what is on offer to consumers. That means *which* music or books are on offer or whether poetry is available at all. The desire to maximize profits and/or to ensure the long-run growth of the firm does not have a neutral effect upon cultural production and that in turn affects cultural development. Thus, if record companies believe Punk or Heavy Metal will be commercially (optimally) successful, they can influence youth culture; or if publishers think their women readers can only cope with love stories with happy endings, they commission works of authors producing those stories and do not publish others of greater literary merit or social significance, thereby perpetuating a female stereotype. The profit motive, and hence capitalism, are not neutral at all and act as filters or mediate between artist and the consuming public – they 'gate-keep'. This role has implications for cultural policy, discussed later on.

Economists increasingly accept the concept of gate-keeping on the supply side and marry it to the well-established demand-side notion of consumers' search and information costs. That used to be applied only to information problems about the quality of cultural goods but the economics of the Internet has demonstrated the cost of vastly increased consumer choice.

### **Industrial organization**

It is useful to think of cultural production as consisting of two distinct aspects, content creation and its delivery. The former is the province of the artist and the latter of the businessman. In an important and novel contribution to the field, Caves (2000) calls this second element of the combination of art and commerce 'humdrum' inputs – a memorable tag. Humdrum

inputs, in fact, constitute a significant portion of the outlay of firms in the cultural industries – think of the promotion and distribution costs of a film such as *Harry Potter* for example, or of a new pop CD or ‘best seller’ book. These products have particular characteristics that lead Caves to an overarching analysis: they require sequential outlays of sunk capital on the humdrum side and considerable coordination of artists with different skills for content creation. At every stage in this entrepreneurial activity, contracts need to be made to enable delivery of the final output at a specific date (the ‘opening’). However, because of uncertainty about the quality and novelty of artistic input, contracts cannot stipulate fully all details or envisage all contingencies and therefore cannot provide optimal incentives to input suppliers. Contracts are therefore ‘incomplete’. Caves’ analysis of the creative industries has at its core organizational structures that overcome, or anyway minimize, the potential losses of capital outlay in the whole production process from content creation to delivery in the market place.

According to this schema, the contract between a visual artist and her dealer is subject to the same economic problems as a contract between all the different participants in movie production, the only difference being the complexity of the creation and delivery process and the sheer number of people and amount of money involved in the latter. The movie industry, in fact, offers a particularly interesting case study because its structure was changed dramatically by the coincidence of a single institutional change, the anti-trust ruling of the ‘Paramount case’ with the swift adoption of a new medium – television. The Paramount case destroyed the control movie producers had had over cinema. The so-called ‘Hollywood Studio’ system, in which artists were hired on salary with exclusive long-term contracts, broke down and was replaced by what has come to be called ‘flexible specialization’ (Storper, 1989). With flexible specialization, content creators freelance on short-term contracts, thereby sharing risk with the cultural industry entrepreneurs, who no longer have the incentive to invest in their training and development. This is a striking example of the unintended consequences of a legal ruling exaggerating the effects of technological progress that anyway can give rise to profound effects on labour markets. The cultural industries are all subject to such changes whether from policy, such as legal changes, or from technical progress (home copying technologies, computers and the Internet).

### **Government policy and the cultural industries**

The social and political importance of the media (press, TV and radio) make it inevitable that they are regulated. Regulations range from media cross-ownership rules to restrictions or prescriptions on cultural content,

which may well cut across the commercial interests of owners and affect market outcomes by reducing profitability. Governments have successfully imposed controls on content, for example requiring fair reporting, respect for religion, provision for minority languages and so forth. They have been able to do so in broadcasting because they control the allocation of licences for use of the electromagnetic spectrum and can impose conditions other than commercial viability on broadcasters.

