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## Global Cultural Economics

### Biography of the author

Professor Einarsson is the former dean of the Faculty of Economics and Business Administration at the University of Iceland. He obtained his PhD in Germany. He is the author of 6 books on microeconomics, business administration and cultural economics and over 50 journal articles and conference papers and over 400 shorter articles on economics, fisheries and politics in magazines, newspapers, and on websites. Professor Einarsson is a former Member of the Icelandic Parliament and Chairman of the Board of the Central Bank of Iceland and served as a delegate for Iceland at the General Assembly of the United Nations in New York.

### 1. Introduction

In *Global Cultural Economics*, what matters most is to work within a framework where issues can be studied relating to culture using the tools of economics and taking into account the global character of contemporary societies. Culture, defined as any human behavior or activity passed from one generation to the next, which describes, creates, preserves or transmits emotions or surroundings of human society, consisting of languages, beliefs, ideas, customs, arts, sports, or other related aspects, is the subject of cultural economics. Externalities in economics are the impact of activity on people who are not directly involved. 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. In addition to this, however, cultural activities, e.g. music, can increase productivity in many industries, as in the case of flow production.<sup>1</sup>

Culture is an important factor in the economies of most countries. The contribution of cultural activities to GDP in Iceland, for example, is about 3.5%, which is considerable in comparison with other industries.<sup>2</sup> Public initiatives in support of cultural activities for the purpose of increasing positive externalities are often very effective. Externalities are especially important in connection with public goods, which, in contrast to private goods, are non-excludable and non-rivalrous. The traditional model of supply and demand for private goods in a free market, with the appropriate price mechanisms, is often irrelevant in describing public goods.

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<sup>1</sup> Prieto-Rodrigues J. & Fernandez-Blanco V. "Are Popular and Classical Music Listeners the Same People?". *Journal of Cultural Economics*, 24 (2), 2000, p. 148.

<sup>2</sup> Ágúst Einarsson, „Umfang menningar í íslensku hagkerfi.“ *Tímarit Máls og menningar*, 62(3), 2001, p. 45.

It is recognized within the social sciences that goods and culture have a relationship of complex interdependence. Goods are a material aspect of culture and make the categories of culture visible.<sup>3</sup> Generally speaking, culture can be regarded as public good, i.e. non-rival in consumption and accessible to all, 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 in fact many aspects, for instance in the case of fine arts, concerts and art exhibitions, are private goods. In such an event, this cultural activity or cultural element is excludable but not rival. In that case they are impure public goods.<sup>4</sup>

Measuring the value of public goods is not an easy task.<sup>5</sup> One of the problems of attaching a price tag to culture is that its value is not always immediately apparent, and in fact the value may change from one generation to the next. What one generation may refuse to recognize as valuable may be prized by the next generation. Conversely, a product of culture regarded as valuable on its first release may subsequently be disregarded as worthless.

National culture has a substantial impact on marketing, and knowledge in this field is often decisive in business. The analysis of national culture is well developed and involves, *inter alia*, four dimensions concerning the relations between an individual and the group to which he belongs: social inequality, gender and uncertainty in economic and social processes.<sup>6</sup> Attempts to design a framework for global culture exist, *inter alia*, in the description of five aspects of international culture, i.e. movements, technology, finance, media and ideology.<sup>7</sup>

## 2. The Globalization of Cultural Activities

The process of globalization can be conceptualized in the context of three schools of thought.<sup>8</sup> First, that we are living in a global marketplace where the influence of nation-states is diminishing. Second, that nation-states will remain powerful although there will be several regional blocs in the world. Third, that societies and states will undergo a process of profound change in an uncertain world with an unpredictable outcome. The increasing influence of globalization is significant as regards culture. There is not yet any single scientific method of approaching the problems arising from the globalization of culture. One way of analyzing this is to focus on the effect of five facts. First, that the roots of the globalization of culture and its influence on the economy are very deep. They lie many centuries back. Second, that the development from the middle of the 18th century has been characterized by the dominance of

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<sup>3</sup> Howes D. Introduction. Commodities and Cultural Borders. In Howes D. (Ed.). *Cross-Cultural Consumption. Global Markets. Local realities* (London: Routledge, 1996), p. 2.

<sup>4</sup> Serageldin I. Cultural Heritage as Public Good: Economic Analysis Applied to Historic Cities. In Kaul I., Grunberg I. & Stern M.A. (Eds.). *Global Public Goods. International Cooperation in the 21st Century* (New York: Oxford University Press, 1999), p. 254.

