
WORKING PAPER

The economic impact of public cultural expenditures on creative industries under increasing globalization

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Abstract: The paper discusses the role of public authorities in the cultural sector. The level of public cultural expenditures is set by the budgets of central and local governments. Priorities in public cultural expenditures are largely determined by politicians. To evaluate politicians' priority-setting, we look at the percentage of the total expenditures allocated to individual budget items. One conclusion of this paper is that there is a statistically significant correlation between the share of public cultural expenditures and the populations of individual countries. We discuss cultural activities as global public goods and the importance of public authorities. We discuss the definition of "creative industries" and compare an index of countries' creativity to other important indices. The paper uses the music industry as an example to illustrate the use of management theory models to demonstrate the competitiveness of enterprises and nations within the creative industries.

Keywords: creative industries, cultural expenditures, global creativity index, global public goods, music industry

Ágrip: Í greininni er fjallað um stjórnvöld innan menningargeirans. Opinber útgjöld til menningarmála eru ákveðin í fjárlögum ríkisvaldsins og í fjárhagsáætlunum sveitarfélaga. Það eru að verulegu leyti stjórnámamenn sem ákveða forgang í opinberum útgjöldum til menningarmála. Til að meta forgangsröðun stjórnámamanna er skoðuð hlutdeild útgjalda til einstakra málaflokka af heildarútgjöldum. Ein niðurstaða greinarinnar er að það er tölfræðilega marktækt samband milli hlutdeildar af opinberum útgjöldum og íbúafjölda einstakra landa. Fjallað er um menningarátburði sem alþjóðleg almannagæði og um mikilvægi opinberra stjórnvalda. Rætt er um skilgreiningar á skapandi atvinnugreinum og stuðull um sköpun í einstökum löndum er borinn saman við aðra mikilvæga alþjóðlega stuðla. Í greininni er tónlistariðnaðurinn tekinn sem dæmi til að lýsa notkun líkana innan stjórnunarfræða til að sýna samkeppnishæfni fyrirtækja og landa í skapandi atvinnugreinum.

1. Introduction

Culture can be defined as any human behavior or activity passed from one generation to the next, which describes, creates, preserves or transmits the emotions

or surroundings of human society, consisting of languages, beliefs, ideas, customs, arts, sports, or other related aspects. Culture is also the subject of the field of cultural economics (Frey, 2000; Held, McGrew, Goldblatt & Perator, 1999; Bendixen, 1998; Peacock, 1994). Culture can be regarded as a positive externality, because increased cultural activities result in a more diverse society and offer more possibilities for a happier life (Sable & Kling, 2000). Public initiatives in support of cultural activities for the purpose of increasing positive externalities are often very effective (Kaul, Grunberg & Stern, 1999). Externalities are especially important in connection with public goods, which, in contrast with private goods, are non-excludable and non-rivalrous.

Goods are a material aspect of culture and make the categories of culture visible (Howes, 1996). Culture can be regarded as a public good, as in the case of cultural heritage. It is not possible to maintain, however, that every aspect of culture falls under the heading of pure public goods, because many aspects are in fact private goods, for instance concerts and art exhibitions within the area of fine arts. In such an event, this cultural activity or cultural element is excludable but not rivalrous. In that case they are impure public goods (Serageldin, 1999).

The aim of public goods is to improve societies, surroundings and living standards. Public authorities, usually democratically elected authorities, normally supply public goods, and this improves the lives of the general public. Culture fits very well into this classification. Market failure occurs when the free market does not succeed in ensuring a good or an optimal utilization of production factors. When this happens, public authorities can help the market to achieve the desired results.

One of the problems of attaching a price tag to culture is that its value is not always immediately apparent, and the value may change from one generation to the next. There is also the problem of classification, as in the case of the difference between culture and education. In economic statistics, the entire school system, including art schools and various institutions purely dedicated to the practice of culture, is classified under the heading of education rather than under cultural activities. However, UNESCO has defined culture for the purpose of international economic statistics, dividing the concept into nine categories: cultural heritage, printed matter and literature, music, performing arts, audio media, audiovisual media, social activities, sports/games and environment/nature (Haydon, 2000).

This paper describes the globalization of cultural activities in Section 2 and gives an international comparison of public cultural expenditures in Section 3. In Section 4 we discuss the creative industries and compare the Global Creativity Index, the World Competitiveness Index, the Index of Information and Communication Technology, the Gross National Income per capita and the Global Gender Gap Index. In Section 5 we analyze the music sector as one of the creative industries and use Michael Porter's models. Section 6 concludes the paper.

2. The globalization of cultural activities

The globalization of culture is a flow, which is characterized at any time by its intensity or volume. Literature, music, art, law and philosophy all cross the world. The systems that enable their distribution are institutional and frequently, although by no means invariably, under public ownership, so that public authorities can influence them considerably.

Cultural capital manifests itself in the form of cultural products and cultural institutions and has a significant impact on social development. The attitudes of individuals as consumers are dictated, among other things, by their self-images, and cultural products serve to maintain and express self-images and its realization (Pálsson & Ólafsson, 2005).

Globalization is changing much in the world, but there is also much that is changing in the environment irrespective of globalization. The world population is now about 6.3 billion and is projected to reach eight billion in twenty years, as compared to 1.3 billion in the year 1900. Culture, as a collection of trends, and as a trend in itself, is being influenced by this situation. It is important to see not only the advantages of globalization, such as bigger markets, lower transaction costs, increased and faster dissemination of knowledge, greater opportunities and a greater sense of identity, which contributes to peace (Einarsson, 2002). Not everyone agrees that these advantages in fact exist, and some instead highlight various risks and limitations entailed by globalization. There are social and natural limits to resources, while economic development, especially the financial sector, has no limits (Altvater, 1996). From this viewpoint, it is possible to discern various difficulties, for instance that countries with limited traditions of democratic government could prevail in the international competition for the location of companies, and that globalization could entail risks for the environment.

Culture represents a significant value for each individual, and it is important to ensure the greatest possible access for everyone in all communities, even though this raises the obvious problem of free-riders. Otherwise, culture will take the form of private goods and, in fact, effectively, would create a natural monopoly, because only the select few – a sort of elite club – would have access to cultural activities. This was indeed the reality in earlier days.

