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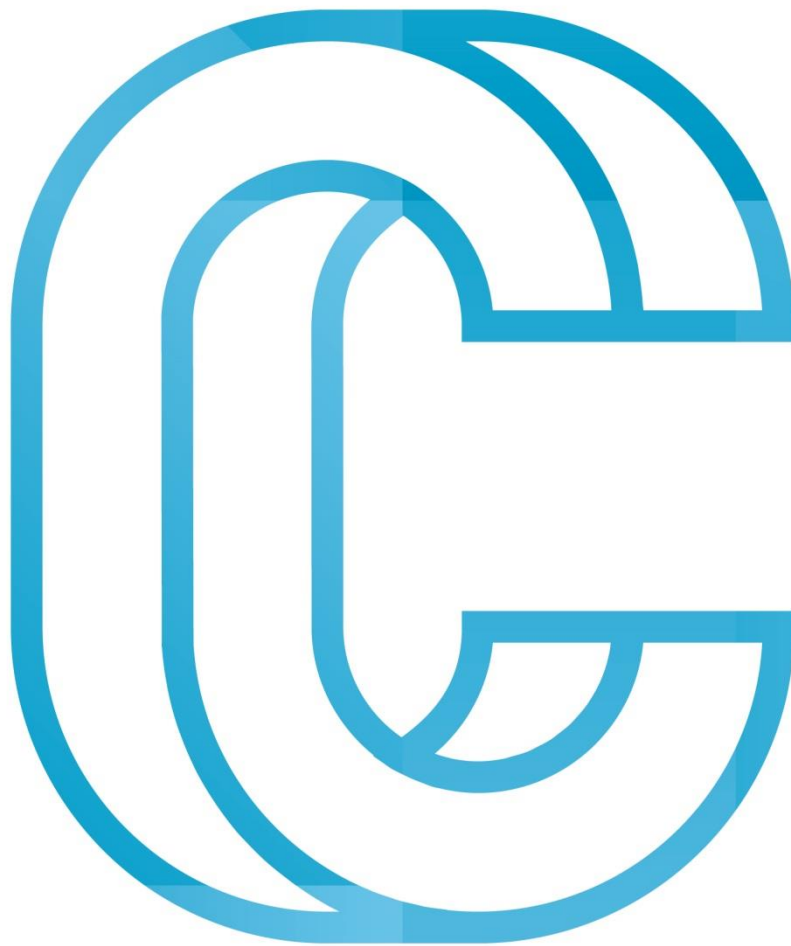
Culture and Economic Development: A Guide for Policy- Makers

Executive Summary

**Gabinete de Análise
Económica – GANEC**

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Executive Summary

“We are *no longer in the noble order of culture* defined as the way of the spirit, we are into a “cultural capitalism” where the cultural and communication industries impose themselves as growth tools and engines of the economy.” The view advanced by Gilles Lipovetsky suggests the contemporary symbiosis between economy and culture. Today, the bias of proof rests with those that do not recognize the relevance of culture to the economy. A major precondition for the full enjoyment of cultural goods, the availability of leisure time and the satisfaction of basic needs, has been democratized and extended to the masses for industrialized economies. A new “world-culture” disorganizes our conscience and existence in a form that may be called creative, but also paves the way for a desperate demands for new products and services that fill the open gaps. A concrete and complex new form of cosmopolitanism, combining market forces, individual consumerism, science and technology and, last but not least, communication and cultural industries, has emerged.

Not all in this close relationship between culture and the economy is pretty or positive. There are mentions of the new culture as a key supporter of “mass hedonism”, “alienation”, a consumeristic “logic of excess”, fuelled by “advertising overdoses”, creating a set of “overabundance” and excessive choices, among other perversities. Culture, in this more secular and prosaic version, has become so enmeshed in the economy that it has gained the benefit – and incurred the curse – of invisibility. Bringing it to the fore and attempting to understand the outlines of this relationship is the subject of this essay.

