

Chapter 2

Cultural Policy and Development:

What are Creative Industries and Why Do We Care?

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Abstract. This chapter suggests a framework to structure debates on cultural policy, drawing on the discipline of cultural economics. The aim is to inform cultural policymaking, in particular in middle-income countries such as India, which experience relatively rapid socio-economic change. On the one hand, this article challenges some common preconceived ideas regarding cultural and creative industries (CCI) and cultural policy, which inhibit constructive engagement with culture. For instance, I argue that we should not get stuck in definitional issues. Second, sophisticated cultural policy is desirable not just because CCI are large, but because of the dual challenge of extensive market failure in CCI and the great potential for problems with government failure in cultural policy. Third, CCI and the luxuries they supply are not negligible in developing countries that experience rapid, general economic growth but also need to cater for a large share of their population with limited access to more essential goods and services, regarding for instance health, nutrition and shelter. To the contrary, in the course of socio-economic development, CCI have an increasing role to play. Fourth, the labour-intensity of CCI should not be misinterpreted as a reason for its relative decline in the course of technological change. Fifth, in the case of India, following the example of CCI-related practices and policies in highly developed economies may be misleading. Different intellectual property institutions may be required, and the celebration of individual superstar creators exhibited in many countries may inhibit wide CCI-participation in

India. The article concludes with suggestions for further research on three overarching topics. When does art follow wealth and at what levels of general socio-economic development does it start working the other way around? How can CCI promote upward social mobility? How can policymakers ensure that digitalization promotes the performance of CCI regarding productivity, efficiency, and equity under swiftly changing socio-economic circumstances?

Keywords: cultural economics, cultural and creative industries, cultural policy, India, socio-economic development

2.1 Introduction

Over recent years, there are great hopes for cultural and creative industries (CCI) to promote economic and social development, also in middle income countries such as India. As a cultural economist, one would tend to agree. However, economic reasoning often grates against the conventional rhetoric regarding cultural policy. Consider for instance the Indian government's headline text on its arts and culture policy website:

“India has one of the world's largest collections of songs, music, dance, theatre, folk traditions, performing arts, rites and rituals, paintings and writings that are known, as the ‘Intangible Cultural Heritage’ (ICH) of humanity. In order to preserve these elements, the Ministry of Culture implements a number of schemes and programmes aimed at providing financial support to individuals, groups and cultural organizations engaged in performing, visual and literary arts etc.”

(india.gov.in 2019)

I would immediately stress a different aspect. India has one of the youngest demographics of any major country in the world. In this context, it seems peculiar for cultural policy to emphasize cultural heritage. A country with a gigantic population and more than half of its inhabitants below the age of 25 should not just aim to preserve heritage – it should aim to shape the future.

The CCI are central in the process of digitalization, and will keep on changing. There is great potential for growth through CCI, and cultural policy should set a framework for citizens to exploit these opportunities *extending* on its cultural heritage.

This chapter suggests a framework in which to structure debates on cultural policy. That framework is based on various parts of economics and many of the components may even seem conventional for specialist economists. However, they are certainly unconventional in writing on cultural policy. A particular aim of this article is to challenge some widely held preconceived ideas regarding CCI and cultural policy. For instance, I will argue that CCI and the luxuries they supply are not negligible in developing countries that experience rapid, general economic growth but also need to cater for a large share of their population with limited access to more essential goods and services, regarding for instance health, nutrition and shelter. To the contrary, in the course of socio-economic development CCI have an increasing role to play.

2.2 What are cultural and creative industries?

From definitions ...

There is some confusion about what the CCI entail. That is not just a challenge in academic debates. Without reasonably precise definitions, there is great scope for miscommunication. Without precise definitions it is also hard to assess the role of CCI in socio-economic development. To clarify, it is helpful to consider three basic types of definitions of CCI: ostensible, enumerative and analytical definitions (Handke 2004).

Ostensible definitions provide a couple of specific examples that illustrate parts of what constitutes the concept to be defined. For the CCI, this could be the production and consumption of music, fiction literature and films and video games, for instance. Ostensible definitions are common in policy documents and even in academic writing on CCI but they are inevitably rough and ready.

