

The Economic Contribution of SMEs within the Cultural Sector of a Small Society in a Global Context

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Abstract

The aim of the paper is to analyze the economic role of cultural activities in a small society, with Iceland as the prime example. The paper describes the contribution of cultural activities to GDP, emphasizing the role and importance of small and medium sized enterprises (SMEs) within the cultural sector, and providing some illustrations of public expenditures on cultural activities. The paper demonstrates the impact of globalization, discusses cultural policies and programmes to promote and support SMEs within the cultural sector and compares public expenditures on culture at the international level. The contribution of cultural activities in Iceland to GDP amounts to 4%. Comparison of data from 44 countries illustrates that Iceland spends more than other countries on cultural activities. The paper proposes the hypothesis that governments of countries with small populations spend more on cultural affairs than countries with large populations. Statistical tests show the significance of this hypothesis.

Keywords

Culture policy, cultural activities of SMEs, cultural expenditures, public goods.

Introduction

This paper describes, in Section 2, the economic role of cultural activities in Iceland and the contribution of cultural activities to gross domestic product (GDP) and the role and the importance of SMEs and entrepreneurs within the cultural sector. In Section 3 we compare public expenditures with cultural activities over a period of 20 years. Following a brief clarification of the globalization of cultural activities, in Section 4, and a discussion of some programmes and policies to support cultural activities, especially SMEs, in Section 5, we compare the general government expenditures on cultural activities in various countries, in Section 6.

Culture, defined as any human behavior or activity passed from one generation to the next, which describes, creates, preserves or transmits emotions or surroundings of human society, consisting of languages, beliefs, ideas, customs, arts, sports, or other related aspects, is the subject of cultural economics (Frey, 2000; Held et al., 1999; Bendixen, 1998; Peacock, 1994). Culture can be regarded as a positive externality, because increased cultural activities result in a more diverse society and offer more possibilities for a happier life (Sable and Kling 2000). Public initiatives in support of cultural activities for the purpose of increasing positive externalities are often very effective (Kaul et al., 1999). Externalities are especially important in connection with public goods, which in contrast with private goods are non-excludable and non-rivalrous.

Goods are a material aspect of culture and make the categories of culture visible (Howes, 1996). Culture can be regarded as a public good, as in the case of cultural heritage. It is not possible to maintain, however, that every aspect of culture falls under the heading of pure public goods, because many aspects are in fact private goods, for instance concerts and art exhibitions in the case of fine arts. In such an event, this cultural activity or cultural element is excludable but not rival. In that case they are impure public goods (Serageldin, 1999).

One of the problems of attaching a price tag to culture is that its value is not always immediately apparent, and the value may change from one generation to the next. There is also the problem of classification: the difference between culture and education. In economic statistics, the entire school system, including art schools and various institutions purely dedicated to the practice of culture, is classified under the heading of education rather than cultural activities. UNESCO has defined culture for the purpose of international economic statistics (Haydon, 2000), dividing the concept into nine categories: cultural heritage, printed matter and literature, music, performing arts, audio media, audiovisual media, social activities, sports/games and environment/nature.

1. Contribution of Cultural Activities in Iceland

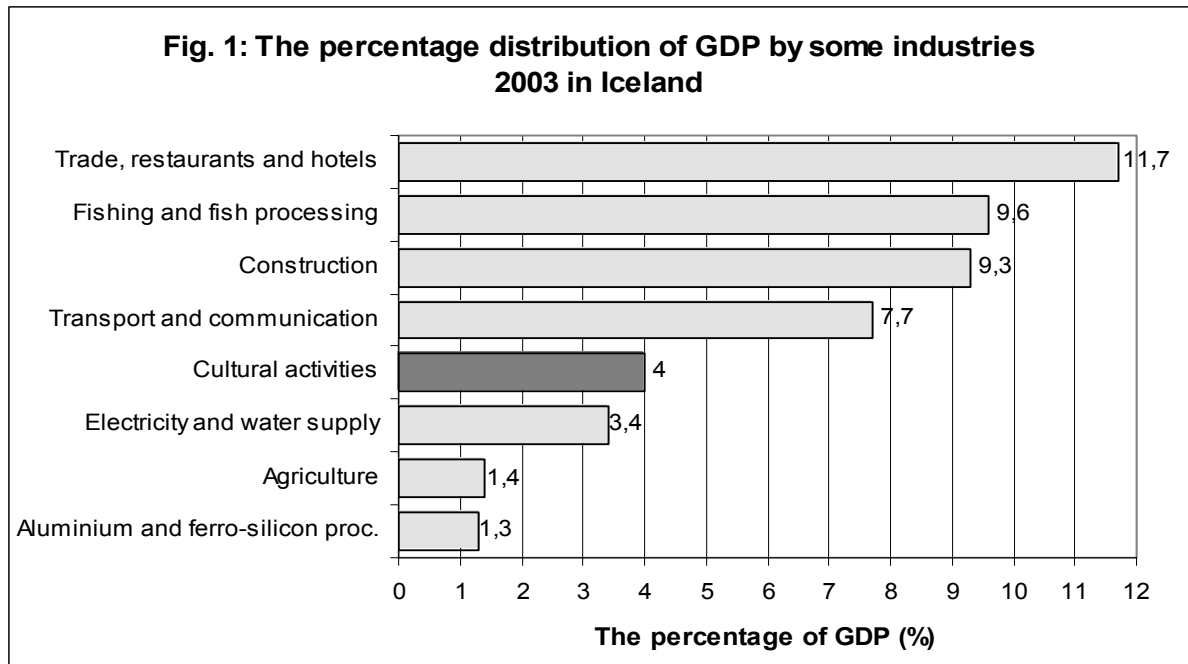
Iceland, which is the example of the small society in this paper, is 103,000 square km in area, with a population of 290,000. Iceland is an independent country in the North Atlantic and the distance from the capital, Reykjavik, to the mainland of Europe is about 2,000 km. The country achieved independence from Denmark in 1944 and enjoys a very high standard of living. In 2002, Iceland's GDP in PPP in US \$ per head was 28,800, which put the country in the 9th place in the world in this category (*OECD in Figures*, 2003).

