

# A Cross-Sector Comparative Socio-Economic Description of the Canadian Cultural Sector

Prepared for  
Canadian Heritage/Patrimoine Canadien



**E & B DATA**  
ECONOMIC & BUSINESS

July 2008

## Acknowledgements

The preparation of this Cross-Sector Comparative study would not have been possible without the efforts of several people. In particular, we would like to thank Rishi Basak, Andrew Leuty, Elizabeth Mackinnon, Mark McDonald, Brian McKee, Nathan Morris, Hugh Scheuerman and Wayne Timbers at the Department of Canadian Heritage. We would also like to thank Mr. Michel Houle, consultant, and professor Damien Rousselière from Université Pierre-Mendès-France in Grenoble for their precious comments and advice.

# Table of Contents

<b>ACKNOWLEDGEMENTS.....</b>	<b>2</b>
<b>TABLE OF CONTENTS .....</b>	<b>3</b>
<b>ABSTRACT .....</b>	<b>2</b>
<b>SUMMARY.....</b>	<b>3</b>
<b>METHODOLOGICAL NOTE.....</b>	<b>6</b>
<b>1. CONSUMERS.....</b>	<b>13</b>
<b>2. WORKERS .....</b>	<b>18</b>
<b>3. TAXPAYERS .....</b>	<b>23</b>
<b>4. CITIZENS.....</b>	<b>30</b>
<b>5. CONCLUDING REMARKS.....</b>	<b>34</b>
<b>APPENDIX A - FEDERAL INITIATIVES IN THE AUDIOVISUAL SECTORS - 1968-2003 .....</b>	<b>36</b>
<b>APPENDIX B – COMPARATIVE SUBSIDIES.....</b>	<b>37</b>

## Abstract

This paper seeks to assist Canadian analysts and policy-makers in assessing the level and the justifications of public support to the cultural sector in Canada. It focuses on published socio-economic statistical data, especially those for which comparable data exists in other industries.

The paper limits itself to aggregate data on the cultural industries as a whole, as defined in the *Canadian Framework for Culture Statistics* developed in 2004. While existing economic data does not allow for justification of government support based on the calculation of “net” returns to public finances or to the economy as a whole, the data assembled suggest that this sector does merit government attention. From a purely economic stand-point, cultural industries in Canada justify government interest given the high level of consumer expenditures, in absolute and in relative terms as well. By way of employment, cultural industries range among other top Canadian industries such as finance/insurance services and transportation equipment industries. In terms of exports, cultural industries also range among prominent Canadian industries such as the pharmaceutical industry. Finally, cultural industries receive government support for reasons which are often similar to those underlying support to other industries. While the level of analysis does not allow for an exhaustive comparison, it is noteworthy that most of Government’s assistance is largely directed towards not-for-profit organizations, contrary to the other benchmark sectors. Finally, although government support to cultural industries in other countries is not a justification in and of itself for the Canadian government’s support, the need for comparison is legitimate if only to detect major differences which can impact on the cultural industries’ international competitiveness. While statistical measures of government support in various countries are not sufficiently comparable to allow for credible rankings, the data suggest that government support is both prevalent and substantial and that Canada is not unique in this respect.

Yet, there is more to culture than economic impacts. Culture creates additional benefits in the form of positive externalities which are not provided by other commercial sectors and which could also serve as a justification for government support. This is not unique to culture. For instance, we propose that few Canadians would question the social importance of public hockey arenas and low-cost access to these infrastructures. Yet the reasons for government support would probably be comparable to those for culture such as collective identity, sense of belonging and social cohesion. The issue is that such externalities are intangible: they cannot easily be measured or even identified with absolute certainty.

While establishing the link between cultural industries and economic growth remains to be done, it may not, however, be the ultimate goal. In terms of public policy, it should be borne in mind that the implicit premise of the study is related to a market-based perspective (i.e. the market as the signal to justify intervention or non-intervention) – just one of several possible government intervention approaches.

In order to organize findings in a way that can be useful for both economic and extra-economic analysis, this paper is organized along four public dimensions of the individual: the Consumer, the Worker, the Taxpayer and the Citizen.

# Summary

This paper seeks to assist Canadian policy-makers and analysts in assessing the level and the justifications of public support to the cultural sector in Canada. Given renewed reflections and debates on the Government's role, there is an increasing desire to understand and document the importance of the cultural sector. Whether in terms of public finances or wealth creation, the economic importance of the cultural sector may be examined in absolute terms (based on quantitative indicators) as well as in comparative terms (relative to other industries).

## Project Objective

The project consists of a comparative statistical profile meant to feed discussions regarding public financial support of the cultural sector in terms of its economic rationale:

- Does the sector's size warrant the Government's economic interest?
- Are there signs of positive economic outcomes?
- Are levels and justification of government assistance generally coherent with financial support of other sectors?

## Challenges

This analysis is made in a context of a cognitive model not yet stabilized:

- **Definitions:** Definitions of culture and related statistical frameworks are evolving, but not yet fully standardized.
- **Theory:** Theoretical analysis of relationships (causal, transactional) amongst either components of the cultural sector or government support and possible effects are also evolving, but no clear theory is yet emerging that could pave the way to a new data model;
- **Statistics:** Statistics are inevitably lagging the current development in definitions and underlying theories.

This situation is not surprising especially since several components of the cultural sector are currently experimenting with new business models as driven by technological development. These challenges are compounded for comparative analysis.

## Key Findings

Key findings are based along the customary economic indicators used in the National Accounts (e.g. such as consumers' expenditures, government expenditures, external trade) and in labour market analysis (employment).