<sup>5</sup> Brookshire D.S. & Coursey D.L., "Measuring the Value of a Public Good: An Empirical Comparison of Elicitation Procedures." *The American Economic Review*, 77 (4), 1987, p. 556.

<sup>6</sup> Hofstede, G. *Cultures and Organizations: Software of the Mind* (London: McGraw-Hill, 1991), p. 6.

<sup>7</sup> Appadurai, A. *Modernity at Large: Cultural Dimensions of Globalization* (Minneapolis: University of Minnesota Press, 1996), p. 15.

<sup>8</sup> Held D., McGrew A., Goldblatt D. and Perraton J. *Global Transformations. Politics, Economics and Culture* (Cambridge: Polity Press, 1999), p. 2.

western ideas. Third, that cultural progress over the past 200 years has been within nation-states and among national cultures. Fourth, that technological progress has changed the development of culture profoundly and increased its distribution exponentially. Fifth, that the diversity is so great that it is difficult to analyze the origins of the cultural ideas forming the context of global culture.

The globalization of culture is a flow which consists in building bridges across time and space. The flow is characterized at any time by its intensity or volume. Literature, music, art, law and philosophy all cross the world, and the systems that enable their distribution are institutional and frequently, although by no means invariably, in public ownership. Culture, externalities and public goods have here been defined within the framework of Global Cultural Economics. The aim of public goods is to improve societies, surroundings and living standards. Public authorities, usually democratically elected authorities, are normally the suppliers of public goods. This production of goods and services by public authorities results in positive externalities, which improve the lives of the general public. Culture fits very well into this classification.

Culture represents a significant value for each individual, and therefore 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, create a natural monopoly because only the select few, a sort of elite club, would have access to cultural activities. Considerations of equality are important regarding access to cultural activities.

As regards the social situation in individual countries, 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.<sup>9</sup> It is also required that global public goods meet the needs of present generations without jeopardizing the needs of future generations. This is the principle of sustainability, which is here 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.

This relationship can be seen in fig. 1 in part (a), (b) and (c).<sup>10</sup>

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<sup>9</sup> Kaul I., Grunberg I. & Stern M.A. Defining Global Goods. In Kaul I., Grunberg I. & Stern M.A. (Eds.). *Global Public Goods. International Cooperation in the 21st Century* (New York: Oxford University Press, 1999), p. 10-11.

<sup>10</sup> Kapur D. "The Common Pool Dilemma of Global Public Goods: Lessons from the World Bank's Net Income and Reserves." *World Development*, 30 (3), 2002, p. 340-341.