Enumerative definitions are more ambitious and refined. An enumerative definition proposes a list of items that as a whole, make up all the elements of a wider concept. For instance, Throsby (2008) contains an enumerative definition of CCI that distinguishes (1) the core creative

industries of literature, music, performing arts, visual arts, (2) other cultural industries of film, museums, galleries, libraries and photography, (3) wider cultural industries of heritage services, publishing and print media, sound recording, television and radio, video and computer games, and (4) related industries of advertising, architecture, design and fashion. Other authors often include sports, crafts, cuisine or even gambling and adult entertainment.

Enumerative definitions are essential in accounting exercises that strive to generate comprehensive quantitative indicators of the role of CCI in an economy or society. In practice, there are almost as many enumerative definitions of CCI as there are authors writing on the subject. One reason for these contested boundaries is the lack of a clear and generally accepted analytical definition of CCI.

Analytical definitions consist of a number of statements that stipulate those shared features of everything that falls within the definition that distinguish them from anything that does not. Paraphrasing Throsby (2008), for instance, CCI are (1) suppliers of symbolic goods and services, which (2) use some human creativity as an important input, and (3) the products they supply give rise to intellectual property (IP) “at least potentially”. This is perhaps the most influential and precise analytical definition of CCI, but it is far from perfect. On the one hand, an analytical definition ideally would not be circular (would not explain one opaque term with another). However, in Throsby’s (2008) definition there is an element of circularity: it defines CCI with ‘symbolic’ and ‘human creativity’, which are also contestable concepts. Furthermore, the qualifiers – “some human creativity” and giving rise to intellectual property “at least potentially” – leave much scope for interpretation. Finally, intellectual property is a legal concept that changes over time and has different meanings in different territories. Clearly, there has been much creativity without anything resembling contemporary IP – think of Sangam literature or Shakespeare. Any analytical definition strives to identify *universal* characteristics, and IP is thus a problematic aspect of definitions of CCI.

The weakness of analytical definitions of CCI makes it hard to develop generally accepted enumerative definitions, which play an important role in contemporary policy. This is a central problem in devising cultural policy as a means to foster socio-economic development.

... to practical implications

Over and beyond this fundamental challenge in defining and measuring CCI, there are several practical issues that spring from any thorough discussion of the concept of CCI. Regarding cultural policy in middle-income, rapidly developing countries such as India, three issues seem particularly relevant:

First, CCI are labor-intensive, with human creativity/work being more important than in advanced agricultural and manufacturing operations, for instance. In many aspects of the economy, development means an increasing use of capital – in particular machinery, computer software and data – relative to labor and thus the displacement of human work and employment. Agriculture becomes less important as a locus of employment. Nowadays, manufacturing and the production of routine services also become increasingly capital-intensive with automation. Thus, in terms of employment, the relative importance of labor-intensive CCI is bound to increase. What is more, creative products tend to be luxury goods in an economic sense: demand for them increases disproportionately with increasing household wealth. Thus, the absolute importance of CCI is bound to rapidly increase with economic development. Therefore, it is a misconception that CCI are negligible in development because they concern luxury goods as defined in economics and do not concern goods and services that are essential for human sustenance in the short run. To the contrary, CCI adopt an increasing role with development and can perpetuate the process of development, as I will also argue below.

Second, there may be no monotonic association between IP protection and growth in CCI. Consider the experience in highly developed economies in North America and Europe with unauthorized copying online. De facto levels of copyright protection decreased substantially and many studies suggest that unauthorized digital copying explains much of these decreases; for literature reviews, see Handke (2011), Liebowitz (2013) or Watson et al. (2015). However, the diversity and quality of supply of new music recordings and films increased over the same period – a puzzling result for economists, as it seems to contradict the law of supply. In fact, the only empirical study to this date that identifies any adverse effect of unauthorized copying on the supply of new creative works is on Indian films by Telang and Waldfogel (2018). If the observations from highly developed economies are anything to go by, it is misleading to assume that IP protection is generally and positively associated with growth in CCI. The devil seems to be in the detail. The challenge is to strike an adequate balance: on the one hand, to establish

quasi-property rights for conventional markets to operate reasonably well; on the other hand, to limit the burden for consumers and small creative projects that sophisticated IP systems can entail. For instance, we cannot expect traditional craftsmen and -women in India to quickly acquire the skills to use IP systems to their advantage.

