

The Economics of Culture: Underpinnings and Implications

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Abstract

We take as our starting point the various definitions of culture that comprise the use of visual, auditory or other signals or symbols to indicate group identity. From these definitions, we demonstrate the applicability of major economic concepts to the production and reception of culture.

Among these concepts, we include

- *Perfect competition and its relationship with alienation and anomie.*
- *Signaling theory in economics examines the efficiency with which information is conveyed. Those signals that are efficient persist over time; those that are inefficient tend to become less important.*
- *Barriers to entry are an integral part of understanding the economics of market conditions. At the same time, the concept applies to how high the costs are for entering an industry or a group.*
- *Externalities can arise when people receive benefits for which they do not pay the provider. The growth and development of culture is, in this framework, impeded because markets do not provide strong enough incentives to the providers of cultural signals.*
- *Subsidies can be used to encourage the production of the efficient amount of culture. The difficulty with this economic argument comes in its implementation.*

The classic work by Kroeber and Kluckhohn lists at least 164 different definitions of culture. For our study, we focus on those definitions which emphasize

- An integrated pattern of human knowledge, belief, and behaviour that depends upon the capacity for symbolic thought and social learning
- The set of shared attitudes, values, goals, and practices that characterizes an institution, organization or group

The evolution of the definitions of culture has taken many routes. From Wikipedia (Jan 11, 2011),

In the twentieth century, "culture" emerged as a concept central to anthropology, encompassing all human phenomena that are not purely results of human genetics. Specifically, the term "culture" in American anthropology had two meanings: (1) the evolved human capacity to classify and represent experiences with symbols, and to act imaginatively and creatively; and (2) the distinct ways that people living in different parts of the world classified and represented their experiences, and acted creatively.

Our approach incorporates both of these definitions. In the process, we integrate some key features of economic analysis with some of the more salient characteristics of "culture" as set out in these definitions. We begin with a glimpse at the paradigm of perfect competition and compare its tone and character with the concept of *anomie* as set out by Durkheim and Wirth. We then look at the signalling literature in economics and show that it provides a solid framework for understanding culture. This literature also relates to the concept of "barriers to entry", which has long been a tool for economists and has useful applications for understanding culture. We conclude with a discussion of market failures and government failures in the support of what have come to be known as cultural activities.¹

1. Anomie, Markets, and Culture

The classical paradigm in economics is "perfect competition", a model of markets in which decision-makers interact impersonally, even anonymously, as both buyers and sellers take market prices as given. Classic examples involve people buying and selling commodities, common stocks, or derivatives via well-established exchanges. Neither the buyer nor the seller is likely to know the other party to the exchange, and there is no haggling (except possibly on the floor of the exchange itself): buyers and sellers all take the market price as given (i.e. set by market forces as opposed to being negotiated by a few buyers and sellers).

This conditions underlying this same paradigm lie at the heart of much of the Marxist writing about the devolution of culture due to alienation, leading to the works by Durkheim and Wirth about *anomie* and urban cultures.

The assumptions of perfect competition are

- That no individual believes s/he will have an impact on market prices through their sales or purchases,

¹ The interface between economics is studied from a completely different perspective, examining the "culture of economics", in "Life Among the Econ", a classic satirical study by Axel Leijonhufvud [1973]. Our paper looks at the economics of culture, not the culture of economics.

- The product of all sellers in the industry is homogeneous,
- Transactions take place costlessly, and
- Entry into (as well as exit from) the industry is comparatively easy.

The benefit of using such models despite the lack of realism in their assumptions is that (1) they are tractable mathematically and (2) they highlight conditions which help promote economic efficiency. But the models not only assume anonymity, they seem to relish it.

Historically, few markets have been even close to satisfying the assumptions of the model of perfect competition. Over time, though, as communication costs and transportation costs have drifted steadily downward, markets have increased in both size and scope, thus increasingly approximating the conditions of perfect competition (sometimes referred to as “atomistic competition”).