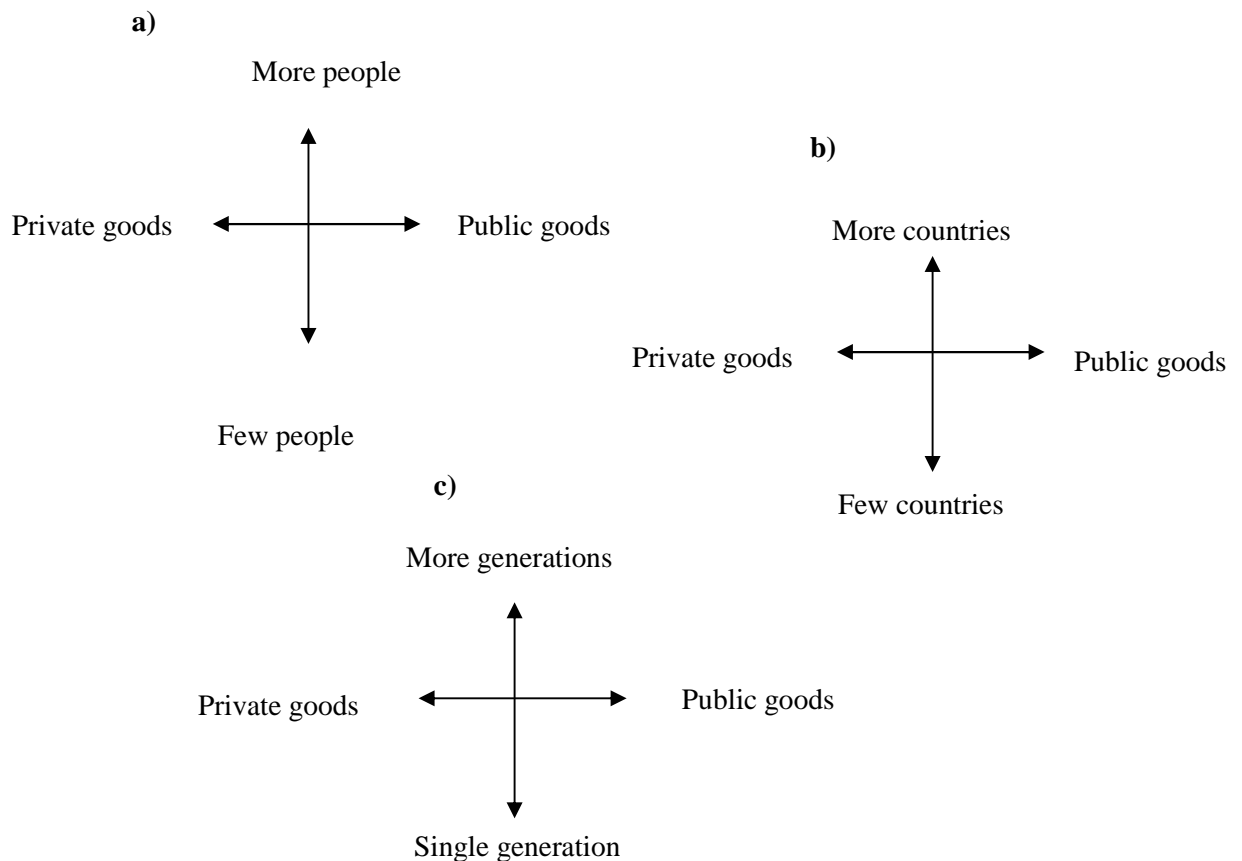


Fig. 1: Global public goods

Culture should be in the upper-right quadrant of fig. 1 following the definition of global public goods. For international organizations and domestic governments working in the field of culture, this presentation requires emphasis on securing the greatest possible access to culture whether at the national level or the global level.

### 3. Some Problems in Global Cultural Economics

Among the things changed by globalization are business, borders, human relations and culture. Culture has always benefited and suffered from external influence. Culture is a concept which is influenced by a number of factors and which by nature is dynamic. The economic impact of culture in recent years has been growing, which has resulted in the creation of Cultural Economics and later Global Cultural Economics. Globalization is changing much, but there is also much that is changing in the environment irrespective of globalization. The world population is now about six billion and is projected at eight billion in twenty five years, as compared to 1.3 billion in the year 1900. Numbers like this throw all previous assumptions and projections in all sciences, particularly the social sciences, into disarray, and humankind is faced with a completely new situation.

Since culture is connected with economics, it is important to look at the division of wealth in the world. The inequality in the division of income among the

inhabitants of the world is staggering: of the six billion people in the world, 1.2 billion survive on less than one dollar a day and in 1999, ten million children died from preventable diseases.<sup>11</sup> In 2000 the gross national income (GNI) in purchasing power parity (PPP) per capita in the world was \$7,410. In low-income countries (40% of the world's population) the GNI in PPP per capita was \$1,980, but for high-income countries (15% of the world's population) it was \$27.770.<sup>12</sup>

Of course, 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. Not everyone agrees that these advantages in fact exist, and 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.<sup>13</sup> From this viewpoint, it is possible to discern various difficulties, for instance that countries with limited democratic traditions of government could prevail in the international competition for the location of companies, and globalization could entail risks for the environment.

It can also be argued that precisely the population explosion and tighter natural conditions make globalization into the only option available. Culture reflects this tension between concern and hope, and this tension is nothing new for the development of culture among individual nations. I believe precisely that the idea that international culture must reach the greatest possible number of nations and the greatest possible number of individuals within each nation, while at the same time respecting the needs of coming generations is the most reasonable framework to work from, not only within the discipline of economics but also within the world of politics.

There is no single thing that constitutes global culture, no more than we could venture to define what any national culture is. If the Icelandic culture is taken as an example, we could touch on certain features, such as the Icelandic sagas, the fisheries and camping festivals on bank holidays, but it is impossible to list all the details forming a culture. 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, i.e. 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 is whether cultural diversity is in danger. For economists the question is whether this is supported or countered by economic arguments. Economics teaches that the relative value of things is based on opportunity costs, and this applies also to material things that are classified as culture.

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<sup>11</sup> World Bank, *World Development Indicators 2001* (Washington: World Bank, 2001), p. 2.