Third, various aspects of the CCI have different roles in different countries. In India, there is a rich tradition of arts and crafts, where creators/craftspeople closely adhere to long-established formats in their manual and creative work. That is distinct from the arts in Western traditions that emphasize originality, individual authorship and the breaking of boundaries. It is also different from markets for reproducible cultural products, such as films, where technology enables mass reproduction and sales of identical copies as media content. In the arts as well as in content industries, there are strong superstar effects: attention and revenues are highly concentrated on a small minority of creators. In the crafts, there is greater scope for a large numbers of skilled laborers to make a living. The potential of crafts to secure reasonable employment conditions and sustainable levels of income for many craftspeople is promising regarding upward social mobility and an equitable socio-economic development in middle income countries. However, arts and crafts are also associated with a lower social standing of successful creators. Furthermore, the labor-intensity of crafts means that Baumol's cost disease (Baumol and Bowen 1993; Baumol and Towse 1997) might apply to them: with technological development, the productivity of crafts may not increase at the same rate as the productivity of more capital-intensive modes of production in the media content industry or manufacturing. In this context, a challenge for Indian cultural policy is to strike another precarious balance. On the one hand, creative works ought not to be perceived as fungible commodities that might as well be produced anywhere as long as the superficial look and feel of the final goods is reminiscent of handcrafted, traditional cultural goods – think of Saris produced in Chinese factories. On the other hand, if crafts would graduate to a level of appreciation more similar to the arts, there is the risk of very inequitable labor markets that would hardly improve the lot of the majority of mediocre craftspeople – or of craftspeople less capable to present themselves as 'proper' artists.

2.3 Why do we care about cultural and creative industries?

Cultural economics: a growing field of research

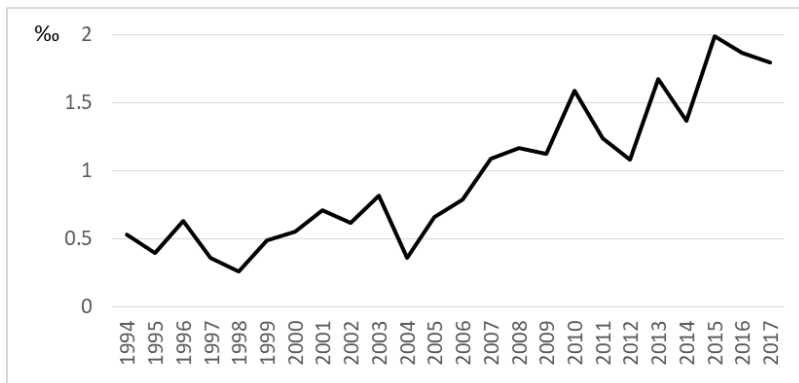
After these preliminaries, the rest of this chapter revolves around the question why anyone concerned with socio-economic development – and in particular policy makers and academics trying to inform policy makers – would care about CCI in India. For starters, let us document that CCI have received increasing attention in economic research, which documents an understanding that these industries have an important role to play in contemporary economies.

Figure 2.1 plots data on the share of academic journal articles on CCI in academic articles in the areas of business and economics listed on the database Web of Science (WoS), which we assembled for another project at Erasmus University Rotterdam. The underlying methods are documented in **Box 2.1**.

BOX 1: Assessing growth in economic research on CCI

WoS was the first, reasonably comprehensive database for academic publications. It covers publications in thousands of prestigious journals and as of May 2019 featured over 40 million items, including about 700,000 articles classified into the research area Business & Economics. To establish the number of articles in this research area, we ran searches on thirteen expressions closely associated with CCI.¹ In total, these searches yielded 1,092 original articles. Screening by human reading identified 350 irrelevant items, leaving a corpus of 742 business and/or economics articles on ‘arts and culture’ in total. To control for an increasing number of academic publications on WoS over time, we then ran a search on the number of business & economics articles that feature the definite article “the”, as a proxy for the total number articles in that research area. Finally, we divided the annual number of CCI articles published by this proxy for the total number of articles. Overall, this gives a rough indication of the trends in the share of CCI articles in the total of articles within the Business & Economics research area on WoS.

FIGURE 1: The % share of articles on CCI in all Business & Economics articles featured on the Web of Science database



SOURCE: Own calculations based on data collected on the WoS-database.