Considerations of equality are important as regards access to cultural activities. Global public goods, such as cultural activities, have to reach a large majority of the population of a country and reach more than one group of nations (Kaul et al., 1999). It is also necessary that global public goods meet the needs of present generations without jeopardizing the needs of future generations. Here the principle of sustainability is at work, which in this paper is adapted to the concept of global public goods. Cultural activities fit very well within this concept, because people are, especially today, trying to preserve cultural diversity, and globalization is often seen as a threat to this ideal. For international organizations and domestic governments

working in the field of culture, this presentation requires an emphasis on securing the greatest possible access to culture, whether at the national or global level. Public goods in the global context, therefore, are subject to stringent and diverse demands regarding variety: national, ethnic and generational. The traditional task of economics is to describe who produces what for whom. Cultural activities fit very well into this framework and the role of public authorities is important.

3. International comparison

Cultural affairs are increasingly being examined in a global context, i.e. as a means of ensuring cultural diversity and national image in the face of increased globalization (*World Culture Report 2000, 2002*). There is no single thing that constitutes global culture, no more than we could venture to define what any national culture is.

Global culture is simply a result of the fact that through increased globalization the culture of individual nations and ethnic groups is more influenced by other cultures than before. Multinational influence of this kind is nothing new either; it has frequently been seen in history before. What is new is that the influence now is global, or in other words it comes from the world as a whole. It can be disputed whether all cultures have the same opportunity to make their influence felt. Small areas often do not have the financial capacity to propagate their influence. This issue falls within the domain of Global Cultural Economics and the research question is whether small cultural areas are at risk owing to increased globalization, not only because their societies are recipients rather than producers, but also simply because they are small; the core of the issue here is whether cultural diversity is at risk.

UNESCO has developed a framework to measure the economic impact of cultural activities. Public cultural expenditures are determined in the budgets of central and local governments. These expenditures have a significant impact on cultural activities, although a large part of the sector is independent from public expenditures, being entirely within the private sector. Priorities in public cultural expenditures are decided largely by politicians, who, in most countries, represent the people through democratic elections.

To evaluate politicians' (the people's) priority-setting, we apply the method of looking at the percentage of the total expenditures allocated to individual budget items. We analyze the public cultural expenditures for various countries and the share of cultural expenditures in the total outlay. We investigate whether there is a statistically significant correlation between the share of public cultural expenditures and the populations in individual countries. This is done to test the theory that public authorities in less populous countries place a greater emphasis on supporting the cultural sector through public expenditures than in more populous countries. The reasoning behind this theory is that authorities in less populated countries are more concerned about their domestic culture, which they perceive as more vulnerable, and

are afraid that the cultural diversity represented by their smaller communities will fall victim to increased globalization.

Table 1 shows the percentage of expenditures by the general government (central government and local government and states) on cultural activities for 59 countries. This includes recreational and religious affairs (*Government Finance Statistics Yearbook, 2002-2005; National Accounts, 2004*).¹ The inhabitants of these 59 countries total about 3 billion, or almost half of the world's population.

Table 1. Percentage of expenditures by the general government on cultural activities for 59 countries.

Country	%	Country	%	Country	%
Iceland (2004)	6.18	Canada (2004)	2.60	Bhutan (2004)	1.59
Estonia (2001)	5.55	Spain (2002)	2.59	Moldova (2004)	1.52
New Zealand (2004)	5.00	Australia (2004)	2.58	France (2003)	1.48
Luxembourg (2004)	4.85	Czech Republic (2004)	2.54	Malta (2001)	1.48
Latvia (2004)	3.66	Norway (2004)	2.53	Germany (2003)	1.42
Georgia (2004)	3.65	Switzerland (2002)	2.46	Albania (2002)	1.39
Tajikistan (2001)	3.53	Finland (2003)	2.43	Lesotho (2003)	1.36
Kazakhstan (2004)	3.41	Croatia (2003)	2.40	Thailand (1996)	1.15
Belarus (2004)	3.26	Italy (2003)	2.40	El Salvador (2003)	1.14
Iran (2004)	3.20	Belgium (2003)	2.38	Kenya (1994)	1.01
Kuwait (2003)	3.17	Mauritius (2004)	2.36	United Kingdom (2004)	1.01
Denmark (2004)	3.09	Romania (2002)	2.33	China (2003)	0.98
Netherlands (2004)	3.08	Slovakia (2003)	2.10	Indonesia (1993)	0.93
Lithuania (2004)	2.95	Austria (2003)	2.04	United States (2004)	0.89
Russian Fed. (2004)	2.84	Bulgaria (2004)	2.02	Greece (2003)	0.88
Hungary (2002)	2.78	Ukraine (2004)	1.98	Costa Rica (2003)	0.76
Israel (2004)	2.78	Sweden (2003)	1.85	South Africa (2002)	0.71
Slovenia (2004)	2.71	Bolivia (2004)	1.69	Japan (2003)	0.44
Mauritania (2003)	2.62	Poland (2003)	1.64	Argentina (2004)	0.39
Portugal (2002)	2.62	Ireland (1997)	1.62		

Table 1 shows Iceland at the top, with 6.18% of general government expenditures allocated to cultural activities in 2004. The priority of a sector can be described in terms of the amount of public expenditures allocated to that sector. The percentage of general government expenditures allotted to cultural activities clearly shows how much priority is given to culture by the politicians who are responsible for public expenditures. For countries with a relatively low population it is important to stress cultural affairs. We propose the hypothesis that governments of countries with small populations spend more on cultural affairs than countries with large populations. The null hypothesis (no connection) was tested for the 59 countries in

1 Figures were not available for the same year for all countries. The years that the figures represent are shown in parentheses following the name of the country.

Table 1, using the rank order of population and percentage of general government expenditures for each of the 59 countries. Figure 1 shows the results.

