Cultural Products as Public Goods

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Introduction

Although the public good rationale for state funding of cultural products is prevalent in the economic literature (Throsby & Withers 1983), its use by laypersons seeking state funding doesn't appear to be as common. Accordingly this paper conceptualizes the notion of cultural products as public goods and advocates the public goods rationale for state funding of cultural products.

Public Goods

A public good is one that is both non-rivalrous and non-excludable (Varian 1992). Meaning its consumption or use by one person doesn't reduce its availability or preclude simultaneous consumption by others (non-rivalrous), and it is very difficult or near impossible to effectively exclude others from consuming it (non-excludable). Typical examples of public goods include lighthouses, policing, national defense, and street lighting.

Policing is a public good because the safety of one person brought about by say neighborhood policing doesn't reduce the safety of other persons (non-rivalrous), and once the neighborhood is safe it is near impossible to prevent anyone in the neighborhood from enjoying the safety (non-excludable).

The opposite of a public good is a private good which is a good that is both rivalrous (consumption by one person reduces its availability to others) and excludable (persons can be effectively excluded from its consumption). A food item such as a loaf of bread is a private good because its consumption by one person makes it unavailable to others (rivalrous), and its supplier can exclude non-paying persons from its consumption by simply withholding it from them (excludable).

Pareto Optimality, Market Failure, and Property Rights

Neoclassical economic theory suggests that under competitive conditions and well defined property rights, markets can be expected to be efficient in their allocation of goods and services and thus produce Pareto optimal outcomes, in the sense that it is impossible for a different allocation to make one market participant better off without making someone else worse off (Mathur 1991). Under Pareto optimal conditions, a market will deliver the amount of the good in question such that the cost to society of producing the last unit (social marginal cost) is just equal to the benefit to society from its consumption (social marginal benefit). The level of output at which social marginal cost is equal to social marginal benefit is regarded as optimal from society's point of view, in that any lesser or greater amount will leave society worse off, meaning at least one person will be made worse off without making anyone else better off.

Invariably, when markets depart from the competitive model or when the underlying assumptions of the competitive model are violated, market failure results, i.e., markets will fail to deliver societally optimal levels of output, which, as we have seen, is the level of output at which the social marginal cost of production is equal to the social marginal benefit. With market failure, the market no longer produces Pareto optimal outcomes; because now there exist an alternative allocation of resources that would make at least one person better off without making anyone else worse off.

Property rights can be construed as the exclusive right or authority to determine the use of a resource, to enjoy the services of a resource and to exchange the resource at mutually agreeable terms (Alchian 2008). Well defined property rights represent one of the preconditions for markets to generate Pareto optimal outcomes. Therefore, ill-defined property rights invariably leads to market failure. Property rights are considered ill-defined when resource ownership is unassigned, or when the owner of a resource has ineffective control over its use, or over who enjoys its services, or cannot readily transfer or exchange ownership at mutually agreeable terms.

Public Goods, Market Failure and Positive Externalities

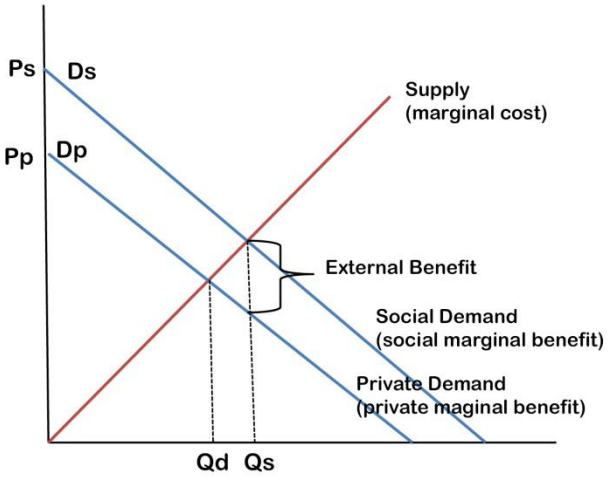
Public goods represent one situation where property rights are ill-defined. Their nonexcludability means that resource owners cannot exercise control over who enjoys the services that flow from their resources, for example, they are powerless to exclude from use those who refuse to pay for the resource. This inability to effectively exclude non-paying persons from consumption makes it much more challenging for providers or potential providers

of a good to recoup full cost of provision. Therefore, from society's point of view, an insufficient or suboptimal amount of the good will be produced, or, worse, none at all.

This problem can be recast in terms of positive market externalities, where a positive externality is a benefit flowing from an activity or transaction to an uninvolved party who had no choice in whether to experience the benefit. When a private entity produces a public good in an unfettered market with no external cost, the producer bears the full cost of production while the benefit flows not just to the producer but to other members of society uninvolved in the production process or decision. In such situations, a discrepancy will exist between the private benefit (the benefit to the producer) of the activity and the social benefit (benefits to all members of society including the producer), where the social benefit would exceed the private benefit. For example, a family who decides to take it upon itself to establish a community security service and thus ensure its safety may bear the full cost of the security service but the benefits would flow to not just this one family (private benefit) but to all families in the community (social benefit), yet because of the nonexcludeable nature of the service, the ability to induce others to share in the cost is very limited.