According to the bibliometric exercise presented in Figure 1, the share of articles on CCI has increased considerably and quite consistently since 2005. In 2016 and 2017, it has been almost four times higher than the average between 1994 and 1999. Of course, we cannot exclude the possibility that data availability is driving this development at least in part, or that the interests of economics scholars are subject to fads and fashions. Nevertheless, these observations provide some indication that successful researchers in the areas of business and economics consider CCI an increasingly relevant aspect of contemporary economies.

Economic characteristics of CCI

In addition to the definition criteria of CCI discussed above, economists working on CCI have identified a range of more advanced, shared economic characteristics of these industries; see for instance Towse (1997; 2011), Caves (2000), Blaug (2001), or Ginsburgh and Throsby (2006).

First, creative products have public good attributes. They tend to be non-rival in consumption: use by one party often does not adversely affect the utility of the same good for others. They also tend to be non-excludable: for important aspects of creative works, it is hard to establish effective exclusive property rights, which would be required for conventional markets to

efficiently operate. This applies in particular to creative works that are disseminated as media content – think of unauthorized dissemination of recorded music or films online. However, important aspects of physical creative objects are also easily observed and emulated by others. As a rule, valuable new ideas and works are costly to create but relatively easily copied. They thus usually give rise to positive externalities. Due to the positive externalities that these quasi-public goods entail, the market value of creative works (the number of units sold times price) only reflects a relatively small part of their total social value, and the provision of public goods through conventional markets is problematic.

Second, creative goods have experience good attributes. Creative goods are highly differentiated and users care about minute differences between them. Users will have clear preferences for specific works from a range of different films, books or craft objects available to them. What is more, there are usually so many product variants available that users cannot inform themselves about all options. Users take decisions on how to commit their time and money to specific product variants under incomplete information – for instance as they consider a sub-set of all films available to them and ultimately decide on what screenings to attend. To reduce search costs, users also tend to consider signals of quality by other parties, such as professional or user reviews, sales rankings, or prizes and awards. Demand for specific creative works thus comes about in complex social processes and gives rise to superstar effects and herd behavior that does not necessarily faithfully reflect intrinsic quality and optimal choices.

Overall, markets for creative products tend to be complex with many different works supplied, many different suppliers and affluent users appreciating variety. One challenge is to keep the costs of the myriad of informational exchanges and transactions as low as possible. Digitalization has the potential to lower transaction costs and thus to make CCI of any type more efficient and to foster growth in CCI.

Experience good attributes also relate to the role of education and prior experience with creative works in shaping tastes for creative products. Many creative products do not only require a sufficient level of general-purpose education to be accessible – think of language and reading skills and literature. Creative works also often require specific knowledge to be fully appreciated. Taste for sophisticated creative works tends to increase with prior engagement with similar works, which enables consumers to understand creative achievements and symbolic meaning.

Furthermore, there is extensive evidence for intrinsic motivation to create (e.g. Throsby 1994; Caves 2000; Frey and Jegen 2001): creative workers accept below average earnings, especially when they enjoy extensive control over the types of goods they produce. Of course, for intrinsic motivation to play a strong role in practice, creative workers need to be able to sustain themselves even when they emphasize creative liberty over income maximization. This is less of a challenge in affluent societies and societies with lavish social welfare systems, but may pose restrictions on the broad participation in the CCI by workers in developing economies.

Expected benefits of CCI

It is widely appreciated that cultural products have public good attributes in the sense that their commercial value and contribution to national accounts only capture relatively modest part of their full social value. **Table 2.1** provides an overview of some CCI benefits, distinguishing between the domestic economy and in terms of external trade, as well as between commercial values and benefits that accrue beyond conventional markets and national accounts.

TABLE 1: Expected benefits of cultural and creative industries (rough overview)

	Commercial	Beyond conventional markets
Domestic	Employment	<ul style="list-style-type: none"> - Social cohesion - Innovation and adaptation - Attracting other skilled laborers and wealthy connoisseurs
External	Exports	- Status and soft power

Commented [CH1]: I made this up myself, without drawing on a specific source.

