The Economics of Cultural Policy in the Internet Age

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Abstract: This discussion takes both a cultural and economic perspective in looking at examples wherein reducing the Canadian Internet deficit would serve the public interest, and examines the prospects for addressing the deficit with public policy. The author suggests that the Internet is important for public policy because it is a medium for delivering the “cultural sector” of the economy. Policymakers, he argues, should take a lively interest in Canadian content on the Internet for the same reason that they have historically taken an interest in the country’s cultural expression more generally. After addressing the issue of access, the paper asserts that there remains a solid economic justification for public support of arts and culture, including the Internet, and provides pragmatic reasons for an activist cultural policy.

Résumé : L’auteur emploie à la fois une perspective culturelle et une économique pour considérer des situations où réduire le déficit Internet canadien servirait l’intérêt public, et examine la possibilité de diminuer ce déficit au moyen de politiques publiques. Il croit qu’Internet est un champ important pour la politique publique parce que c’est un moyen efficace de livrer au public le « secteur culturel » de l’économie. À son avis, les décideurs politiques devraient s’intéresser vivement au contenu canadien sur Internet pour la même raison qu’ils se sont intéressés dans le passé aux expressions culturelles du pays en général. L’article, après avoir adressé la question d’accès, soutient qu’il y a encore aujourd’hui une justification économique solide pour que le gouvernement continue à appuyer les arts et la culture, y compris Internet, et donne des raisons pragmatiques pour une politique culturelle engagée.

If there indeed is a Canadian Internet deficit, why is it a bad thing, and what can policymakers do about it? To begin, an Internet deficit is a bad thing to the extent that its elimination serves the public interest; Canadians would be better off in some sense if there were more high-quality Canadian content, suitably defined, available to them. This deficit is furthermore a policy concern insofar as the levers...

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of public policy can be manipulated to eliminate that deficit (just as those levers can be used to eliminate budget or trade deficits).

I want to suggest that the Internet is important for public policy because—perhaps primarily because—it is a medium for delivering culture. By culture, I mean those activities that Statistics Canada considers the “cultural sector” of the economy. Note first that the Internet has become an increasingly prominent means of linking producers and consumers of these goods and services (to use the appropriate, if perhaps vaguely distasteful, economic vocabulary). Visual artists, for example, produce digital art well suited to Internet diffusion. People listen to musical performances streaming over the World Wide Web. Museums and archives use digital means to catalogue their holdings and frequently make some version of their holdings available to people via the Internet, as with the Virtual Museum initiative in Canada. All of the outputs of the cultural industries now have their Internet analogue, as people read newspapers, download new books, listen to radio broadcasts, download new-music recordings, download and watch videos from the World Wide Web.

Thus policymakers should take a lively interest in Canadian content on the Internet for the same reason that they have historically taken an interest in cultural expression more generally. And there is furthermore a long tradition in Canada and many other countries of aggressive intervention by public policy in the various spheres of cultural activity, including, notably, broadcasting, film production, publishing, the performing arts, and museums, for a start. In 1932, Graham Spry of the Canadian Radio League aphoristically declared that in matters of Canadian broadcasting policy, “it’s the State or the United States” (cited in Filion, 1996, p. 120). More generally, the active involvement of the state in Canadian cultural activity has been regarded as a necessary safeguard against all kinds of unpleasant eventualities, American domination being only one among them.

Although rationales for cultural policy have not always been explicitly based on economic logic, there is nevertheless a solid economic justification for public support of arts and culture even in a fundamentally market-oriented economy like Canada’s. This is because cultural goods have characteristics that make it unlikely that private, unregulated markets would supply the level and mix of goods that society most desires. There are various reasons for an activist cultural policy. First, cultural policy has sought to ensure that people should not be excluded from enjoying cultural goods because of geography or poverty: poor citizens, or those in small towns or remote areas, should have some access to cultural amenities, even if private providers would not serve such people or markets. Second, historical museums and public sculpture, for example, generate benefits for society as a whole (what economists call positive externalities, the limiting case of which is the public good); private firms face insufficient incentives to supply them. Third, the cultural industries (film, publishing, recording, broadcasting) have technological characteristics (what economists call decreasing average costs) that thwart efficient supply in unregulated markets. In brief, the first unit of production—providing a radio broadcast to one listener, for example—has a very high cost for
the producer, but the second, third, and subsequent units of production—providing the same broadcast to a second and third listener—impose tiny incremental costs on the producer.