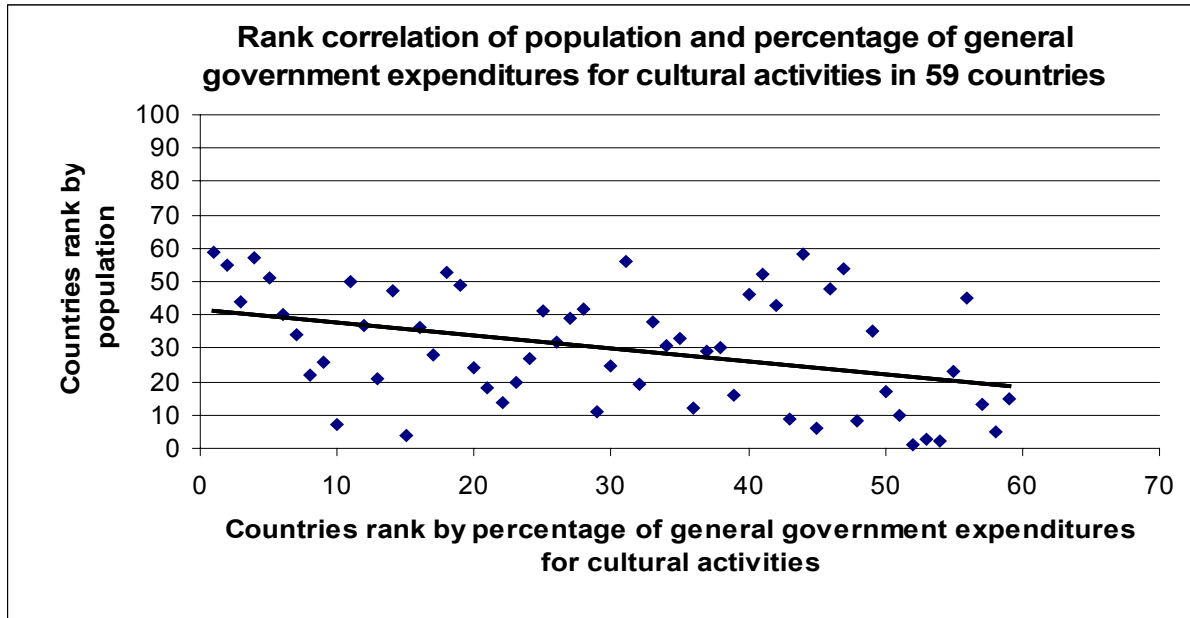


Figure 1. Rank correlation of population and percentage of general expenditures for cultural activities in 59 countries.

The Spearman coefficient of the rank correlation in Figure 1 is 0.39. This is significant at the 5 percent level. We conclude that countries with small populations spend more of their budgets on cultural matters than countries with large populations.

We analyze the data further by dividing these 59 countries into 3 groups: 20 big countries with over 20 million inhabitants, 22 rich small countries with over \$15,000 GDP per capita at Purchasing Power Parity (PPP) in a year, and 17 poor small countries with less than \$15,000 GDP per capita at PPP in a year. The mean percentage for the big countries is 1.63% (standard deviation 0,193), the average percentage for the rich small countries is 2.91% (standard deviation 0,285) and the average percentage for the poor small countries is 2.32% (standard deviation 0,238).

These results also support the hypothesis that poor small countries spend a higher percentage of the total public expenditures for cultural affairs than the big countries do. Furthermore, we divided the group of 20 big countries into 9 rich big countries with over \$15,000 GDP per capita at PPP in a year, and 11 poor big countries with less than \$15,000 GDP per capita at PPP in a year. There is no significant difference in the average percentage between these two sub-groups, which supports the argument for the hypothesis that small countries emphasize cultural activities.

The emphasis of smaller nations on cultural activities is understandable because they are fighting for their cultural heritage in a world characterized by increasing globalization. Iceland is a good example of this. Public authorities can of course contribute to cultural activities in other ways than by increasing their cultural expenditures, e.g. by reforming their tax law by favoring companies and individuals who give grants to the cultural sector. This has been done in many countries (Schuster, 1985).

4. Creative industries

Research into creative activities was first conducted principally within the social sciences and psychology, and centered on the creative individuals themselves or their creative work. Now, however, growing attention is being focused on the environment surrounding creative work and the creative industries. Creative individuals can be studied through looking at factors such as childhood background, life experience or character. The external circumstances of creative individuals can also be taken into account, which is of great significance since these external circumstances form the principal factor that outside players, such as administrators and politicians, are able to influence.

Creation normally refers to innovation. This is therefore not a definition which relates only to artistic creation, but rather a much wider concept. Three principal factors can be linked together in this context: culture, personal background and society. They can be represented graphically, where creation is shown as a process which is engendered at the borders of the three principal factors, as shown in Figure 2 (Csikszentmihalyi, 1997).

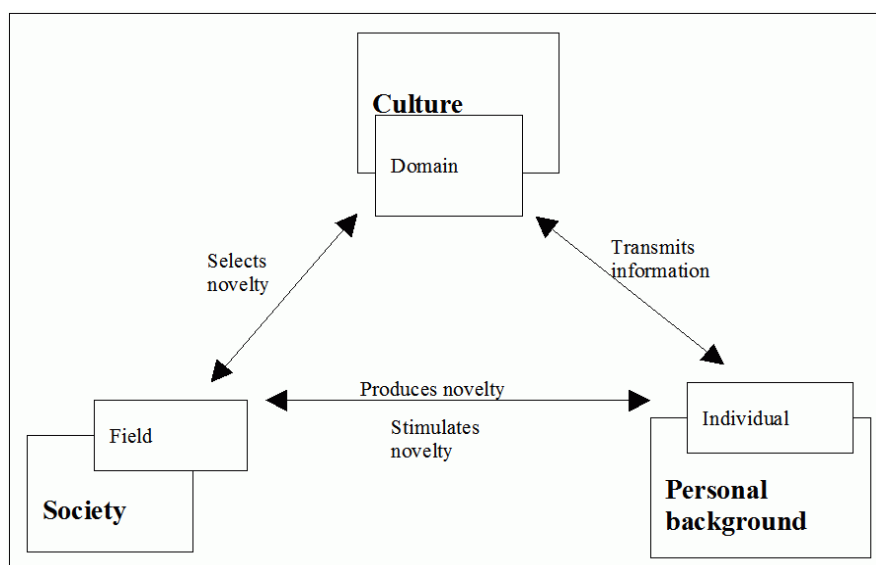


Figure 2: The systems view of creativity (Csikszentmihalyi's model)

Figure 2 shows that culture is divided into several segments, i.e. domains, and information is transferred to and from individuals. In this context background, such as education, is extremely important. Society is also divided into various fields, where the creative work of individuals, i.e. the creation of novelty, flows back and forth.