Regarding the commercial benefits of CCI, these industries have the potential to provide gainful employment opportunities for skilled and creative domestic workers and citizens trading with these products. Competitive economies can also benefit from external trade of CCI, especially when they can export valuable goods and services to relatively high income countries under

favorable terms; on the performance of India in external trade of creative products, see Shaban and Vermeulen (2015).

Beyond these commercial benefits that are reflected in national accounts, there are great hopes that CCI are an important arena for communication between citizens that would foster mutual understanding, civic pride and social cohesion. Another domestic benefit of CCI concerns synergies between CCI and other industries, in particular the role that cultural and creative activities can play as in fostering opportunities for innovation and adaptation of other industries. For instance, engagement in creative and cultural activities may foster more generally applicable skills related to creative problem solving and communication. In any case, creative media content helps foster demand for media technology and telecommunication services – if an attractive range of content is available at low prices online, the demand for computer hardware, smartphones and broadband access will increase. Another example are creative services that are used to make other goods more appealing, say with clever industrial design, packaging or advertising. Furthermore, there is some evidence that local hubs of CCI activities make these locations more attractive for other highly educated and skilled people – so that academics in all sorts of professions would favor living where there are strong CCI (Florida 2005). Last but not least, regarding external CCI benefits, countries that manage to export much attractive cultural and creative services may attract tourism, gain status and soft power, and ensure that the perspectives of their citizens are noticed in other territories.

How do CCI benefits come about?

What is more, there is a potential for growth in CCI to foster self-perpetuating processes, for instance where increasing employment in CCI fosters social cohesion and makes a location more attractive for tourists and skilled workers in other professions, generating general economic growth beyond the CCI and increasing the demand for creative goods and services. This begets the question, how best to exploit that potential – or in other words, does art follow wealth or does wealth follow art? This is of obvious relevance for cultural policy.

The predominant pattern may be that art follows wealth. Regarding the demand side of CCI, creative and cultural products tend to be luxury goods in the sense that as people get wealthier, they spend an increasing share of their disposable income on CCI products. On the supply side of CCI, intrinsic motivation to create means that if people's most imminent needs are covered, they

prefer creative work over other labor, even if creative work does not yield the same level of income as more humdrum employment. If the positive externalities of CCI compensate for the subsequent reduction in conventional measures of value generation, intrinsic motivation to create means that CCI will thrive as communities get wealthier. In this line of reasoning, any economic growth begets growth in CCI and there may be little need for cultural policy to trigger this process.

The predominant pattern may also be that wealth follows art. A certain level of CCI activities and the non-commercial benefits it entails may be required to enable growth in other parts of the economy, for instance because a vibrant cultural life enables innovative other activities or the retention and attraction of highly skilled workers in other professions and other, highly productive industries. In this line of reasoning, CCI has the potential to instigate and promote more general economic growth, and an adequate cultural policy appears as an important element of a broader range of policies aimed at fostering socio-economic development.

Arguably, neither of these two abstract scenarios is generally a more valid description of the role of CCI and thus cultural policy in economic development. In all probability, the underlying mechanisms are more complex and context specific.

When faced with the question of how and how much of scarce public resources to commit to specific ends, such as cultural policy, many economists instead tend to favor the market mechanism. For all the potential benefits of CCI, in functioning markets, choices of sovereign consumers reflect their preferences and needs and provide suppliers with the best information available on what should be produced at what amounts. Where this market mechanism that coordinates demand and supply fails in the short run, competition between rival suppliers ensures that firms that happen to supply the right products thrive at the expense of other firms. Thus, efficient markets and liberal economies at large should be self-correcting. Sooner or later, liberal economies converge on an optimal allocation of resources in a process that does not require any central authority – for instance a government – to understand exactly what is required or why there may be any need for change. In essence that is the argument in liberal market economics, with Hayek (1945) being a famous proponent. In this perspective, the type of academic exercise conducted in this chapter would be of little practical value and extensive cultural policy would not be required to maximize social welfare.

So, do Hayekian markets provide the answer to cultural policy? One fundamental counter-argument is that markets can be slow to adapt to changing circumstances, so that government policy may have a role in speeding things up. Another is that governments are better equipped than private agents to establish institutional arrangements required for reasonably efficient markets. Standard welfare economics stipulates a range of conditions for ‘market failure’, where unregulated markets do not reliably approximate an optimal allocation of resources. Thus, to come to terms with the some fundamental economic reasoning regarding the adequate scale and scope of cultural policy, it is helpful to appreciate the idiosyncratic economic characteristics of CCI.