The contradictions and conflicts between the realms of culture and the economy are very apparent, maybe more apparent than real. However, one must acknowledge at least are seven difficulties to this relation:

1. The difficulty of value – economics and the economy seem to be focused on the value of exchange, while culture deals with immaterial, hard to measure values.
2. The difficulty of exchange – while the economy thrives in evaluation, comparison, and exchange, these ideas are very complex when applied to culture.
3. The difficulty of time - most values exchanged in markets seem to deal with current enjoyment and satisfaction, while many of the outcomes of art and culture are to be enjoyed by yet unborn, future generations.
4. The difficulty of the collective nature – while cultural goods and artefacts are to be valued collectively and cannot be fully appropriated, most goods transacted in daily markets are privately appropriated.
5. The difficulty of the immaterial – goods and services exchanged in the economy tend to have a physical, material existence, while many cultural products do not.
6. The difficulty of “the other” – taste is always subjective, but, while weighing the preferences of different individuals is excluded in economics, it is at the core of creativity, originality, even genius.
7. The difficulty of equilibrium – while economics exploits the concept of equilibrium, art and culture often tread in disruption and dramatic innovation.

Robbins famous *definition of economics* puts forward a “*science which studies human behaviour as a relationship between ends and scarce means which have alternative uses.*” The core element is human behavior, so the human as it acts and reveals itself in action. Economics fits closely with the deservedly well reputed *Maslow’s hierarchy of needs*, in social psychology. The idea is that human needs and desires for satisfaction range from the biological and physiological - breathing, nourishment, drink, shelter, warmth, sex, sleep-, through safety needs - protection from the elements, security, order, law, stability, social needs – a sense of belonging, love, family, affection,-, esteem needs - self-esteem, achievement, independence, status, prestige, managerial responsibility-, and, finally, self-actualization needs - realizing personal potential, self-fulfillment, seeking personal growth and peak experiences. It is hard not to see culture and cultural goods and services as closely associated with the needs identified by Maslow, and progressively so, as individuals distance themselves from the basic survival needs. Interestingly also economics sees humans as enduring non-satiation, as

they seek to attain different, alternative, often conflicting objectives. There is nothing basically conflictive between the realm of culture and the object of economics.

The *definition of culture* is is enrichingly difficult to circumscribe. Culture can as sensibly be defined as “a cumulative deposit of knowledge, experience, beliefs, values, attitudes, meanings, hierarchies, religion”, including abstract “notions of time, space, and concepts of the universe”. Culture can equally be made of the “material objects acquired by a group of people in the course of generations”. In other words, culture is both a knowledge system and a way of life acquired and shared by a relatively large group of people, passed on through the generations and used without much explicit reflection. In sum, culture stands as a conditioning influence for individual and collective action. Thus, culture may and should matter for human behavior.

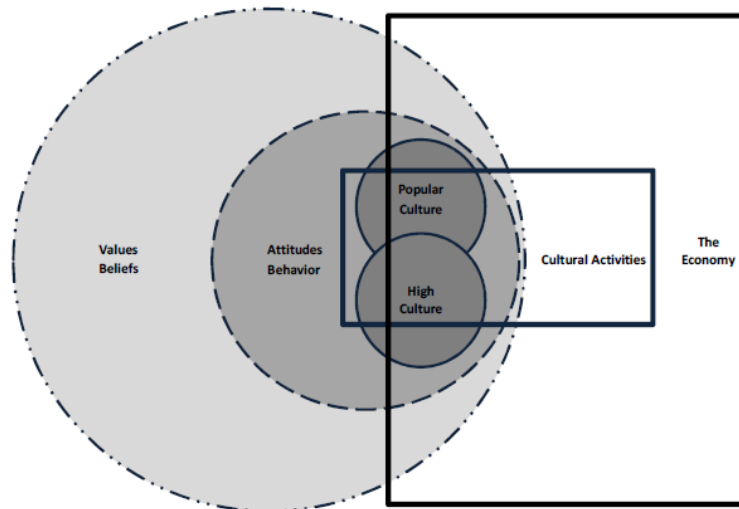
So, *what exactly is culture?* We will choose to distinguish between beliefs, mores, values, on the one hand, held at a deep level and not necessarily validated or in dialogue with material reality, and, on the other hand, attitudes, behavior, and practices, which are routinely engaged and transformed by reality and concrete outcomes. A third possible definition of culture focuses on culture as a transformative and creative process that is embedded in all human activity. In this sense we can define culture any *production process whose core is made up of ideas*, used either as inputs or as outputs. This includes both materializations of high culture such as painting, literature and opera, to the diverse forms of creative industries and activities that have gained relevance in recent decades. Ideas are combinations of underlying beliefs and values, norms and assumptions, accumulated practices, attitudes and knowledge, that respond to incentives and technological changes speedily and spontaneously.