To illustrate how this leads to market failure, meaning that the market will generate a societally non-optimal amount of the service, refer to the graph below, which depicts an unfettered market with no external cost. The supply curve (Supply) represents the private marginal cost of providing the service, which is equivalent to the social marginal cost given the assumption of no external cost. The demand curve, Dp, is private demand and captures the private marginal benefit derived from the service, and Ds is the social demand curve and captures the social marginal benefit. Taking into consideration only private cost and private benefit, the market will offer a suboptimal amount of the service (Qp) at a price of Pp. Qp is a societally suboptimal quantity because at that output level social marginal benefit is greater than social marginal cost (equals to private marginal cost). However, if producers were to take the full social benefit of the operation into consideration, and not just the private benefit, the relevant demand curve would be Ds, and the larger (and optimal) quantity of Qs would be offered at the higher price, Ps. The vertical distance between the private demand curve and the social demand curve at output Qs, provides a measure of the external benefits (benefits to third parties) associated with provision of the public good.

Graphical Analysis of a Positive Externality



Because unfettered markets results in the under-production (or zero production) of public goods, governments have often stepped in to subsidize (or take over) the production of such public goods as education, healthcare, policing, national defense, road infrastructure, etc.

Cultural Products as Public Goods

Although most cultural products can be regarded as private goods, they are to some extent non-rivalrous and non-excludable and as such can be considered public or quasi-public goods.

Creators or producers of music can profit from their work and exclude non-paying persons from consuming their product by imposing gate fees to performances, licensing their music for use by others, and by selling their music in the form of internet downloads and physical media (CDs, Vinyl records, flash drives). Likewise, music can be considered rivalrous in that concert seats or good vantage viewing points at park concerts are limited and a CD or vinyl record bought and in use by one person precludes simultaneous use by other persons. On the other hand, music can be considered non-rivalrous since music flowing through the airwaves can be simultaneously enjoyed by all persons and, thanks to recent developments in communication and computer technology, one person streaming or downloading a song doesn't interfere with other persons doing so concurrently. Again, thanks in part to ever advancing technology, music can be considered non-excludeable in that the cost and ease of duplication, sharing of files, and streaming and downloading have made it extremely difficult or near impossible for producers or owners of music to exclude non-paying music lovers from use.

Similar observations can be made about the non-rivalrous and non-excludable nature of the film and video industry. Film and video can be excludable, for example there is a charge at cinemas, and videos are made available for a fee. However, ease of duplication, television viewing, and internet streaming and downloads speak to the nonrivalrous and nonexcludable side of the film and video industry.

Literature can be regarded as rivalrous in that one person reading a book makes it unavailable to someone else concurrently, and they are excludable in that they are made available in stores for a fee. But the tendency of readers to pass on books and other literature they have already read to others, and the availability of literature in libraries (both physical and online libraries) for use without fee suggest that to some extent literature is nonexcludable and non-rivalrous.

Invariably art in public places first have to be commissioned or purchased, but once the art is on location its viewing can generally be considered nonrivalrous and nonexcludable because, except in the case of crowdedness, viewing by one person does not prevent others from simultaneous viewing, and the public nature of the location suggests nonexcludability.

Theatre can be considered both excludable and rivalrous in that theatre seats are limited and a fee requirement preclude non-payers. However, theatre is known to build stronger and more vibrant communities, and the conversation it stimulates both among theatre goers and between theatre goers and non-goers allows the educational benefits of theatre to spread beyond theatre goers. Therefore, like public goods, theatre produces positive external benefits, where at market equilibrium social marginal benefit exceeds social (private) marginal cost and a suboptimal number theatre shows are staged.

Cultural Products and State Sponsorship

As public goods cultural products face the problem that because they are non-excludable it is difficult to exclude non-paying persons from use. This discourages private production (because producers are less likely to recoup cost), while it encourages free-riders prepared to let others do the paying. The end result is that as public goods cultural products are under-produced.

The problem is more acute in small economies where the market is too small to fully support artists. Too few cultural products get sold to allow artists to earn a living. Consequently, businesses are reluctant to invest in the creation of cultural products and many artists trade their craft for gainful employment before they have reached internationally competitive standards. Among those who continue to produce, many do not have the luxury of investing the amount of time and resources required to create at international standards.

Another complication is that many cultural products face the hurdle of large initial investments of time and finance which have to be overcome before the products can come to market. For instance, consider the amount of resources that goes into the making a feature film, the production of a music album, the preparation and staging of a play, or the writing and publishing of a book. However, once the initial production is in place, the marginal cost or the cost of generating additional units of the product (or the cost of additional usage) may be minimal.

The foregoing discussion suggests that the cost to the artist of creating cultural products are likely to exceed the financial benefits, however, given the non-rivalrous nature of cultural products, their positive external benefits, and their tendency to have low reproduction or low marginal cost, their benefit to society are likely to far outstrip their costs. Therefore the same justification for state support of public goods such as policing, national defense, education, healthcare, etc., holds for cultural products.

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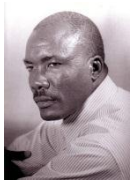

Dr. Anderson Reynolds, founder and managing director of of Jako Productions, a cultural enterprise that seeks to encourage the artistic expression of St. Lucian culture and to promote that culture worldwide, is the author of Death by Fire (novel, 2001); The Struggle for Survival: an historical, political, and socioeconomic perspective of St. Lucia (2003); and the Stall Keeper (novel: forthcoming 2014).