Iceland is one of the Nordic countries and cooperates closely and extensively with the other Nordic countries, Denmark, Finland, Norway and Sweden. In 2002, fish products accounted for 63% of the export of goods and 42% of foreign currency income. Unemployment in Iceland is low, or 3.3% in 2002, and inflation in the same year was 4.6% (*Statistical Yearbook of Iceland*, 2003). Iceland is a member of the UN, NATO and the EEA (European Economic Area) but is not a member of the EU, which sets Iceland apart from most of the other countries of Western Europe. Iceland is taking an active part in the work of the UN, including UNESCO. The contribution of cultural activities to GDP in Iceland's economy in 2000 is shown in table 1 (*Yearly Reports*, 2003). The classification is very close to that of UNESCO.

Table 1: Percentage of the contribution of cultural activities to GDP in Iceland 2000

| | 2000 |
|---------------------------------|--------------|
| Printing and publishing | 1.36% |
| Artists, theatre and orchestras | 0.74% |
| Radio and television | 0.48% |
| Sports | 0.38% |
| Religious affairs | 0.38% |
| Library and museums | 0.27% |
| Motion pictures | 0.14% |
| Total | 3.75% |

The percentage of cultural activities to GDP was 3.75% in 2000. Printing and publishing has the biggest share, followed by theatre, orchestras and other activities of artists. The creation of artistic works constitutes primary production, but their contribution increases many times through exhibitions, printing etc. over a period of many years, decades or even centuries after their original production. The number of books published in the Nordic countries per 1.000 inhabitants is by far the highest in Iceland, at more than double, and theatre visits and museums visits per capita are highest in Iceland. The Internet is an important medium for distribution of culture. The Internet access in the home in Iceland is the highest of all EU and EFTA countries in 2001 (*Media and Culture*, 2003). Fig. 1 shows the contribution to GDP of several important industries in Iceland in 2003 (*Statistical Yearbook of Iceland*, 2003).



The contribution of cultural activities to GDP is higher than one might expect. Culture contributes more to GDP (4%) than agriculture (1.4%) and electricity and water supply (3.4%). The eight industries shown in Fig.1 contribute 48.4% to GDP of Iceland.

Most of enterprises involved in cultural activities in Iceland are SMEs or micro-enterprises. Of cultural enterprises in Iceland, 79% have 1-5 employees, 16% have 5-20 employees and 5% have more than 20 employees. In fact, most enterprises in Iceland are small or medium sized. Enterprises with fewer than 20 employees are defined as SMEs in Iceland. The business activities of artists are frequently conducted in very small units or organizations. Some large companies, but quite many small enterprises, characterise the printing and publishing sector, as well as radio and television. The cultural sector attracts entrepreneurs, and new enterprises in culture are very common in Iceland.

If we take a closer look at enterprises in Iceland and divide them, on the one hand, into enterprises with 5–20 employees and, on the other hand, enterprises with 20 employees or more, this places 77% of all companies in the cultural sector in the category of SMEs (*Yearly Reports* 2002). Table 2 shows a comparison with other sectors.

Table 2: Division of enterprises in several sectors into SMEs and larger enterprises

| Industries | 5-20 employees | Over 20 employees |
|-----------------------------|----------------|-------------------|
| Construction | 81% | 19% |
| Cultural activities | 77% | 23% |
| Transport and communication | 70% | 30% |
| Fishing | 75% | 25% |
| Fish processing | 53% | 47% |

The reason that enterprises with 5 to 20 employees are studied, and not enterprises with 1-20 employees, is that enterprises with less than 5 employees are very small and are classified as micro-enterprises rather than small and medium sized enterprises.