It is important to distinguish between culture as capital, and culture as flow. Culture in the first two senses is a stock variable, something acquired collectively over time and which changes relatively slowly. Culture as creative input and symbolic output can be seen as a flow variable, the inputs or outputs of certain activities, organizations, institutions, and individuals. One of the roles of culture, as in the first two definitions, is to ultimately help define the boundaries of the market, that is, what is acceptable to exchange and under what terms and conditions. Thus, the evolution of culture changes the boundaries of what is “the economy”.

The Figure below presents a schematic view of the relationships between culture and the economy. From a broader set of values and beliefs – as in the first definition of culture above-, a set of attitudes and behaviour emerges – the second definition of culture above. We can view high culture and popular culture, which include an area of intersection between the two, as subsets of both values and beliefs, and attitudes and behaviour. The third definition of culture encompasses cultural activities, some of which are outside the scope of the economy, many are within what is defined as the economy. Notice that cultural activities involve values and beliefs, attitudes and behaviour, and a mix of high culture and popular culture, as well as elements outside the range of culture. The part of cultural activities that are within the economy can be termed the cultural sector.

Throsby (2001) suggests a breakdown of “cultural value” into a series of different elements, including: *aesthetic value*, properties of form and harmony (or their contrary, we might add); *spiritual value*, appealing to inner qualities that inchoate in a specific group; *social value*, if it provides a sense of connection with others, within the same group or not; *historical value*, when it registers and reflects past events that are of an important reference to a community; *symbolic value*, when they create, preserve or convey meaning; *authenticity value*, when they display a unique character - unicity in production, as in fine arts, or uniqueness in content.

Culture and the Economy



Can the methodology of economics appropriate accommodate culture? One way to organize the way economics views the world human wants, desires, and possibilities, is to acknowledge the contrast between two approaches to economic reality:

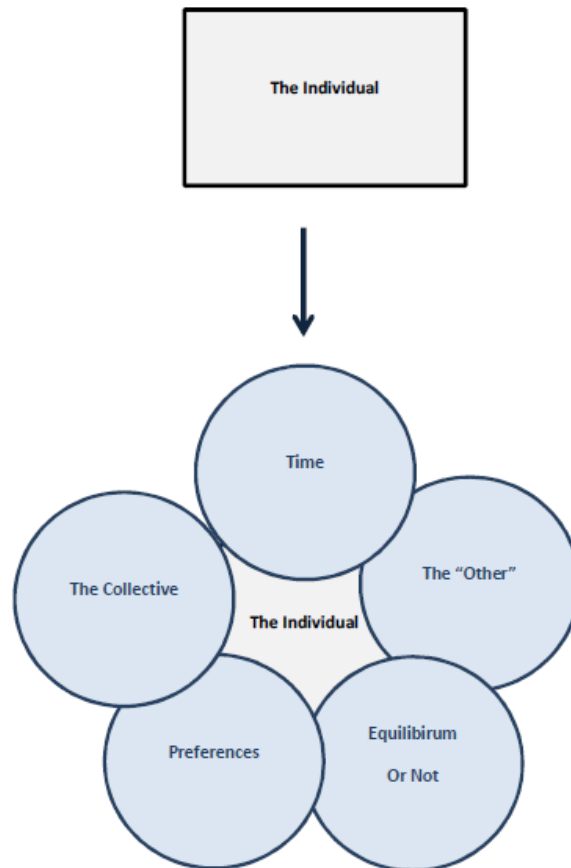
The objectivist or positivist approach – relying on observable individual behaviour, revealed by choices made over a set of tangible goods and services, including leisure.

The subjectivist approach – relying on information on intangibles, such as opinions and valuations collected or inferred through surveys of individuals.

The latter approach has had more difficulty in being validated by mainstream economics, and often rejected as “less scientific”. However, progressively, many non-objectivist theoretical analyses have gained relevance in economics, incorporating emotions, identity, self-esteem, meaning, status, and so on. The two views above are related to a fundamental distinction in economics that is relevant in any analysis of social systems: the distinction between production and technology, on the one hand, and utility and preferences, on the other. Production and technology define what is “physically” feasible, while utility and preferences relate to how individuals value, in