<sup>12</sup> World Bank, *World Development Indicators 2002* (Washington: World Bank, 2002). Located at <http://www.worldbank.org/data/wdi2002/tables/table1-1.pdf>

<sup>13</sup> Altwater E. *Grenzen der Globalisierung: Ökonomie, Ökologie und Politik in der Weltgesellschaft* (Münster: Westfälisches Dampfboot, 1996), p. 42-43.

Even though various aspects of fine arts, such as music, plays and novels, simply attract attention on the basis of the law of the survival of the fittest, whether within nations, multinationally or on the global stage, if there is a such stage, the reality is not that simple for all culture.

Cultural Economics can be examined on the basis of the New Institutional Economics, where institutions are “rules of the game” reflecting the ever-changing behavior of individuals, imperfect information and cultural impacts.<sup>14</sup> The rules of the game differ, of course, depending on societies, and the great emphasis within the New Institutional Economics on informal rules is particularly important for the explanation of culture, which abounds with informal rules which have been developing for a long time, centuries or even millennia. It is even more difficult to place an economic yardstick on culture because the resources are so unclear, and a sort of common property of which people make economic use through positive externalities. This brings us to another concept of the New Institutional Economics, the property rights theory. Property rights are defined as the right of individuals to use resources.<sup>15</sup> This right is extremely unclear in many areas of culture, but property rights of this kind are necessary for efficient and effective economic utilization, and of course such property rights exist and function within culture. Books, for instance, are the clearly defined and legally protected intellectual property of their authors and publishers, but what the author uses as his source, e.g. the ancient literature of his nation, is not the property of any individual and is accessible to everyone; in fact, it is deliberately made accessible as public goods. The discussion of property rights within Cultural Economics has an interesting interface with the New Institutional Economics.

Precise differentiation is not always simple or straightforward. There is the problem of classification: the difference between culture and education is not always clear. 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 cultural activities.

#### **4. Post-materialism and Entrepreneurship**

Another interesting approach within Global Cultural Economics is to examine the impact of entrepreneurs as self-employed individuals in communities which are not based on materialism alone, i.e. examining post-materialism versus level of entrepreneurship. The principal idea here is to connect cultural aspects, which are not characterized by economic views, with economic innovation. This relates to Global Cultural Economics as well, because the number of entrepreneurs and the scope of their activities have increased substantially through the increased trade brought about by globalization.

The Dutchmen, Uhlander, Thurik and Hutjes examined this problem, basing their ideas on post-materialism as a cultural concept.<sup>16</sup> What this means is that

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<sup>14</sup> Richer R. und Furubotn E.G. *Neue Institutionenökonomik*. 2. Ausgabe (Tübingen: Mohr Siebeck, 1999), p. 34-35.

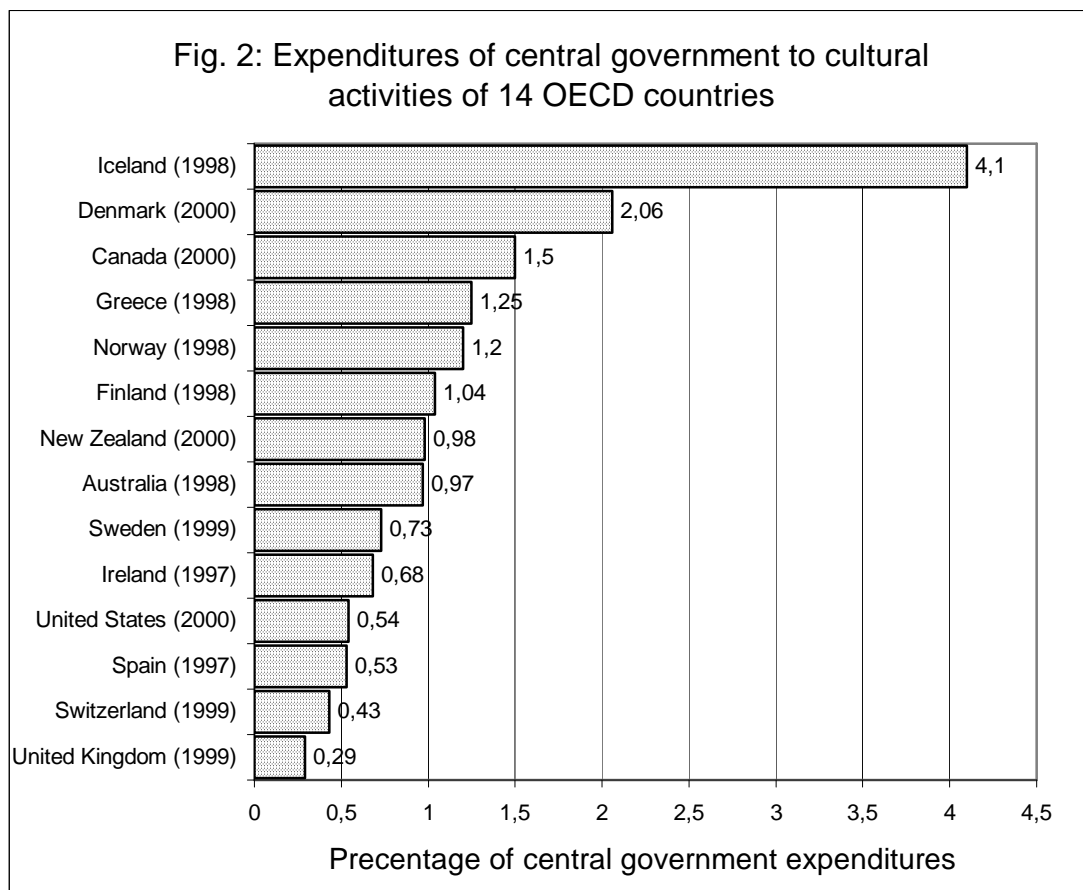
<sup>15</sup> Þráinn Eggertsson, *Economic Behavior and Institutions* (Cambridge: Cambridge University Press, 1990), p. 33.