Table 2 shows that SMEs are most common in the construction sector, where there is an Icelandic tradition of small units, of which there are very many. The second largest group of SMEs is in the cultural sector, reflecting the characteristic of cultural activities of being conducted in small units. In fisheries and fish processing, which are important sectors in Iceland, there is a proportionally smaller number of SMEs than within the cultural sector.

The importance of entrepreneurs is significant in the cultural sector, particularly in the creative industries. Entrepreneurs work in the environment of culture, community and individuals, where the economic value of their initiative manifests itself as a change in traditional perspectives. Creativity has a certain meaning for a group of individuals; as a result, community recognition is a requirement for any work to be regarded as creative (Csikszentimihalyi 1999, Sigurdardottir 2003). SMEs and entrepreneurs enjoy a strong position in the cultural sector and economies of scale are not as prominent as in other industrial sectors. It is therefore important for governments to stimulate still further the activities of SMEs and entrepreneurs within the cultural sector.

2. Public Expenditures on Cultural Activities

Fig. 2 shows the expenditures of the general government, i.e. central government and local government, to culture in Iceland from 1980 to 2001 at 2001 market prices, and the share of these expenditures in total expenditures and in GDP (*Public Finances, 1997-1998, 1999; Statistical Yearbook of Iceland, 2003*).

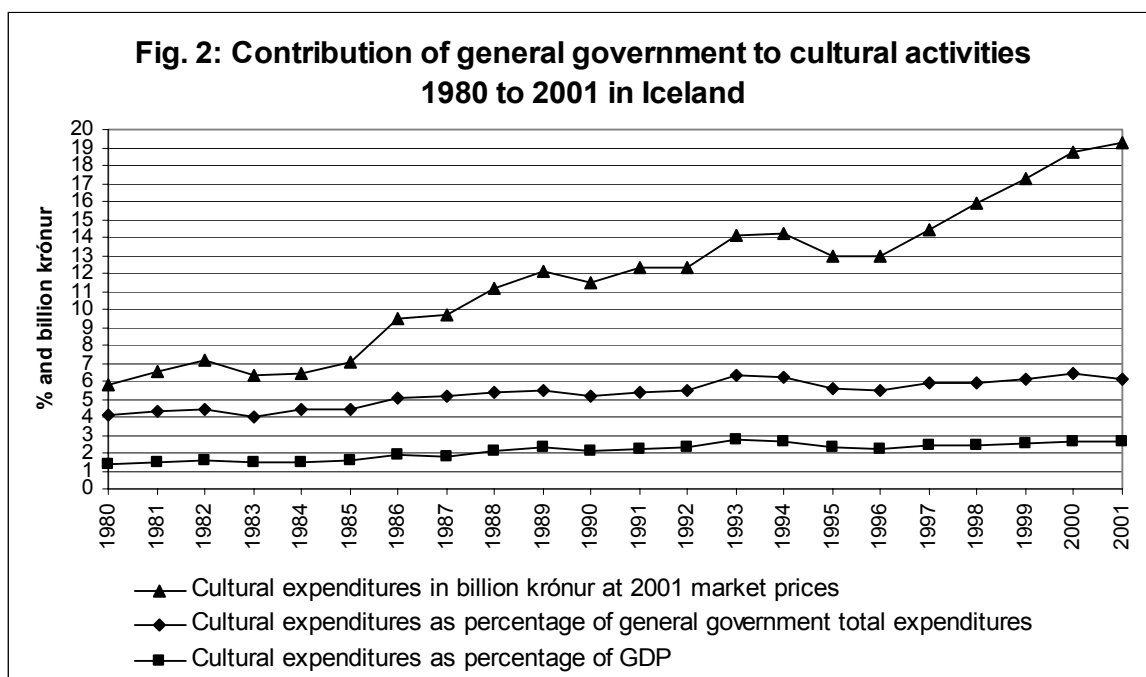
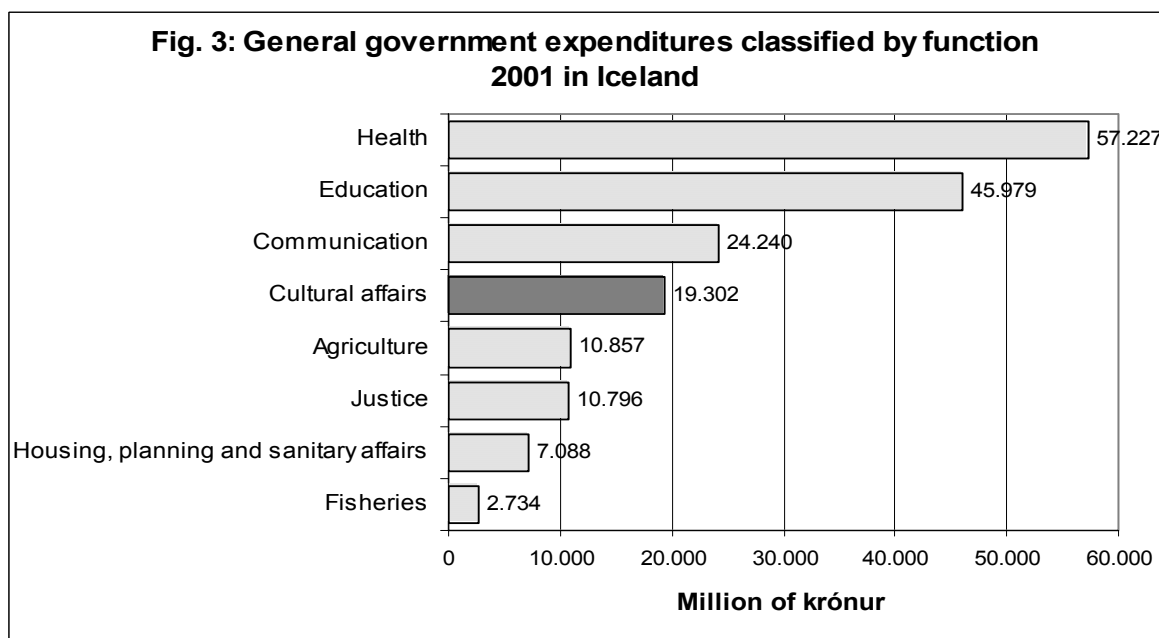