subjective terms, the resources put at their disposal through production, barter, and exchange. These resources that bring enjoyment include all goods and services, leisure, but also any material or immaterial elements that affect well-being. Economics has evolved towards validating the importance of utility and preferences, and progressively adopted an approach that facilitates the incorporation of culture into the discussion. Some of the specific features that facilitate the incorporation of culture in an economics-based framework include, on the *utility and preferences* side: the incorporation of *interdependent utilities*, where the utility of one individual depends on the utility of other or others; the idea of *procedural utility*, whereby the valuation of actions depends on the process associated with the actions as well as their outcomes; appropriately considering the *benefits for future generations*, the yet non-existent that cannot exert influence in markets or politics, those who are affected by the creation of goods whose benefit or cost will persist through time; and considering *cumulative time-dependent tastes*, a sort of loving by consuming whereby the appreciation of a good or service changes over time by the mere fact of coming into contact or consuming that good or service. On the *production and technology* side economics has approached culture by: acknowledging *externalities and spillovers*, whereby the value of products does not fully correspond to the value attributed by market mechanisms – the price; considering *intermediate public goods* that enter production but depend on societal-level outcomes; analysing production functions that integrate *subjective and immaterial inputs and outputs*; and acknowledging the presence of high levels of *risk and unquantifiable uncertainty* in economic and social exchange. The figure below suggests the changing and broadening focus of economic science, most of it towards a more congenial consideration of culture and cultural factors.

The Evolving Economic Science



One key conceptual framework is that of Pier Luigi Sacco (2011), who provides *a context for analysing culture as the production of ideas*. Pier Luigi Sacco suggests three stages in terms of the connection between culture and the economy, interpreted and summarized in the Table below.

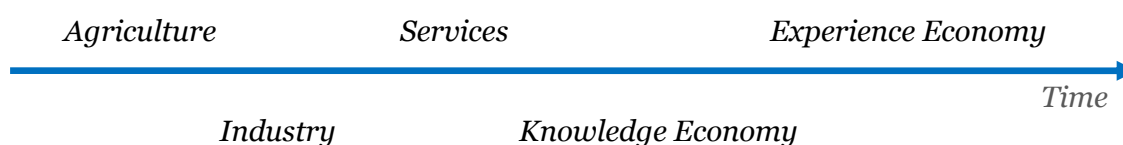
Culture 1.0. to Culture 3.0. – A Characterization

	Culture 1.0	Culture 2.0	Culture 3.0
The Wealthy and the Powerful	Patrons and audience	Lose singular role, still relevant	Still relevant
The Masses	Absent	Becomes a major audience	Become producers as well as audience
The State	Mostly absent	Becomes major patron	Loses relevance
The Artists	Few and far between	More and more	Everyone (or not?)
The Technology	Mostly manual and idiosyncratic	Technologies for mass diffusion, expensive technologies in production	Accessible technologies for production and mass diffusion
The Overarching Values	Prestige, status and reputation of the few, conformity towards after-life bliss	The nation, the state, the citizen, conformity to broad group values	The cosmopolitan in the global villager, freedom of creation and expression
Major Economic Sector	Agriculture, some commerce	Industry, agriculture declines, commerce gains	Services, deindustrialization

A *parallel narrative* of the relationship between culture and development focuses on *sectoral change*, the different importance sectors of the economy acquire through time, as an economy develops and becomes wealthier. Here we should highlight the

movement that started with economies relying in agriculture, with relatively low-productivity, autarkic economies and conservative societies that lacked any significant growth in output per head. The movement toward industry, accelerated in the past two hundred years, has seen the growth of a mass of employees agglomerated in and around major cities, the emergence of new social movements and a yearning for voice and democracy. The invention of new media – including photography, cinema, radio and sound recording, later television – have multiplied the audiences of cultural products. Increased incomes for the masses and, notably, extended leisure time in the wake of the regulation of the work day and the working week, led to the emergence of a profitable and powerful entertainment industry with growing economic significance. The rise of the service sector and the period of deindustrialization after the post World War II boom saw a substantial change in the workplace, with several economic activities becoming intertwined with skills akin to the cultural field, such as the ability to communicate, empathise with others, and tolerate diversity rather than seek uniformity, all in contrast with a Fordist approach to production that was characteristic of the mechanics of industry. *The contemporary period* is harder to classify as far as the relation of culture to the structure of the economy. Here we suggest a key to the decoding of current developments are the ideas of knowledge economy and experience economy. Knowledge – formal and informal, inherited or acquired – has gained substantial relevance in the service economy which relies increasingly in specialization, innovation and international trade for continued growth and prosperity. A structural shift now associates value in production and in consumption with highly complex, symbolic elements whose connection with culture can all but be ignored, the so-called experience economy. The Figure below presents the structural evolution of economies as a time line that is relevant to culture.

