
WHAT'S DIFFERENT ABOUT CULTURAL PRODUCTS? AN ECONOMIC FRAMEWORK

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Executive Summary

Cultural products are goods and services that include the arts (performing arts, visual arts, architecture), heritage conservation (museums, galleries, libraries), the cultural industries (written media, broadcasting, film, recording), and festivals. UNESCO has declared that these products are “not like other forms of merchandise”. Such a declaration has far-reaching consequences for public policy toward culture, and for the treatment of these goods and services in international agreements regarding trade and investment. That cultural products are not like other goods is a distinction with considerable appeal, but one that calls for significant clarification. This report provides an economic framework for understanding and assessing the UNESCO assertion.

In the first instance, from an economic perspective, a good might be unlike other forms of merchandise if competitive market forces do not lead to its supply in the amount that society wants. The policy prescriptions that emerge from the field of *cultural economics* are based on the claim that markets for cultural products cannot be expected to meet the conditions under which purely market-mediated production will be the most efficient. Section 2 of this report summarizes and synthesizes this conventional “market failure” view of cultural products. While this strand of the literature certainly supports public action in the field of culture, its appreciation of the economic value of culture is substantially abbreviated.

The economic significance of cultural products is not merely that markets will under-supply them. Section 3 of this report argues that cultural products contribute critically to a class of goods that might be called *social goods*. Social goods are to a greater or lesser extent like more conventional public goods: as with clean air or a beautiful landscape, one person’s consumption does not reduce the amount available for others, and once the good is supplied to one person it is difficult to prevent anyone else from benefitting from it. Whether or not some social goods are pure public goods in that sense, a social good has the additional property that its consumption exhibits *strategic complementarities*: its value increases as more people consume it. Examples of social goods considered in this report are *social cohesion* -- social networks, norms of reciprocity, and trust that facilitate economic activity -- and *national identity*. Neither social cohesion nor national identity make any sense as valuable goods except at the aggregate, societal level: one cannot enjoy fellow-feeling without other fellows. Cultural products provide the raw material for a national conversation that allows the formation of national identity and for the construction of social cohesion. Works of art, television programs and heritage are the basis for discussions among Canadians about values and the interpretation of social reality. Without such discussions, people cannot come to share values; without cultural products, people don’t have so much to discuss.

Once the important contribution of cultural production to social cohesion and national identity is established, domestically-produced and imported cultural products can no longer be viewed as “like goods”. Domestic cultural production forms a critical part of discussions about values in a way that many imported goods cannot. This is not an argument for restricting cultural imports, but policies to assure “shelf space” for domestically-produced cultural products can be justified on the grounds of economic efficiency. Cultural policy should not dictate content, but by providing selected incentives for Canadian cultural producers, it can increase the probability that the cultural products on offer will provide a productive basis for the national conversation.

Moreover, domestic cultural products, in addition to contributing to social goods, constitute a social good themselves. In contrast to clean air or a fish stock, domestic culture is an anti-commons: the more people use it, the more it is worth for all. In economic terms, the

consumption of domestic cultural products generates important and heretofore unrecognized *externalities* (benefits or costs imposed on third parties). There are at least four types of such spillovers caused by one person's consumption of a domestic cultural product. First, there is a *network externality*. Part of the value of consuming a cultural product is sharing the experience with others; one more consumer raises the number of people among whom the experience is shared. Second, there are *cross-product externalities*, given that consumption of one domestic cultural product (e.g., visiting a heritage site) raises the value of the consumption of other domestic cultural products (e.g., reading a historical novel set at that site). Third, consumption of the domestic product creates *commercial externalities*, if it raises the commercial viability of industries associated with domestic cultural production. Finally, there are *intergenerational externalities*, if support of today's production makes contributes to the "dense and diversified" cultural base necessary for future domestic cultural production.

Evaluation of public policies affecting cultural production has not typically considered culture's contribution to social goods. Thus, cutbacks in support for the arts or cultural industries, for example, will have complicated effects on social cohesion and national identity. Section 4 discusses how the tools of social cost-benefit analysis, the principal method of assessing the economic efficiency of public policy, could be stretched to include these concerns. While conceptually and theoretically feasible, explicit valuation, in dollars and cents, of the contribution of a new novel to social cohesion (for example) is likely to be expensive and distinctly imprecise.

This report raises more questions than it answers. Further research and analysis will be productive in several areas. What are the right policies to ensure an efficient supply of social goods? What is the economic role of social goods? How can social goods be feasibly and reasonably included in the evaluation of public policy? Answers to all of these questions will provide critical insights into better cultural policy; conversely, better understanding of the economic value of culture will help provide better answers to those critical questions.

1. Background and purpose of the study

At the close of its 1998 Stockholm conference on cultural policy and development, the United Nations Educational, Scientific and Cultural Organization recommended that member states “[p]romote the idea that cultural goods and services should be fully recognized and treated as being not like other forms of merchandise” (UNESCO, 1998, Recommendation 3.12). Indeed, the notion that such goods are “not like” other goods presumably lies behind the considerable government support for the arts and culture in many countries; this same notion lies behind the cultural exemptions in international-trade agreements (the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), the North American Free Trade Agreement (NAFTA)) and behind the acrimonious foundering of recent international-trade negotiations (the Multilateral Agreement on Investment) on the treatment of cultural products. But how exactly is it that cultural products are “not like” other products? This document will provide an explicitly economic conceptual framework. This framework highlights the special roles of cultural products, provides an economic rationale for public action in the cultural arena, and proposes analytical methods for assessing the economic value of these functions.

How might it be that cultural products are not like other goods? For economists, a good might be considered special if there are reasons to suspect that competitive market forces will not lead to an efficient supply of the good. Thus it may be that market forces lead to a level of supply and mix of cultural products that is different from the level and variety desired by society as a whole. In such cases there is a well-founded justification for efficiency-enhancing government intervention in the workings of the market; probably the first major contribution of cultural economics was to demonstrate the appropriate role for public action in the arts and culture, and these rationales are reviewed in Section 2.

Another answer to the question raised by the UNESCO declaration is that cultural products should be treated differently in international-trade arrangements. It may be that governments can enhance economic welfare by promoting the creation of cultural products, but it does not necessarily follow that domestic cultural production should be favoured over imported cultural products. Yet this is just what notions like the “cultural exemption” seek to do. Proponents of a cultural exemption from free-trade rules tend to insist on the role played by domestic cultural products in promoting, constructing, and sustaining “social goods” like national identity and social cohesion. Making the argument this way downplays any any directly economic or efficiency-enhancing rationale, and removes protectionist policies from economic scrutiny. But it is worthwhile to ask whether there is an economic rationale for the promotion of national identity and social cohesion. This document will argue that there is, and will argue that domestic cultural products contribute to these social goods in a way that imported cultural products do not, so that, in the language of international trade rules, a domestically-produced magazine and an imported magazine, are not “like goods”. These arguments are made in Section 3.

First, to the extent that people value national identity or social cohesion -- in cold economic terms, under appropriately-defined circumstances, they would be willing to pay for them -- then if domestic cultural products contribute to these social goods, there is an economic rationale for supporting domestic cultural production. That is, this report will make an economic version of the argument that such social goods are intrinsically valuable. Second, this report will summarize recent economic research that demonstrates that social cohesion contributes to economic growth. In addition to being a social good valued for its own sake, social cohesion is associated with higher rates of economic growth. To the extent that domestic cultural products promote growth-enhancing social cohesion, this provides an additional rationale for their promotion.

Section 4 moves from conceptual to measurement issues. How can these benefits of cultural activity be quantified so that they might be compared to benefits and costs in other economic realms? It has become a commonplace for promoters of the arts and culture to assert the impossibility of such an exercise. University of Regina economist Michael Rushton (1999, 313), an expert on the economics of arts, writes that

Advocates for the arts will have a better case, and a more convincing case, if they reject the pseudo-science of multiplier effects and job spin-offs, and instead simply make the case that a public good -- one that cannot be reduced to cost-benefit analysis but that is a public good nonetheless -- has a valid claim for public support.

Likewise, Victor Rabinovitch (1999, 212), a former assistant deputy minister in the Department of Canadian Heritage, after presenting an impressive list of Canadian cultural achievements in recent years, asserts that “statistics cannot assess the significance of these cultural products, whether to us as Canadians or as reflective individuals.”¹

Measuring the economic value of cultural products might be morally unpleasant to many, but it does have the considerable virtue of expressing the benefits of culture in the same currency (literally) as, say, the putative benefits of an internationally-open trading system, or the costs of public support for cultural production. Public resources provided to artistic creation could always be diverted to highway maintenance or hospitals or tax reduction; a framework for assessing the benefits of cultural products that is commensurate with approaches for measuring the benefits of hospital beds and kilometres of highway would therefore be useful to policy-makers. Moreover, advances made in the last ten years in the quantification of environmental costs and benefits present significant opportunities, as well as certain limitations, for the problem of quantifying cultural benefits. This report will remain rather agnostic on whether the value of cultural products in the broadest sense can be reliably and precisely measured. It will, however, argue that existing methodologies can be fruitfully adapted to quantify many dimensions of culture’s benefit to a group of people like a province or nation.

This document is not the appropriate forum for a technical elaboration of this framework using the conventional mode of expression of economic analysis. Rather, this document seeks to outline the framework in non-technical language free of disciplinary jargon.

2. Traditional arguments for public support for domestic cultural production

UNESCO’s assertion that cultural products are not like other forms of merchandise immediately raises two questions. First, just what are cultural products? Second, what are the relevant characteristics of normal goods so notably lacking in cultural products?

The first of these questions has been answered by UNESCO itself: it defines culture as “cultural heritage, printed matter and literature, music, the performing and visual arts, cinema and photography, radio and television, and socio-cultural activities” (cited in SAGIT, 1999). The Department of Canadian Heritage has elsewhere adopted the following list, based on Statistics Canada conventions, comprising the arts and culture sector (The Outspan Group, 1999, 2):

- Arts (performing arts, visual arts and crafts, architecture, photography, design);
- Heritage Conservation (museums, galleries, libraries, archives, parks);

¹On the issue of measurement of the arts sector, see also, *inter alia*, Brosio (1994) and Farchy and Sagot-Duvaurox (1994).

- Cultural Industries (written media, film, broadcasting, music, new media); and
- Festivals.

This document will use the ungainly term “cultural products”, with the understanding that this comprises both goods (compact discs, books, paintings) and services (ballet performances), both mass production (movies) and exceedingly small-scale production (sculpture), both new (video art) and old (archival collections) things.

The second question -- what is a completely normal good, like any other merchandise -- is answered with recourse to an economics textbook. A completely conventional good would have the following characteristics:

1. Its market-determined price accurately reflects its value. In part, this means there are no negative or positive spillovers of the production or consumption of the good; alternatively, no good or bad side-effects of the transaction are imposed on any party outside the transaction. (The classic example where this assumption is not met is environmental pollution generated by the production of a good like steel -- a cost imposed on people outside the transaction and paid for neither by the producer or consumer of the steel.) Call this the *no-externalities* assumption.
2. Consumers and producers have excellent information about all relevant aspects of the production and consumption of the good in question, including the quality of the good produced, and the future demand for the good. This is the assumption of *perfect information*.
3. The technology for producing the good involves no significant start-up investment costs, and firms can easily enter or exit the market for this good. This assumption is known in economics as *constant returns to scale*.
4. Finally, the market for this good would be supplied by a large number of firms, each providing an identical good, none of which had any power to influence the price of the good. Call this assumption *perfect competition*.

When these assumptions are met, modern economic analysis has demonstrated that the free play of market forces will lead to the allocation of resources that, conditional on the original distribution of wealth, is most efficient. Efficiency in this case means that no reallocation of society's economic resources could improve on the market outcome without making someone worse off.

Whether the market for *any* good in the modern economy really meets these assumptions is an open question, but many people would agree that most forms of cultural production fail all four of these assumptions. In that case, the market outcome is not predicted to be the one most desired by society. This is the phenomenon known as *market failure*. In that case, non-market - namely, government -- efforts to alter the level of cultural production and the mix of cultural products could make everyone better off. This is among the first and most developed research themes taken on by the growing field of cultural economics.² In the remainder of this section, we will explore how cultural production fails to meet the four requirements for an efficient market-mediated outcome.

²The achievements of cultural economics are reviewed briefly in Frey (1994), and Rouet (1998). Longer treatments include Benhamou (1996), Farchy and Sagot-Duvaurox (1994), and Throsby (1994).

2.1. No externalities

Cultural production likely generates significant externalities, costs and benefits that are not captured by a market-determined price. As a result, too little (in the case of positive externalities) or too much (in the case of negative externalities) cultural production will result. Farchy and Sagot-Duvauroux (1994, 24) point out that the presence of a theatre or cinema in the downtown generates externalities for surrounding businesses, like restaurants and cafes. Benhamou (1996, 86-87) cites the positive spillovers created by cultural production for tourism. Firms in the mass media, Benhamou notes, are able to capture the benefits of spillovers created by the performing arts by sponsoring music festivals, concerts and tours.