The same logic extends beyond broadcasting to other cultural industries. The unit cost of production under these circumstances declines as the scale of production is increased. This contrasts markedly with the technology of production in other industries, where unit costs rise at high levels of production. Industries characterized by decreasing average costs will tend, in the absence of some government regulation, toward concentration among a small number of large firms. Moreover, firms in such industries that serve “small” national markets (which are small if they have small populations, or if they are poor, or both) face a disadvantage if they are compelled to compete with firms that serve large national markets. This is because the latter firms will tend to enjoy the advantages of much larger production levels, which reduce their average costs and increase their profits, relative to their competitors from small markets. (The foregoing will perhaps be more vivid if you consider competition between, say, Canadian and U.S. broadcasters, where Canada is the small economy and the U.S. is the large one; this is the sense of the comment by Spry.)

More broadly, a nation’s cultural activity generates social cohesion, a truly social good that people value, and for which they are willing to pay. Social cohesion, however, is a public good, like public architecture but writ much larger, that private firms in a market economy cannot be counted upon to supply at sufficiently high levels. Moreover, it is reasonable to suppose that, to the degree that cultural activity generates social cohesion, domestic cultural activity might, on average, do so more productively than imported cultural activity. Note that this is not an argument for exclusion of imported cultural activity, far less a claim that some imported cultural goods might be of a higher quality—however that might be reckoned—or might engage more fundamentally the cultural consumers of the importing country than some examples of domestic cultural production. Exploring the development of a people’s symbolic resources takes me far afield from my professional competence as an economist. I am merely recognizing that the mechanism linking cultural activity and social cohesion relies on dialogue, conversation, and deliberation, and that people will often find domestically produced cultural activity more resonant subject matter for these discussions.

But let us return to the question of the Internet as a conveyor of culture. For all the reasons enumerated above, there is an argument, based on economic efficiency, for vigorous public support for (pre-Internet) arts and culture, and for domestic cultural goods and services in particular. Are the economic characteristics of the cultural sector identified above fundamentally changed in the Internet era? Is an activist cultural policy no longer called for? I will argue that the answer to both questions is no, but that the Internet effects subtle changes worthy of discussion.

The economist John Maynard Keynes, first chair of the Arts Council of Great Britain, wrote, “We look forward to the time when the theatre and the concert-hall and the gallery will be a living element in everyone’s upbringing” (Keynes, 1945).
Cultural policy has in many liberal democracies sought to ensure that price and geography do not preclude anyone’s access to cultural products. Those excluded from Internet-mediated culture are likely to form a subtly different group than those excluded by older (and still dominant) modes of cultural provision (theatre, concert hall, gallery). The technological feasibility of widespread Internet connectivity means that people away from urban centres are no longer necessarily excluded; but the cost associated with high-speed personal connections means that there are still income-based obstacles for many. Moreover, those who access the Internet only via their local library, needless to say, will not be able to listen to Webcasts of symphony performances or explore digital art.

Certainly, Internet policy has given pride of place to questions of access, as exemplified by the Industry minister’s broadband initiative in Canada. Nevertheless, when gauging the degree to which segments of the population have access to Internet-mediated cultural activity, it is useful to ask whether access is the right measure of success. In pre-digital days, subsidies, low ticket prices, and local arts centres notwithstanding, many people failed to avail themselves of the theatre, the gallery, and the concert hall. Access, clearly, is not enough; it seems plausible that this question will return in a new guise as policymakers strive to make the Internet accessible to large sectors of the population.

Discussions of access—whether to cultural activity, or more specifically to the Internet—immediately raise the spectre of an in-group, well connected and with high levels of cultural consumption, and an out-group, those without access. It is worth questioning whether this distinction captures all the relevant dimensions of the problem. Consider recent changes in the labour market, here as elsewhere: greater mobility between jobs, increases in the number of hours worked as well as the uncertainties introduced by flexible shift schedules. Canadians connected to the Internet use that connectivity to seek fellow-feeling and community via chat rooms and Web sites in place of social activities such as gardening clubs or sports teams that were possible in an earlier era. Do they regard these activities as viable models of sociability? Or do they instead consider these on-line communities and hyperspecialized Web sites (to which we should add the explosion of specialty cable-television channels) as anemic substitutes for the older, now impossible, models of sociability? If the latter is more generally true, then such Internet users, while certainly insiders seen from the vantage point of access, likely regard themselves as outsiders relative to some bygone ideal of social interaction. (Of course, those people with both labour-market insecurity and no connectivity will regard themselves as even further marginalized.)