- **Traded market.** The level of consumer expenditures provides a key insight in the absolute and relative importance of such goods and services to the general public. Canadian households spend more than \$20 billion yearly on cultural goods and services. It is the second largest household expenditures category after primary physical needs (food, clothing, shelter, health/personal care) are met.
- **Employment.** Even though unemployment is not the critical economic issue it once was in Canada, full employment has not yet been achieved, and job creation/retention remains an important objective for many Canadians. Employment of cultural industries in the private sector is not insignificant (433,000 in 2003), with 77 % of the level of the transportation equipment industry. Also, it represents 76 % of the level of the finance and insurance service industries. It is more than double that of the oil & gas industry, and also of the pharmaceuticals industry.
- **Exports.** Export level is a measure of the international competitiveness of goods and services, as generating foreign income; it is a key source of wealth creation. Exports of cultural goods and services (\$4.6 billion in 2003) are 74 % of the level of the finance and insurance service industry exports. It exceeds exports of pharmaceutical products by \$1.4 billion (2003). In fact, Canada ranks among the top five exporters in Western countries for cultural goods and services (alongside the United States, the United Kingdom, Germany and France), even though it is outdistanced by far by the United States and the United Kingdom.
- **Transfer Payments to Industries.** The level of government transfers and tax credits provides an indication of the extent of government financial support provided to a given industry. The types of organizations which benefit from such transfers as well as the justification for such aid also provide an important indication on the policy pursued. Canadian Heritage transferred \$ 101 million to industries in 2006-2007, the rest (\$ 512 million) being provided to institutions and non-profit organizations (transfers to provinces and individuals are not considered in the analysis nor transfers related to sports). By way of comparison in terms of transfer payments to industries, Natural Resources Canada, Agriculture and Agri-Food Canada, Industry Canada and the regional development agencies spent \$ 2.9 billion in 2006-2007. The stated justification of the related programs in benchmark industries includes reasons such as "protection against risk", "creating jobs" and "economic growth", which are not fundamentally different from the reasons invoked for the support to cultural industries.

- **Imports.** The level of imports provides a direct indication of the magnitude of the penetration of foreign products and services. Compared with the level of exports, it provides an indication of the strength of the competition faced by local producers. Such cultural imports have a strong presence in the Canadian markets (\$ 6.8 billion in 2003), accounting for two thirds of Canada's international trade of cultural goods and services. This is the largest share of imports among all five top exporters in Western countries for cultural goods and services.

Finally, although rankings between governments support of various countries are not sufficiently comparable to allow for credible rankings, the data suggest that government support is both prevalent and substantial, among all trading partners of Canada for cultural goods and services.

## Conclusions

The culture sector's substantial economic size warrants the Government's interest. Moreover, the high level of imports is another reason for government policy for both wealth creation (i.e. import substitution) and national identity preservation purposes.

While some sub-sectors may be more fragile than others, as with any economic sector, this sector as a whole scores high on exports especially when compared to a selection of other key knowledge-intensive industries or other countries. Where government assistance is concerned, the justification for public support is comparable to the reasons provided for financial support to other industries, namely protection against risks and uncertainties involved with innovation or international pressures.

Although the net impact on government finances cannot be estimated based on existing data, there are reasons to believe that overall net economic effects are positive without even accounting for the sectors' positive externalities.

# Methodological Note

## Challenges

The analysis in this paper is made in a context of a cognitive model not yet stabilized: the theoretical background is evolving, as well as statistical frameworks. Resulting indicators are scarce, lagging and do not allow time series analysis.

Benchmarking techniques of economic data on cultural goods and services is still in its infancy, in Canada as elsewhere. The economic analysis of the culture sector presents a combination of difficulties making its analysis particularly challenging.

- **Statistical Definition.** The statistical definition of culture, while progressing, is not yet stabilized. In particular, the Canadian Framework for Culture Statistics, developed in 2004, was an important step and indeed the compilations made according to this Framework constitute a key source for this analysis. However, discussions are still on-going and the current Framework is not yet considered as stabilized and definitive<sup>1</sup>. Although progress is also made in harmonizing definitions internationally (notably in Europe<sup>2</sup>), this is not the case everywhere (e.g. United States).
- **Time Factor.** These measurement challenges are compounded when the time factor is taken into account, as there are few data allowing for longitudinal analysis (at least for key economic variables). Also, several statistics trail by a period of three to five years.
- **Opportunity Costs.** Finally, when one wishes to examine if economic impacts could be better achieved through government intervention in other sectors than culture (e.g. education), the existing data fall completely short of providing answers.

A conceptual framework for a quantitative analysis cannot be made without consideration of the statistical data currently available. The approach presented attempts to introduce a structure congruent with the limited data available.

## Approach

While these challenges seem overwhelming, it appears, at a minimal level, that the question of government intervention in the cultural sector can be examined systematically for at least basic comparisons. With few exceptions<sup>3</sup>, this type of analysis does not seem

<sup>1</sup> E.g. It does not include the growing interactive media industry (ex: video game development, interactive kiosk creation and website design). Statistics Canada is planning a revision of the Canadian Framework for Culture Statistics in 2008-2009.

<sup>2</sup> "Cultural Statistics in the EU", EuroStat Working Papers, European Commission - Luxemburg - 2000.

<sup>3</sup> See the brief « Economic Profile of Canadian Cultural Industries » from Foreign Affairs and International Trade Canada – Press Releases & Reports- 2006.

Since the paper does not ignore socio-economic externalities resulting from cultural industries, the data assembled follows a pattern useful for both economic and extra-economic interpretation. In both cases, the person is the ultimate beneficiary, in its various public dimensions. Far from being atomistic, it relates the person to the market (as as Consumer or as a Worker), to society (as a Citizen) and to the state (as a Taxpayer).

to have been done recently. However, rudimentary comparisons between the cultural sector and other industries can be made, based on:

- Basic economic variables such as exports, employment, household expenditures;
- Federal public accounts and tax expenditures statistics providing information on government programs and tax initiatives to various industries.

Economic comparisons are therefore made with other well-known economic sectors on the basis of their size and importance in the Canadian economy and/or because of similarities with the culture sector (e.g. service activities, knowledge-intensiveness).

## Organization of Results

The nature of the project is therefore to compare industries which have little in common in terms of end-use of products or services (see sub-sections on Benchmark Sectors and their Selection Criteria on page 11).

So as to organize results in a meaningful way, it was considered helpful to structure the analysis on society (i.e. the ultimate beneficiary of culture), as opposed to the State, public finances, or on cultural industries. In other words, economic effects of the support of culture should ultimately be measured (and compared) according to its impact on society.