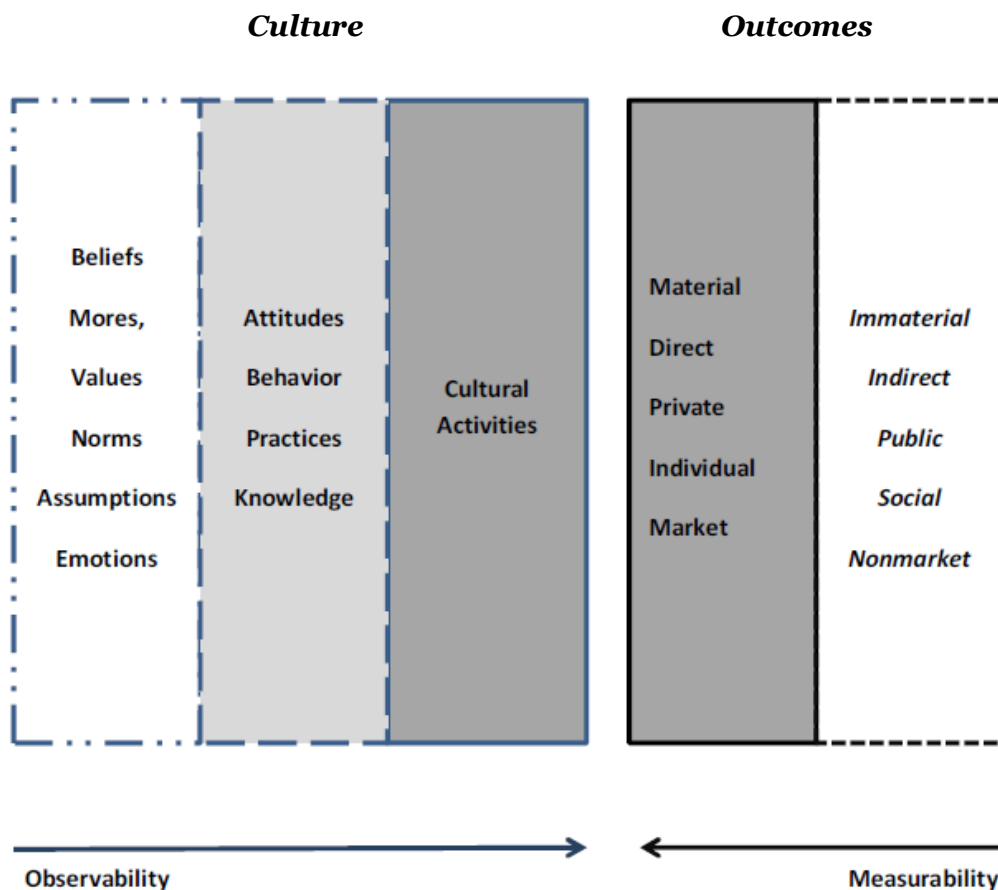
The Changing Economy



The Figure below proposes a framework to understand the *relationship between* the various manifestations of *culture and economic outcomes*, where in the latter we

include well-being and not just material output. At the deepest level, we are influenced by values, beliefs, norms and assumptions that are culturally shared by the communities we are a part of and culturally transmitted through time, intermediated by family, ethnic and national groups. These deep seated, unobservable features then translate into attitudes, emotions, and knowledge which, though hard to examine, are of a more salient nature. Values and norms are seen as more deep-seated than beliefs, and harder to change, as beliefs may be updated from experience or from interaction with others. Cultural activities, of which the so-called cultural sector is an important part of, delve on acquired values and behaviour, as well as other inputs, to produce artefacts, goods and services. On the part of the definitions of culture, we move from left to right towards increased observability. On the part of outcomes, we can distinguish between those that are simpler to observe and measure, usually material in nature, direct and private as to their attribution, well mediated by individual actions in the market. Harder to observe and analyse are outcomes that are immaterial in nature, indirect or social as to attribution, involve public or collective elements, are not necessarily traded in the market, and their value is poorly reflected in prices.

From Culture to Outcomes



We review, interpret, assess, and organize the thriving economics literature that deals with the economic consequences of culture, in its many guises. The literature is recent, prolific, and relatively ignored. We uncover important effects – both material and immaterial - of culture on the economy. Certain cultural traits are associated with higher income economies, which have developed over time wider and more efficient approaches to social transactions. Also income growth depends partly on identifiable cultural characteristics at the country level. Cultural infrastructures, it has been demonstrated, affect the local agglomeration of talent and long-run growth. Culture is associated with more equitable distribution of income, better firm performance, and employability. Culture also promotes individual saving and is complementary to issues of sustainability. Finally, as far as the material consequences of culture are concerned,

culture has a clear effect on the intensity of bilateral trade transactions and, more generally, international economic exchanges.