Culture should be understood as a delimited economic factor. However, culture is so variegated that it is difficult to discuss it as a single concept. Creation can be regarded as an activity within a certain framework of culture (Cowen, 2002). Every society is composed of many smaller groups, and creation often stretches over a long period of time, even many years. The assumption is that it is the individual who will take the principal initiative, and not the group. However, this can be viewed from different perspectives within the fine arts, and these are also relevant to other aspects of creation, in scientific work for example. The approach of analyzing on the basis of three principal factors, as described in Figure 2, involves the interaction of individuals, which shapes a framework that encourages creation, which in turn has a positive economic impact.

An important aspect of any discussion of creation is the realization that creation often takes place in clusters, where a number of individuals come together and a transformation occurs. It is important in all creative activity for individuals to have access to a fertile environment, e.g. with others working on similar activities in the near vicinity, as is commonly the case when people are working on scientific research in a university setting. A group is also needed for individuals or organizations to participate in, and the group needs to be strong enough for ideas to be encouraged and supported and carried out; in such cases differences in circumstances make a great deal of difference. Creation requires an audience to have any significance. It is not enough for the creation to take place only for the individual in question, except as a part of his or her own personal development.

One of the first definitions of creative industries was proposed by the UK Government's Creative Industries Task Force. According to this definition 13 categories are included in the creative industries: advertising, architecture, the art and antiques market, crafts, design, designer fashion, film and video, interactive leisure, software, music, the performing arts, software and computer services, and television and radio (Jones, Comfort, Eastwood & Hillier, 2004). The cultural industry has undergone profound changes in recent decades, among other things as a result of extensive mergers in the media sector. For example, the cost of printing, filming movies and creating DVDs has fallen significantly. At the same time, control over distribution has become more important than before, in order to reduce uncertainty (Hirsch, 2000).

In the discussion of creative industries there are two different viewpoints. On the one hand, there is the approach of looking at the creative industries that produce goods and services which have a cultural and artistic value or a recreational value.

Here, it is the goods and services produced that are at the center of gravity. From this point of view, sectors such as the film sector, music sector and publishing sector belong to the creative industries (Caves, 2000). On the other hand, one can look at the individuals in separate sectors and classify their work into the four following categories: primary production, manufacturing, services and creative industries (Florida, 2002). The discussion of the creative industries in this paper uses this latter method.

The industries that constitute creative industries are science, education, arts, design, journalism, sports, computer sciences, engineering, high technology, architecture and management. Management is regarded as a part of the creative industries, as well as high technology, as it is a field where new ideas are shaped. Among other things, a creative industry involves the dissemination of knowledge, where all kinds of contact networks are formed, and it also concerns entertainment. There are strong globalization trends in the creative industries, caused by the bigger companies in the world with their strong brands in the film industry, music, media, fashion, consumer electronics, and so on (Carla, Miller, Choi & Chen, 2005). The role of public authorities and public policy in cultural affairs is important regardless of which definition of creative industries we use.

The Global Creativity Index is created by the combination of the Talent Index, the Technology Index and the Tolerance Index (Florida, 2005). The indices are equally weighted. The Talent Index includes the percentage of the workforce of a nation occupied in the creative industries, the percentage of a country's population holding a bachelor's degree, and the number of researchers per million inhabitants. The Technology Index includes R&D expenditures as a percentage of GDP and the number of patents granted per million inhabitants. The Tolerance Index is based on a series of questions about attitudes and the degree to which the inhabitants of a country value self-expression and individual rights. Table 2 shows the Global Creativity Index for 45 countries (Florida, 2005).

Any discussion of the competitiveness of nations will normally be based on the Gross Domestic Product per capita and the trade performance of a country (Fagerberg *et al.*, 2004). Table 2 shows the World Competitiveness Index for 45 countries (*Global Competitiveness Report*, 2005). The Index of Information and Communication Technology (*Global Information Technology Report*, 2005) shows the extent of information and communication technology in individual countries. The countries are ranked by the Networked Readiness Index, which is based on the information and communication technology on offer in a given country, the readiness of a community's key stakeholders, i.e. individuals, businesses and governments, and the use of information and communication technology among these stakeholders. Table 2 shows the Index of Information and Communication Technology for 45 countries.² Gross National Income (GNI) at PPP for 2004 in international dollars is

2 The reason that only 45 countries are included is that values for all the indices were available only for these countries.

also listed in Table 2 (*GNI per capita. Atlas method and PPP, 2005*). The World Economic Forum has measured the Global Gender Gap by looking into five areas: economic participation, economic opportunity, political empowerment, educational attainment and health and well-being (*Gender Gap Report, 2005*). The scores for 42 countries for 2004 are included in Table 2.

Table 2. Global Creativity Index (GCI), World Competitiveness Index (WCI), Index of Information and Communication Technology (ICT), Gross National Income (CNI) per capita at PPP, and Global Gender Gap Index (GGGI) for 42-45 countries.