What light can cultural economics throw on these regulations? Those, like Cowen, who believe the free market can deliver a wide variety of cultural products, favour using commercial success as a sole arbiter of taste.<sup>3</sup> Others favour public ownership or subsidy to raise quality. There is, however, an irony here: those who believe consumers are too easily persuaded by commercial advertising into buying expensive pop culture goods are often those who advocate the use of subsidy on the grounds that, without it, consumers could not be persuaded to ‘improve’ their taste for high culture.

An important cultural issue in many countries is the survival of regional or even national language in the face of English language (usually American) commercial competition. The greater economies of scale of production of language-based cultural goods in English make it hard for those based on ‘minority’ languages to survive on the open market. The Internet has speeded up considerably the process of cultural transmission and globalization (though the process began with the printing press) but it may also foster the viability of specialized niche markets.

A somewhat different issue of cultural identity presents itself in some countries. Canada is a dramatic example of a country that shares a language with its neighbour and where a large proportion of the population has easy access to US press, TV and radio. Canada has sought to restrict this access with cultural trade restrictions. However, this policy is not unique to Canada and many European countries have language or content restrictions on the showing of US films on TV. Acheson and Maule (1999) have argued that such restrictions are in the long run undesirable as they not only reduce consumers’ cultural choice but also, as with other sectors of the economy, threaten to isolate the country from the stimulus of competition for adopting new goods, technologies and standards of quality, by raising prices and reducing cultural output.

### **Conclusion**

This chapter has sketched the range of cultural and economic issues present in the cultural industries. Technological and social change play a dominant role in these industries and cultural economics has an important contribution to make to analysing these changes and advising cultural policy

makers. This analysis in turn adds greatly to our understanding of the economic processes of cultural supply.

### Notes

1. Reproduction techniques, such as lithography, have existed for several centuries, but did not permit industrial-scale output.
2. It should be noted that these figures are vulnerable to institutional changes, such as the extension of copyright law, as well as to alterations in statistical classification. See Towse (2001, ch. 2) for a discussion of these issues.
3. Cowen admits that American TV is homogenized and low-standard, but believes it results from the presence of distorting regulations.

### See also:

Chapter 12: Broadcasting; Chapter 40: Motion pictures; Chapter 42: Music business; Chapter 51: Publishing; Chapter 58: Television.

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## 21 Cultural statistics

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### Indicators for the World Culture Report

Following the recommendation of the World Commission on Culture and Development in its report entitled 'Our Cultural Diversity', the United Nations Educational, Scientific and Cultural Organization (UNESCO) published two *World Culture Reports*, in 1998 and 2000.

Culture or culture-related indicators were presented for 150 countries with a population of one million or more, as well as for ten regional groupings. Nearly 200 data items were included and this chapter reviews this experience of collecting, compiling, analysing and presenting these indicators and discusses some of the implications and concerns that became apparent as the work was carried out.

The indicators for the first Report had to be drawn from material that was readily available. This clearly limited the depth and scope of the analysis, as many important cultural concerns are not adequately reflected through existing statistics and consequently were not included in the Report.

The culture indicators do not pretend to measure world culture, which is tremendously complex and multifaceted. Rather, the Report presents those aspects of world culture that were readily measurable. One of the aims of the project, however, was to start a process of broadening those measurable and reported aspects of world culture so that subsequent Reports would be able to present a more complete picture.

Many cultural concerns were omitted simply because too few countries could provide comparable reliable data. Other cultural elements were omitted because no satisfactory means of expressing them in tabular form had yet been developed. The more important cultural omissions make a formidable list. They include cultural freedom; cultural discrimination; rights of and support to minority cultures; freedom of linguistic expression; freedom to travel; leading religions, religious attendance and freedom of worship; cultural tolerance; ethnicity; official languages, spoken languages and dialects; cultural education; cultural participation; the most-visited sites and popular festivals; cultural prizes; art galleries; music performances; professional arts and crafts; cultural industries and cultural labour force; artists, writers and musicians; the condition of the artist; intellectual property and copyright; taxes and tax allowances on cultural goods and services;