One demographic trend contributing to this movement toward atomistic markets was the growth in urbanization, particularly as it occurred in the late-19th and early-20th centuries. At the same time, this growth in urbanization led to dramatic changes in culture. The strength of family ties in smaller communities ebbed and increasing numbers of market transactions in the growing urban areas took place between individuals who knew each other barely, if at all. The pros and cons of these changes were initially analyzed by Louis Wirth [1938] and many of his students, with numerous follow-up studies by many others since then. As Wirth stated, urbanization led to

...substitution of secondary for primary contacts, the weakening of bonds of kinship, the declining social significance of the family, the disappearance of neighbourhood and the undermining of traditional basis of social solidarity.

Wirth referred to this process as “anomie”, applying and extending the concept as it was first developed by Durkheim [1964]. As Durkheim identified and summarized the social process, the industrial revolution and the accompanying growth in mechanization fostered increased alienation from the (until then) traditional senses of community. Our point in this section is to highlight the importance of economics in understanding these societal/cultural changes.

The growth of industrialization was enabled by technological change which, in turn, enabled further division of labour and economic growth. In economic models, division of labour and growth appear consistently as desired goals that help to alleviate poverty and promote the gains from exchange. At the same time, though, specialization has been viewed by many of the Durkheim school of thought as de-humanizing. The same phenomenon has that has given rise to economic growth and has helped relieve poverty over the long run has at the same time been the subject of concern from those who decry the accompanying *anomie*.

Not all production processes involve large-scale mechanization with rampant division of labour and specialization; however, the decline in costs encouraged this trend for over a century. And with increased large-scale production, came the increased urbanization about which Wirth wrote. As well, the factory setting, along with the developing atomism of urban life, created increased *anomie*, an increased sense of alienation from roots, from family, from religion, and from past cultures as new ones emerged.

What is interesting about the anonymity of markets is that this state of affairs is treated as a positive in economic models. The anonymity of markets means that resource allocation is dictated by costs and by willingness and ability to pay, not by discrimination, not by political connections, and not by social class.

To be sure, Wirth and others identified these benefits of *anomie* as well, noting that:

“the city everywhere has been the center of freedom and toleration, the home of progress, of invention, of science, of rationality.” [1956].

With urbanization, new cultures formed. Likes could seek out likes within the metropolis, and in that sense, a new sense of community often arose, albeit different from the then traditional sense of community, but fostered and enabled by the economic growth that led to increased urbanization.

2. Signalling and Culture

2.1 Introduction to Signalling

Economics has developed a rich literature on the evolution and efficiency of signalling. We use signals constantly to convey information to others. The degree to which those signals are interpreted as intended affects their efficiency and success. These signals can be thought of as symbols (see definition 1 in the above quotation) which a group recognizes and interprets. The commonality of the signals within the group enhances the efficiency of the signal, which in turn induces further use of the signal.

At the same time, signals from members of one group which are not easily interpreted by non-members help to play a defining role in delineating which persons are or are not members of the group. For example, those of us who can still sing along with Frank Sinatra’s hits or those of Janis Joplin signal membership in one particular cultural group, while those who even know who Lady Gaga is (one of the co-authors of this study had to have it explained to him) signal membership in a different cultural group (or at the very least non-membership in some groups).

Many cultural goods allow individuals to make public claims about their values or identity. We can gain insight into this behaviour by utilizing a simple signalling model that has gained prominence in game theory and economics.

Consider any group that confers membership benefits on its members. There are numerous examples of such groups, ranging from formal clubs to subcultures to informal groups of friends. For simplicity, we can refer to this group as the “cultured”. Given that there are membership benefits, it seems reasonable that many people would like to belong to this group.

In the simplest case we assume there are two types of people². We’ll refer to one group as C, those who are, by some criteria or criterion, “cultured”. The other group we will refer to as L, the “less cultured”. People of type C are ideal members for the cultured group, but people of type L will contribute little to the group, potentially reducing the benefits of membership to others. This might be because of differences in ability, preferences, education, social class, ancestry, or beliefs.