Fig. 2 shows that general government expenditures on culture have increased greatly from 1980 to 2001. Expenditures increased from 6 billion krónur to 19 billion krónur at 2001 market prices. The percentage of total expenditures to cultural activities rose from 4.1% in 1980 to 6.2% in 2001. The share of GDP increased from 1.4% in 1980 to 2.6% in 2001. The expenditures of local government are higher than the expenditures of central government. About 60% of expenditures to cultural activities are through local government and about 40% derive from central government. Fig. 3 shows the expenditures of the general government in Iceland, 2000, classified by sector (*Statistical Yearbook of Iceland*, 2003).



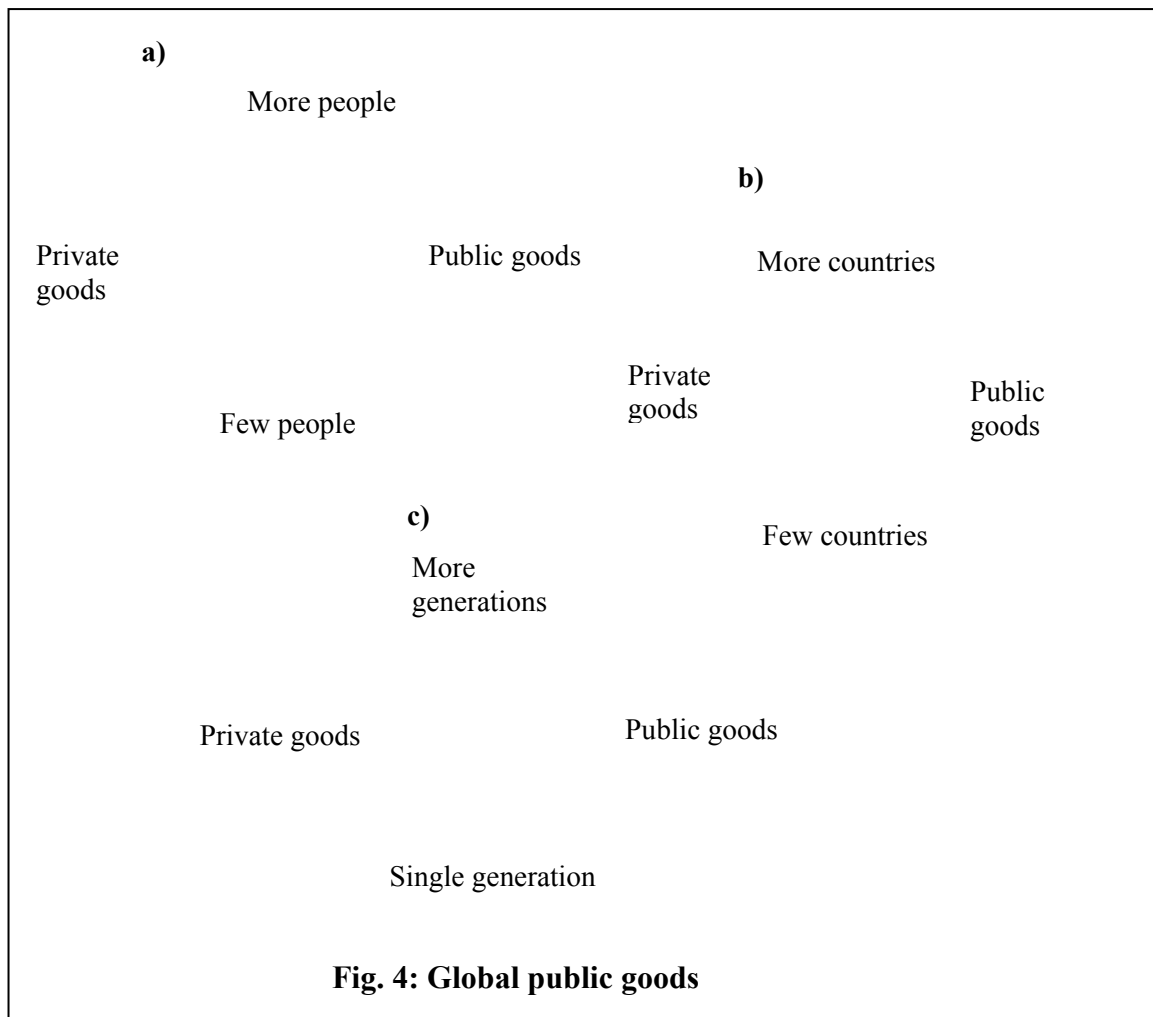
The sectors shown in Fig. 3 represent 57% of total general government expenditures in Iceland in 2001. Public cultural spending is one third of health expenditures, almost half of the expenditures on education.