As to the, probably more important, though harder to assess and evaluate, immaterial consequences of culture, we find, from the economics literature, that culture is associated with the accumulation of human capital, the education and skills that foster economic growth, and social capital, a high level of inter-personal trust and participation in communal affairs that is also an important element of prosperity. Certain features of culture foster a higher tolerance of diversity and better common institutions. Culture is associated, in many guises, with a rise in innovative capacity and a risk-taking attitude that promotes prosperity. Identity, especially at the local and regional levels, can benefit greatly from culture and cultural activities, and soft power, as exercised by national states, often derives substantial clout from cultural presence and stamina. Finally, indicators of individual happiness seem to respond positively to exposure to cultural activities.

Several empirical methods have been developed to try to answer evaluation problems. It is important for policy makers to understand why it is key to perform a particular study of the economic relevance of culture, cultural activities or infrastructures. In this paper we provide the benefit of a road-map of the most common empirical methodologies that are suitable to evaluate the economic consequences of culture. The essay briefly surveys both statistical and accounting methodologies. Typically, information on cultural activities and infrastructure will be among the variables used to explain a given economic outcome.

On the statistical front, Ordinary Least Squares is a standard technique to evaluate possible joint influences of a set of variables on a given outcome. Though Ordinary Least Squares uncovers the robustness of a correlation between variables, it does not deal directly with causation, whether and how a variable affects other. Both Instrumental Variable estimation, Randomized Experiments and Natural Experiments address causation. The former through the use of a variable that is not affected by the variable to be explained, the latter two by using constructed or observed instances where an exogenous change has the potential to affect the explained variable. Regression Discontinuity Design tests whether small changes in the explanatory

variable are associated with substantial changes in the variable to be explained. The Difference in Differences Method tries to evaluate the impact of a given treatment – event or policy – on outcomes by comparing a treated group with a control group, as similar as possible to the first, but not subject to the same event or policy action. Qualitative Dependent Variable methods are applied where the variable to be explained is of a qualitative nature, In some cases, the dependent variable may be truncated or censored – respectively observed only for part of the universe of outcomes, or not observed by part of the observers - and special methodologies need to be applied.

On the accounting front, studies of Economic Impact Evaluation, the most common in the area of cultural policy, try to evaluate the direct and indirect economic impact a given cultural policy or infrastructure. Similarly, an Economic Footprint Analysis, evaluates the contribution of a sector to overall economy. The Social Return on Investment adds to the direct and indirect economic impact, social externalities – positive or negative, often non-material effects of the policy action on individuals and society. A third and promising avenue, benefitting from both statistical and accounting methods, tries to attribute an economic value to objects or activities whose benefits are to a considerable extent immaterial, such as cultural identity or the preservation of intangible cultural assets,

The European Commission recognises a change in its approach to culture policy. The focus is now beyond traditional categories of cultural expenditures, towards a more proven framework for developing the cultural and creative industries. The main process is to undertake a review of the cultural and creative assets of the different regions and mobilise them for the three different growth priorities of Europe 2020. This suggests a move towards a broader inclusion of culture as an instrument for economic and social development, recognizing culture as a provider of important spillover effects into other economic sectors.

In spite of the above, cultural policy at the level of the European Union has lost centrality, though often acknowledged as having transversal importance. We relate the different outcomes of culture, as presented before, to the three pillars of European Union Policy for the coming years. The Figure below suggests there are important

connections between culture and EU's objectives, namely as it pursues innovative growth and inclusion.

We exploit several examples of specific cultural policies pursued in Europe and North America, and systematize how each contributes to economic development through a particular set of material and non-material outcomes. In the final section, we collect a relevant set of indicators related to innovativeness, inclusiveness and sustainability at the national level. We then relate indicators of the importance of the cultural sector and of cultural participation by country citizens to relate them with the above-mentioned indicators. We find that Portugal fares poorly in terms of the importance of the cultural sector, in its different guises. Maybe more importantly, in the cross-section of European countries, we find that cultural participation and the size of the cultural sector are closely related to measures of innovation and inclusiveness at the national level. Portugal thus loses on both fronts, innovation and inclusion, due to the little importance of the cultural sector. Moreover, indicators of innovativeness and inclusion are lower in Portugal than what would be predicted given its weak cultural sector. These results suggest the ample ground for developing cultural policy-making in Portugal in ways that further the connections between cultural actors and institutions with the economy at large.