² More types can be assumed without changing the key results of the analysis and only complicate the exposition.

If each person's type is observable to everyone else, the situation poses no real problem as only people of type C will be included in the cultured group, and persons of type L will be excluded. Inclusion and exclusion will involve few, if any costs.

However, in general it is impossible to directly observe people's ability, preferences, beliefs, etc. (social scientists have been trying for years without a great deal of success). In this situation, asking the potential members of the group about their personal characteristics will not solve the problem, as the benefits conferred by group membership provide an incentive to lie. But there is a way around this problem: we can look for a behaviour or consumption choice that signals a person's type. This is where cultural goods can play a role; as a signal of a person's abilities, preferences, beliefs, etc.

The most straight-forward type of good that satisfies this condition is a cultural good that is costly for a person of type C to acquire, but is even more costly for a person of type L to acquire. The consumption of the cultural good is an indicator of a person's ability to contribute to the benefit of the group. It is not the consumption of the cultural good itself that makes the group willing to accept the individual, but what they *think* it implies about the person consuming the good³.

An example used in the economics of hiring decisions is etiquette (Hanming, 2001). If a person has invested in developing a thorough understanding of the rules of etiquette, it is likely that they also have the capacity to develop an understanding of other complex systems. Similarly, if a job applicant has shown the ability and the stamina to complete a given level of education; those accomplishments are generally perceived as signals, telling potential employers what they might expect from the job applicant in the future for example (Kim 2007). In other words, obtaining an education is beneficial for students as an indicator of intellect, work ethic, and other traits regardless of the discipline studied."

In this type of situation there are two broad classes of outcomes; a pooling equilibrium and a separating equilibrium. In a pooling equilibrium it turns out that eventually everyone, regardless of type, consumes the cultural good or else no one does. The result is that the signal contains no meaningful information about a person's type. When a separating equilibrium is the outcome, only those of the C type consume the cultural good and are admitted to the group.

The distinction between the two outcomes is driven by a relatively complex interplay of the difference in benefits to other members of the group, the cost differential in acquiring the signal, and the portion of each type of person in the population. For simplicity we will consider the impact of changing one of these factors at a time holding all others constant.

Let us begin with the difference in the benefits to other members of the group. The smaller the difference in benefit to other members of the group between the two types, the less likely a separating equilibrium will be. For example, members of a science fiction club might prefer fans of Star Trek: The Next Generation to fans of Star Trek: Deep Space 9, but the degree of preference is likely small. In the extreme case when there is

³ Though we are talking about consuming cultural goods, we want to be clear we are not talking about only goods that are purchased in a market. Cultural goods can also be knowledge of types of music, appreciation of the fine arts, types of clothing, or even using a bicycle as your main method of transportation. In this sense it is the *act* of consuming the good, it is the behavior, that sends the signal.

no difference in benefits everyone will be admitted into the group and there is no need to try and distinguish between types.

The second factor is the cost of acquiring the cultural good. If the cost of the good is the same for both types of people, it cannot serve as an effective signal of type. The more expensive the cultural good is for people of type L (holding the cost to a person of type C constant), the better the signal. It is the difference in the cost of acquiring the good that makes for an effective signal. If it doesn't cost much for L types to acquire the signal, and if the benefits of acquiring it are large, then L types have an incentive to lie about themselves by acquiring it, thus increasing the costs to C of sorting out the legitimacy of the signals.

The final factor determining the effectiveness of a signal is the portion of each type of person in the general population. The portion of each type of person in the population determines the odds of admitting someone of the preferred type in the absence of a signal. When the portion of type C people in the population is high, there is little risk to admitting a new person and the value of a signal tends to be low. As the portion of the population made up of people of type C decreases, the value of the signal will increase.

To be clear, the actual distinction between a separating and a pooling equilibrium is a complex interaction between these factors. We have only attempted to give a sense of their impact holding all else constant. A decrease in the portion of the population who is of type C, for example, does not guarantee a movement from a pooling equilibrium to a separating equilibrium as all factors contribute to the outcome.

