

**Abstract “A New Culture Policy must address the Economics of Culture”
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Introduction to the State of Debate in 2007

Culture as an economic activity is a daily topic for artists, who have been culture entrepreneurs for centuries. For cultural and economic politics, however, it is a new challenge that commercial culture production has such large dimensions – being both larger than public spending for culture and larger than many traditional economic fields such as real estate, automobile production or the chemical industries. The study “The Economy of Culture”, produced by KEA and commissioned by the European Commission in 2006, is the latest piece of research in a series of studies carried out in Northrhine-Westfalia, Germany, and the UK since the 90ies.

The empirical results are similar all over Europe: The so called “Creative Industries” produce at least 2,5% of GDP reaching up to a stunning 7% in some countries. However, the definition which lines of business are to be included and to what extent still differs from country to country. Usually commercial activities in the performing arts, music, visual art, literature, architecture, design, fashion, film, tv, gaming, advertising and journalism are included. The role of the public sector and cultural heritage is also calculated differently. Furthermore there is no satisfactory data base yet – this is one of the main results of all studies in Europe, be it on municipal or on European level.

While the Economy of Culture reached the highest political attention so far in 2007, it has also revealed its lack of empirical description and understanding.

Understanding Markets of Culture and Creativity

1.) Markets of creative or culture products are inherently fragmented (hidden information) and lack reliable foresight (hidden action). Since we expect a culture / creative production to surprise the audience with a new idea, the acceptance of culture products can not be foreseen. Such markets are always high risk.

Industrial products work the opposite way: they constantly reproduce the same product and quality like a car or a yogurt. The method of industrial economies of scale production is not creative.

Thus cultural and industrial products are inherently different and follow different market laws. *A new Agenda for Culture Policy must address the specific economics of culture – not that of industrial products.*

2.) Baumol's law of cost disease prohibits earnings by economies of scale. One hour of singing still needs one hour, while the production of watches per hour increases from year to year. Reducing the cost of production by economies of scale results in increased earnings per hour. This industrial strategy is not available for culture and creative products.

This implies two results:

- a) Individual incomes in the creative industries are limited by economies of communication and social network effects¹, not by the economies of scale production.

¹ Prof. Martin Kretschmer, Bournemouth University in: German Yearbook Creative Industries 2006

b) For some cultural productions, public spending should increase in relation to other public spending topics, which are getting cheaper each year due to increasing economies of scale.

3.) The fragmentation of cultural markets implies high costs of information and of market orientation. Cultural markets (especially cross-country) are expensive to work in both for the cultural consumer and the cultural entrepreneur. This is the main reason why the European common market is not working at its best for the cultural markets. However, there is a second aspect which needs to be considered: fragmentation is the economic counterpart of the diversity of culture, which are in the end the spirit of the market and the fundament of cultural identity.

A new Agenda of Culture Policy must address the balance of diversity (implying innovation) and market functioning. If diversity is increased to a point where the costs of information and market orientation stop the audience from experiencing and consuming culture, creative and culture markets will fail.

Today I recommend to increase market orientation without reducing market fragmentation and without reducing diversity. This will promote diversity and innovation in itself from within the culture sector.

Policy Strategy Recommendation

As conclusion we can learn that politics – whether from the culture or economic department – has one option to promote cultural entrepreneurs without damaging cultural diversity. It must not reduce risk or increase market foresight – this would attack cultural identity. It must in contrast **reduce the costs of using markets**, which means: more information efficiency on the cultural markets and cultural entrepreneurs.

Politics must implement **more information tools** on cultural markets – from public to private radio and television, internet portals, magazines, fairs, audience development and – to begin with: cultural education. In the European context this means first of all budgets for translations and cross-country networks which support commercial promotion and selling for foreign products.² To sum it up: The time to market must be reduced.

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² This is much more than artist mobility. Short-time mobility does not make a long-term audience and does not guarantee an on-going promotion and selling effects.