3. The Globalization of Cultural Activities

The globalization of culture is a flow, which is characterized at each time by its intensity or volume. Literature, music, art, law and philosophy all cross the world, and the systems that enable their distribution are institutional and frequently, although by no means invariably, in public ownership. The aim of public goods is to improve societies, surroundings and living standards. Public authorities, usually democratically elected authorities, normally supply public goods. This production of goods and services by public authorities results in positive externalities, which improves the lives of the general public. Culture fits very well into this classification. Market failure occurs when the free market is not succeeding in ensuring a good or optimal utilization of the production factors. When this happens, public authorities can help the market to achieve the desired results. The diversity of enterprises in the field of culture is also described in the institutional economics (Richter and Furubotn, 1999; Stanfield, 1999; Jackson 1996).

Globalization is changing much, but there is also much that is changing in the environment irrespective of globalization. The world population is now about six billion and is projected at eight billion in twenty five years, as compared to 1.3 billion in the year 1900.¹ Culture, as a collection of trends, and as a trend in itself, is being influenced by this situation. It is important to see not only the advantages of globalization, such as bigger markets, lower transaction costs, increased and faster dissemination of knowledge, greater opportunities and a greater sense of identity, which contributes to peace (Einarsson, 2002). Not everyone agrees that these advantages in fact exist, and instead highlight various risks and limitations entailed by globalization. There are social and natural limits to resources, while economic development, especially the financial sector, has no limits (Altvater, 1996). From this viewpoint, it is possible to discern various difficulties, for instance that countries with limited democratic traditions of government could prevail in the international competition for the location of companies, and globalization could entail risks for the environment.

Culture represents a significant value for each individual, and it is important to ensure the greatest possible access for everyone in all communities, even though this raises the obvious problem of free-riders: otherwise, culture will take the form of private goods and, in fact, effectively, create a natural monopoly because only the select few, a sort of elite club, would have access to cultural activities. Considerations of equality are important regarding access to cultural activities. Global public goods, such as cultural activities, have to reach a large majority of the population of a country and reach more than one group of nations (Kaul et al., 1999). It is also required that global public goods meet the needs of present generations without jeopardizing the needs of future generations. This is the principle of sustainability, which is here adapted to the concept of global public goods. Cultural activities fit very well within this concept, because people are, especially today, trying to preserve cultural diversity, and globalization is often seen as a threat to this ideal. This relationship can be seen in Fig. 4 in part a, b, and c (Kapur, 2002).



Culture should be in the upper-right quadrant of in parts a), b) and c) in Fig. 4 following the definition of global public goods. For international organizations and domestic governments working in the field of culture, this presentation requires emphasis on securing the greatest possible access to culture whether at the national level or the global level. Public goods in the global context, therefore, are subject to stringent and diverse demands regarding variety: national, ethnic and generational. The traditional task of economics is to describe who produces what for whom. Cultural activities fit very well into this framework.

4. Policies and Programmes to Support Entrepreneurs and SMEs in Culture

Activities designed to increase the share of cultural activities within an economy lead to economic growth and higher living standards. Increased cultural activities, especially by SMEs, can be achieved by strengthening the school system in the field of culture, especially fine arts. This has a twofold effect. First, it increases the knowledge of culture among the population and, second, it expands the interest of young people who will later participate actively as professionals in cultural activities. The school system is often used as a means of securing equality as regards the art and artistic work of young people with different economic backgrounds. Many countries have implemented special programs to

increase cultural activities (*Financing, Resources and the Economics of Culture in Sustainable Development*, 1999).

In some countries, public authorities have supported programs either by direct subsidies or through the tax system, e.g. by granting tax discounts to enterprises which support cultural activities (Einarsson, 2001). As an example, an enterprise spending USD 1,000 on the purchase of a work of art could be permitted to deduct double that amount from its tax base, in this case USD 2,000. In Table 3 this example is illustrated further using a company with earnings of USD 10,000 before taxes and cultural expenditures and an income tax rate of 30%.