2.2 Cultural Implications of Separating and Pooling Equilibria

In a separating equilibrium only those of type C consume the cultural good as the costs outweigh the benefits of doing so for individuals of type L. The intriguing thing about the consumption of cultural goods in this outcome is that it serves as a means of excluding some people while bringing those of a similar type together. There are many examples of this occurring, we present two.

Consider the phenomenon of "gangsta rap". This cultural group celebrated the violence and hardship those living in American inner cities must overcome in song. In order to be taken seriously by other members of the group, individuals must have first hand experience of that lifestyle. One of the cultural experiences that served the role of a signal within the group was a police record. The costs of getting a police record for most people is quite high because many jobs are closed, especially to felons, and some forms of travel become much more difficult. For those living in the inner cities of the U.S., the employment options and travel opportunities are more limited; hence, the result is that a police record is a low cost cultural good for those from the inner city and high to cost others. The existence of a police record among recording artists then serves as a signal of authenticity, and only those who have acquired this cultural good are deemed legitimate members of the group.

The more traditional fine arts provide another example. Artistic goods like opera or the ballet provide excellent examples of cultural goods as signals in a separating equilibrium. The financial ability and the knowledge required to attend and discuss opera coherently provides a signal that is often exceptionally high cost for some. Understanding opera generally involves the ability to understand a foreign language (at least for native English speakers) as well as the time and money to have attended, and possibly even studied, multiple performances. It also requires a taste for a specific style of music that not all people share. Those

who do not honestly enjoy the music and/or do not have the ability to devote significant time and resources to understanding the nuances of this art form will not be able to discuss it effectively. Thus the consumption of opera as a cultural good serves as a signal of socio-economic status and tastes, resulting in those who have acquired this good being deemed cultured.

In a pooling equilibrium, people of both types consume the cultural good, resulting in the cultural good not serving as a meaningful indicator of type. There are numerous examples of when this occurs; we consider a current phenomenon, “Rider Pride”. Those wishing to seem to belong in the province of Saskatchewan quickly take steps to identify with “The Riders”. Many of those new to the region claim to be fans of the team, but in some cases a discussion reveals they know little about the team or the sport. There are alternative signals of “Rider Pride” however. One of the simplest is to wear branded clothing. The Saskatchewan Roughriders sold just over half of all Canadian Football League branded clothing in 2009. This is clearly a pooling equilibrium; even those with no attachment to the team can, at comparatively low cost, choose to consume the cultural good. By doing so, they “enjoy” the benefits of membership in the group while contributing virtually nothing to the group as a whole⁴.

Not only do cultural goods operate as a barrier to entry into a specific group, they also require barriers to enter in their production to be effective. For cultural consumption to be an effective signal, existing members of the group must trust that the good conveys a meaningful signal. This requirement of trust makes it hard for new cultural goods to compete with existing ones, in many cases. We undertake a more detailed exploration of the role of barriers to entry in the next section.

3. Barriers to Entry

Interestingly, the signals that are a vital part of the delineation of group membership also play a role in limiting the membership of the group. Many of us will not be mistaken for members of other groups because in our minds the costs of membership are too high. Some of us refuse to acquire the knowledge and/or the trappings associated with the group; others might like to acquire the knowledge and/or trappings associated with the group, but we find it too costly, either psychologically or financially, to do so. The result is that the signals convey information to others about which individuals are both willing and able to participate as members of a given group. For example, I might wish to hobnob with the elite, but I am not willing to spend the money required to generate the signals that I belong in that group. Alternatively, there are people who refuse to wear hair styles and accessories or adopt the language of many young people today even though they might wish to be included in other aspects of the youth culture; this refusal serves as a barrier to entry.

“Barriers to entry” in economics refers to the difficulty that new firms have entering a given industry. As extreme examples, it is fairly easy for a newcomer to enter the pizza industry in a local market, but it is not very easy for someone to enter the automobile industry [Bain, 1956]. In this section, we put forth the hypothesis that culture helps to shape and is, in part, shaped by phenomena very similar to the economics concept of barriers to entry.