More specifically, it was thought helpful to distinguish the various dimensions of “society”. Four dimensions of society were examined, three of which have strong economic connotations (consumers, workers, and taxpayers). Of course, those dimensions are not wholly distinct, but sufficiently so to warrant separate treatment. A final section is added, reflecting the civic dimension of the individual (the “citizen”), with a different treatment compared to the other dimensions, given the lack of quantifiable indicators.

Other means of the organizing of results were theoretically possible (e.g. by ethno-cultural groups). However, the *economic* dimension was preferred to the *cultural* dimension given the focus of the desired benchmark analysis.

## Scope

The study focuses primarily on the national, federal level as it is the largest financial contributor to the cultural sector (as opposed to focusing on the provincial/territorial level). It has also made repeated legislative and regulatory initiatives over at least half a century because of its constitutional responsibilities in international trade and treaties (e.g. cultural diversity), telecommunications and broadcasting, intellectual property as well as consumer and corporate legislation.

This paper limits its analysis to an aggregate view of the Canadian cultural sector as a whole: sub-sectors or sub-national data are not examined, with few exceptions. Data concerning private sector organizations (profit and not-profits) are examined and compared to a selection of other Canadian industries.

## Cultural Sector Definition

*“A definition of culture for statistical purposes, establishes boundaries around what is included and excluded. As such, a narrower definition of culture is adopted that does not embody other fields that are generally accepted as distinct within the national statistical system (for example ethnicity, which is currently covered in the socio-demographic statistics program within Statistics Canada). For the purposes of this statistical framework, culture is: “creative artistic activity and the goods and services produced by it, and the preservation of human heritage”*

Canadian Framework for Culture Statistics  
Section 2.1

Defining culture is an endless challenge, all the more so when attempting to delineate it in statistical terms. Significant efforts in this sense are made at several levels, from the provincial level (e.g. Quebec’s Observatoire de la culture et des communications), to the international level as well (e.g. UNESCO Institute for Statistics). At the Federal level (e.g. Statistics Canada) the *Canadian Framework for Culture Statistics*, designed in 2004, was retained for this study, in particular because of its current use at the national level (see Sub-section “Scope” above).

The following figure shows the activities (“industries” as per the NAICS classification system) making up the cultural sector, according to the Canadian Framework for Culture Statistics.

The current official definition seeks to present the complete value chain of culture, from creation, production and manufacturing to distribution and retail activities<sup>4</sup>.

Figure 1 Overall Structure of the Canadian Framework for Culture Statistics

NAICS Code	TITLE	SELECTED EXAMPLES
31-33	Manufacturing	Printing and Related support activities
41	Wholesale Trade	Book, video and sound recording wolesalers
44-45	Retail Trade	Book, video and sound recording retailers and arts dealers
51	Information and cultural Industries	Radio and television broadcasting
54	Professional, Scientific and Technical Services	Photographic,graphic and industrial design services
61	Educational Services	Arts schools
71	Arts,Entertainment and Recreation	Musical group and artist, theatre and dance performing and museums
81	Other services	Social advocacy organizations

Source: Canadian Framework for Culture Statistics 81-595-MIF2004021 catalog.

<sup>4</sup> For this reason, basic comparisons are limited since few sectors are defined through their full value chain. It was possible to reconstruct this value chain for some variables such as employment, but not so for others such as GDP. The same reason makes comparisons of economic effects (through input-output models), between culture and other sectors, considerably more complex to establish.

The paper is largely based on the current *Canadian Framework for Culture Statistics*. This temporary framework does not reflect, for instance, the growing interactive media industry, whose business models – and resulting indicators – are still being explored.

Still, no definition has proven to be completely satisfactory, and because of that, stable. Comparisons presented in this document should therefore be examined with this in mind.

## Methodological Limitations

No primary research was done in this study. The research had therefore to rely on existing data. Most available statistical data are still not aggregated along the lines of the sector's current Statistical Framework - hence some approximations when comparisons are prepared. In addition to these limitations caused by the nature of this study, other limitations should also be taken into account.

- **Longitudinal analysis.** There is a break in methodology which brings discontinuity in time series. The most recent year for which most sector-aggregated data is available is 2003, hence a 5-year lag in the portrait presented in this document (e.g. employment).
- **Level of detail.** The cultural sector is treated as an aggregate and no sub-sector data is presented. The benchmark analysis is therefore done at the sector level only. Indeed, all sectors present aggregated data from a variety of sub-sectors, each having in turn their own patterns of growth and development. Cultural sub-sector analysis would require an analysis at the sub-sector level for benchmark sectors, which was outside the scope of this study.
- **International comparisons.** Given that definitions of culture vary between countries as well as the structure of transfers between levels of government, comparisons on culture sector size or on government support cannot be done systematically. Therefore, the international scope of this study was mostly limited to overall trade statistics. Attention should be paid to international data used in this report (UNESCO Statistics) as it cannot be reconciled with the Canadian Framework for Culture Statistics.
- **Intangibles.** Some impacts are intangibles, such as national identity or social cohesion, and which are presumably partly attributable to culture. An economic framework<sup>5</sup> is emerging to assess them, but corresponding indicators have yet to be designed with few exceptions. Therefore, given the lack of developed indicators (or even proxies) on intangibles, such an analysis was not attempted.

Despite increasing literature on cultural intangible externalities, corresponding quantitative indicators are severely limited.

<sup>5</sup> "What's Different about Cultural Products? An Economic Framework" Jeff Dayton-Johnson, Dalhousie University -2000.

## Comparative Sectors Selection Criteria

This value-chain definition of culture is not widely used for other industries. It leads to errors in comparisons (such as the comparisons of Culture GDP to Agriculture GDP), making Culture appear relatively more important than it is.