The extreme case of externalities is the *public good*. A public good has two fundamental characteristics, each defined with a bit of economic jargon. It is *non-rival* in consumption, which means that my consumption of the good does not diminish in the least your possibilities to consume the good; this is something we cannot say about shoes or bread, but public sculpture can provide a powerful experience for me and for you equally. It is *non-excludable* in consumption, which means that if one person consumes the good, it is difficult to prevent another from doing so as well. Public sculpture again has this characteristic; once the good is supplied to me, it is effectively supplied to everyone else who passes through the plaza where it is displayed. Not so movies or bread or shoes and socks: the technology exists to exclude, reasonably easily, people who don't pay for them from consuming them. The classic example of a public good is national defence. If a new baby is born in Canada during the time you read this document, her presence will not diminish the extent to which you are protected by the Canadian armed forces (national defence is non-rival). Nor, given that national defence is already being provided to all of us before her birth, is it a simple matter to prevent the new baby from enjoying the benefits of national defence (which is also non-excludable).

When urbanites derive benefits, for which they do not have to pay, from a beautiful building or some public art, a purely private market would tend to under-supply such goods. A private supplier could not extract payment from all of those who benefit, and would accordingly not cover the costs of the optimal level of supply -- that is, the optimal number of beautiful buildings or public sculptures. All of society would be better off if at least part of those costs were covered from tax revenues, whose payment, after all, is compulsory. Similar arguments apply to radio and television broadcasting. If a broadcasting firm were to rely on payment from listeners or viewers, it would fail to cover its cost, even if people derived positive benefits from its broadcasts. Once a consumer buys a radio or television, she is free to receive broadcasts (which are non-excludable) without impinging on others' enjoyment of the broadcasts (which are non-rival).³ With the advent of encryption technologies and cable broadcasting, which effectively permit suppliers to limit transmission to paying customers, the public-good characteristics of much radio and television broadcasting is diminishing; broadcasting by means of new media like the Internet occupies a grey area.⁴

³In practice, radio and television broadcasters (and, notably, Internet content providers) have historically solved their public-good problem through advertising. "Les radios et télévisions commerciales ont contourné le problème en s'abstenant de vendre des programmes à des auditeurs pour vendre des audiences à des annonceurs qui deviennent les véritables consommateurs de télévision, ce qui rétablit ainsi la rivalité des consommateurs et leur possible exclusion" (Farchy and Sagot-Duvauroux, 1994, 22).

⁴ Content provided on the Internet is virtually a public good for those with Internet connectivity. Access to the Internet is still a relatively rare thing on a global scale, and even today far less diffused than access to television and radio in Canada: Bill Cross (1998, 140) reports that in the mid-1990s, two-thirds of Canadians had never logged on to the Internet. Nevertheless, this proportion is increasing rapidly.

In Section 3, I will argue that externalities of a very special sort are at work in the provision of cultural goods, but different in quality from those considered here⁵

The policy prescription: Where there are significant externalities, there is a good case to be made for government intervention. Typically, governments can tax parties who create negative externalities (like polluting firms), or subsidize those who create positive externalities (like educators). In the case of public goods, governments can pay for them from tax revenues, and purchase them from private parties or produce them in-house. These are powerful arguments for subsidies and state support of cultural products, in particular performing-arts companies, art in public spaces, and broadcasting.

2.2. Perfect information

Markets for cultural products will also be beset by information problems. Pignataro (1994), for example, formulates a model based on performing arts like theatre; such products are essentially *experience goods* in the sense that the consumer really cannot verify their quality before they are purchased. (Theatre critics and word of mouth only provide only limited information; you'll really know you like it only when you see it.) Pignataro shows that, even under conditions of perfect competition, there will be an inefficiently low number of new productions and a tendency for theatre companies to restrict their offerings to conservative repertory that pleases established audiences. More generally, many cultural products are experience goods in this sense, and consumers' uncertainty about what they are getting when they purchase something vitiates the market efficiency argument.⁶

There are further problems with information. First, many cultural products probably have significant "option value" for people. Even if the consumer does not consume the product right now, she derives some benefit from knowing that she could, under some set of future circumstances, consume the product. There is some uncertainty for the potential consumer. This uncertainty is problematic for the supplier, who cannot be assured a profitable existence, unless enough potential consumers "exercise their option value" today, and tomorrow, and so on. Some portion of the value of CBC/Radio-Canada to people in Canada is likely of this form: it is nice to know you can turn on the radio and a certain kind of listening experience will be there, even if you don't have the time or the desire to listen in right now. Likewise, people probably attach an important option value to the existence of a symphony orchestra in their city, or to the presence of cultural and natural heritage like well-preserved national parks and historic sites.

Financial markets like the Toronto Stock Exchange effectively provide a market for option values. People can purchase an option value: the right to purchase a share of a given publicly-traded company at a given future date for a given price. Option values of this form similarly trade for other financial instruments, foreign exchange, and many commodities. Markets exist for option values in the financial sector because the number of transactions is huge: the information costs of establishing and running a market of this sort are spread over a huge number of traders. For cultural products, the market for option values is likely much thinner and the information costs loom large. Having said this, some cultural providers find a way to encourage their optional

⁵ Fullerton (1991) is sceptical of claims that externalities justify public intervention in the arts, although his focus on the fine arts means that he does not consider broadcasting.

⁶ The extent of experience uncertainty is different for different cultural products. For visitors to heritage sites, the problem is probably non-existent; while for newspapers, it is small: habitual readers of the *Toronto Star* do not know what will be in today's edition, but they are familiar with the general experience of reading the paper. For audiences of new works in the performing arts, or viewers of new artists in galleries, the experience uncertainty is likely much larger.

consumers to pay for their option values: museums typically sell memberships to people, who pay a yearly fee and have more or less unlimited access to the museum throughout the year. In a sense, they have paid their option value for the year. More generally, subscriptions -- whether for magazines, book clubs or theatre, music, or dance series -- are an example of selling option values to consumers. Subscriptions frequently go unused as busy patrons of the arts cannot always attend the opera or read a magazine every month. Even so, intelligent people continue to renew their subscriptions, in part for the convenience of maintaining the option to consume the products in question. Some people probably even purchase subscriptions largely to subsidize arts companies and magazines; consider the practice of gift subscriptions. To the extent that people purchase museum memberships and subscriptions to subsidize the continued existence of arts companies and magazines, they are paying not for option values, but for existence values, something conceptually distinct.⁷

The notion of *existence value* was developed in the field of environmental economics to denote the value people attach to goods (like clean air over the Himalayas) they will *never* consume. Option values are essentially use values: CBC/Radio-Canada has an option value for me based on the assumption that I will tune in one day, that I will *use* the good. Existence values are *non-use* values, but they are real values for people nevertheless. Existence values, unlike option values have the additional problem (for markets) that they are virtually public goods (Farchy and Sagot-Duvaouroux, 1994, 25-28). Many Canadians may derive some benefit from a film like Bernard Gosselin and Pierre Perrault's chronicle of Abitibi, *Un royaume vous attend* (ONF, 1975), even if they never plan to see the movie. More probably, many Canadians derive some benefit from knowing that the National Film Board exists to record such investigations into Canadian identity, even if they never view any of those investigations. As long as *Un royaume vous attend* exists, it provides me with that existence value; but this does not diminish in the least the existence value that it can provide to others. The principal problem is that it is very difficult to know the existence value of a particular cultural product for society as a whole. It is difficult to get people to reveal truthfully how much they would be willing to pay every year just to assure, for example, that CBC/Radio-Canada exists for the following twelve months. (We will return to these measurement problems in Section 4.)

The policy prescription: Where there is uncertainty and problems of imperfect information, markets have all kinds of quirks. Markets do not exist to price option values and existence values accurately for cultural production. This too is a rationale for efficiency-enhancing government intervention. Such problems are especially acute in markets for various types of insurance. Market-provided insurance for health care, for example, may be inequitable and inefficient for reasons too lengthy to detail here. For those reasons, the Canadian government provides health insurance universally; likewise, the government provides insurance against unemployment, disability, and old age. Option values for cultural products are like insurance in many ways. People would be willing to pay now to support a given cultural infrastructure that they do not plan to use until the future, just as people make regular payments to an insurance company (or the government) in exchange for the possibility of future services. The rationale for government support of cultural production based on existence values in particular has to do with the public-good character of existence values; it makes sense for compulsory payment and universal provision of the existence values generated by cultural products. Rather than eliciting information about people's willingness to pay, it is left to the process of democratic deliberation to determine the level of support for cultural production, some of which support is for existence values.

2.3. Constant returns to scale

⁷ Thanks to Sharon Jeannotte of the SRA group in Canadian Heritage for the examples in this paragraph

The cultural industries generally produce under conditions of increasing returns to scale: the marginal cost of one more copy of the product is infinitesimal compared to the cost of the first copy. Some Hollywood movies cost as much (or more) than \$100 million (US -- or Canadian, it doesn't really matter) to produce. Essentially, that's the cost of the first copy or screening. Subsequent copies or screenings cost substantially less. The sound recording and book and magazine publishing industries share this characteristic. This has consequences for the pattern of competition. The start-up costs of entering film production or book publishing with a new movie or book are huge. Existing firms will have an advantage over would-be entrants to the market, and film-makers and writers would face lower costs by dealing with existing firms rather than produce or publish their own work. But the cost-driven difficulties of entering the market mean that perfect competition, with its attendant efficiency consequences, will not obtain (see Section 2.4 below). In the extreme, only one firm might dominate the industry in question: it can keep prices high by restricting output (cf. Farchy and Sagot-Duvaurox, 1994, 41-42).

The high fixed cost, but low marginal cost of Hollywood blockbusters is but one instance of a more general phenomenon of international trade. Trade can allow high-fixed-cost "plastic" items, of low value to consumers, to drive out low-fixed-cost, but highly-valued, "boutique" items (Dixit and Norman, 1980, 273-281). The fixed costs in our case include not only the production costs, but also the enormous economies of scale in marketing. Deep-pocket distributors of *Terminator* movies can elbow out low-budget gems like *Last night* (Don McKellar, 1998). Even if distributors of Canadian indies wished to match the exposure of Hollywood blockbusters, the same level of exposure would cost the independents more, as they face a higher cost of borrowing funds to finance the marketing blitz. (That wealthier borrowers tend to pay a lower interest rate for borrowing is a proposition that most economists would agree with.)⁸

The policy prescription: Because this market dominance is driven by technological considerations, economists refer to this as the natural monopoly problem. It is not efficient to divide up natural monopolies in the provision of electrical power or public transport into hundreds of tiny firms, each with high costs; instead, this is a rationale for government regulation or ownership (or both) of the natural monopoly. For some publicly-owned cultural producers like the CBC/Radio-Canada, the National Film Board, and the National Arts Centre, natural monopoly considerations could be used to justify intervention.⁹

2.4. Perfect competition

A final pre-condition for the efficiency of private markets is perfect competition. If a market is not perfectly competitive, firms have the power to set prices above the marginal cost of production by restricting output to levels lower than the efficient benchmark. The failure of markets to adhere to this ideal is the source of the justification for government intervention in the realm of competition policy. We have already seen that markets in the cultural industries are unlikely to be perfectly competitive, because of increasing returns to scale in the technology of production. But even where natural monopoly is not a factor, markets for cultural products are scarcely competitive. There may be few firms for reasons other than technology; a key consideration is that the offerings of different producers are decidedly *not* identical, as would be the case among producers of, say, wheat. If one wheat farmer attempts to sell his output at a price higher than

⁸ Note that this mechanism will tend to disfavour production of films for the art-house circuit even *within* the US.

⁹ A more complicated issue regarding natural monopolies in cultural production is their control over content; some government intervention surely occurs not because of concerns over high prices, but because of fears that huge entertainment companies might not be producing the "right" content. These concerns stray significantly from economic analysis.

the international price, his customers will switch to alternative suppliers of wheat. If we think of the market in question as “paintings”, clearly the available supply of paintings is huge, but it is highly differentiated. If a painter (or her gallery) raises the price of her work, above some commonly accepted “going rate”, buyers may not abandon her work in favour of some cheaper artist, precisely because of the special qualities of her work. Conversely, if we are more precise and define the commodity in question as Vincent van Gogh’s *Le docteur Paul Gachet*, the supply is tiny and fixed (at one unit), and if the demand is sufficient, its price could skyrocket. (Indeed, this painting was sold at auction in 1989 for \$US82.5-million.)