What of the technology of publishing, music recording, film production, and broadcasting? Huge fixed costs will still tend to favour concentration in the cultural industries, and to place producers in small national markets at a relative disadvantage. The Internet does not fundamentally alter these fixed costs. Writing a new novel, recording a new compact disc, filming a new movie are no less costly even if the final product is to be distributed by the Web. Of course, some new tools, such as digital film-production techniques, may lower the fixed costs of
undertaking these activities. In the extreme example of this kind, writers of every kind can much more easily mount their work on the Web than publish even a limited-run hard copy. But the proliferation of Web sites arguably makes it even harder for potential readers to find the new writer’s work on his Web site. On the Web, established authors, journalists, and other writers, and new writers under contract to some media conglomerate, are much more likely to be found by Web-surfing readers because their work is linked to major search engines (such as Yahoo or AOL) or on-line businesses (such as Amazon.com). And the same argument applies to musicians, filmmakers, and other creators in the cultural industries. What makes some creators more visible than others is substantial marketing costs, just as was the case before the Internet. The point is that this fixed cost (probably most overwhelming in film) is arguably even more important for Web-distributed culture than for culture distributed by earlier means.

The other half of the technological peculiarity of the cultural industries is low marginal costs of production. For some Web-distributed content, this no longer holds. Servers can be overloaded if too many consumers seek simultaneously to access the same video or sound file. So while a news broadcast can be costlessly provided to one more listener provided she has a radio receiver (that is, the marginal cost is zero), it may nevertheless be very difficult to provide a Webcast of the same program to one more listener if the broadcaster’s server is overly taxed. In these cases, Web-based cultural producers are now in a high-fixed-cost, high-marginal-cost industry. It is not unreasonable, however, to expect that technological improvements will in the not-too-distant future overcome these problems, thereby turning Webcasting into a truly mass media. And furthermore, distribution of books, magazines, and newspapers via the Internet is already a low-marginal-cost activity given the small memory requirements imposed by the files being downloaded.

Internet distribution changes some of the cost characteristics of the cultural industries, but not enough to change the basic rationale for government intervention. Even as the Internet becomes a more important platform for linking producers and consumers of these goods—and reserving judgment on the technological changes to come—it is reasonable to expect that concentration of firms will continue and that producers in small markets like Canada will be at a relative disadvantage. Public support will still be necessary in the Internet age if society wants domestic cultural industries to survive.

How can cultural policymakers promote domestic cultural activities on the Internet? Many of the basic tools wielded by cultural policymakers at present will continue to have their desired effects: subsidies to creators and providers of cultural infrastructure will still generate more of such activity. Subsidies for consumption (reducing the cost of computer ownership or Internet access) might be more productive than in the past. Public sponsorship or ownership will remain potent measures to favour cultural creation: governments can own or pay for Web sites in the same way that they own or pay for the Ontario Arts Council, CBC/Radio-Canada, and the National Gallery.
But to the extent that Internet content providers can easily appear to be based outside of Canada (via mirror sites or other subterfuges), some policy levers can be expected to lose effectiveness. Special taxes on cultural activity (for example, the French system of *taxes parafiscales* imposed on videocassette rentals or cinema tickets to finance film production) could probably be easily avoided in this way. Regulation has been a cornerstone of cultural policy in Canada and elsewhere: restrictions on foreign ownership, minimum levels of domestic content on radio and television, for example. When cultural content is transmitted on the Internet, such regulations are more easily sidestepped. Furthermore, it is hard to know just what Canadian content *means* in the Internet arena: do rules of thumb developed for broadcasting transfer readily to this domain?

These concerns—access, production costs, policy tools—and others merit our consideration for the same reason that cultural activity itself merits our consideration. And indeed, a useful byproduct of a national debate on Internet policy might be that it encourages us to understand why cultural activity is so important to a society. Just what is it that culture *does*? And how is it, given competing demands from health care and education, for example, that society might be better off if even more resources were diverted toward cultural activity? It is not enough to promote culture, whether on the Internet or not; we should ask—intelligently, soberly, and hopefully—why?

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**Note**

1. The performing arts, visual arts and crafts, architecture, photography, design, heritage conservation (museums, galleries, libraries, archives, parks), and the cultural industries (written media, film, broadcasting, music, new media).

**Reference**