The study has focused on a sample of sectors within the Canadian economy. This selection was based on a series of criteria:

- **Conceptual definition.** Sector definitions had to be comparable with that of the Cultural sector. This meant in particular including the full value chain: creation, production, manufacturing, distribution (including wholesale and retail) and support services<sup>6</sup>.
- **Materiality of sectors.** The benchmark sectors had to be large (e.g. in terms of employment), recognizable sectors of the Canadian economy.
- **Representativeness.** The sectors had to be representative of Canada's economy, in terms of regions and cities, thus including sectors typically concentrated in large metropolitan areas as well as those more spread out in regions.
- **Comparability.** Whereas some sectors were chosen because of their size and importance in the Canadian economy, others were selected because of their similarity to cultural industries in certain respects, such as knowledge-intensiveness, prevalence of service activities over manufacturing activities as well as their regional dispersal.

The selected sectors are presented below.

## Benchmark Sectors

Care was taken in designing benchmark sectors to create comparable industries, reflecting the full-value chain as per the Canadian Framework for Cultural Statistics approach.

Based on these criteria, the following benchmark sectors were selected (with corresponding NAICS<sup>7</sup> codes):

- Agri-food industry: including agriculture (111,112,114), agri-food processing (311, 312), wholesale (411, 413) and retail (445) activities;
- Oil & gas: extraction (211), processing (324), wholesale (412) and retail (447) activities;

<sup>6</sup>“Economic Contribution of the Culture Sector to Canada's Provinces” - Culture Statistics Program - Ottawa, Canada -2007

<sup>7</sup> North American Industry Classification System.

Five benchmark industries were selected. While not pretending to be a statistically representative sample of the Canadian economy, this selection of sectors does represent large Canadian industries, in urban and/or rural areas, resource-based and/or knowledge-based.

- Financial services: (52) including banking, securities, funds and insurance activities;
- Pharmaceuticals: manufacturing (3254), wholesale (4145) and retail (446) activities<sup>8</sup>;
- Transportation material: manufacturing (336) including in particular automotive and aerospace manufacturing, as well as wholesale (415) and retail (441) activities.

These definitions reflect the whole value chain of these industries, in order to allow comparisons with the cultural industries, as defined in the *Framework for Culture Statistics*.

These benchmark sectors were used throughout the study, with the exception of household expenditures which were used for the analysis at the consumer's level. Indeed, household expenditures necessarily relate to end-products for individuals (and not for organizations), while the benchmark sectors selected present a broader range of economic sectors.

The analysis is largely focused on the private sector. Including the public sector would have added substantially to the complexity of the comparisons without providing any significant additional insight. For instance, the government departments related to Health and Finance deal with considerably more than the pharmaceutical or financial services industries respectively, and resources allocated to these departments cannot be considered to benefit only these industries. Public sector activities and agencies (e.g. CBC) are therefore not included (unless otherwise specified) even if they sometimes include production of traded good and services.

## Concluding Remarks

There seems to have been little or no comparative analysis of the cultural sector done in the past years. Several reasons can be identified, such as UNESCO's call for a different treatment<sup>9</sup> of cultural goods and services. Indeed, the "cultural exception"<sup>10</sup> would seem to make culture in a class by itself, outside the realm of comparisons.

<sup>8</sup> Pharmaceutical research activities are not captured as they are included in the catch-all NAICS code 54171 Research and Development in the Physical, Engineering and Life Sciences. R&D expenditures for the largest firms could however be estimated using industry statistics (Patented Medicine Prices Review Board (PMPRB) Annual Reports).

<sup>9</sup> UNESCO – Intergovernmental Conference on Cultural Policies for Development, Stockholm - 1998

<sup>10</sup> Recommendation 3.12 from the UNESCO Intergovernmental Conference on Cultural Policies for Development - Stockholm - 1998. Excerpt from the UNESCO Action Plan on Cultural Policies for Development : "Objective 3. Reinforce policy and practice to safeguard and enhance the cultural heritage, tangible and intangible, moveable and immovable, and to promote cultural industries." And : "Sub-item 12. Promote the idea that cultural goods and services should be fully recognized and treated as being not like other forms of merchandise."

The recognition of the Cultural Exception by UNESCO does not prevent calls for comparisons between Cultural Industries with other “unexceptional” industries, at least on common dimensions such as the economic dimension. Such comparisons are however remarkably rare because of the various difficulties identified earlier in this paper.

Yet, the calls for comparisons between culture and other sectors of activity are strong and one year after UNESCO Recommendation 3.12 (which was at the basis of the “cultural exception” formula), several comments such as the one below were made:

*If the arts and culture are to be recognized in a manner similar to other sectors of the economy, professionals and institutions in the sector must begin describing and representing the sector in ways which are comparable to other sectors. This means developing an analytical framework which incorporates all the beneficial aspects derived from the sector and its component parts. While some elements of the framework may never be capable of being quantified in monetary terms, this does not mean that they should be excluded from the analytical framework<sup>11</sup>.*

This study focuses on comparisons of one aspect of all these benchmark activities, namely their economic aspect, where comparisons are not only feasible but also useful in order to better understand the economic importance of culture for Canadian households and for the Canadian economy.

---

<sup>11</sup> “Socio-Economic Benefits Framework – Cultural Sector” – Outspan Group, Ontario-1999.

# 1. Consumers

*The Consumer is one of the several dimensions of the individual and a patently important one when the economic dimension of society is concerned. While it would be reductive to limit the economic analysis of culture to the material consumption of tradable goods and services, it is pertinent to isolate it and to understand how sizeable this consumption is (both in absolute terms as well as relative to other types of consumer expenditures).*

*The analysis is based on traded goods and services, measured by Canadian households' expenditures data as collected in 2003, following the approach of the Canadian Framework for Culture Statistics<sup>12</sup> and presented in the Economic Contribution of the Culture Sector to Canada's Provinces.*

## Household Expenditures

More than \$20 billion is spent yearly by Canadian households on cultural goods and services.

Expenditures of Canadians on cultural goods and services are by no means insignificant. According to Statistics Canada's *Economic Contribution of the Culture Sector to Canada's Provinces*, Canadian households spent \$20.3 billion<sup>13</sup> for cultural goods and services in 2003. This corresponds to an average expenditure level of \$1,667 yearly for each Canadian household<sup>14</sup> and accounts for 3.4% of total Canadian household expenditures. According to Hill Strategies Research, consumer expenditures for cultural goods and services have grown at approximately the same rate as other consumer expenditures since at least 1997 (i.e. 25 % between 1997 and 2005, after adjusting for inflation)<sup>15</sup>.