Table 3: Example of special income tax reductions for cultural expenditures in USD

| | No tax reduction | | With tax reduction |
|--|------------------|--------|--------------------|
| Earning before taxes and cultural expenditures | 10,000 | 10,000 | 10,000 |
| Cultural expenditures | 0 | 1,000 | 1,000 (2,000) |
| | ----- | ----- | ----- |
| Earning before taxes | 10,000 | 9,000 | 9,000 (8,000) |
| Taxes | 3,000 | 2,700 | 2,400 |
| | ----- | ----- | ----- |
| Earnings after taxes | 7,000 | 6,300 | 6,600 |

By implementing an income tax reduction of this kind, a company which spends USD 1,000 on cultural activities is only reducing its earnings after taxes by USD 400, i.e. earnings of USD 6,600 instead of USD 7,000. An arrangement of this kind would obviously increase the interest of enterprises in promoting cultural activities, as part of the contribution would be covered by lower income tax payments. Another way to utilise the tax system might be to impose lower taxes on SMEs, e.g. payroll taxes, especially in their first years of operation.

Although fine arts are only one element of culture, they feature prominently in the public debate. Financial income from artistic activities within fine arts is derived from direct public subsidies or from sales in the free market. This dichotomy in the market has resulted in a trend away from public support systems for artists and in the direction of specific support for certain classes of fine arts through the introduction of competition between artists and increased participation in buying works of art by public authorities, e.g. through indirect stipends. An example of this is the 43% public share of the Dutch fine arts market (Rengers and Plug, 2001).

The latest development in Europe is the support for fine arts characterized, *inter alia*, by indirect support in the form of changes in tax regulations, technical support and payments for copyrights, which have to some extent replaced direct support, which was common in the seventies and eighties. Subsidies are now based to a greater extent on quality rather than on social considerations or membership of professional artists' associations. Special support plans for fine arts based on new technology have also increased, and public support in some countries is more closely connected with regional and social policies than before (*Cultural Policies in Europe*, 2003; *World Culture Report 2000*, 2002; Storm, 2003).

Yet another way to increase the scope of activities within culture is to seek to implement a new organisation within and outside public administration. To achieve this objective, it has often produced good results, e.g. in the Nordic countries and in France, to place

culture under a separate government ministry. The tasks of such a ministry could include the administration of programs and supports for entrepreneurs and SMEs in the field of culture, e.g. by promoting increased research and by providing expert advice and funds for entrepreneurs. Setting up a ministry of culture would show the political priority of culture as a political issue; in many countries, cultural affairs are housed in ministries of education.

Yet another option is to focus specifically on the marketing of domestic culture across borders by a concerted effort of domestic institutions, associations and enterprises. This has been done with good results in the motion picture industry in Ireland, which has benefited from a system of public support. The motion picture industry is an example of a field of culture which features abundant opportunities and which has an indirect impact on the economy of the countries involved. Thus, a study of the motion picture industry in Iceland (*Kvikmyndaiðnaðurinn á Íslandi*, 1998) revealed that many tourists decided on a trip to Iceland after seeing a motion picture or other coverage in television broadcasts or movie theatres. These tourists spent cash in the country resulting in payments of VAT which were substantially in excess of the total public expenditures on the production of motion pictures. It was therefore an especially profitable investment on the part of the government to support motion picture production. Entrepreneurs are extremely important in this context, a good example being the Icelandic company Smekkleysa, which first marketed the world famous singer Björk outside Iceland. Support to such enterprises can result in a rapid recovery of expenditures.

5. International Comparison

Cultural affairs are increasingly being examined in a global context, i.e. as a means of ensuring cultural diversity, national image and diversity in the face of increased globalization (*World Culture Report 2000*, 2002).² There is no single thing that constitutes global culture, no more than we could venture to define what any national culture is. If the Icelandic culture is taken as an example, we could touch on certain features, such as the Icelandic sagas, the fisheries and camping festivals on bank holidays, but it is impossible to list all the details forming a culture.

Global culture is simply a result of the fact that through increased globalization the culture of individual nations and ethnic groups is more influenced by other cultures than before. Multinational influence of this kind is nothing new either; it has frequently been seen in history before – what is new is that the influence now is global, i.e. it comes from the world as a whole. It can be disputed whether all cultures have the same opportunity to make their influence felt. Small areas often do not have the financial capacity to propagate their influence. This issue falls within the domain of Global Cultural Economics and the research question is whether small cultural areas are at risk owing to increased globalization, not only because their societies are recipients rather than producers, but also simply because they are small; the core of the issue is whether cultural diversity is in danger.