	Global Creativity Index (GCI)	World Competitiveness Index (WCI)	Index of Information and Communication Technology (ICT)	Gross National Income (CNI) per capita at PPP	Global Gender Gap Index (GGGI)
Sweden	0.808	5.65	1.53	29,770	5.53
Japan	0.766	5.18	1.35	30,040	3.76
Finland	0.684	5.94	1.62	29,560	5.19
United States	0.666	5.81	1.58	39,710	4.40
Switzerland	0.637	5.46	1.30	35,370	3.97
Denmark	0.613	5.65	1.60	31,550	5.27
Iceland	0.612	5.48	1.66	32,360	5.32
Netherlands	0.611	5.21	1.08	31,220	4.48
Norway	0.595	5.40	1.19	38,550	5.39
Germany	0.577	5.10	1.16	27,950	4.61
Canada	0.548	5.10	1.27	30,660	4.87
Australia	0.528	5.21	1.23	29,200	4.61
Belgium	0.526	4.63	0.74	31,360	4.30
Israel	0.525	4.84	1.02	23,510	3.94
United Kingdom	0.517	5.11	1.21	31,460	4.75
South Korea	0.465	5.07	0.81	20,400	3.18
France	0.462	4.78	0.96	29,320	4.49
New Zealand	0.459	5.09	0.95	22,130	4.89
Austria	0.438	4.95	1.01	31,790	4.13
Ireland	0.414	4.86	0.89	33,170	4.40
Czech Republic	0.382	4.42	0.21	18,400	4.19
Greece	0.371	4.26	0.17	22,000	3.41
Spain	0.365	4.80	0.43	25,070	4.13
Estonia	0.360	4.95	0.80	13,190	4.47
Russia	0.339	3.53	-0.36	9,620	4.03
Italy	0.335	4.21	0.10	27,860	3.50
Ukraine	0.296	3.30	-0.68	6,250	
Slovakia	0.291	4.31	0.03	14,370	4.28
Hungary	0.282	4.38	0.24	15,620	4.19
Croatia	0.28	3.74	-0.25	11,670	

	Global Creativity Index (GCI)	World Competitiveness Index (WCI)	Index of Information and Communication Technology (ICT)	Gross National Income (CNI) per capita at PPP	Global Gender Gap Index (GGGI)
Bulgaria	0.275	3.83	-0.51	7,870	4.06
Latvia	0.262	4.29	-0.23	11,850	4.60
Uruguay	0.240	3.93	-0.39	6,250	4.01
Poland	0.239	4.00	-0.5	12,640	4.36
Portugal	0.234	4.91	0.39	19,250	4.21
China	0.230	4.07	0.17	5,530	4.01
Georgia	0.219	3.25	-0.94	2,930	
Argentina	0.199	3.56	-0.62	12,460	3.97
Turkey	0.186	3.68	-0.14	7,680	2.67
Chile	0.185	4.91	0.29	10,500	3.40
India	0.177	4.04	0.23	3,100	3.27
Mexico	0.164	3.92	-0.28	9,590	3.28
Brazil	0.159	3.69	0.08	8,020	3.29
Peru	0.132	3.66	-0.91	5,370	3.47
Romania	0.127	3.67	-0.15	8,190	3.70

Figure 3 shows the correlation between the Global Creativity Index and the World Competitiveness Index.

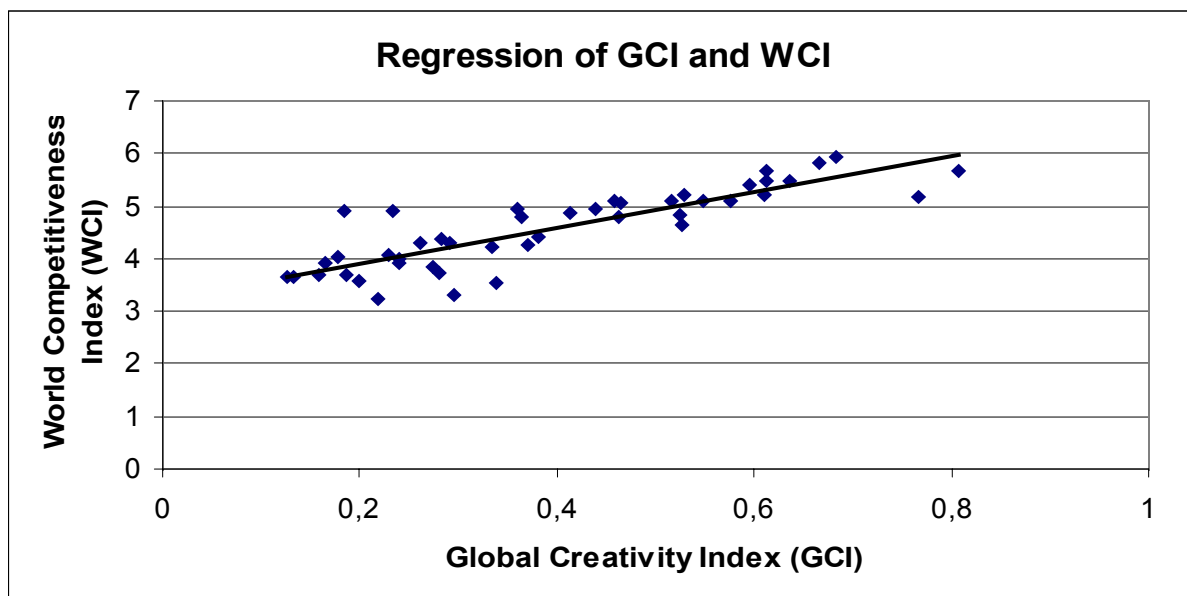


Figure 3. Regression of the Global Creativity Index and World Competitiveness Index (WCI) for 45 countries.

As Figure 3 shows, there is a significant positive correlation between these coefficients. The regression coefficient R is 0.85. The conclusion can therefore be drawn that a nation's competitiveness increases as a larger section of the economy falls within the creative industries, and vice versa.

Another method of calculating an index of competitiveness of countries is to evaluate four fields, namely economic performance, government efficiency, business efficiency and infrastructure. Each field consists of several sub-fields (*The World Competitiveness Scoreboard, 2005*). The regression coefficient between this method and the previous method of measuring the competitiveness of countries is 0.88. The regression coefficient R of a comparison between the Global Creativity Index (GCI) and the Competitiveness Index of the World Competitiveness Scoreboard is 0.76, which is similar to the results shown in Figure 3.

Figure 4 shows the connection between the Global Creativity Index and the Index of Information and Communication Technology.