The policy prescription: The standard policy response to imperfectly competitive markets is to promote competitiveness, either by breaking up monopolies, or regulating their price, output, and investment decisions. The paragraphs above do not begin to exhaust the ways in which cultural markets fail to be perfectly competitive. Nevertheless, it is unlikely that much public action in the arena of cultural production is motivated by competition-policy concerns.

Table 1 provides a notional accounting of the incidence of market failure in cultural production. For each of the four cultural sectors identified by Canadian Heritage, the table indicates (with a “+”) whether each of the four types of market failure can be expected in that sector.

	Externalities	Imperfect Information	Scale Economies	Imperfect Competition
Arts	+	+		
Cultural Industries	+	+	+	+
Heritage Preservation	+	+		+
Festivals	+	+		

Table 1: Traditional Sources of Market Failure and Cultural

Products

Two other rationales for public action in the cultural sphere have been proffered. As with the previous four, in each of the following cases, competitive market forces may not provide cultural products in the amount and variety that society would most prefer. Unlike the forgoing arguments, however, both of these rationales -- the “equity” and “merit-goods” arguments -- have been roundly criticized by cultural economists.

2.5. Equity

Of course, even if the free play of market forces leads to the most efficient outcome, it may not be an equitable outcome. Citizens may still wish to alter the market-driven state of affairs in the name of equity. This is the traditional rationale for the provision of social assistance, public aid to temporarily or more permanently disadvantaged groups in society. This, too, is likely a major factor in government policies toward cultural production: ticket prices for nationally-supported arts companies, entry fees for museums and heritage sites, are set not to recover costs, but at levels sufficiently low that they will not pose barriers to any who wish to enjoy them. This policy, though it seeks to promote equity, does not necessarily have that effect: as many -- for example, Fullerton (1991, 72), Towse (1994, 149), and Benhamou (1996, 105-106) -- point out, subsidized prices for cultural products tend to benefit most those who would have purchased them even in the absence of the subsidy. Suppose I would be willing to pay \$100 to see an evening’s entertainment at the National Arts Centre in Ottawa, and suppose that the ticket price is only

\$40: then economists would say I have earned a *consumer surplus* of \$60. That's the difference between what I am willing to pay, and what I actually have to pay. If the ticket price were further reduced to \$25, I would clearly still go to the performance, and my consumer surplus would be \$75. Those consumers who would attend subsidized performances even without subsidized prices tend to earn higher incomes, so that this policy has an inequitable effect.

Such price-based policies to ensure equitable access to cultural products tend to have inequitably distributed benefits. There are other, more far-reaching, links between public action in the cultural realm and equity. One stems from the contribution of cultural products to democratic inclusiveness and civic participation (Jeannotte and Stanley, 2000). Thus, cultural activities can promote equity *per se*. (The role of culture in facilitating democratic deliberation is among the subjects of Section 3 of this report.) Another equity-based rationale for arts and culture policy has to do with ensuring that the cultural production of all of a country's social groups and regions is amply supported. This is certainly relevant in a geographically-distended country such as Canada, and indeed this case was made by the 1982 Applebaum-Hébert Committee Report on arts and culture (Federal Cultural Policy Review Committee, 1982). This version of the equity argument overlaps significantly with calls for cultural diversity, to which we will return in Section 3.

2.6. Merit goods

Finally, there is a long tradition in cultural economics that justifies the use of tax revenues to finance cultural products because they are "merit goods". The 1982 Applebaum-Hébert Committee Report was especially sanguine on this justification, which it defines as follows: "the notion of a category of goods and services that deserve to be fostered, in both their production and public enjoyment, irrespective of how the market may measure costs and benefits -- simply because they are meritorious" (Federal Cultural Policy Review Committee 1982, 68). The Committee goes on to note that "[c]learly this concept offers a congenial setting for the view taken by this Committee of the manifest value of cultural activity" (*ibid.*).

For Becker (1974), a merit good is a good that provides pleasure to one person when another person consumes it. Parents derive pleasure from their children's consumption of education and vegetables, even though the children themselves might not enjoy those goods. This is sometimes a justification for social assistance in the form of vouchers for food or housing (the merit goods in this case), rather than equivalent cash transfers to the poor. Citizens are said to derive satisfaction from the poor's consumption of food and housing *per se*, while a cash transfer might be spent on something else. Many parents probably derive satisfaction from their children's consumption of certain cultural products, with exceptions. Nevertheless, many citizens might find it troubling to compel other adults to support and/or consume opera or theatre, even if they support vouchers for food or housing.

Most authors today appear to discard this as a reasonable justification for public promotion of cultural production. This attitude stems from the merit-good argument's rejection of *consumer sovereignty*, the usual assumption that consumers know what's best for them.¹⁰ In essence, according to the merit-good argument, the public sector must finance cultural production simply because the addle-headed population isn't willing to pay voluntarily, and doesn't want those cultural products anyway. Thus Fullerton (1991, 73): "The poor do not want someone else to decide what is good for them, any more than those who are not poor." Or Klamer (1996, 17):

¹⁰ Indeed, for Musgrave (1987, 452), who coined the term, this is precisely the defining characteristic of the merit good, "where evaluation of a good ... derives not simply from the norm of consumer sovereignty but involves an alternative norm."

It is a culture is good for you whether you want to know it or not argument. It implies that some people have better taste than others -- in accordance with the old aristocratic idea -- and violates the modern principles of individual sovereignty and equality. According to good anti-aristocratic and democratic values no one, not even a government, can tell an individual what to like. If my neighbors prefer musicals over serious theater and do not care for art programs on television, I cannot tell them they should, and still expect them to contribute, without any contribution to their musicals and soaps in return. Such a position is justifiable only if I recognize it for what it is: aristocracy in a modern disguise. (A similar position is maintained by Throsby (1994); see also Farchy and Sagot-Duvauroux (1994, 48).)

There are thus many reasons to suggest that cultural production, if left to the vagaries of a totally unregulated market, would not be the cultural production that people want. The markets for the various types of cultural products resemble, in many important ways, markets in which governments routinely intervene to promote greater economic efficiency and equity. It is worth emphasizing, thus, that public promotion of the arts, heritage, and cultural industries rests on well-founded arguments of economic efficiency. The specific form that these promotion policies should take -- public ownership of arts production companies, or tax incentives for private philanthropy; subsidies to artists or to purchasers of art; licensing of the broadcasting spectrum or ownership of broadcasters -- is beyond the scope of this report, and has in any case been extensively covered in the economic research on culture (Farchy and Sagot-Duvauroux, 1994, ch. 2; Peacock 1994).

Most of these rationales for government intervention in cultural production are entirely compatible with completely free international trade in cultural products. If, as is generally the finding when markets fail to meet criteria 1 through 4 listed above, the level of cultural production is lower than would be most efficient, free trade might improve efficiency. It may help things to import cultural products from abroad. In many branches of cultural production, it might make sense to cease producing the goods domestically if less costly imports are available. Moreover, facilitating foreign ownership of cultural production in a country might increase the flow of investment in the sector and therefore increase the level of production. Clearly, though, much of the debate regarding the "specificity" of cultural products has found fault with all of these arguments for free trade. Market failure of the traditional sort does not adequately capture the ways in which cultural products are not like other merchandise. A key is that domestic cultural production appears to be fundamentally dissimilar to imported cultural production, in ways that must be safeguarded in the establishment of a rules-based international trading system.

Indeed, the kinds of market failure identified in Section 2 establish cultural products as being essentially *similar* to many other kinds of merchandise, from sewerage treatment to electric power, all of them requiring some public oversight for the most efficient results. Cultural products, I will argue in the rest of this section, are indeed beset by various forms of market failure, but these are quite distinct from the classic market failure of welfare economics. And these sources of market failure revolve precisely around the special role of domestic cultural production in liberal democratic polities. This, then, is the economic sense in which cultural products are fundamentally not like other merchandise.

3. The economic value of culture

Section 2 demonstrated that there are efficiency-based rationales for government intervention in cultural production, just as there in nuclear power generation, inoculation against contagious diseases, and education of children. Nevertheless, many, if not most, accounts of cultural policies admit that the principal rationales are not economic in nature. The primary justifications,

which apparently trump all notions of economic efficiency, revolve around notions like preservation of a people's heritage, sustaining national identity, building social cohesion. Such assertions are generally uncontroversial; everyone accepts that cultural production contributes to national identity and social cohesion. Neither is it apparently disputed that these policy goals are decidedly non-economic. This is an artful move: placing primary emphasis on non-economic benefits could effectively exempt cultural policies from an economic calculus that some fear would be unkind to such policies. But cultural products are not exempt from the economic calculus. In periods of fiscal belt-tightening, cultural promotion falls under the scrutiny of cost-benefit analysis just as surely as other public expenditures. In another arena, hard-won exemptions for cultural production in international-trade agreements are far from universal and far from air-tight.¹¹ Cultural policies in Canada and the European Union are routinely under attack from trade negotiators and cultural producer-exporters in the United States.

Another consequence of the assumption of "non-economic functionality" of cultural production is that insufficient attention is paid to the role of phenomena like national identity and social cohesion in the modern market economy. An explicit accounting of this role is critical in this era of ever-greater reliance on market forces in economic policy-making. A full understanding of the way the market works, and its relationship to apparently non-economic considerations like social cohesion, will better inform policy-making and democratic deliberation.

This section will define the benefits of national identity and social cohesion precisely, in the interest of clarity. First, it will be asserted that national identity and social cohesion are readily analyzed using economic tools and concepts, and indeed that they generate concrete economic benefits for people. Second, I will attempt to sketch a more concrete (and economic-theoretic) argument linking cultural production to national identity and social cohesion. Moreover, I will illustrate, for the case of social cohesion at least, that this is not only something people value for its own sake -- what might be termed its intrinsic value -- but recent research indicates that social cohesion contributes to better economic performance -- what might be termed its instrumental value.

Why are national identity and social cohesion not economic considerations? They are not obviously commodities the way that shoes and socks are: but many things that people value, and indeed for which they are willing to part with their hard-earned cash, are less concretely economic than clothing or shelter: people, after all, pay good money for books of poetry (too rarely, alas) and for compact discs of Mitsuko Ushida playing the piano sonatas of Mozart. They value those things; we economists do not ask why. If they value national identity and social cohesion, that is equivalent to saying that they are willing to sacrifice some other resources to have them, and that is a squarely economic question. But compact discs and books of poetry are uncomplicated physical commodities, like shoes and socks and shelter: national identity and social cohesion are complicated and ephemeral and intangible concepts. True, but so are well-established economic concepts like "national defence" and "human capital". Most acknowledge the economic nature of these complicated goods (without denying their many non-economic aspects); national identity and social cohesion and many of the other putatively non-economic benefits generated by domestic cultural production are equally economic in fact. One reason for insisting on the economic character of these questions is because few economists have actually looked at them through their conventional lens; therefore, much of the research on which this section draws not written by economists, but rather by political scientists, legal

¹¹ For an overview of the international-trade regime facing Canadian cultural producers, consult Bernier (1998), who is fairly exhaustive, or Acheson and Maul (1994), who are more succinct. Samuelson (1999) focuses in particular on the international legal framework governing intellectual property; Braize (2000) is a general assessment of legal challenges to cultural policies in the information society.

scholars, philosophers and art critics. Do not, however, forget that these strands can be woven into an economic argument!

To make this argument, we will have to take a significant detour away from cultural production *per se*, to understand better the economic value of national identity and social cohesion. The argument is that cultural production's key economic value is via its contribution to these social goods, so I need to establish a little about these social goods first. Once we accept that they have economic value, both intrinsic and instrumental, then if I can furthermore demonstrate that domestic cultural production contributes to them, we will have provided a framework for assessing the economic function of domestic cultural production.

3.1. Social goods

A key element of economic analysis is *methodological individualism*: any interesting phenomenon of the economic system can be analyzed as the outcome of myriad choices made by *individual* decision-makers -- households and firms. On this view, the value of any good is just the sum of its value to individuals. Perhaps that is a defensible method for valuing shoes and socks, and perhaps even dams and defence systems. McGill University philosopher Charles Taylor has criticized the economic method of valuation of goods in a celebrated essay entitled "Irreducibly Social Goods".¹² Taylor argues that certain good things which are indisputably valued -- his examples include love, friendship, "frank and equal relations", the French language (for many Québécois), and culture -- cannot be reduced in this way to the sum of individual happinesses. A simplified paraphrase of Taylor's argument is that one economic actor's consumption of such a social good is analytically meaningless without reference to the social context in which that good is consumed. Taylor borrows from the linguist Ferdinand de Saussure the distinction between *langue* and *parole*:

There is a code (*langue*), and this code is drawn on in each particular act of speech (*parole*). These are in a characteristic circular relation. The acts of *parole* all presuppose the existence of *langue*, but the latter is constantly recreated in the acts of *parole* (*ibid.*, 134).