In this context, we see the importance of the interface between culture and economics as it runs both ways.

⁴ Disclaimer: all of the authors of this paper have moved to Regina from elsewhere at some point in their careers. One of the authors is a quite recent immigrant to the city and joined a slightly more exclusive club: the Rider Pep Band. In this instance, the ability to play a musical instrument reasonably well while under “difficult conditions” serves as an effective tool for creating a separating equilibrium.

As we have suggested in our section on signalling, membership in a culture or group is defined, in part, by the signals that members of the groups send and interpret. On the one hand, members of a group signal their belonging to a group by the signals they send. These signals can take the form of clothing, language, hairstyles, accessorizing, etc. People who wish to become members of the group must send or at least attempt to send signals that convey the message either “I am one of you” or “I wish to become one of you”. *For separating equilibria, these signals will often be costly, thus creating a comparatively high barrier to entry into the group; for pooling equilibria, the costs of entering the group are low, and the barriers to entry are low.*

Examples of barriers to entry abound. Skin colour is a common delineator. It is difficult (though not impossible⁵) for white people to understand fully what it is/was like to be black in the southern United States or elsewhere. At the same time it is difficult for most black people to understand fully what it is/was like to be white in societies where skin colour makes a difference. We can read about and even try to immerse ourselves in the experiences of members of the other group⁶, but we cannot join the other group with any degree of ease. Skin colour and other racial characteristics create substantial barriers to entry to many groups.

Language is a second important potential barrier to entry. One simply cannot become even an “associate” member of a group without speaking the common language of the group. This barrier can be overcome, but generally only at high cost for most people who find becoming fluent in a second language to be so costly and so difficult that they choose not to do so.⁷

At a regional or local level, simply pronunciation and the use of a few choice words must be learned if one wishes to signal his/her membership in a group. As another example, learning the jargon and speech patterns of modern rappers creates a barrier that must be overcome for those who wish to become members of certain social groups.

Professionally, language creates barriers to entry as well. People wishing to enter certain occupations must spend years learning the nomenclature and language of the profession, even if it is in their native tongue. Learning the proper terms and their proper use creates a barrier to entry to those who wish to be admitted to the group, and sometimes this barrier can be so high as to be insurmountable.

Another type of barrier to entry is seen in apparel and appearance. Ear rings, nose rings, navel rings, etc. pose relatively low barriers to entry for many people. Similarly, those of us who wished to signal our opposition to the war in Vietnam in the late 1960s found it relatively easy to let our hair and beards grow. However, the barriers to entry are much higher for someone who might wish to hobnob with the moneyed classes or the aristocracy. In this latter case, buying the right clothes, living in the right neighbourhood, sending one’s children to the right schools, learning how to pronounce words the right way, and just getting to know the right people can in combination form insurmountable barriers to entry. Not everyone will have a Professor Higgins to lead the way.⁸ Note how the reference to Henry Higgins of “My Fair Lady” creates a

⁵ For example, see Black Like Me: http://en.wikipedia.org/wiki/Black_Like_Me

⁶ See, for example, the recent work, *The Help*, by Kathryn Stockett.

⁷ Evidence of the costs involved in Canada’s bilingualism programmes can be found here: <http://www.carleton.ca/JMC/cnews/20102000/c2.htm>

⁸ *My Fair Lady*: [<http://www.imdb.com/title/tt0058385/>]

type of barrier to entry: are you a member of a group who recognized the reference? What else must one learn should one wish to become a member of this group?

In many ways, the extreme costs of education can be thought of as a substantial barrier to social mobility and group membership. Further, as information about group membership becomes less costly to obtain, the incumbents of the group, to maintain exclusivity, must devise increasingly costly barriers to entry or else membership in the group loses its cachet and the group takes on less importance. In each of these instances, those who wish to limit membership in the group via a separating equilibrium must constantly strive to make certain that the barriers to entry into the group are sufficiently high as to exclude those who would otherwise free-ride on the benefits of group membership.