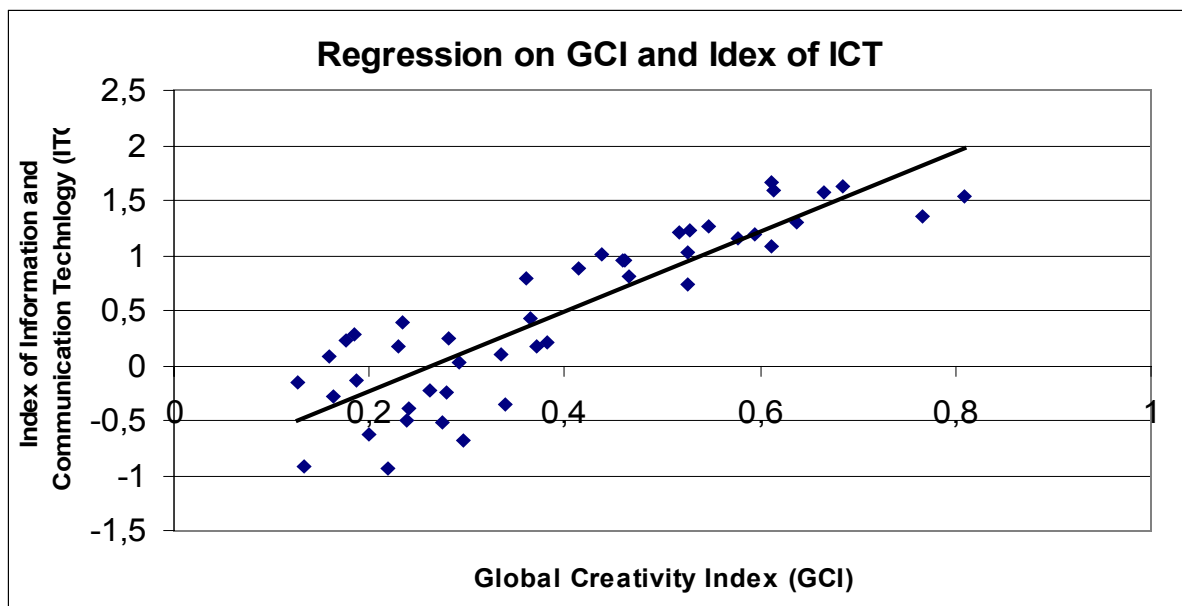


Figure 4. Regression of the Global Creativity Index (GCI) and Index of Information and Communication Technology (ICT) for 45 countries.

As Figure 4 shows, there is a significant positive correlation between these coefficients. The regression coefficient R is 0.88. The conclusion can therefore be drawn that a nation's creativity increases as a larger section of the economy uses information and communications technology, but we have to bear in mind that the Global Creativity Index is linked to the status of information technology within a society.

Figure 5 shows the connection between the Global Creativity Index and the Gross National Income per capita at PPP.

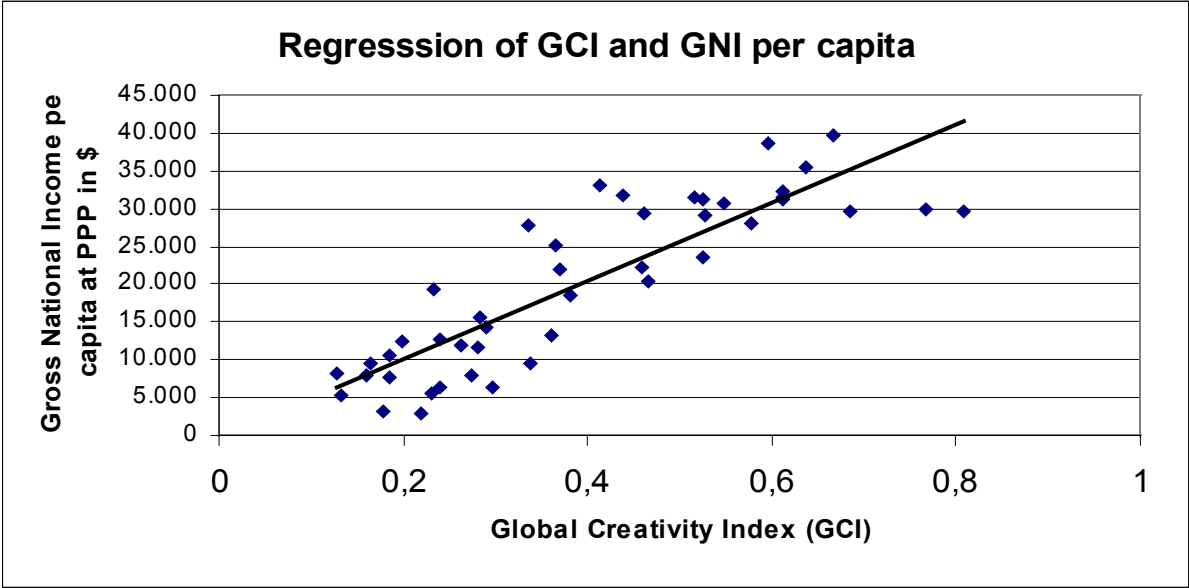


Figure 5. Regression of Global Creativity Index (GCI) and Gross National Income (GNI) per capita at PPP for 45 countries.

As Figure 5 shows, there is a significant positive correlation between these coefficients. The regression coefficient R is 0.87. Overly strong conclusions should not be drawn from this correlation, because the Global Creativity Index is connected to the overall level of output in a society.