<sup>16</sup> Uhlaner L., Thurik R. & Hutjes J. *Post-Materialism: a Cultural Factor Influencing Entrepreneurial Activity across Nations* (Presented at the 47th World Conference of International Council for Small Business. San Juan. Puerto Rico, 2002), p. 2.

societies have gravitated from being dominated by more materialistic-oriented human beings to giving priority to self-expression, esteem and intellectual and aesthetic satisfaction. It is believed that western societies have developed in this direction, and the hypothesis has been tested whether there is a negative relationship between post-materialism and the scope of entrepreneurship. The conclusion, based on data from fourteen OECD countries, showed that the relationship is negative, i.e. the stronger the post-materialist attitudes, the less the tendency of individuals to begin independent operations. Of course, this was only one explanation, but it shows how it is possible to use traditional methods of economics to study issues which are connected strongly with culture. Precisely research of this kind is a part of Cultural Economics and, as in this case, the research provides clues for further analysis within Global Cultural Economics.

### 5. General Government Expenditures on Culture. An International Comparison

Fig. 2 shows the expenditures of general governments on cultural activities for 14 OECD countries, including recreational and religious affairs.<sup>17</sup> The years that the figures represent are shown in brackets in fig. 2 following the name of the country.



<sup>17</sup> *Government Finance Statistics Yearbook, Vol. XXV 2001* (Washington: International Monetary Fund, 2001), p. 6.

Fig. 2 shows Iceland at the top with 4.1% of central government expenditures going to cultural activities in 1998. There are huge differences between countries as regards central government expenditures. For instance, many countries spend substantial amounts on national defense, while Iceland has no armed forces. Of the 15 countries in fig. 4, apart from Iceland, expenditures on national defense range from 15% of central government expenditures in the USA down to 3% in Ireland.

In many countries, including Iceland, central government expenditures do not accurately reflect general government spending because there are many kinds and levels of local government, e.g. states in the US, Länder in Germany, etc., with independent tax revenues and independent finances. The participation of local government in cultural activities is also substantial and other differences also make international comparison of this kind difficult; religious affairs, e.g., are in some countries financed by various private contributions, as a supplement to regular government financing.

Total public expenditures differ greatly between countries. Current general government expenditures as a percentage of GDP for the 14 countries in Fig. 4 range from 29.3 in Ireland in 1999 up to 55.1% in Sweden.<sup>18</sup>

## 6. Conclusion

Cultural activities are an important factor in the economies of most countries. Culture can be regarded as a public good and in a global context as a global public good. There are methods within the discipline of economics to describe culture and its economic impact. It is very important that everybody has access to cultural activities. In this context, the idea of sustainability is very useful. One has to take into account the great difference among the people in the world. The New Institutional Economics can provide useful tools in analyzing global cultural economics.

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<sup>18</sup> *OECD in Figures* (Paris: OECD, 2001), p. 37.



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