---

<sup>12</sup> An analysis on "Consumer Spending on Culture in Canada the Provinces and 15 Metropolitan Areas in 2005" was done by Hill Strategies Research (2007). It was not however based on the Canadian Framework for Cultural Statistics.

<sup>13</sup> This is an underestimation since cultural components can also be found in the Education category (e.g. educational supplies) as well as in the Audio-video equipment category (e.g. home entertainment equipment) and Use of recreation facilities within the Recreational Activities expenditures category.

<sup>14</sup> The size of the average Canadian household in 2005 is 2.6 individuals with total current consumption of \$48,765. Source: Statistics Canada 62-202-X. Care should be given on the interpretation since it reflects a theoretical average household and not all households.

<sup>15</sup> See Note 12.

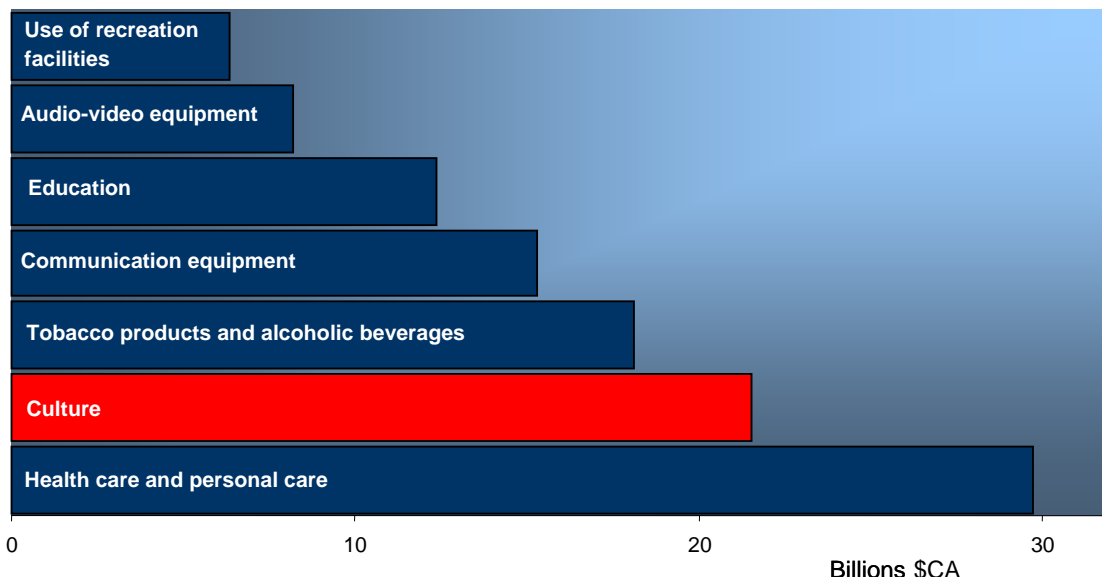
## Cross-Sector Comparisons

Once primary physical needs are satisfied (eg.: food, shelter, clothing), household expenditures for cultural goods and services are second only to health care-personal care expenditures.

The analysis presents a distinction between goods and services related to primary physical needs - such as food, shelter and clothing - and those which are not. This distinction needs to be made since there is no question culture expenditures are not in the same class as those of primary physical needs: culture expenditures are generally considered only once primary needs have been met. Therefore, expenditures for cultural goods and services are compared only with other such non-primary expenses. Figure 2 below presents the breakdown between these expenditures.

Cultural goods and services are a sizeable portion of non-primary physical needs expenditures, second to Health Care<sup>16</sup> and Personal Care. Non-primary physical needs consumption represents 26 % of the Canadian current consumption and cultural goods and services make-up 22.5 % of expenditures not related to primary physical needs. There can be, of course, wide variations according to the income level of individual households as well as their location (i.e. urban or rural areas).

**Figure 2 - Canadian Household Expenditures – Cultural Goods and Services and a Selection of Other Categories of Consumer Expenditures Not Related to Primary Physical Needs (2003)**



**Sources:** Survey of household spending and Economic Contribution of the Culture Sector to Canada’s Provinces 81-595-MIE2006037, 62-202 Catalog of Statistics Canada. While all data originates from the Survey of Household Spending (SHS), the data for cultural goods and services comes indirectly from this survey. The Culture spending aggregation from SHS is provided by the Economic Contribution of the Culture Sector to Canada’s Provinces 81-595-MIE2006037.  
**Definition:** The Culture category includes visual arts, film and music, photography, broadcasting (e.g. rental of cablevision services), heritage, library, performing arts and written media.

<sup>16</sup> The non-primary physical needs do include the health-related expenditures categories which are not covered by the basic Canadian health care system.

This measure of the consumption of cultural goods and services is not complete. Some cultural goods and services are sold at preferential prices. Also, some cultural goods and services shared with consumers are not traded (e.g. public TV programs).

The “consumption” of cultural goods and services goes beyond their actual purchases. Several cultural goods and services are indeed consumed at a price or cost to the consumer that is below their full cost (e.g. public libraries). This fact is not unique to culture, however, and is also the case for health care expenditures as well as the use of public services such as municipal recreational infrastructure (e.g. hockey arenas). It is possible to get a broad indication of the level of total expenditures for cultural goods and services in Canada by adding consumer expenditures and government expenditures related to culture. For 2003, the latter amounted to \$ 7.4 billion<sup>17</sup> (all level of governments, including municipalities). Overall, government expenditures made for public services or redistribution purposes would therefore account for 27% of the overall market. This estimate provides an indication of the extent of the government role regarding redistribution and public management of culture.

## Cultural Goods and Services Imports

Canada has the highest share of imports in its international trade, compared with the four other largest international traders for cultural goods and services.