Market failure

Many of the economic characteristics of CCI relate to sources of market failure such as market power, public goods and external effects, uncertainty and incomplete information, as well as transaction costs. Some of these issues have already featured in this chapter.

For instance, creative works tend to have attributes of public goods. The cost structure of CCI aggravates the issue: it is costly to create new valuable cultural works, and reproducing them is much cheaper. This also applies to physical arts or crafts objects, if to a lesser extent.

Competition from copy-cats can make it hard for creators to recoup the up-front costs of creation. Basic economic reasoning implies that under these circumstances, the supply of new creative works will fall below its socially desirable level. Copyright policy is one means to mitigate that problem in the CCI.

Market power is also often rife in CCI. First, effective copyright policy by definition establishes market power for rights holders: they can charge prices in excess of marginal costs and – in the case of success – recoup their upfront costs of creation. Thus copyright policy mitigates one source of market failure by aggravating another, and requires a difficult balance. Second and more profoundly, CCI are organized in relatively small and flexible creative teams and more integrated and stable intermediary firms that trade in creative works (Caves 2000). Think of an author, who seeks a contract with a traditional publisher or uses the standard terms and conditions of an online platform to make his work available there. With great integration among intermediary firms, there is the risk that these firms acquire market power and appropriate much of the surplus value generated along the entire value chain of CCI. In conventional welfare

economics, these distributional effects are not a prime concern as long as they do not adversely affect efficiency. Unquestionable problems arise when integration and market power leads to centralized control, where management of a few organizations operate under little pressure from actual or potential competition. Then it may take very long for the market mechanism to correct mistakes by large organizations and millions of customers and other stakeholders may be adversely affected.

Another source of market failure in CCI is uncertainty. As creative works have attributes of experience goods, consumers take decisions under incomplete information. The complex and interdependent processes in which users assess creative products do not reliably converge on optimal choices.

In short, due to multiple sources of market failure, we cannot trust markets to reliably bring about an optimal allocation of resources in CCI.

Government failure

If markets fail, it is tempting to jump to the conclusion that (cultural) policy is required. However, market failure is a necessary but not a sufficient condition to justify government interventions.

First, government agencies are subject to incentive problems: officials do not face the full consequences of their actions, say when they favour one type of cultural production over others and thus influence what types of works become available to citizens. Subjugating CCI to extensive public policy instils an element of centralized control that – similarly to private firms wielding market power – can give rise to faulty decisions that are not swiftly corrected by competition in markets. What is more, like all individuals, government officials may have their own interests in mind, as public choice analyses emphasizes (Buchanan and Tollison 1984). They may even collude with specific stakeholders in the CCI when devising cultural policy to promote partial interests to the detriment of society at large.

Second, even government agencies made up of impeccable civil servants with the best intentions are subject to informational problems: with constant innovation and extensive uncertainty in the CCI, it is hard for policy makers to anticipate the best way to satisfy the needs and cater to the preferences of a diverse range of citizens. Regarding CCI, these problems are particularly daring.

On the one hand, it is hard to define and measure essential functions of creative works, and thus what types of creative works should be promoted by public policy. On the other hand, CCI are innovation intensive, as creative works are often appreciated subject to an element of uniqueness, novelty or surprise. It is thus extremely hard to for cultural policy makers to anticipate what the best decisions for society at large would be, whereas in reasonably competitive markets, suppliers either happen to manage to respond to user needs or they lose market share to competitors.

In short, some of the very same economic characteristics of CCI that make government intervention desirable mean that it is hard to bring about adequate cultural policy.

CCI as a soft issue

The problem in shaping adequate cultural policy in developing, middle-income countries runs even deeper than that. CCI projects often yield uncertain benefits, which are hard to measure. CCI may also look like relatively trivial pursuits. In middle-income countries, many inhabitants have very limited access to health services and nutrition, for instance. CCI cater for needs that are less essential for short-term sustenance. In economic terms, creative products are luxury goods that require a reasonable level of wealth and provision of essential goods and services before they can be appreciated. Many creative products also require a sufficient level of education and knowledge to be fully appreciated. Therefore, in poor countries there will be greater emphasis on the provision of essential services and education, and cultural policy appears secondary at best. In other words, CCI are often perceived as a “soft issues”. Promoting luxuries is hardly worthwhile in the face of absolute poverty, right?