Certain decisions are *langue* decisions; many, many more are *parole* decisions, and it makes little sense to analyze both types of decision in exactly the same manner. Allocating one's income among food, clothing, and shelter is different from deriving utility from national identity and social cohesion; that latter are *langue* goods, or social goods, while the former are *parole* goods. Another element of Taylor's argument is that an adequate supply of these *langue* goods is a precondition for the enjoyment of other goods (and not just the enjoyment, but even for the understanding or possibility of consuming other goods). Culture ("the background of practices, institutions, and understandings which form the *langue*-analogue for our action in a given society" (*ibid.*, 136)) is like a language, and "a language is created and sustained in the continuing interchanges that take place in a certain linguistic community" (*ibid.*, 134). Individual decision-makers -- the kind of folks economists pay attention to -- choose *paroles*. But these choices occur against the backdrop of "*langue*", which is in turn the result of myriad interrelated *parole* choices in the past. (It should be emphasized that methodological individualism as practised in economics does *not* consider individuals outside of their social context; it uses the individual as the decision-maker even when that decision is quite heavily socially conditioned. Methodological individualism rules out some collective identity like a class or race deciding to do something independently of the mediation of the individual members of the collectivity.)

¹² The essay is reprinted in Taylor (1995, 127-145).

The attentive reader might suspect a certain sleight of hand here. The general subject of this report is cultural production, as the term is defined by the Department of Canadian Heritage: poetry and piano sonatas, television programs and museums. But many people use the word “culture” to refer more broadly to the background of practices that distinguishes one people from another; this is what Taylor means by culture. But culture-as-concerti and culture-as-common-practices are two aspects of the same thing. Creativity in the attempt to understand physical and social reality -- which is the engine of change for culture-as-common-practice -- takes many forms. One of those forms is artistic production, high-, low-, and middle-brow. Others include new norms and mores, or institutional innovations.¹³ Section 3.4 below makes the connection between the two conceptions of culture, and argues that culture-as-concerti contributes to culture-as-common-practice, which has in turn a substantial impact on economic affairs.

Before arguing that cultural production (and domestic cultural production, in a special way) contributes to national identity and social cohesion, this section will argue two things. First, that these are social goods, if not in the sense of Taylor, then at least in a way that is inspired by Taylor. I want to seize on the nuance that social goods are a category of public goods that one person values precisely as a function of the degree to which other people value them.¹⁴ It is only valuable to her if it is valuable to others: “a cultural good may also exist only to the extent that it is commonly prized” (*ibid.*, 140). Many uncomplicated goods like shoes and socks deliver a great deal of utility to us even without reference to other people. We can walk more comfortably over rough ground and in the cold than would be the case barefoot.¹⁵ One’s national identity, however, delivers utility differently if most fellow citizens subscribe to the same conception of that identity than if others did not share one’s conception. Second, and more prosaically, social goods have important instrumental value, even if, as Taylor argues, this does not exhaust their true or total value.

3.2. National identity

Dutch economist Jos de Beus (1996) provides a rare economic look at the value of national identity. He defines national identity as “a basic culture, a set of beliefs, desires and actions which, on the one hand, is distinctive in the light of historical time and, on the other hand, constitutes the basic structure of society...”(*ibid.*, 167). For our purposes, de Beus quite usefully identifies four axes of the value of national identity (*ibid.*, 167):

It promotes the reconciliation of human beings with certain unavoidable limits to human existence (the value of a sense of belonging, of feeling at home). It promotes public space, thus giving access to an open society which meets certain humanist requirements (the value of fellow-feeling or sociability). It promotes active social membership, marked by dignity and closely related qualities such as self-respect, self-esteem and integrity (the value of dignity). And it promotes collective liberty, in the sense of a context of cultural distinctiveness and social self-control which enriches personal liberty for most citizens (the value of self-determination).

¹³ This paragraph so closely follows the commentary of Dick Stanley in the SRA group at Canadian Heritage that I am happy to attribute the argument to him.

¹⁴ And I know that Taylor (1995, 142) says, “The spokesmen for nationalism, or republican rule, don’t see its value as contingent on its popularity. They think that these are goods whether we recognize them or not, goods we ought to recognize.”

¹⁵ Even with shoes and socks, of course, social factors come into play. Going shoeless is not only uncomfortable in some settings, but carries a social stigma. Going shod is no simple thing either for those who worry about wearing stylish shoes, about wearing the same style that others are wearing, or about wearing a style that no one else is wearing.

The shorthand markers of the value of national identity -- *belonging*, *fellow-feeling*, *dignity*, and *self-determination* -- are, for citizens of modern liberal polities, fairly uncontroversially good and valued.

It is furthermore apparent that all of these are social goods in an uncomplicated way. It is impossible to feel belonging in isolation: one has to belong to something, and that something -- for de Beus, the nation -- is a sort of *langue*. So too with fellow-feeling: one cannot feel for one's fellows if there are no fellows. Who is a fellow is likewise determined by the boundaries of the community. Moreover, the value one derives from belonging or fellow-feeling is akin to conviviality: "A party is convivial when people derive benefit from the active enjoyment of one another's company, not when each of them experiences the pleasures of the party as a purely personal enjoyment" (*ibid.*, 176).¹⁶ Dignity relies perhaps less on what others do, but it is clearly affected by shared norms of conduct, another sort of *langue*. Self-determination as defined by de Beus above is clearly a social good, as it relies on self-control in the presence of others.

3.3. Social cohesion

Among the justifications for the promotion of domestic cultural production is that it will generate or preserve social cohesion, which is in turn a topic of increasing concern for policy-makers in Canada and abroad. The Standing Senate Committee on Social Affairs, Science and Technology heard testimony from Canadians for a year in 1998-99; its final report on the subject defines social cohesion as "the ongoing process of developing a community of shared values, shared challenges and equal opportunities within Canada, based on a sense of trust, hope and reciprocity among all Canadians". Academic researchers have devised a host of definitions of the related concept of *social capital*. Most definitions of social capital revolve around the trinity of factors identified by political scientist Robert Putnam in his study of the determinants of successful local governments in Italy: norms, networks, and trust (Putnam 1993). The network component refers to people's proclivity to join formal and informal organizations like choral societies, political parties, neighbourhood groups and football clubs. Norms -- related to "shared values" -- might arise as a result of people's associational propensity, or their associational propensity might be a result of common norms. Trust, finally, is associated with both norms and networks, and is one of the most powerful features of a cohesive society. Fukuyama (1995) argues that trust facilitates economic performance.

Social cohesion is clearly a social good like national identity. Networks presuppose the interaction of many people. Norms of behaviour are not conceptually interesting for a Robinson Crusoe alone on an island; our interest springs precisely from the consequences that norms have on interactions among people. Trust, too, is an explicitly social phenomenon. The newfound enthusiasm of economists for social cohesion poses problems of interpretation that Charles Taylor could have predicted. Some of these problems are nicely summarized by development economists Narayan and Pritchett (1999, 874), inspired by their survey research in Tanzania:

In the abstract, a "society" can be thought of as a series of nodes (e.g., individuals, households) and a set of connections between those nodes. The connections between the nodes can be any kind of relationship, whether a social relationship (e.g., familial, ethnic), shared beliefs (e.g., religious), group identification (e.g., national, local), or a

¹⁶ This is a clear illustration of Taylor's criticism of economic method, which, he claims, could only conceive of a party as the sum of purely personal enjoyments. Cf. Arizpe (1999,2000), who resorts to the neologism "convivability" to explain the value of culture to development (translating the untranslatable *convivencia* from Spanish).

voluntary association, whether economic (e.g., employee, creditor) or noneconomic (e.g., social club). Different notions of social capital can be distinguished by whether the focus is on the nodes themselves, and hence on individuals' social ties, or on the connections between the nodes, which are intrinsically social.

Are we interested, say, in the average number of groups to which a person belongs, a feature of the individual? Or are we interested in the connections themselves?¹⁷ For the purposes of this report, it is enough to say that we are interested in individual behaviour, but again, individual behaviour that is strongly conditioned by what other individuals do.

In this section, I want to argue that social cohesion, as defined here, has instrumental value¹⁸; in particular, I will show that social cohesion is strongly associated with better economic performance, as measured by growth of per capita Gross Domestic Product. The Canadian Senate report on social cohesion draws an interesting link between social cohesion and economic performance, one largely shared by the European Union. On this view, globalization -- the intensive and extensive proliferation of markets -- will promote economic growth, but by also fraying the social fabric, it will encourage a backlash. That backlash might take the form of political protest to undo pro-market policies, and thereby choking economic growth. Thus social cohesion has an effect on economic growth, but by means of political mobilization: declining social cohesion leads to the dismantling of pro-growth policies. The policy prescription that emerges is a combination of liberalization with social supports to diminish the negative social impacts of liberalization.

A 1998 statistical study by economist Dani Rodrik provides some support for this interpretation, although it grants more importance to social cohesion than to liberalization policies. Rodrik's study illustrates the impact on growth of social conflict (the *absence* of social cohesion) and formal institutions of conflict resolution. Rodrik considers democratic institutions, an effective judiciary, a bureaucracy relatively free of corruption, and social insurance (like Employment Insurance and publicly-provided Health Insurance in Canada) to be indicators of effective institutions of conflict resolution. He attempts to explain the difference in growth rates between the 1960-1975 period and the 1975-1990 period; for much of the world, increased oil prices and other shocks drastically reduced growth in the latter period. The question is, why did some countries fare better than others, given that all were buffeted by the same external economic shocks, and given also that most did not change their macroeconomic policies between periods? Rodrik confirms that countries with greater latent social conflict and weaker institutions for conflict management fared worse in the latter period; indeed, once we account for those factors, government policies harped on by the World Bank and the IMF -- reducing government deficits and openness to international trade -- have surprisingly small impacts. His interpretation is that the presence of latent conflict determines a society's response to shocks from the world economy, and more fractured societies responded with less appropriate policies.

Economists Stephen Knack and Philip Keefer (1997) provide complementary support for Rodrik's findings. They include a number of indicators of social cohesion in a series of cross-country statistical models of economic growth. In their main model, they include the proportion of people in a country who agree with the statement that "in general, most people can be trusted"

¹⁷ This might be measured by the *standard deviation* of the number of groups to which a person belongs. If the standard deviation is high, it suggests a pattern of associational activity in which a few people have relatively dense connections and many have relatively few connections: a low standard deviation indicates a more generalized distribution of membership.

¹⁸ I make this argument fully cognizant of Taylor's (1995, 137) statement that "[culture] is not a mere instrument of the individual goods. It can't be distinguished from them as their merely contingent condition, something they could in principle exist without. That makes no sense."

as an explanatory variable for that country's growth rate.¹⁹ The authors confirmed that a country's rate of trust in 1980 was positively and significantly related to its growth rate in the period 1980-1992, and to the investment rate in the same period. Their results indicate that, all other things remaining the same, a ten percentage-point increase in trust -- the difference between France and West Germany during the 1980s -- is associated with an increase in growth of four-fifths of a percentage point. France's per capita income growth rate over the period 1980-1992 was about 1.4 percent annually. A ten-percentage-point increase in the rate of trust would have raised that to about 2.2 percent.²⁰ This is a quantitatively big impact. In fact, a one-standard-deviation increase in trust has an effect on growth similar in magnitude to a one-standard-deviation increase in the primary-school enrollment ratio.

To measure the extent of civic norms in a country, Knack and Keefer calculate an average based on responses to a series of questions. Survey respondents were asked whether a series of actions could ever be justified: among the actions mentioned were "claiming government benefits which you are not entitled to" and "failing to report damage you've done accidentally to a parked vehicle."

From survey responses to these questions, the authors construct an index of norms of civic cooperation, and include this index in their growth regressions. The civic-norms index has a positive and significant effect on economic growth rates; even when both the trust variable and the civic norms variable are included in the analysis, both have a statistically significant and positive impact on growth. This suggests that norms and trust are not simply two ways of measuring the same thing, but distinct dimensions of social cohesion. (If the norms index and the trust level merely measured the same underlying phenomenon, then if both were included in the same regression, one or both would cease to have a statistically significant effect on economic growth.)

Knack and Keefer demonstrate that social cohesion leads to more rapid economic growth. There are many reasons why this might be so. Generally, higher levels of trust and shared values make it easier for people to engage in the co-operative behaviour that is fundamental to the functioning of the market economy. Despite the common emphasis on the competitive nature of the market system, the competition among firms occurs against a backdrop of co-operation: co-operation among coworkers in the workplace, between workers and managers, among firms in the same distribution chain. Co-operative behaviour is required for the adoption of new technologies and innovative ways of organizing production. Higher levels of social cohesion (and trust in particular) reduce the cost of drawing up and enforcing contracts; more generally, higher levels of trust lower the share of society's resources devoted to things like law enforcement and crime prevention. All of these are examples of the instrumental value of social cohesion.²¹

¹⁹ Other variables included in the analysis were primary and secondary school enrollment ratios in 1960, average income in 1960, and the price level of investment goods (physical capital and the like) in 1980, relative to the United States.