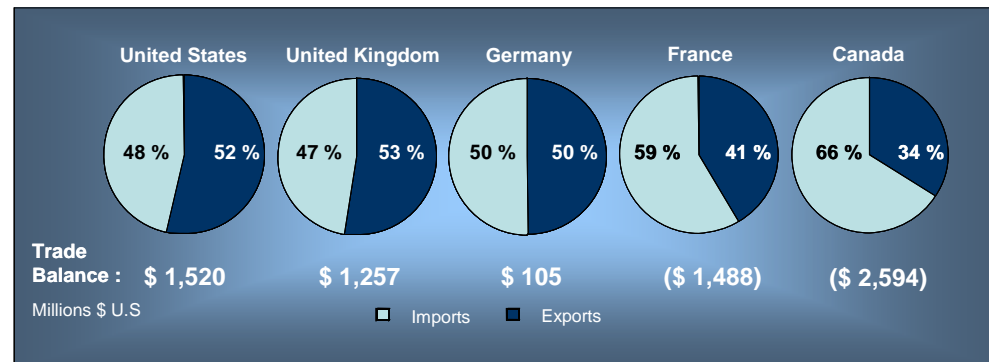
Overall, an estimated 35 %<sup>18</sup> of total Canadian consumption of culture is satisfied by imports (\$ 6.8 billion in 2003). Although cultural goods and services are not always neutral in terms of their geographic origin and, in some cases, consumers have a marked preference for domestic cultural products and services, the fact remains that many Canadian consumers, given their historical and linguistic connections to Anglophone and Francophone countries, have a demonstrated preference for cultural goods and services originating from these countries<sup>19</sup>.

<sup>17</sup> “Economic Contribution of the Culture Sector to Canada’s Provinces.”-Culture Statistics Program - Ottawa, Canada -2007

<sup>18</sup> Total imports relative to household expenditures. This is an estimate of the overall share of imports can be valued at whole-sale prices and since some cultural goods and services may be purchased by organizations as well.

<sup>19</sup> For instance, the Survey of Quebec’s Books Distributors (Enquête auprès des distributeurs de livres du Québec) from the Observatoire de la culture et des communications du Québec found that in 2002–2003, 17% of titles carried by studied distributors were from Quebec, and 81% were from abroad, with a vast majority from Francophone and Anglophone countries. “*Only a minority of the titles distributed in Quebec—French- or English-language—are produced in Quebec. The 2002–2003 OCCQ study found that of the titles its studied distributors carried, 17% were from Quebec, 1% were Canadian outside of Quebec, and 81% were international. Of the French-language titles, 19% were from Quebec, 80% were international, and less than 1% were from Canada outside of Quebec. Of the English-language titles, 3% were from Quebec, 10% were from Canada outside of Quebec, and 87% were international*”. The latter quote is from “The Book Retail Sector in Quebec”, under the “Book Publishing Sector Development Program” Section of Canadian Heritage’s website ([www.pch.gc.ca/progs/ac-ca/progs/padie-bpidp/reports/rapport-report\\_2007/7\\_e.cfm](http://www.pch.gc.ca/progs/ac-ca/progs/padie-bpidp/reports/rapport-report_2007/7_e.cfm), July 31, 2008)

**Figure 3 - International Trade – Culture Goods and Services Trade Structure for the Top Five International Traders in North America and Europe (2002)**



Source: United Nations Commodity Trade Statistics Database and Service trade Statistics Database

Canada’s high level of cultural imports is presumably largely linked to Canada’s linguistic and historical ties to the UK, the US and France, which all happen to be major international cultural exporting countries.

In the case of cultural goods imports (\$ 4.1 billion in 2003), these originate mostly from the US (\$3.2 billion), from the UK (\$189 million) and France (\$178 million)<sup>20</sup>.

In addition to the common languages shared with the largest culture exporters in the Western world, the immediate geographical proximity to the world's largest exporter of cultural goods and services extends the porosity of the Canadian market (e.g. through airwaves and reduced transportation costs). Canada has a unique profile among top culture exports, with its high trade imbalance (see Figure 3). A recent study shows reasons why countries such as Canada are a likely destination for cultural exports of countries such as the United States, the United Kingdom and France.

*« (...) les liens coloniaux augmentent le commerce bilatéral de 33%, la frontière commune de 85% et la langue commune de 56%, ce dernier impact étant supérieur pour les biens culturels.»<sup>21</sup>*

Cultural imports therefore remain a substantial component of the structure of the sector in Canada.

<sup>20</sup> Culture Goods Trade: Data Tables, June 25, 2007, Catalog no. 87-007-XIE. Note: Data available for 2006.

<sup>21</sup> Source : « Les flux d’échanges internationaux de biens et services culturels déterminants et enjeux » - Ministère de la Culture et de la Communication – France -2007

## Conclusion

Apart from proximity of services (e.g. distribution and retail), it is conceivable that cultural goods and services could be entirely imported. Canada would lose the wealth creation associated with the production

Consumer demand for cultural goods and services is substantial and growing and warrants government attention for those very reasons. Given that cultural goods and services can be traded internationally, and that Canada is in fact a heavy importer of such products, the state may wish to intervene in order to increase wealth creation in Canada. In addition to helping Canada's trade balance, and contributing to wealth creation by contributing to the GDP, Canadian content arguably produces greater externalities among Canadian consumers than would a cultural product with foreign content.