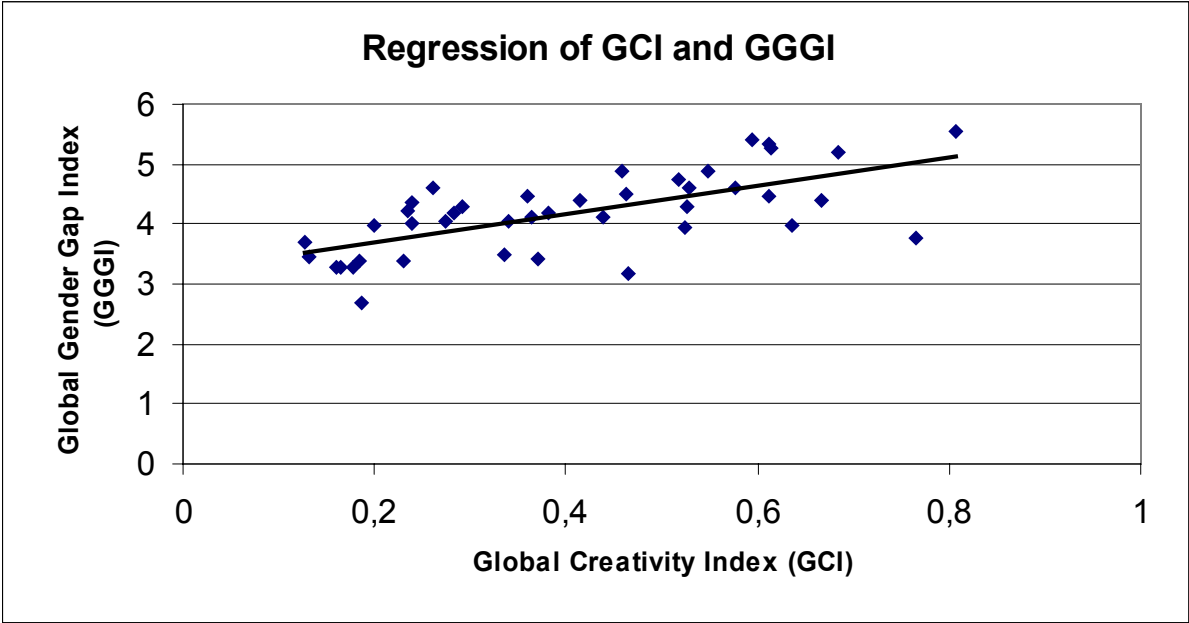


Figure 6. Regression of the Global Creativity Index (GCI) and Global Gender Gap Index (GGGI) for 42 countries.

Figure 6 shows the connection between the Global Creativity Index and the Global Gender Gap Index. The regression coefficient is 0.88, showing a strong positive relation. One might suggest that increased equality results in increased creativity and vice versa. Nevertheless, one should not conclude too much from this simple comparison, but more research on equality and creativity would certainly be of interest.

5. The music sector as a creative industry, and Porter's models

Increased cultural activity in an economy, including increased musical activity, results in improved living conditions and an improved quality of life deriving from positive externalities. In this way it is much like increased education. There are also various other effects of cultural activity which are not easily measurable, such as improved well-being for individuals, which is particularly apparent in the case of music. In addition, the creation of value is a permanent feature of the cultural sector. Even though Mozart composed his music centuries ago, for example, its economic impact is still substantial. To this day, his music is performed at concerts, on discs and by other means. Thus, music is constantly repeated, although the perception of its worth changes with time, and the creation of value continues.

The competitive position of enterprises in the music industry can be shown using Porter's five-force model (Porter, 1980). Figure 7 illustrates this methodology.

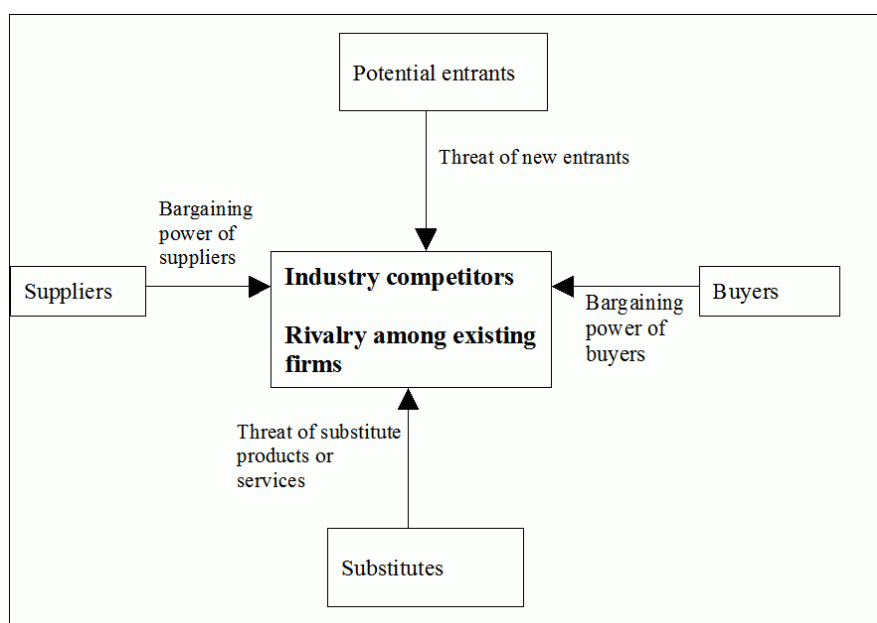


Figure 7. Porter's five competitive forces.

The music industry is so diverse that a distinction needs to be made between individual enterprises and organizations in order for this approach to be useful. Nevertheless, there are many common features, such as the buyers. Most of the

activities within the music industry focus on individuals as buyers, as shown to the right in Figure 7. The position of consumers is strong, as music is in competition with various other forms of entertainment. The same applies to localized products and services, many of which are connected with music, such as other branches of art and various types of entertainment; these are shown at the bottom of the illustration.

Suppliers in the music industry, shown to the left in Figure 7, are of various kinds, such as musicians supplying to publishers, music teachers to music schools and producers to the media. The competitive position of suppliers is usually not particularly strong in the music industry, as there are numerous competitors working in the same field. The key factor lies in the middle of the model, which shows the extent of the competition between enterprises within the industry. Competition between enterprises is usually extensive in most fields of the music industry.

The top of the illustration shows the possible new stakeholders in the music market. Barriers to entry are usually weak. This does not apply, however, to the parts of the market that require substantial capital investment, such as opera houses and concert halls. Analysis using this model to uncover competitive advantages can result in the conclusion that building upon a weak foundation in a certain area can later, by decisive measures, prove to hold potentials for competitive advantage. Threats from new entrants and new technology can be seen in the music industry as the line between radio and television and the line between radio and television and the new technology of the Internet (Hirsch, 2000).

This idea can be transposed to the competitiveness of nations (Porter, 1990). This model examines the so-called Porter's diamond, which is here applied to the Icelandic music industry and shown in Figure 8.