²⁰ How much difference would this make? Consider a simple numerical illustration. If average income in 1980 were \$10,000, average income in 1992 would be \$11,816 with a growth rate of 1.4 percent, and \$13,016 with a growth rate of 2.2 percent. The difference over the twelve-year span is nearly \$1,200, or nearly 12 percent of the initial income level.

²¹ Indeed, although I have focused on national identity for its intrinsic value, it too has instrumental value. De Beus (1996, 176) writes: "The communication between nationals, and the mutual trust and understanding, peaceful coordination and solidary cooperation engendered by communication, engender more possibilities to solve collective action problems (provision of public goods), to carry out universalist schemes of social justice, and to practice deliberative forms of democracy." This suggests that there are what economists call economies of scope in collective action: once people have organized to achieve one common goal, a second common goal could be achieved at a lower cost than would otherwise be the case. National identity facilitates this kind of collective action.

3.4. What does cultural production do?

National identity and social cohesion provide economic benefits because (a) they are of intrinsic value to people and provide the substrate for many of their activities as citizens and consumers and (b) because they are of instrumental value in producing higher rates of economic growth. This leaves one question unanswered: How does cultural production contribute to national identity and social cohesion?

Shaun Hargreaves Heap (1999) is probably the only economist to have seriously addressed this question. Recall, for a moment, the Canadian Senate definition of social cohesion: “a community of shared values”. Hargreaves Heap (1999, 186) notes the following: “people need to discuss their beliefs in order to come to share them. A key question follows: how is it that people hold these discussions?” His answer gives pride of place to the consumption of the products of the cultural industries in particular (*ibid.*, 186-7):

Discussions ... take place informally in groups over lunch, in the pub, on the street and across the garden fence. This may not be obvious at first sight, but gossip about friends quite naturally involves comment on and evaluation of other people’s behaviour and the same is often the case with the other central topic of discussion: what was seen the night before on TV or at the movies or in the sporting arena. It is in the discussion of behaviour in a ‘soap’ on TV or of a character in a film or a person on the sports field that people engage, albeit often implicitly, in a discussion of ideas.

The cultural industries of a nation provide the raw material for an on-going discussion about values and beliefs. Similar arguments could be made for the other classes of cultural products. Conservation of heritage preserves the historical circumstances of a community as a backdrop for its contemporary activities; a museum that preserves for current visitors the conditions of *habitant* life, or that of the nineteenth century Maritimes fisherman, provides a compelling picture of how one’s forebears addressed their world. Our choices today about how to order our material life do not occur in a historical vacuum if we can refer to this well-conserved heritage. The (fine) arts may not reach as many people as the cultural industries or heritage sites, but represent the creative activity of a non-random minority charged with commenting on ways of seeing the world. Artists’ output is especially influential with creators in the cultural industries and therefore has an important effect indirectly on large numbers of people. For all of these sectors, cultural products serve as the basis for discussions among members of society regarding values and beliefs.

Hargreaves Heap makes the further observation that “since the shared experience is a resource for such discussion, the character of shared beliefs that emerge from such discussion will depend on the material found in the shared experience. Of course, the outcome of discussions will depend on much else, but these seem simple inferences from the general idea that the output of any process depends on the inputs” (*ibid.*, 187). He goes on to argue that the commercialization of sport has led to an excessive emphasis on winning rather than sportsmanship and that this will diminish the quality of informal discussion based on watching sporting events. Whether or not this is an immediate problem, a different corollary of his insistence on content is this: domestic, or domestically-oriented, content will have a different impact than imported content. All Canadians could watch *Survivor*; the shared experience could serve as the basis for the discussions that constitute national identity and social cohesion. But this is not enough; such discussions will be more relevant and more productive (in the specific ways we would like) to the extent that they are based on content more readily applicable to people’s everyday reality. One good, though not perfect, predictor of whether the content will be germane to a people is if nationals of the country in question produce it. As long as consumers of cultural products continue to share political space as citizens of the same country,

domestically-oriented content will be productive in these informal discussions in ways that imported content will not. These discussions underlined by Hargreaves Heap have important spillovers for other types of collective activity and “ways of living together” (UNESCO’s (1996, 14) simple definition of culture): most notably, for the process of democratic deliberation. Of course, to the extent that we are all citizens of the world then openness to the world’s cultural products is salutary. In Canada, this has never been called into question.

Thus, domestic cultural products are, *a priori*, more likely than imported cultural products to generate positive spillovers when they serve as the basis for informal discussions about values and beliefs. More specifically, such products will be better at generating national identity and social cohesion as we have defined them above. It is for this reason that the Canadian policy debate has so often insisted on the importance of “telling each other our stories” (Government of Canada 1999; SAGIT 1999, *passim*). The sentiment may be a little cloying, but the logic is well-founded. In this way, domestic and imported cultural products are not perfect substitutes. They may be similar, but it is not clear that they are “like goods” as the language of international-trade negotiations would have it. Mas-Colell (1999) makes a distinction between *protection of the production of national culture*, and *protection of national cultural production*: the appropriate goal of public policy is the former, but the only feasible way of achieving that goal is through the latter. Policy should seek to promote the production of national culture, in the sense that cultural products with domestically-oriented content will generate more useful social discussion; in practice, this veers dangerously close to regulating or controlling the thematic content of cultural production, which is antithetical to free expression. Protecting national cultural producers, while vulnerable to the usual attacks of free-trade proponents, may be the best feasible way of safeguarding national culture without dictating exactly what that culture is. This is largely the route favoured by Canadian cultural policy. No one seriously questions the objectivity of CBC/Radio-Canada, and recipients of Canada Council grants have complete freedom of expression. But only Canadians are eligible to receive Canada Council grants.²²

Before going on, it’s worth emphasizing that herein lies the real difference of cultural products. It’s difficult to argue that cultural production is economically important when it comprises perhaps two-and-a-half percent of US GDP (Throsby 1994, 1) or three percent of Canadian GDP (SAGIT 1999, 2) or even 3.7 percent of French GDP (Benhamou 1996, 7). Many commentators appear to be frustrated by these small numbers and the certainty that the stakes are somehow much greater. On the basis of the framework provided in this report, the stakes are indeed greater: domestic cultural production generates massive externalities in the form of what we have called “social goods”, to which it is a key contributor.

A difficult and critical part of this framework is to explicate better the link between cultural production and social goods like national identity and social cohesion. How do these conversations take place? What is it about domestic cultural production that makes it so important to these social conversations?

It is not difficult to see how domestically-produced newscasts contribute to national identity and social cohesion as we have defined them here. Citizens in a democratic polity need to be informed of the workings of their elected officials; they are better electors still if they know something of the concerns of citizens in other regions of the country or in other social classes. The conversation that takes place based on news in the print and broadcast media (including the

²² This overlooks the small number of cases where national cultural products are made abroad. Thus, many of the Merchant-Ivory films depicting essential aspects of British upper-crust life are not produced in the UK; and a Hollywood blockbuster like *Shakespeare in Love* depicts elements of British life in which British nationalists can take pride.

Internet) is a fundamental component of democratic deliberation. The quality of that conversation is critical to the life of the polity.

Of course, there are lower-cost alternatives. Current public funding to fund news-gathering activities by CBC/Radio-Canada could be cut entirely. A fraction of that sum could be sent instead to CNN, in exchange for the provision of a certain quantity of Canadian news from Atlanta every day. CNN can probably produce a fifteen-minute Canadian newscast (even two such newscasts, one in each official language) at a significantly lower cost, given that its fixed costs of production are spread over a much more vast network of activities. Most would agree that the Atlanta newscast of Canadian news would be an inferior alternative to domestically-produced news from CBC/Radio-Canada, or at least that it would be fundamentally different. In a very important way, to appreciate best the spillovers of cultural production in the form of social goods, we have to do it ourselves.

The production and broadcast of news provides a clear illustration of the link between cultural production and social goods. Reading many of the key documents regarding Canadian cultural policy one could get the impression that the mechanism is more or less the same for other cultural products like paintings or fictional film and books. This evokes a world of socially-responsible artists and cultural producers, whose fictional and artistic and conceptually sophisticated works have explicitly Canadian content, deal with themes of Canadian nationhood, history and current events. One is reminded of the historical example of Mexican muralism, a movement that flourished in the 1920s and 1930s under the leadership of artists like Diego Rivera, José Clemente Orozco, and David Álfaro Siqueiros. In a period of national reconstruction following a violent social revolution, the Secretary of Education, José Vasconcelos, turned over vast public spaces to muralists, who depicted intensely inventive scenes from Mexican history, with clear social commentary embodied in the frescos. This art is technically brilliant, socially engaged, explicitly concerned with national identity, civic minded, didactic to the point of heavy-handedness. Its contribution to contemporary Mexican national identity is extraordinary.

Surely some Canadian art is analogous. But what do we make of something like Gilles Groulx's *Première question sur le bonheur* (ONF, 1977), a film about rural Mexico, or Marie-Claire Blais's *Soifs* (Boréal, 1996)? *Soifs*, a winner of the Governor-General's Award for fiction, appears to be set in Florida, and has virtually no Canadian content or Canadian characters (with the exception of a significant cameo by the Haligonian Jean-Mathieu). Go back nearly thirty years. Blais's first novel, *La Belle Bête* (l'Institut Littéraire, Québec, 1959, many subsequent republications) is indeed set in rural Québec but the setting is incidental to the purely familial tale of psychological cruelty. The irrelevance of its Québécois setting is apparent if one compares it to the instrumental role of the physical and social environment of rural Québec in, say, Ringuet's *Trente arpents* (1938) or Claude Jutra's *Mon oncle Antoine* (1971). But *La Belle Bête* is clearly acknowledged as a milestone of Canadian letters, and it is moreover the kind of cultural product that should be heartily encouraged in the framework envisaged in this document. The conceptual question is this: How does Canadian cultural production with no direct or indirect link to debates on Canadian identity or values contribute to social goods? And how can policy-makers persuade taxpayers that public resources should be devoted to such production?²³ Of course, even when Marie-Claire Blais detaches her narratives from Canada, she cannot so easily detach herself; her judgments on Florida will resonate more powerfully with readers attached to Canada just as she is. Canadian culture (referring to both culture-as-concerti and

²³ One is reminded of the flap surrounding the public funding provided by the National Endowment for the Arts in the US to Andrés Serrano for his mixed-media composition *Piss Christ*, which is pretty much what it sounds like.

culture-as-common-practice) is the prism through which both Blais and her readers see the world.

What do novelists and painters do? Answering this question is clearly beyond the scope of this report, but as Hargreaves Heap illustrates, the social role of cultural products is central to the argument I am making. Before moving on, then, I offer a few others' answers to this question. What is the social function of creators?

One of the finest novelists of the last century, the Cuban Alejo Carpentier (1970, 229), described the social role of the novelist in the following terms:

Ocuparse de ese mundo, de ese pequeño mundo, de ese grandísimo mundo, es la tarea del novelista actual. Entenderse con él, con ese pueblo combatiente, criticarlo, exaltarlo, pintarlo, amarlo, tratar de comprenderlo, tratar de hablarle, de hablar de él, de mostrarlo, de mostrar en él las entretelas, los errores, las grandezas y las miserias; de hablar de él más y más, a quienes permanecen sentados al borde al camino, inertes, esperando no sé qué, o quizás nada, pero que tienen, sin embargo, necesidad de que se les diga algo para removerlos.²⁴

This prescription sounds like the socially-minded Mexican muralists, but could embrace Marie-Claire Blais, surely. Others describe an even more cosmic, say, role for artists. The poet Guillaume Apollinaire (1913, 21), inspired by the Cubists, wrote:

Les grand poètes et les grands artistes ont pour fonction sociale de renouveler sans cesse l'apparence que revêt la nature aux yeux des hommes.... Sans les poètes, sans les artistes les hommes s'ennuieraient vite de la monotonie naturelle. L'idée sublime qu'ils ont de l'univers retomberait avec une vitesse vertigineuse. L'ordre que paraît dans la nature et qui n'est qu'un effet de l'art s'évanouirait aussitôt. Tout se déferait dans le chaos. Plus de saisons, plus de civilisation, plus de pensée, plus d'humanité, plus de vie même et l'impuissante obscurité régnerait à jamais.

The Czech novelist Milan Kundera (1986, 179-180) considered that the purpose of the novel is to experiment with new ways of being: "Le romancier ne fait pas grand cas de ses idées. Il est un découvreur qui, en tâtonnant, s'efforce à dévoiler un aspect inconnu de l'existence." The novelist-as-discoverer is a sort of non-scientific researcher: "S'il est vrai que la philosophie et les sciences ont oublié l'être de l'homme, il apparaît d'autant plus nettement qu'avec Cervantes un grand art européen s'est formé qui n'est rien d'autre que l'exploration de cet être oublié" (*ibid.*, 19). And elsewhere: "Le romancier n'est ni historien ni prophète : il est explorateur de l'existence" (*ibid.*, 63).