Fig. 5 shows the expenditures of the general government (central government and local government and states) to cultural activities for 44 countries including recreational and religious affairs (*Government Finance Statistics Yearbook*, 2002).³

Fig. 5: Percentage of expenditures of general government to cultural activities in 44 countries

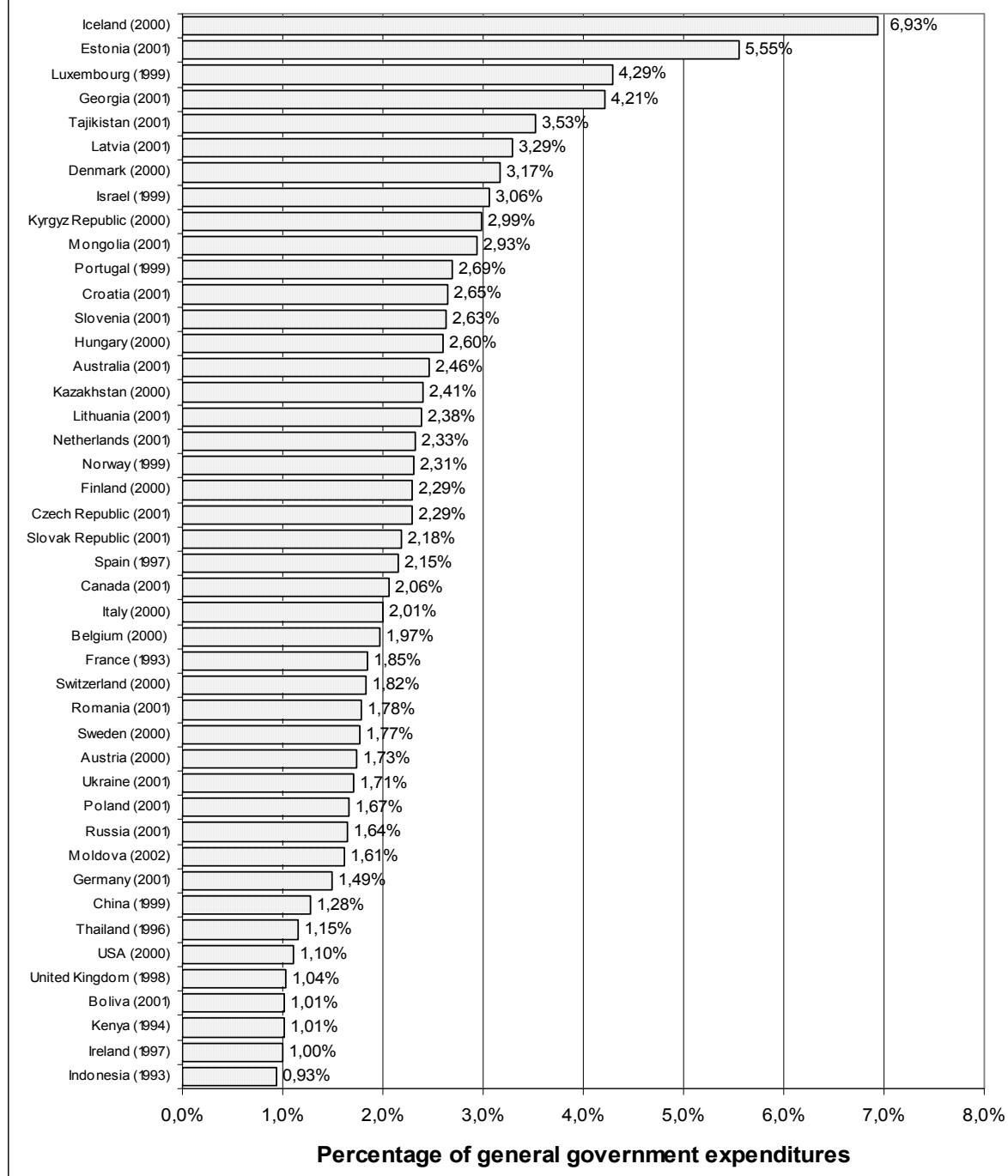
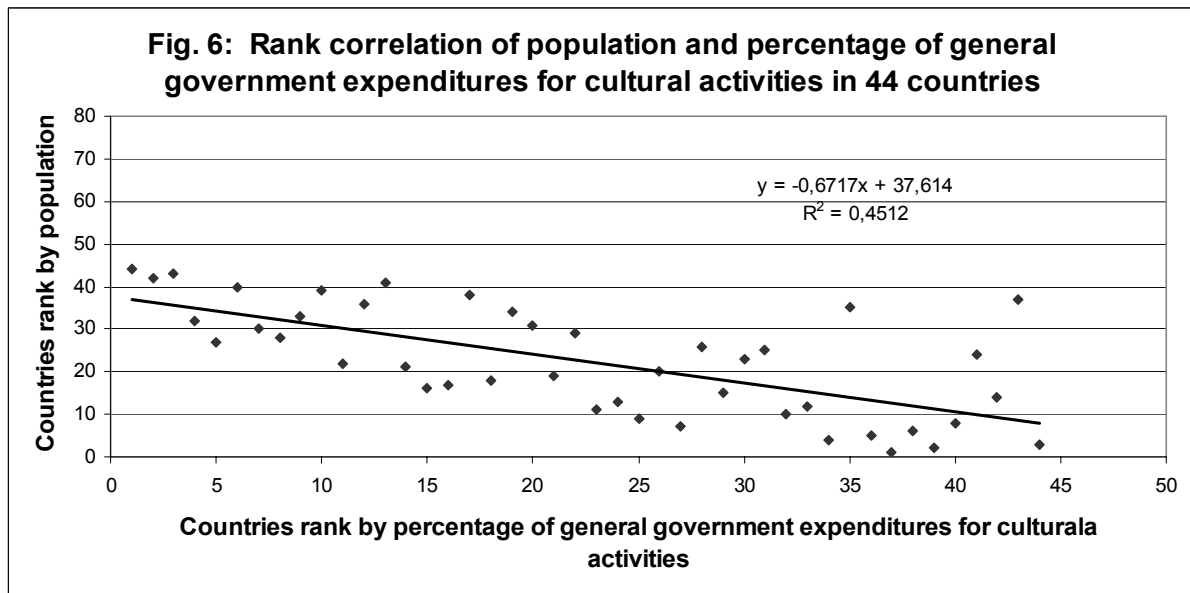