Another example that seems topical is circumcision⁹. An uncircumcised male is often excluded from or shunned by the members of a group who recognize circumcision as a sign of membership. In the grand scheme of things, male circumcision may not seem like a very high barrier to entry: if you want to join, you get circumcised. In a different sense, however, because of the near impossibility and extreme costliness of reversing the procedure, having been circumcised potentially limits membership in other groups.¹⁰

4. Market Failure, Government Failure, and Subsidies

One important area of economics recognizes that sometimes market systems do not allocate resources efficiently, relative to some idealized norm. Many of these instances arise when actions of one person or entity impose benefits or costs on others without compensation. Economists refer to such costs or benefits as “externalities”. When externalities cannot be internalized by the entities involved (generally because of poorly defined or poorly enforced legal entitlements or because of high transaction costs), the externalities give rise to “market failure”.

Most market failure analysis applied to the study of culture refers to the encouragement and the promulgation of unique cultural symbols for different groups. If the signals embodied in those symbols are efficient but generate benefits far beyond those which would be captured by the direct producers of the symbols, then it is likely that there is too little of this production taking place, relative to an idealized goal. Canadian examples might include music from the Maritimes or community hockey.

Whenever a market failure of the type described above is identified, there is a potential case for using tax revenues to subsidize the activity. Historically, such government subsidies were carried out by rulers and aristocrats who provided cultural and sporting events for their subjects. One might even argue that *noblesse oblige* is an evolved cultural signal that serves dual purposes: signalling the wealth of the ruler or aristocrat and helping to internalize externalities.

⁹ [see: <http://www.care2.com/causes/politics/blog/san-francisco-could-ban-male-circumcision/>]. The World Health Organization documents that male circumcision is performed in infancy for some groups and performed in adolescence in others [http://www.who.int/entity/bulletin/volumes/86/9/08-057752.pdf; also see http://whqlibdoc.who.int/publications/2007/9789241596169_eng.pdf]

¹⁰ Female circumcision (or “cutting” or “mutilation”) is another example of a cultural or religious rite in some groups. See, for example, https://www.unicef.de/fileadmin/content_media/presse/fotomaterial/Beschneidung/Beschneidung.pdf. We do not include this as a barrier to entry because, although failure to accede to the procedure will bar a young woman from membership of the group, the decision is generally made not by the young woman herself but by her parents.

At the same time, arguments for subsidies overlook the equally serious problem of government failure. When those who spend tax receipts on the promotion of certain cultural symbols or events make mistakes, the symbols are not highly valued by the group members and the scarce resources are wasted.

Government subsidies of cultural activity have been justified on the basis that the importance of cultural activity to a society is not limited to the direct consumers of the output of cultural industries – theatre-goers, museum attendees and so on. In other words, there is a wider and greater consumption effect than the direct benefit gained by the individual consumer. In economics jargon, this argument asserts that there are consumption and possibly other forms of externalities associated with the production of cultural output. In this section of the paper, we examine the potential forms of externalities that may prevail in the culture industry and assess the arguments in favour of government subsidies the arts and culture.

4.1 Background

Economists have long recognized the possibility of market failure. Market failure is said to occur when the market system fails to produce the socially optimal level of output of some good or service. In simple terms, the optimal level of output from society's perspective is that level where the marginal social benefit of output (MSB) equals the marginal social cost (MSC). A competitive market will produce at the output level where the private marginal benefit (MPB) equals private marginal cost (MPC).

$$\begin{array}{ll} \text{Optimal} & \text{MSB} = \text{MSC} \\ \text{Competitive market} & \text{MPB} = \text{MPC} \end{array}$$

Private benefits do not always equal social benefits nor do private costs always equal social costs. Market failure will generally¹¹ occur when there are differences between social and/or private marginal benefits (or marginal costs). The reason for these differences usually involves the lack of private property rights and/or high transactions costs. For example, a commonly used example of market failure is the presence of unpriced environmental pollution resulting from a production process. The producer is imposing an external cost on society so that the social cost exceeds the private cost. In a free market economy, the ability to pollute the environment at no private cost arises from one of two sources:

- the fact that there is no individual who “owns” the air or water and therefore there is no one to sue for damages;
- even if legal property rights are well established, barriers such as transactions costs will prevent the efficient resolution of the issue through the courts or through direct transaction between affected agents.¹²

There are numerous ways for a government to address market failure arising from an externality. They include (but are not limited to):

- Introduce and enforce private property rights;

¹¹ We say “generally”, acknowledging that the theory of the second best allows that multiple distortions may, in effect, cancel each other out.

¹² The Coase Theorem suggests that externalities will not cause market failure if property rights exist and are transferrable (i.e. can be sold). An example of where this may not apply is when an oil company may want to compensate the residents of a coastal area with the right to clean water and land in order to allow drilling operations that may cause pollution. The transactions costs of dealing with millions of residents potentially affected by oil spills would prevent a Coase-type transaction from occurring. R. Coase, 1960.

- Assert ownership as a government as act as the holder of environmental property rights by introducing fees or regulations;
- Assess taxes or subsidies (known in economics as Pigou taxes and subsidies) that eliminate discrepancies between private and social costs and benefits.

The literature on cultural economics suggests there are three types of effects that cultural industries may have on the economy. In the following pages, we examine each one and assess the merit of the arguments.

4.2 Externalities in the Culture and Arts Industries

4.2.1 Consumption Externalities

It is often asserted that arts and culture represents a special industry that merits government support. The argument is based on the idea that arts and culture are a form of public good, a good that has positive consumption externalities. In terms of the analysis presented above, it is argued that the social benefits of arts and culture exceed the private benefits, and so without some form of intervention, relying solely on the market would result in too little production of these goods and services. This argument is usually made for the arts, such as opera, live theatre, painting, ballet, classical music, etc. It is rarely, if ever, made for country and western music.

On the face of it, this appears to be a weak argument. When a painter creates a painting, the output will typically be sold to an individual collector or a public institution like an art gallery. In these cases, the artist has initial property rights that are subsequently obtained by the purchaser. It is difficult to argue that there are direct consumption benefits that this type of work of art that accrue to those other than the purchaser and, in the case of galleries, those who pay the admission fee to see the work. Perhaps one could argue that the existence of the painting confers benefits on the population as whole but it is more likely that any externality associated with the painting has more to do with the presence of creative activity rather than the existence of a particular work of art.

Another form of justification for arts subsidies is that art is a merit good – that people’s tastes are “wrong” and so (sometimes forced) exposure to the arts has benefits that individuals may not realize prior to the exposure. For example, society tries to expose schoolchildren to classical music, literature, poetry and art in the belief that this will improve their creative skills and/or develop in them a “good” taste for the arts and culture. Even if this argument is valid, it is more likely a justification for subsidization of culture and arts activity of the population at large rather than government subsidy of particular works.

4.2.2 Industry Special Features

There is considerable government intervention in some arts and culture markets that might be described as an industry with special aspects. An example of this is the media, including publishing, broadcasting and film. Canadian interventions have included Canadian content regulation, allocation of broadcast licences, limits on media concentration, subsidies of Canadian magazines, implicit subsidies of broadcasters through simulcast, the creation of public television and radio networks, and others.

From an economic perspective, intervention could be justified in the past as the government asserted property rights over radio and television bandwidth. Canadian content requirements could be justified on the basis of merit goods (telling our stories) or as an encouragement to Canadians to engage in cultural activity.

For example, it has been argued that Canadian content regulations have been successful in creating a strong Canadian music industry.

In our view, this argument has little strength. Even if we accept the argument that Canadian content regulations increased the size of the Canadian music industry, now that it is established and the external benefits presumably realized, the justification for continued regulation is not apparent¹³. This form of protection is known in economics as the “infant industry” argument.