The arguments of Apollinaire and Kundera -- that artists renew the way we see the world -- resonates in a commentary made by the critic Robert Hughes (1987, 8-9), in an essay on the painter Lucian Freud. The passage merits quoting at some length:

²⁴ "To concern himself with that world, that little world, that vast world, is the task of the novelist today. To understand it, to understand its combative people, to criticize it, exalt it, paint it, love it, try to comprehend it, try to talk to it, talk of it, show it, show in it the heart, the mistakes, the grandeur and the poverty; to talk about it more and more with those who remain seated by the side of the road, inert, waiting I don't know what for, perhaps nothing, but who need, nevertheless, that something be said to them to get them moving."

Painting is a sublime instrument of dissatisfaction, of dissent from any kind of visual orthodoxy and received idea, not excluding those of late modernist mannerism. No work of art can ever be experienced at first hand by as many people as a network news broadcast or the commercials that grout it. That does not matter. It never has. What does count is the energy and persistence with which painting can embrace not “empty value” but lived experience in the world; give that experience stable form, measure and structure; and so release it, transformed, into one mind at a time, viewer by viewer, so that it can work as (among other things) a critique of the more “ideological” and generalized claims of mass media. There is no great work of art, abstract or figurative (and especially none figurative) without an empirical core, a sense that the mind is working on raw material that exists in the world at large, in some degree beyond mere invention. Painting is, one might say, exactly what mass visual media are not: a way of specific engagement, not of general seduction. That is its continuing relevance to us. Everywhere, and at all times, there is a world to be re-formed by the darting subtlety and persistent slowness of the painter’s eye. We are never loose from our bodies and the re-embodiment of our experience of that world -- its delivery from the merely conceptual, the unfelt, the second-hand or the rhetorically transcendent -- is what painting offers.

Artists show us, “viewer by viewer”, a way of seeing the world. They discover unknown aspects of existence. They get those left behind, those sitting by the roadside, moving again. Moreover, the new perspectives offered by cultural producers have both public and private dimensions, though many of the comments above emphasize only the first of these. In this way, even when there is no explicit Canadian landscape, a Canadian novel provides material that resonates with Canadian readers when it is concerned, for example, with private grief. Thus, Christiane Frenette’s *La terre ferme* (Boréal, 1997), another Governor’s General award-winner, details the response of a small number of (unnamed) people in an unnamed town to the suicides of two teenagers. The minute detail with which these emotions are rendered is as much a part of the national conversation as Wayne Johnson’s *The colony of unrequited dreams* (Knopf Canada, 1998), concerned with the decidedly more public history of Newfoundland’s joining Confederation.

Having people working on this issue is potentially as important for society as having specialized workers researching new medical techniques. Thus, in the appealing words of Jeannotte and Stanley, culture is a “laboratory to experiment with social innovation and to test new symbolic resources.”²⁵ According to Apollinaire’s view, of course, artists are part of a global community, and their new ways of seeing are useful and revelatory to all, regardless of national origin. Thus Apollinaire, a French poet, is touched profoundly to the work of the Spanish painters Picasso, Gris, Picabia, and Hughes, an Australian, is similarly affected by the Austrian-English Freud. At the same time, part of the work of presenting new ways of seeing will be especially useful locally and regionally. The terms and items of the conversation between creators and the public will have more points in common within a country. This is certainly not to argue that imported cultural products are valueless, and the Canadian experience clearly demonstrates that people hold the cultural products of other countries in very high regard.

²⁵ To return to Kundera: “Or si la raison d’être du roman est de tenir le « monde de la vie » sous un éclairage perpétuel et de nous protéger contre « l’oubli de l’être », l’existence du roman n’est-elle pas aujourd’hui plus nécessaire que jamais?” (ibid., 33). In the laboratory view, cultural producers are engaged in a labour of perpetual clarification of the world of life.

Also, reading a book by Marie-Claire Blais or watching a film by Denys Arcand, for many, provides the Canadian audience with a sense that they too can enter the fray of global culture. Young people unaware of domestic cultural production might come to believe that they have nothing to say in print or on screen. The direct impact of domestic novelists and film directors might be limited in comparison to, say, television producers. Nevertheless, their indirect impact is enormous; few of us have read Goethe, but eventually all of us become Romantics in one way or another. Or as the great economist John Maynard Keynes (1936, 383-384) famously remarked regarding the diffusion of economic and political ideas:

Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas. Not, indeed, immediately, but after a certain interval; for in the field of economic and political philosophy there are not many who are influenced by new theories after they are twenty-five or thirty years of age... But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil.

Cultural creators are not the only people circulating new ideas: philosophers and, yes, economists are in the fray as well. But cultural production, even in the sometimes rarefied realm of the fine arts, is a critical input into the laboratory of social evolution. A final example, probably the most evocative in the Canadian context, is the historical line that can be traced from painter Paul-Émile Borduas's "Refus Global" (1948) to the *Révolution tranquille* in Québec, beginning in 1960.²⁶ In this way, the fine arts serve as models for other creative Canadians, and, more generally, for any Canadian who is even unconsciously inspired to have a conversation about values and beliefs in response.²⁷

In a classic piece of economic research, one that introduced the distinction between "child quality" and "child quantity" (and offered a theory of the decline in fertility in the Western world), Nobel laureate Gary Becker (1976, 178) makes the following statement: "By and large, children cannot be purchased on the open market but must be produced at home." Indeed. A common element of the foregoing examples is that to reap properly the benefits of cultural production, some share of it must be produced at home.

This is not unique to cultural production. Many of the tasks of the democratic nation-state must be done at home. Consider the process of parliamentary debate and deliberation. State legislatures in some of the states in the US (including Texas) meet for only a few months a year, or less. During the remaining, say, ten months, the senate and assembly buildings are vacant. From a cost-minimizing perspective, it would make some sense for Canada to contract out its parliamentary business to the Texas state legislature. Every year, the Government of Canada could deliver a list of bills to be debated, and leave it to the Texas lawmen to hash out the issues and deliver its decisions. Canada could then adopt the laws decided on by Texas. The savings are many. Texas has already paid for the construction and maintenance of its legislative buildings, and for the electoral process that yielded up the current crop of lawmakers. Canada would save the yearly costs of maintaining the parliament buildings in Ottawa, the considerable

²⁶ A 1999 essay in *The Economist* sought to explain, in three pages, why the extraordinary economic growth of the last two centuries happened when and where it did. Among its conclusions: "organisational diversity is the hallmark of advanced Western economies." More broadly, organisational diversity can be interpreted as an aspect of the freedom to create and innovate, to which cultural producers contribute quite conspicuously.

²⁷ Thanks to Dick Stanley for reminding me about Keynes, and for invoking Goethe.

costs associated with electing members of parliament, and the salaries of MPs. The Texans would be paid their salary for, say, six months.²⁸

Like gathering and reporting our own news, it seems patently obvious that legislative deliberation is something we must do ourselves. Not necessarily because the Texas legislators are less competent, but because debating these issues, under the scrutiny of the attention of media and MPs' constituents, could yield quite different results, better suited to our reality here. Moreover, there is something generated by the *process* of deliberation itself that would be lost if the task were contracted out to the lowest bidder.

The notion of process is not unknown to economic analysis, but in the consumption of most goods, the process is deemed less important than the fact of consumption itself. In rural Nova Scotia one can pay money to pick blueberries, and this makes for a popular family outing. There are a couple of oddities here. First, berry picking is back-breaking work and urban professional families certainly do not aspire for their children to enter this field. Why actually pay money to have their children do this degrading work? Second, at some farms, families pay for the privilege of berry-picking on a volumetric basis, and it is not unknown to pay more to pick a pint of blueberries than one would pay for them at the grocery store. Why should we pay more to do the work ourselves? In asking the question, we have answered it. We're paying *precisely* to do the work ourselves. There is something enjoyable about the process of driving out to the valley on a sunny afternoon and watching one's children scamper among the berry bushes; that's what we're paying for. We're not doing this only, or even primarily, to get blueberries.

So too, domestic cultural production, like strictly occasional berry-picking and legislative deliberation, is valuable to us in part because of the benefits yielded by the very *process* of producing and consuming cultural goods. This document has argued that part of this benefit of doing it ourselves derives from the social conversation that is spawned by that process. This conception is mirrored in law professor Edwin Baker's (2000) distinction between two views of culture. Some view culture as a museum; cultural policy is essentially one of preservation and curatorship. Culture is a totem, an artefact; it is dead. Baker argues that culture is "dialogic", a background to an on-going discussion about values and beliefs. Indeed, Baker argues that proponents of cultural exemption, or of international-trade rules that acknowledge that cultural goods are different, are inspired by this dialogic conception. The museum view of culture implies no benefits to active promotion of domestic cultural production, or of cultural diversity.

3.5. Cultural production and welfare economics.

Cultural production, as an input to national identity and social cohesion, involves significant externalities, but externalities that are different from those noted by more traditional cultural economics and reviewed in Section 2. This section will attempt to explain the distinction by describing a series of game-theoretic models. (All of these informal models could be expressed in rigorous analytical detail.)

Consider a nation of citizens, each of whom makes certain choices about which cultural products to consume. For the present purposes of this analysis, focus on the mix of domestic and cultural products. To simplify even further, suppose that each person chooses, today, whether to consume a domestic or foreign product. Consider my choice. If I believe that a significant share of my fellow citizens will choose the imported product, there is little value to me from choosing the domestic product. Part of the value I derive from consuming cultural products

²⁸ I wish I could claim authorship of this illustrative example, but I cannot. Thanks to Andrew Leuty of the SRA group at Canadian Heritage.

is that the experience is shared with others. Part of the choice, then, between domestic and imported products hinges on matching the choices of others. Similarly, if I believe that most of my compatriots will choose the domestic product, then I am likely to choose the domestic product as well. There are two good predictions about the outcome of this interaction: a country where everyone consumes the import, or one where everyone consumes the homegrown product. Thus this simple situation describes a case of *multiple equilibria*.²⁹ With apologies for the technical jargon, the possibility of multiple equilibria is more than a theoretical curiosity. In an economic model, as in many other disciplines, “equilibrium” is the analyst’s prediction about what will happen. Thus, in the current example, one prediction, one equilibrium, is that most people choose the domestic product. It is important to note that “equilibrium” is conceptually distinct from the “optimum”: what is best for society may not be what actually happens. In many economic models, there is a unique equilibrium. In the presence of factors like spillovers (interdependence between the choices of various actors in the model), however, there may be more than one possible outcome of the model. That is the phenomenon of *multiple equilibria*. In what follows, then, “equilibrium” should be understood as “predicted outcome”; when multiple equilibria are possible, there is a fundamental indeterminacy in our models. This has practical consequences for cultural policy, as we will see below.

I have argued above that the spillovers from consuming domestic cultural products are higher, which means that these two outcomes are not equivalent from a normative sense: we’d all be better off at the domestic-product equilibrium. At either equilibrium we would derive the benefits of a shared experience; but at the domestic-product equilibrium the quality of our interaction is higher, the productivity of our social conversation about beliefs and values is higher. And even if the outcome were the imported-product equilibrium we would all be aware that we would be better off at the *other* equilibrium, but no one person has an incentive individually to change his consumption. To make this concrete, suppose that everyone in Canada could watch just one television show per week. How would things be different if (a) everyone watched *Who Wants to be a Millionaire?* or (b) everyone watched *This Hour Has 22 Minutes?* For the purposes of common points of reference, either would serve; but the Canadian-produced program provides many more opportunities for discussing issues of national identity and social cohesion. If we all watch *Who Wants to be a Millionaire?*, we have access to an even larger population of fellow-viewers, but the conversation supported by the program will too often stray from how to make our shared Canadian political space more just, or liveable, or profitable, or whatever.

This simple example of multiple equilibria illustrates a special kind of externality known as *strategic complementarity*. The externality or spillover occurs in the realm of incentives: my choice changes your incentives. If I watch *This Hour Has 22 Minutes*, it changes the payoff to your choice to watch the same program. In the simplest kind of economic thinking, an actor’s decision-making is not directly affected by another actor’s choices. What makes me buy more bananas? Maybe I’ll buy more bananas if my after-tax income rises, or if the price of bananas falls, or if the price of kiwi fruit (which I regard as a perfect substitute for bananas) rises. But I won’t buy more bananas simply because my neighbour does. Thus most models of supply and demand do not have to grapple with strategic complementarities -- they are dealing with goods like bananas. Even the microeconomic logic underlying the market failures considered in Section 2 do not exhibit these kinds of decision-making spillovers.