Fig. 5 shows Iceland at the top with 6.93% of general government expenditures allocated to cultural activities in 2000. Increased public expenditures on cultural affairs in the last 20 years in Iceland show great emphasis on cultural activities. This is demonstrated by the fact that the percentage of general government total expenditures has increased by 50% in these 20 years. The priority of a sector can be described in terms of the amount of public expenditures allocated to that sector. The percentage of general government expenditures for cultural activities shows very well the priority of culture by the politicians who are responsible for public expenditures. For countries with a relatively low population it is important to stress cultural affairs. We propose the

hypothesis that governments of countries with small populations spend more on cultural affairs than countries with large populations. The hypothesis of no connection was tested for the 44 countries in Fig. 5. Population and percentage of general government expenditures are ranked for the 44 countries. Fig. 6 shows the results.



The Spearman's coefficient of the rank correlation R is 0.67 in Fig. 6. This is significant at the 5 percent level. We conclude that countries with small populations spend more on cultural affairs than countries with large populations. The emphasis of smaller nations on cultural activities is understandable because they are fighting for their cultural heritage in a world characterized by increasing globalization. Iceland is a good example of this.

Conclusion

Cultural activities are an important factor in the Icelandic economy. Their economic impact is often underestimated in economic statistics. The influence of culture in increasing the well-being of people is often not measured, perhaps not even measurable, in monetary terms, but is nevertheless of great effect. The value of a society is to a large extent underpinned by the depth of its cultural roots. Public authorities can successfully support cultural activities on the basis of their positive externalities and their economic impact.

Activities designed to increase the share of cultural activities within an economy lead to economic growth and higher living standards. The contribution of cultural activities to GDP is about 4% in Iceland, which is considerable in comparison with other industries. There are numerous enterprises within the cultural sector, most of them small and medium sized enterprises or micro-enterprises. Entrepreneurship is very important within the cultural sector. Public expenditures on cultural activities have increased substantially in Iceland, both in nominal terms and as a share of GDP. Local government spends more than central government on cultural activities, and public expenditures cultural affairs are very high compared to other functions. Globalization offers new opportunities for cultural activities.

There are several ways of strengthening the role of SMEs and entrepreneurs within the cultural sector. Increased cultural activities by entrepreneurs can be achieved by strengthening the school system in the field of culture, especially fine arts. In some countries, public authorities have supported programs either by direct subsidies or through the tax system, e.g. by allowing tax reductions to enterprises which support cultural activities. Reforming the structure of public support, e.g. by the establishment of a ministry of culture, export driven funds and advice for entrepreneurs are examples of policies and programmes which can be implemented successfully. Icelanders spend more than other countries on cultural activities. It is shown that governments of countries with small populations spend more on cultural affairs than countries with larger populations which demonstrate the political priority for cultural activities in countries with small population.

Notes

- ¹ The inequality in the division of income among the inhabitants of the world is staggering: of the six billion people in the world, 1,2 billion survive on less than one dollar a day and in 1999, ten million children died from preventable diseases (World Bank, 2001). In 2000 the gross national income (GNI) in purchasing power parity (PPP) per capita in the world was \$7,410. In low-income countries (40% of the world's population) the GNI in PPP per capita was \$1,980, but for high-income countries (15% of the world's population) it was \$27,770 (World Bank, 2002).
- ² An interesting approach within Global Cultural Economics is to examine the impact of entrepreneurs as self-employed individuals in communities which are not based on materialism alone, i.e. examining post-materialism versus level of entrepreneurship. The principal idea here is to connect cultural aspects, which are not characterized by economic views, with economic innovation. This relates to Global Cultural Economics as well, because the number of entrepreneurs and the scope of their activities have increased substantially through the increased trade brought about by globalization (Uhlander et al., 2002).
- ³ Figures were not available for the same year for all countries. The years that the figures represent are shown in brackets in Fig. 5 following the name of the country.

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