## 2. Workers

*Workers in the Cultural sector are major beneficiaries of the production of cultural goods and services in Canada. The analysis examines both absolute figures and comparisons with other sectors. This analysis focuses on direct employment. Employment statistics for benchmark sectors were reconstructed to reflect each sector's full value chain, in order to make valid intersectoral comparisons. Other variables considered include exports.*

*According to the Canadian Framework for Culture Statistics, the culture GDP (private and public sector) amounts to \$ 43 billion in 2003 (3.8 % of the Canadian GDP)<sup>22</sup>. Comparisons with other sectors cannot however be made because of the value chain definition unique to culture (see methodological notes). Employment and exports remain pertinent variables, however, to assess and compare the economic importance of the sector related to workers and prosperity.*

### Employment

Culture goods and services industries employment 433,000 Canadians in private sector organizations. This is larger than the employment of the oil & gas and the pharmaceutical industries com-

The Cultural sector contributes to significant direct job creation in the private sector within firms whose main activity is the production of cultural goods and services. According to the *Economic Contribution of the Culture Sector to Canada's Provinces*<sup>23</sup>, cultural industries employed 433,000 (including self-employed workers and entrepreneurs) in 2003 in the private sector<sup>24</sup>. The following comments can be made concerning the cultural sector relative importance of its employment level, in terms of order of magnitude:

- It is comparable to the finance and insurance sector (total employment of 570,000) and to the transportation equipment industry (total employment of 561,000);
- It is considerably larger than the capital intensive oil & gas industry (employment of 155,000) or the pharmaceutical industry (191,000);
- It is smaller than the agri-food sector in Canada, which employs over one million workers.

Cultural sector employment is therefore significant compared to other high profile, knowledge-intensive sectors of the Canadian economy such as the pharmaceutical industry or the transportation equipment industries. Figure 4 on the following page compares the culture sector and other benchmark industries.

<sup>22</sup> Including the private and public cultural sector. Source: "Economic Contribution of the Culture Sector to Canada's Provinces."- Culture Statistics Program - Ottawa, Canada-2007.

<sup>23</sup> Statistics Canada, Cat. 81-595-MIE-2006037

<sup>24</sup> This estimate does not include employment in the public sector nor cultural *occupations* within non-cultural industries.

## Exports

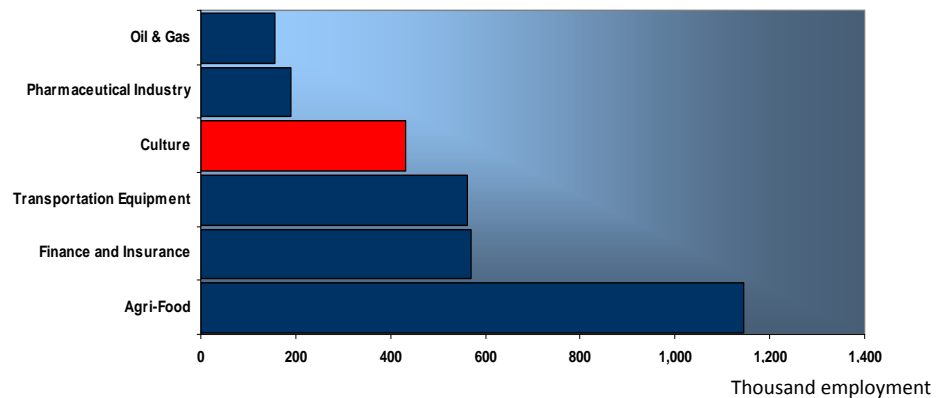
These workers contribute to the fact that Canada is the fifth largest exporter of cultural goods and services compared to the US and European countries. Its export level is in the order of magnitude of other knowledge-intensive industries such as the pharmaceutical industries and the financial services industries.

Export levels provide an indication of a country's international competitiveness and of the wealth creation a given sector brings into a community. On this basis, there is wealth creation associated with the production of culture, as demonstrated by the significant level of exports. Indeed, Canadian exports of cultural goods and services reached \$4.6 billion in 2003.

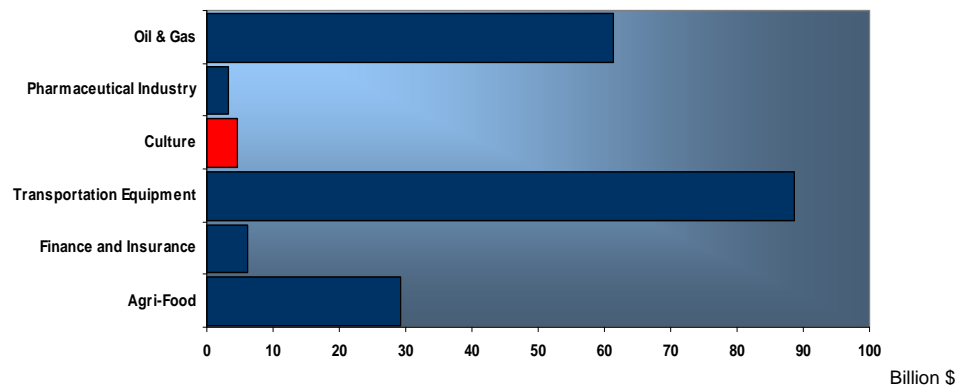
Figure 5 below compares the cultural industries' exports of goods and services with those of the benchmark sectors. The following comments can be made concerning the relative importance of cultural sector exports, in terms of order of magnitude:

- It is a fraction of the considerable export level of the transportation equipment (\$88.6 billion), oil & gas (\$61.4 billion) and agri-food industries (\$29.3 billion), all three industries largely focused on international markets.