Most people have the resources and time to choose a portfolio of cultural products that includes both domestic and imported products, and perhaps also a mixture of different types of cultural products. In that more complicated setting, the situation of spillovers is also more complicated.

²⁹ In fact, this is a version of a game known, for reasons that reflect the sexist tenor of the 1950s, as *The Battle of the Sexes*. See Luce and Raiffa (1957, 90-94).

My choice of one more imported product in this context imposes an externality on other people, by marginally reducing the payoff to their current consumption of domestic products. This is a complication of the strategic complementarity discussed above. Moreover, there are complicated spillovers in the value of different components of cultural production. In a nation with relatively high levels of consumption of domestic products of the cultural industries, the value people derive from heritage sites could plausibly be higher. Conversely, if we are all watching films produced elsewhere, our stock of heritage sites will leave us rather indifferent. These speak to a history that doesn't appear to matter in the foreign movies we watch. If we were to switch to an equilibrium that involved higher levels of consumption (and probably production) of domestic movies, all of a sudden the relevance of the historical heritage would loom much larger. As Baker (2000) puts the matter: "In [the] dialogic conception, culture is a living practice. Like all practice, discourses of identity and value require a context, which makes heritage crucial. Thus, this ... conception treats culture as the integration of a specific heritage into a current behavioral discourse."

Furthermore, there are more commercially-oriented spillovers. My patronage of domestic cultural products generates returns for cultural producers themselves. If enough of us watch domestically produced films, a domestic post-production industry in Montréal may become commercially viable; if too few people pay to see domestic films, that sector might not be viable. (Whether or not this is a good or bad thing for the economy is a complicated question. Those technologically-sophisticated Montréalers working in film post-production in a state of the economy where Canadians watch a lot of Canadian films might contribute even more to GDP if they were employed instead in the medical technology sector. But these are externalities nevertheless, spillovers caused by my choice of movie, tonight.)³⁰

Strategic complementarities are frequently associated with multiple equilibria in economic models. A few consequences of multiple equilibria in the consumption of cultural products merit emphasis. First, when there are multiple equilibria, there is, practically by definition, uncertainty about the specific outcome in an unregulated market. If a group of players play the games described above, there is more than one possible outcome. In more conventional market situations, there is one equilibrium: the quantity transacted will occur where the supply and demand curves intersect. With multiple equilibria, players cannot be sure which outcome will result. What's more, since some equilibria are preferred by all players to other equilibria³¹, there is a potential role for policy-makers to help people co-ordinate around the more preferred equilibrium. In particular, subsidies for the production (and possibly, consumption) of domestic cultural products might tip the balance toward an equilibrium with higher consumption of domestic cultural products, together with all the attendant positive spinoffs.

A second consequence of multiple equilibria, some of which are better than others, is that there is no guarantee that international trade in cultural products will lead a nation's consumers to the optimal outcome. Defences of free trade generally build on the quite sensible notion that people consume what they most desire, and if they want to watch American television, then that must be the best outcome. But in the presence of strategic complementarities, all consumers might prefer a different equilibrium than the one currently being played.

³⁰ In part, this sounds like I am saying that the true value of a cultural product lies in its popularity. It is a question for art theorists whether a painting that no one ever sees has any value. It certainly could. All I am saying is that cultural production generates important social values, and the level of that social value indeed depends critically on how widespread is consumption of the products in question. .

³¹ In economic jargon, the equilibria can be *Pareto-ranked*.

Strategic complementarities have important intergenerational consequences as well. People may care about cultural products they do not consume, because they derive satisfaction from knowing that future generations will enjoy today's cultural production. Current market signals and incentives likely do not reflect these "bequest values". In many ways, bequest values are similar to option values and existence values, discussed in Section 2.2. As with those values, citizens might be willing to support current cultural production out the revenues from compulsory taxation.

There is a further problem of imperfect information with bequest values, namely that we do not necessarily know what future generations will value. As Farchy and Sagot-Duvaurox (1994, 29) write: "Le soutien aux artistes n'apparaît pas en ce sens comme un but en soi relié à un simple problème de création d'emploi ; le maintien d'un vivier d'artistes devient un objectif intermédiaire, le but final étant le maintien d'une production artistique dense et diversifiée." For the purposes of bequest value, the best strategy is artistic research and development, with a "dense and diversified" artistic production. Future generations may appreciate what is offensive or impenetrable to today's audiences. As Beethoven is reputed to have said, "Ça leur plaira bien un jour."³²

The evolution of tastes and sensitivities happens not only intergenerationally, but intragenerationally; that's the whole notion of the avant-garde, those who appreciate today what will be widely appreciated in the future. It also happens to people themselves over time. Musicologist Barry Kernfeld (1995, 128) reports this experience with John Coltrane's experimental jazz performance *Ascension* (1965).

Colleagues organizing a freshman music seminar once asked me to suggest a jazz recording that might be played with other types of radical music as a point of departure for asking the questions: What is noise, and what is music? I suggested *Ascension*. Not having listened to the piece for about four years, I cued it up on the record player and found it to be perfectly coherent, emotionally powerful, and in its own way beautiful. In those four years I had gained such a better understanding of jazz that *Ascension* now seemed a poor choice for the seminar, because it was obviously music and hence did not raise significant questions about boundaries between music and noise. That same day, my colleagues came to say that they had decided not to use *Ascension*, because it was clearly noise, not music!³³

The ça-leur-plaira-un-jour phenomenon is further justification for public support of domestic creators in the interest of citizens, whose tastes change. But this concern also intersects with the problem of strategic complementarities. Dense and diversified artistic production suggests a threshold level of domestic activity, below which future benefits may no longer be produced. Without a sufficient level and diversity of cultural production today, there may be insufficient resources for future generations to derive benefits from it. This will moreover have consequences for future generations' ability to maintain national identity on the basis of today's cultural production. Cultural creators draw upon the historical stock of domestic cultural production; if that stock is seriously depleted, the path of future domestic cultural production will be modified accordingly, and perhaps might find insufficient material to survive. Perhaps creative people would avoid that outcome, but it is eminently reasonable that significant

³² "Beethoven, quand on lui dit que l'Héroïque est trop longue, répond qu'il va faire une symphonie encore plus longue ; et quand on lui dit que son dernier Quatuor n'a pas été goûté, il répond : 'Ça leur plaira un jour.'" (Massin and Massin 1976).

³³ The interested listener can consult the original performance on the CD *The Major Works of John Coltrane* (GRP/Impulse! GRD 2-113).

reductions in the level of domestic cultural production today will significantly affect the course of future production. A collective of citizens that finds itself in an equilibrium with very low levels of consumption of domestic cultural products might choke off future consumption.

The notion of a dense and diversified cultural base evokes current concerns regarding cultural diversity. Cultural diversity has largely become the justification for the promotion of domestic cultural production in international-trade negotiations; no longer is there explicit mention of protecting domestic producers (see, e.g, Bernier, 1998). This viewpoint has been especially championed in international forums by France and Canada. If international diversity of cultural expression is a valued thing, then it is a country's responsibility to the world to nurture and support its own sources of cultural expression. Such support might frequently contravene narrowly-interpreted international-trade agreements.

The threat of diminishing cultural diversity was pointed out with characteristic eloquence by the Mexican poet and Nobel laureate Octavio Paz (1959, 153-154):

Acaso por primera vez en la historia la crisis de nuestra cultura es la crisis misma de la especie. La melancólica reflexión de Valéry ante los cementerios de las civilizaciones desaparecidas nos deja ahora indiferentes, porque no es la cultura occidental la que mañana puede hundirse, como antes ocurrió con griegos y árabes, con aztecas y egipcios, sino el hombre. La antigua pluralidad de culturas, que postulaban diversos y contrarios ideales del hombre y ofrecían diversos y contrarios futuros, ha sido sustituida por la presencia de una sola civilización y un solo futuro.³⁴

In this view, cultural diversity is a social good like social cohesion or national identity, but one that is global in scale.

If one accepts the argument that cultural diversity is a social good to be pursued at the global level by reserving "shelf space" for French movies in France and Canadian television programs in Canada, then it should also be the case that cultural diversity *within* France or Canada is a good thing.

The instrumental value of within-Canada diversity is given above: current artists and future generations need a certain level and variety of cultural production to help create further cultural production, and to contribute to social goods like national identity and social cohesion. But it is also likely that cultural diversity within Canada will generate benefits other than those listed above. Subsidizing a cultural centre in Saskatchewan, for Saskatchewan artists, helps ensure that Saskatchewan artists at least remain part of the national conversation discussed above. This argument supports regional production of CBC/Radio-Canada newscasts as well. Encouraging, while not requiring, representativeness of public support for the arts in terms of geography, language, ethnicity and other important dimensions, fosters participation in the nation's civic life (Jeannotte and Stanley, 2000). Having said this, it should be recognized that this is but one type of diversity. Those familiar with the arts scene in Montréal or Toronto or Saskatoon can attest to the remarkable diversity of expression within even a few city blocks comprising various galleries. Finally, these arguments for the instrumental value of cultural

³⁴Perhaps for the first time in history the crisis of our culture is the crisis of the species itself. The melancholy musings of Valéry before the cemetery of vanished civilizations fails to move us today, because it is not Western Culture that might sink tomorrow, as before with Greeks and Arabs, Aztecs and Egyptians, but rather man himself. The former plurality of cultures, which postulated varied and opposed ideals of man, and offered varied and opposed futures, has been substituted by the presence of a single civilization and a single future.

diversity are set against the current argument in favour of cultural diversity, which insists on its *intrinsic* value.

Table 2 summarizes the four types of externalities generated when a Canadian consumer opts for a domestic cultural product. If one consumer opts for a domestic cultural product, it raises the value of that same product for other consumers, given that it can serve as a shared experience. This kind of externality is conventionally referred to as a *network externality* in economics. The same kind of externality is generated when a consumer buys a fax machine. The value of fax machines is higher as a result because there are more people on the fax network. (If you own the only fax machine in the world, however, it has no value.) Network externalities are also present in the decision between different product standards (like Windows- or Macintosh-based computers); the value of one standard depends on the number of consumers who have opted for that standard.

One consumer's choice of a domestic cultural product...	
Network Externalities	... raises the value of such a choice for other consumers: <i>shared experience</i> .
Cross-Product Externalities	... raises the value of the consumption of other domestic cultural products.
Commercial Externalities	... raises the commercial viability of industries associated with domestic cultural production.
Intergenerational Externalities	...contributes to the "dense and diversified" cultural base necessary for future domestic cultural production: <i>ça leur plaira bien un jour</i> .

Table 2: A Typology of Externalities from Domestic Cultural Production

There are other externalities in cultural consumption that have been noted here. Opting for a domestic product generates *cross-product externalities*, in addition to the network externality. A group of consumers who share the experience of a particular domestic cultural product will now ascribe higher value to other, related cultural products. The Maritime Museum of the Atlantic in Halifax consciously sought to capitalize on the value of its Titanic-related holdings in the wake of the release of the hit movie *Titanic*. On a smaller scale, a shared experience of a historical novel based in Canada will raise the value to its readers of heritage sites related to the novel's setting. Furthermore, there are *commercial externalities* when greater demand for domestic cultural products makes certain supporting industries economically viable. Such is the case of pre- and post-production industries related to film and television production, or firms that distribute films, compact discs, books, newspapers, and other cultural products. Finally, there are externalities imposed on future generations. These *intergenerational externalities* affect the future viability of domestic cultural production in general. If a dense and diversified base of cultural production is not maintained now, creators in the future may not have the cultural resources to draw upon. Similarly, if heritage preservation is ignored today, people in the future will not have the *langue* (as Taylor argues) with which to understand future cultural products.

Domestic cultural production generates significant externalities, externalities that are conceptually quite different from the traditional sorts reviewed in Section 2. In many ways, this aspect of domestic cultural products recalls the debate surrounding the "multi-functional" role agriculture. International-trade negotiations have largely recognized that agriculture produces much more than commodities: agricultural activity produces landscape, land conservation, sustainable management of renewable natural resources, preservation of biodiversity, and the socio-economic viability of rural society (OECD, 2000). Agricultural activity generates significant externalities that, while not adequately priced through markets, provide important benefits for people. Cultural production likewise serves several functions beyond the immediate production of compact discs or pieces of sculpture.

4. Measuring the Value of Cultural Products

The preceding sections of this report have sought to demonstrate that the benefits of cultural production are likely much larger than they might appear at first glance, given that they contribute to valued social goods like national identity and social cohesion. Moreover, idiosyncrasies of cultural production when it is left to the vagaries of the marketplace make a strong case for public action to promote domestic creators. In particular, strategic complementarities among consumers of domestic cultural production imply that there will be multiple equilibria; in such a setting, the outcome of unregulated markets for cultural production may well fail to lead to the most-desired outcome.