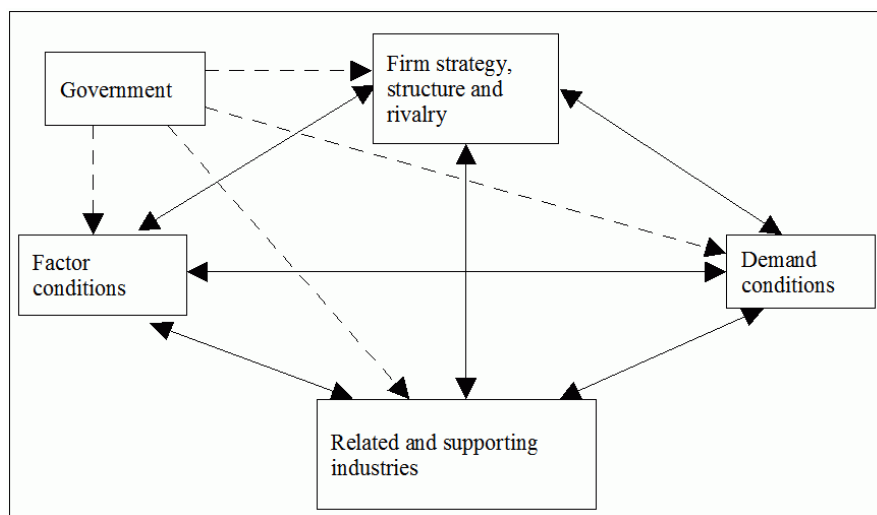


Figure 8. Porter's Diamond Model.

The production factors, shown on the left in Figure 8, are labor, natural resources, capital, knowledge, human resources, organization, technology and

institutions. For the music industry, qualified employees and capital are of the greatest importance. Unskilled labor, for instance, is not common in the music industry.

Demand, which is shown on the right in Figure 8, is somewhat special in the Icelandic music industry, as the domestic market is so small. From a small, but professional domestic market, however, advances can be made into foreign markets, and there are several examples of this in Iceland. There are already numerous Icelandic musicians who have made a name for themselves outside Iceland, such as Björk and the rock band SigurRós (Einarsson, 2004).

Related industries and supporting industries, shown at the bottom of Figure 8, include music teaching and the media. Music teaching is quite a strong sector in Iceland, but reinforcing it would undoubtedly strengthen the music industry still further. As regards strategy, structure and rivalry, shown at the top of Figure 8, it is apparent that the financial market is weak in the music industry and it is difficult to obtain financing for new ideas, e.g. through the stock market.

It is also of relevance here that jobs in the music industry are not very easily identifiable or respected in the labor market and are widely regarded as low-income jobs, which is accurate to a considerable extent. Competition in the music industries can help others and promote increased efficiency and greater creative energy within the industry. Well-educated employees are the principal advantage in the music industry environment. The principal weakness is the small domestic market, which nevertheless can be used as a platform for cross-border expansion, since, as it happens, the consumers in the domestic market are quite enlightened and demanding.

Government, shown at the top left of Figure 8, can do a great deal to promote a country's competitiveness in the music sector, for example through increased financial support, improved infrastructure or institutions (including facilities), tax incentives for the creative industries, strengthening the school system, recognizing the economic significance of the music industry, and promoting interest. The links with government are shown by a dotted line in the illustration, which means that the government can impact individual factors in the model directly. It is important in this context to employ the arm's length principle, i.e. the attitude that politicians should only engage in providing the capital for art and culture, not in utilizing it. The cultural and educational policy of governments is nevertheless, in this sector as elsewhere, crucial to the infrastructure of creative industries, and it can greatly promote their expansion.

In the music publication sector, enterprises are divided primarily into large international corporations and small local undertakings. Their relationship can be described within Transaction Cost Economics framework (Gander & Rieple, 2004). Music has a significant impact on consumer perception and the behavior of customers and staff, with implications for revenues and profits (Areni, 2003).

Studies of the Nordic music industry show that the industry is in a stage of rapid growth, both as regards employees and turnover (*Behind the Music*, 2003). A growing part of the creation of value in the music industry is a result of related industries, such as the production of music videos, software, distribution of digital material, etc. Normally, there is a clear division in the industry between independent recording companies and the major players, who also possess their own separate brand names. Also, the division between individual aspects is unclear, e.g. between record companies, publishers, management and promotion. All of these factors are mixed together within single enterprises.

The music markets in the Nordic countries are relatively small. This has the effect that their opportunities for expansion depend on exports. Some of the Nordic countries have been successful in this respect. Sweden, for example, is the third largest exporter of music in the world (*Denmark's Creative Potential*, 2001).

6. Conclusion

The economic impact of cultural activities is often underestimated in economic statistics. The influence of culture in increasing the well-being of people is often not measured (and perhaps not even measurable) in monetary terms, but it is nevertheless of great effect. The value of a society is to a large extent underpinned by the depth of its cultural roots. Public authorities can successfully support cultural activities on the basis of their positive externalities and their economic impact. Globalization offers new opportunities for cultural activities, and the principle of sustainability is very helpful by defining global public goods, like culture. UNESCO has developed a framework to measure the economic impact of cultural activities. Public cultural expenditures, which are set in the budgets of central and local governments, have a significant impact on cultural activities. Priorities in public cultural expenditures are decided largely by politicians.

By analyzing the public cultural expenditures for various countries and the share of cultural expenditures in each country's total outlay, we found a statistically significant negative correlation between the share of public cultural expenditures and the populations of individual countries. One reason for this is that public authorities in less populated countries place a greater emphasis on the cultural sector through public expenditures than more populous countries. The authorities in less populated countries are more concerned about their domestic culture, which they perceive as more vulnerable, and are afraid that the cultural diversity represented by their smaller communities will fall victim to increased globalization.

There are differing definitions of creative industries in the literature. We discussed the Global Creativity Index and found a strong relation between the Global Creativity Index and the competitiveness of nations. Furthermore, there is a strong relation between the Global Creativity Index and the Index of Information and

Communication Technology, the Gross National Income per capita, and the Global Gender Gap Index.

Finally, the music industry, which forms an important part of the creative industries in many economies, can be described very well using the models of Michael Porter. These models are helpful in finding ways to strengthen the cultural and creative industries. Public policy-making is of great importance to the well-being of creative industries.

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