The other problem with the protection of mature media industries is that new communications technology render may make such measures ineffective. Internet radio and television, satellite television, and other innovations are limiting the effectiveness of content regulation just as satellite technology weakened CRTC control over long distance telephone communication.

4.2.3 Creativity and Economic Growth

This argument implies that creative societies are the ones that experience economic growth both on a national and local/regional level. The original meaning of culture related to the preparation of the earth for productive activity. The analogy with the “creative cities” argument is that arts and cultural activity enhance creativity, which in turns lead to stronger economic growth. Richard Florida (2002, 2005) is a popular advocate of this theory¹⁴. The argument asserts that economic growth is based on what economists refer to as “human capital”. While economists have traditionally measured human capital by the education levels of the population¹⁵, some researchers have suggested that human capital is better measured as a human capacity for creativity, and that creativity is a product of an interaction between formal education, talent and exposure to culture¹⁶.

Critics of Richard Florida argue that the empirical support for the hypothesis is limited at best. Richard Florida’s results have also been questioned on bases of accuracy of the data and the direction of causality in his model. In simple terms, does creativity facilitate economic growth by enhancing invention and innovation, or do the economic surpluses created by economic growth foster increased creativity as they allow funding support of arts and culture?

By Florida’s reasoning, investments in the arts and culture industry have an impact similar to that of investments in public education, science and technology. The government intervention is justified by the presence of the externality associated with general economic growth. For example, the inventors of the computer and the internet were not able to establish copyright and capture the benefits of their inventions and innovation. In that sense, invention and innovation are in part public goods that merit government subsidies.

This argument creates other difficult questions to answer. If subsidies are justified on their basis of contributing to creativity, which expressions of arts and culture qualify for the subsidy? Do some forms of expression have a greater contribution than others and therefore call for targeted subsidies? We have seen

¹³ Henderson (2008) argues that the Canadian music content regulations that required radio stations to devote a substantial amount of airtime to Canadian music were instrumental in developing a vibrant Canadian music industry.

¹⁴ Florida’s theory has been subject to extensive criticism based on its empirical validity, establishment of of causality, vague definition of what constitutes a “creative worker”, and on other grounds. For an example of such a critique, see Miles and Paddison (2005).

¹⁵ See, for example, Schumpeter (1911), Romer (1986) and Lucas (1988).

¹⁶ Sacco and Segre (2006)

nothing in the literature that addresses these details that a civil servant might need to employ to establish an optimal level of subsidy for ballet or televising professional hockey games.

5. Conclusions

The tools of economics can shed some new light on the development and the means used to produce cultural goods.

While the increase in *anomie* has been decried by some, such limiting of personal information, contact, and “pre-knowledge” is at the core of the most basic of economic models. These conditions, while cause for concern for some culturists, are expected to promote further efficiencies and surplus, thus providing the wherewithal for additional economic growth.

The increase in *anomie* is, however, at odds with some basic human characteristics, including the desire to belong. As *anomie* increases and knowledge of others decreases, the need for and the use of signals about persons’ characteristics increases. This increased need for signals, coupled with the desire for existing members to use them, either to maintain exclusivity or to quickly signal kinship with a broader group, rests on and gives further rise to barriers to entry.

In many cases, the existence of barriers to entry is cause for concern and the *raison d’être* for government intervention in the production of a good. In the case of cultural goods, it is not entirely clear that the existence of barriers to entry warrant such government intervention. For one thing, a complete removal of barriers to entry in the production of cultural goods would likely destroy their value as signals. For another, it would fly in the face of intellectual property protection of artistic expression and creation.

A review of the literature suggests that the economic basis for government support for the arts and culture industries is not particularly strong. The strongest argument (potentially) is that encouraging individuals to engage in creative activity will combine with general education, talent, science and technology to promote economic growth. However, at present there is little theoretical or empirical support for this argument.

If we accept the link between participation in arts and culture and economic growth, the focus of government support for the arts and culture should be to encourage the population at large to engage in those activities. The economic externality argument lends little justification for government support of professionals in the arts and culture industries other than that the presence of local professional may result in some encouragement for public participation.

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