A reasonable question for policy-makers is “how big are the benefits of domestic cultural production?” In particular, what are the benefits of public action to promote domestic cultural production, especially in light of the broad-based benefits claimed in this report? After all, the tools of cost-benefit analysis have been honed for more than half a century to quantify the net value of governments’ intervention in the economy. Thus we can put a dollar figure on such potential projects as widening a highway, building a dam, or cutting certain urban bus routes. In principle, we should similarly be able to put a dollar figure on the net value of support provided by the Canada Council for the Arts, or the net value (potentially negative) of cutting back regional news gathering by the CBC/Radio-Canada. In practice, of course, there are significant difficulties.

4.1. Non-market values

First, many of the benefits identified in this report are difficult to measure because they are not mediated by markets. Much of cost-benefit analysis is based on deriving information from people’s behaviour in markets. The market price of a good provides an estimate of the value of that good, to those consumers willing to buy it at the current price. (In fact, this is a lower bound on our estimate of that value, since some current consumers would be willing to pay even more than the current price.) If a government project has the result of increasing the supply of the good in question -- and these “goods” can be straightforward, like kilometres of public transport provided, or complicated, like units of health care -- then its price will fall. We can forecast the change in price and the change in quantity demanded and derive a reasonable estimate of the increase in value to consumers. This can be compared to the cost of resources used to provide the new project. When goods are not marketed, there is still hope. Many government projects in the realm of transport involve benefits in the form of savings of time; replacing a ferry with a bridge saves people time, which is valuable. There are methods for estimating the value of time to the people affected, and this can be incorporated into a true “price” of a straits-crossing.

The non-marketed values in the realm of cultural production stray quite far from the question of commuters’ time. Existence values, option values, and bequest values are potentially quite sizeable, but they are reflected only very imperfectly, if at all, in the prices paid for cultural products. Fortunately, great strides have been made in quantifying such values for environmental goods. Clearly, many government projects (like building a road or a bridge or a dam) have environmental consequences, and the techniques of cost-benefit analysis quantify those consequences together with the more conventionally economic ones. If a natural habitat or setting is altered by some project, that has effects for people’s option, existence, and bequest values: people can no longer plan to enjoy the unspoiled habitat, or derive pleasure from its very existence, or from the prospect that their heirs will enjoy it. Indeed, the concept of existence values in particular was developed by environmental economists, not cultural economists. How can we estimate the value of these kinds of environmental damage? The principal technique employed is *contingent valuation* (Hanneman 1994). Contingent valuation is based on surveying

people: after all, if we are interested in how much people are willing to pay for certain environmental amenities (or, alternatively, how much they would have to be compensated to live without them), one way to find out is to ask them. Naturally, this is a difficult enterprise.

The critical element of a contingent-valuation survey (Portney 1994, 5-6) is a complicated mechanism for eliciting willingness to pay (following a detailed description of the policy and its environmental impact), including, “such things as open-ended questions (“What is the maximum amount you would be willing to pay for...?”), bidding games (“Would you pay \$5 for this program? Yes? Would you pay \$10? What about...?”) or referendum formats (“The government is considering doing X. Your annual tax bill would go up by Y if this happens. How would you vote?”).” Contingent-valuation received a big boost in credibility when the US National Oceanic and Atmospheric Administration convened an expert panel to judge its usefulness in determining environmental damages in cases such as the March 1989 Exxon Valdez oil spill in Alaska.³⁵ The panel’s report endorsed contingent valuation but discredited most of the existing research that had used the method (NOAA, 1993). The panel recommended that surveys elicit willingness to pay (rather than willingness to accept compensation), that surveys elicit this information in the referendum format described above, that respondents be systematically reminded that money paid for environmental protection means less money to spend on other things, that respondents be reminded that there are substitutes for the environmental good in question (e.g., other wilderness areas), and that scenario descriptions be very detailed. Moreover, the panel recommended face-to-face interviews rather than telephone surveys. Very little of the contingent-valuation research carried out before the panel’s report met these standards. In sum, the panel suggests that the research can be very informative, but it requires substantial expertise in social research and is very expensive.

These methods are promising for quantifying benefits of cultural products. Contingent-valuation research has been widely used to study the value of natural parks³⁶; it is not surprising that it’s principal incursion into the realm of cultural products has been in the area of heritage sites, which resemble natural parks in many ways for the policy-maker. Thus Serageldin (1999) employs the technique for a study of preservation in the Hafsia district of old Tunis, and of Fez, Morocco. Closer to home, McFayden *et al.* (2000) have used the technique to determine the use and non-use values of CBC/Radio-Canada programming. (Use values are the conventional values of consumption of programming; non-use values potentially embraces option, existence, and bequest values.) The authors take on the difficult task of eliciting willingness to pay by means of discrete-choice experiments, in which “respondents are provided with a description of the good, consisting of a combination of specific levels of attributes or service components for an associated price, and are asked to indicate whether or not they would pay for the good... [The experiment] goes on to ask the same respondents to answer the same question for additional goods, each a carefully designed combination of the attributes or service components and different prices.” This is an example of a creative way of eliciting reliable information on willingness to pay for conceptually complicated attributes of cultural products like existence or option values.

4.2. Strategic uncertainty.

Contingent valuation research (in tandem with approaches like discrete choice experiments) promises to help quantify benefits of cultural production like direct use values, as well as option values, existence values and bequest values. Those values are conceptually difficult, but this

³⁵ The panel members were Kenneth Arrow, Edward Leamer, Roy Radner, Howard Schuman, and Robert Solow.

³⁶ See the references to several Canadian examples in The Outspan Group (1999).

document has demonstrated that cultural production also contributes to social goods like national identity; this link is even more complicated. To some extent, sophisticated survey research can gather information on people's valuation of national identity and social cohesion using the methods briefly described in Section 4.1. Nevertheless, these values are potentially more difficult to estimate than other use and non-use values.

To give a concrete example, suppose one were conducting a cost-benefit analysis of a ten-percent cutback in funding provided to the Canada Council for the Arts. One could determine the kinds of support that would be eliminated -- say, a certain number of awards for novelists. Based on this, the analyst attempts to determine consumers' evaluation of the products that would not be supplied: namely, some novels. Directly, this reduces the supply of those commodities and has some impact on consumers of those products, which can be estimated using conventional cost-benefit analysis. Indirectly, a certain level of literary activity may have option, existence, and bequest (including the "dense-and-diversified" base for future productions) values for some Canadians, which could be estimated using contingent-valuation survey research. In addition, however, there is some potential damage to social goods like national identity and social cohesion. What is the value of this cost to society? In principle, the analyst could answer that question using estimates of the value of those social goods themselves. So far, this is OK: some variant of contingent-valuation survey research could probably provide reliable estimates of the values of these goods to Canadians. But the analyst would still require information on the productivity of Canada Council-supported cultural products in producing those social goods. That is, suppose that a novel which is made possible by the Canada Council generates national identity worth $\$Y$ to Canadians. Then the analyst can estimate the cost in terms of damage to social goods from a reduction in funding to the Canada Council: simply multiply the number of foregone novels by $\$Y$. Where does the analyst get Y ? No simple task. Such estimates would be useful for analyzing the impact of a wide range of cultural policy initiatives, but they would be conceptually difficult to construct.

Because of the possibility of multiple equilibria, the situation is even more difficult than it at first sounds. A foregone Canadian novel has a higher value in a Canada where consumption of domestic cultural products is relatively high, than in a Canada where that consumption is relatively low. This is because it generates higher network and cross-product externalities, as explained in Section 3.³⁷ Still, this theoretical nicety is not insuperable: it is up to the analyst to construct estimates of Y for each of those equilibria and then to determine whether Canada is in the high or low equilibrium, and apply the appropriate estimate of Y . But what if the effect of the cutback in funding can be expected to have the effect of switching consumers from one equilibrium to another? In this case, the analyst needs to estimate the probability of the various possible equilibria, and multiply the appropriate estimates for Y (which differ in each equilibrium) by the probability of each equilibrium. The sum of these weighted values of Y is then the value of the damage to social goods.

If the multiple-equilibria model of cultural production is more or less correct, then the externality value of cultural goods will vary according to which equilibrium is being played. While it is probably difficult for survey respondents to evaluate these externalities in the current state of cultural production, it is probably almost impossible for them to intelligently assess those externality values in some alternative state of the world. That is, in a low-domestic-production equilibrium, it will be quite challenging for a survey respondent to assess the existence value,

³⁷ At the same time, if Canadian literature is relatively abundant, one more Canadian novel is not quite as valuable as it would be in a world starved of Canadian novels. This is a different source of value -- overall scarcity -- that works in an opposite direction from that of the externalities emphasized in this report.

say, one additional Canadian novel would have under the high-domestic-production state of the world.

By and large, each step in this notional analysis of Canada Council cutbacks is more or less theoretically founded (with one exception; see below). Nevertheless, the degree of uncertainty in each step of the analysis is rather high; the aggregate uncertainty embodied in the final estimate of the net value of the cutback proposal is quite large. To wit,

- The number of works foregone as a result of the funding
- The value of a “typical” novel or dance production to national identity or social cohesion
- The value of social goods, in each of several equilibria
- The set of possible equilibria
- The probability of each of those equilibria

Cost-benefit analysis deals with the problem of uncertainty by conducting sensitivity analysis: change some of the assumed values and recalculate the net value of the cutback. But the number of parameters of questionable precision is so large that the range of possible values yielded by the sensitivity analysis is likely to be so large as to render the exercise largely uninformative.

The one link in the analytical chain sketched above for which there is little theoretical backing is the estimation of probabilities for various possible equilibria. This kind of strategic uncertainty -- which equilibrium will occur? -- is largely *terra incognita* in policy analysis. As cost-benefit analysis is called upon to comment on projects that might have strategic consequences, this lacuna in the research will need to be addressed.

Given the resources (survey expertise and dollars) required to conduct contingent valuation research, estimating the parameters needed for a cost-benefit analysis in the cultural sector is no small task. To the extent that policy-makers envision using such information in the future, some aspects of this research program could be profitably piloted nevertheless. In particular, certain kinds of information likely to be useful to the analysis of many types of cultural policies could be priority areas for this type of policy research. The value of social goods like national identity and social cohesion, and their relation to cultural production is an example of the kind of information likely to be useful to the consideration of a wide range of cultural policies.

5. Concluding remarks

This overview of old and new approaches to the economic value of domestic cultural production identifies several important gaps in our theoretical and practical understanding of the issues at hand. Some of those gaps mentioned above, and some not mentioned above, are listed here:

- *What kinds of policies are best suited to promoting domestic cultural products?* This document illustrates that promotion of domestic cultural products is valuable; it says nothing about how to go about it. There is ample discussion in the policy debate regarding the Canadian model of cultural policy (Acheson and Maule 1996; Rabinovitch 1998); these debates should be brought into contact with a conception that includes social goods and multiple equilibria.
- *Research on the economics of social goods.* This report suggests that there is an important class of goods with truly social characteristics, without completely subscribing to Taylor’s irreducibility argument. The behaviour of markets and the effects of policy in

the presence of such goods is poorly understood, whether from a purely theoretical or a hard-headed applied perspective.

- *Adapting contingent-valuation methods to cultural products and non-environmental applications.* More work needs to be done to adapt contingent-valuation methods to the cultural sector, in particular to cultural goods other than heritage sites.
- *An ecosystem based approach to cultural production.* Again drawing an analogy to environmental analysis, it may be time to consider cultural production from an ecosystem standpoint. That is, it may be more relevant to consider the contribution of a vibrant film industry to social goods rather than the effect of a single new Canadian film production. Alternatively, social goods may be promoted through the interaction of several types of cultural production -- like exchange and communication between the arts and cultural industries. Understanding these “ecological” links is important for policy-makers and managers. It may be, for example, that the disappearance of Canadian film production will not have adverse consequences for social goods if it is compensated by increases in production by other cultural industries. Critiques of contingent-valuation methods have often focused on survey respondents’ difficulty in intelligently assessing their opinion about saving lakes they have never heard of; nevertheless, people value “clean lakes” in general (Diamond and Hausman 1994). In adapting these methods to cultural products, perhaps we should take these critiques to heart and attempt to determine the value of the cultural sector as a whole, rather than the value of one more NFB-financed documentary that few people will see.³⁸
- *Incorporating strategic uncertainty into cost-benefit analysis.* What are some practical procedures for cost-benefit analysts to address uncertainty that stems from the strategic interaction of people affected by the policies under analysis? Game theory may provide some pointers (regarding the “basin of attraction” of particular equilibria), once the relevant game has been identified to the analyst’s satisfaction.

It is hoped that the present document provides useful pointers for each of these items on the research frontier.

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³⁸ A useful analogy could be made to new approaches to determine the value of biodiversity per se, rather than of isolated species. An illustrative discussion by two biologists can be found in Kunin and Lawton (1996).

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