However, in the course of ongoing processes of socio-economic development, CCI have a more prominent role to play. Let’s assume that India is following a conventional, positive development trajectory. This implies increasing wealth and perhaps a more equal distribution with the establishment of a sizable middle class of skilled workers. It also implies rising levels of general purpose education. On the supply side, this means that in increasingly affluent societies, more skilled workers will favour working in CCI, as they can afford to care about the quality of work and not just the maximization of pecuniary income. In a sense, creative work is what affluent people do. In this perspective, art follows wealth. On the demand side, increasing wealth means that households not only spend greater absolute amounts on creative products, they also dedicate

a greater proportion of their disposable income to creative products. Thus, strong domestic CCI that cater for the needs of citizens within the same territory will become engines of growth at some level of socio-economic development. In this perspective, wealth follows art – that is CCI can promote or sustain economic growth.

Thus, in this conventional type of positive socio-economic development, we would predict more abundant supply, as well as increasing appreciation and demand for creative works. Promoting CCI can thus be good proactive policy, as it fosters the role of CCI as engines of growth that thrive in and contribute to economic growth and development more generally.

2.4 Conclusions and outlook

This chapter has developed a rather abstract, general assessment of the role of CCI in development. There are several fundamental messages that should provide useful guidelines for shaping adequate cultural policy in middle-income and quickly developing countries such as India. Some of these issues may even be counter-intuitive and thus particularly useful, because they have the potential to change and improve upon predominant attitudes regarding cultural policy.

Don't get stuck in definitional issues

For instance, one should not get stuck in definitional issues. Like most concepts in applied social sciences, the exact definition criteria and boundaries of CCI are contested and fuzzy and this is likely to remain the case for the foreseeable future. That is lamentable, for instance because it is hard to develop quantitative indicators of the economic impact of CCI. However, since positive externalities are one of the very points why CCI are of interest, any attempt at clear delineations is bound to be problematic. In spite of this challenge, economic assessments of CCI suggest that these industries have an increasing role to play in sustaining economic growth in developing countries and economics provides a framework that helps develop practical insights on how best to benefit from this process.

We care about CCI because of the dual challenge of market failure and government failure – not because they are big

Furthermore, in assessing the need for public cultural policy, current metrics of the absolute size of the CCI is not the main concern. The growth potential of CCI should be decisive in forward-looking policy, also regarding their potential to promote innovation and growth in other aspects of the economy and to generate non-commercial benefits. For devising adequate cultural policy, the two central questions are: (1) how pronounced is market failure in specific CCI? And (2) can specific government policy mitigate market failure and unhinge CCI growth without excessive costs and unintended consequences?

This chapter has presented several reasons why market failure regarding CCI is probably very pronounced. It has also illustrated that it is hard to answer the question what type of cultural policy and how much of it is most likely to mitigate these problems and to help fully exploit the growth potential of CCI. This chapter also emphasized the complexity of CCI themselves as well as the variety of their commercial and wider social benefits. That makes cultural policy-making challenging. On the one hand, there is great need for careful assessments, and economic theory provides a useful framework, as long as wider social benefits are not sidelined. On the other hand, any assessment of complex social systems may yield misleading predictions that do not transpire in practice. Empirical evidence is required, for instance to establish whether policies achieve their intended results without excessive costs and unintended consequences. The methods of applied economics use theory and empirics as complementary tools, where theory identifies challenges, policy options and empirically testable statements, and empirics provide information to alter and improve upon the application of theory to specific circumstances. Thus economic reasoning and empirical methods, and in particular the specialized literature on cultural economics, provide a relatively sophisticated framework to structure debates on cultural policy.

Overall, because of the dual challenge of market failure and government failure, CCI and cultural policy deserve extensive attention and research. Here lays a challenge for any practically minded researcher, who seeks to develop useful policy insights. This chapter focused on fundamental aspects of theory. Cultural policy also requires empirical evidence. The other chapters in this volume offer useful information in this respect.

Luxuries are not negligible

Creative products are usually luxuries: while their consumption by the uneducated or destitute may be close to zero, with increasing wealth and education, household expenditure of creative products increases disproportionately. This does not mean that CCI would be negligible in public policy and development. In the course of development, the potential of CCI for gainful employment and economic growth is likely to expand quite quickly compared to many other industries. Cultural policy can help prepare and foster this structural change in the national economy, so that art can not only swiftly follow wealth but also become an engine of further economic growth and development.

Labor-intensity of CCI is a boon

The labor-intensity of CCI has often been seen as a reason why these industries are likely to experience relative decline in the course of economic development and technological change. According to Baumol's cost disease, labor intensive industries do not keep pace with productivity increases in technology and are thus relegated to increasingly minor roles with development. This chapter has argued that for CCI, the reverse is more likely to be the case in developing countries. On the one hand, for many experience goods such as creative products, the potential of digitalization to yield productivity increases are more pronounced than in other parts of the economy. Better informed users can make better choices, for instance, and with less uncertainty, may expand their engagement with creative products. On the other hand, with increasing wealth and education, employment in the CCI is likely to grow at an even greater pace than the economy at large.

Beware the artist-superstar

There is however a challenge to ensure that many individuals have the opportunity of gainful employment in the CCI. The core CCI – the arts and cultural industries – are prone to superstar effects: extremely uneven distributions of income among creative workers. A tiny handful of the most successful creators reap the bulk of the rewards, and the wealthiest creators are not necessarily the most talented or industrious. If CCI are to promote social mobility and reasonably equitable economic development, extensive superstar effects are a problem. Citizens in high-income countries may still be willing to try their luck as a creator. Beyond the most wealthy territories and social groups, people will tend to be more risk-averse, and large parts of the population will hardly participate on the supply side.

Further questions

Obviously, there is a general need for empirical research on specific CCI in India to spot challenges and opportunities in the diverse, specific settings found in this country. There are also some overarching questions that are likely to be central in many of these cases. Let's conclude with a couple of suggestions for future research on such central questions.

First, we ought to better understand, when art follows wealth and at what levels of general socio-economic development it starts working the other way around. In very poor communities and times of crisis, the provision of essential goods and services regarding health, nutrition and general purpose education will often take precedence over policy directly concerned with CCI. With somewhat higher standards of living and good prospects for economic growth, cultural policy can make a strong contribution to sustain and foster positive developments. We need to explore how to alter the scale and scope of cultural policy over ongoing processes of socio-economic development.

Second, there is some hope that CCI can promote upward social mobility. We need to better understand whether and how CCI can provide marginal social groups with better opportunities to participate in general economic growth, whether that concerns women, members of poor communities or in the Indian case, lower castes.

Third, the CCI are central participants in the process of digitalization (Towse & Handke 2013). Many creative products can be accessed and used via widely available ICT hardware and the Internet. Any creative product can be marketed and traded online, and ICT can help spread information on creative products, driving back uncertainty and inefficiency. Digitalization helps making CCI as a whole more productive and efficient. What is more, many manufactured goods and services are more attractive in combination with creative products. Exports are also facilitated in this context. As Indian expats in Silicon Valley and colleagues in Bangalore will testify, digitalization provides new opportunities and India – with its relatively low labor costs and large and relatively well-educated population of young people, as well as its rich cultural heritage – is in a promising position to harness CCI as an engine of growth and development. The interface between socio-economic development, digitalization and CCI and requires much more attention.

Finally, I am of course aware of the terrible impact of the Corona-pandemic on Indians (Yadav et al. 2021). The pandemic also constitutes a substantial exogenous shock on the CCI, and provides additional impetus for digitalization in the sector. However, the impact of the Corona-pandemic has its limits,¹ will almost certainly become less severe over time, and there are many other pressing needs for most Indians. It thus also seems likely that over the coming years, the expenditure on countermeasures will be limited in India. If that holds, the more long-standing and gradual sources of socio-economic change involving CCI in India, on which this chapter focuses, will continue to play the central role in related policy.

¹ Lewnard et al. (2021) estimate ca. 5.2 “excess deaths” per 1,000 inhabitants between 1 March and 30 June 2021 for the Chennai region, for which relatively high-quality data is available.

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