**Figure 4 - Canadian Private Sector Employment - Culture and a Selection of Other Industries (2003)**



**Figure 5 - Canadian Exports – Cultural Industries and a Selection of Other Industries (2003)**

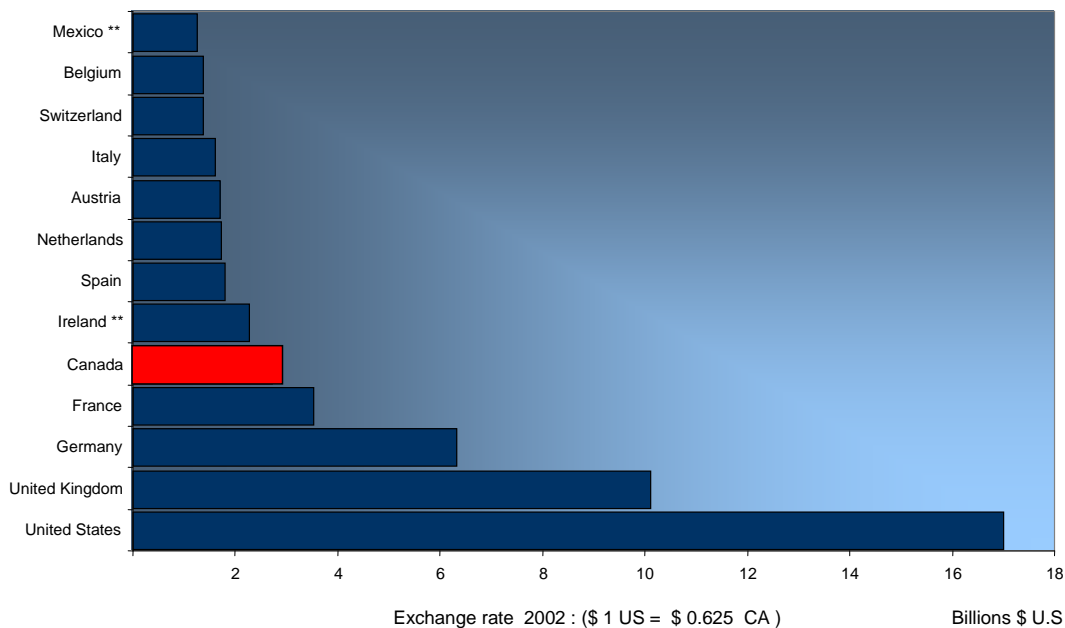


Source: Statistics Canada, Catalog no. 81-595-MIE, 65-001-XIB, CANSIM 281-0024. E&B DATA compilation.

- It is more comparable with the export level of other knowledge-intensive, service-based industries, with export value ranging between that of pharmaceutical products (\$3.2 billion) to finance and insurance services (\$6.2 billion).

The international trade statistics for cultural goods and services<sup>25</sup> shows that while the United States and the United Kingdom have a dominant share, Canada actually ranks among the top five exporters among Western countries (see Figure 6 presenting trade data in \$US 2002, the most recent year available).

**Figure 6 - Basic Cultural Goods and Services Exports\* - Top European and North American Exporters (2002)**



\*Cultural goods include: music, sound recording, cinematograph film and printed books. Services include only audiovisual services (e.g. motion picture, videotape and television production and distribution services, audio-visual production support services, film and video post-production services, motion picture and video tape projection services and services of performing artists). Note: Such services correspond to 70 % of the value of culture service exports in Canada (91 % in the US).

\*\* Culture services export statistics not available for Mexico and Ireland.

<sup>25</sup> For international comparison purposes, UNESCO Statistics are used. The reader should be aware that these statistics are not fully compatible with Statistics Canada data. This is specially the case for exports of goods. Source: United Nations Commodity Trade Statistics Database.

## Urban/Rural Employment

Labour market indicators are limited for the cultural sector as a whole. There is no aggregate data available on wage levels or on the geographical dispersal of establishments and employment.

Based on the active population in the cultural sector, there is a concentration in the largest metro areas: Toronto, Montréal and Vancouver Census Metropolitan Areas combined represent more than 60 % of the culture labour force in Canada<sup>26</sup>. The cultural sector is also widespread across Canada, more so arguably than for other knowledge intensive sectors (in terms of employment) such as the pharmaceutical industry or the financial services industry, which are heavily concentrated in large urban areas<sup>27</sup>. However, available data do not allow for accurate comparisons that would reflect the urban/rural distribution of cultural employment across Canada.

## Other Wealth Creation Impacts

Indirect impacts are not available to examine the full impact of the cultural industries, as defined by the Canadian Framework for Culture Statistics.

Multiplier effects sometimes refer to the ratios between direct and indirect effects (e.g. employment) among suppliers of the cultural sector. The multiplier itself is a number applied to a value (e.g. dollar amount or number of jobs) in order to obtain an estimate of economic impact, including both direct and indirect effects. It is a way of identifying impacts beyond the original expenditure. It can also be used with respect to income and employment. These multipliers are derived from input-output models<sup>28</sup> of the national (or regional) economies.

However, in some cultural industries, multipliers are used and even abused, when they are used outside of their normal realm<sup>29</sup>. In addition to these economic effects, cultural activities may also bring other positive commercial and economic externalities through what other authors also label “multipliers”.

*“(...) well known opera houses or orchestras, and art festivals attract visitors and tourists. So do museums with good collections. As well, newly constructed museums are claimed to contribute to city renewal. This is supposed to have spillover effects on hotels, nearby restaurants and shops, and came to be called the “arts multiplier.”*<sup>30</sup>

<sup>26</sup> Respectively 32.2 %, 20.5 % and 11.4 % in 2001.

<sup>27</sup> Statistics Canada – *Census Metropolitan Areas As Culture Clusters* - Catalog No. 89-613-MIE, No. 004 (2004).

<sup>28</sup> Initially developed by Leontief in “The Structure of the US Economy” – 1936 and applied in Canada since the 1950’s.

<sup>29</sup> In which case they exaggerate impacts, including what are merely *displacement* of economic activity. The desire to prove the importance of culture sometimes leads to doubtful analysis (e.g. no account for displacement of economic activity).

<sup>30</sup> “The Economics of Art and Culture”- Victor A Ginsburgh -2001.

Whereas other countries internationally renowned for their culture can more easily make the case for such kinds of impact (e.g. UK<sup>31</sup>), examples in Canada can also be observed such as the international tourism attracted through major festivals (e.g. Montreal Jazz Festival) and cultural attractions (e.g.: Japanese tourism in Prince Edward Island)<sup>32</sup>. These multiplier effects correspond to genuine wealth creation when they create net new sources of income in a regional economy and not merely a displacement of economic activity.

However, the measures of such performance are limited, and all the more so when cross-sector comparisons are desired.

## Conclusion

The domestic demand and the international trade (high level of exports) for culture contribute to a substantial number of jobs in Canada. Added with the indirect effect on other industries (not covered in this study), these indications suggest that the sector may not be a mere absorber of public funds in the financial sense.

---

<sup>31</sup> "The Economic Impact of the UK Film Industry"- Oxford Economics – 2007

<sup>32</sup> Related to « Ann of Green Gables », a well-known textbook in Japanese schools.

## 3. Taxpayers

*The federal government financially supports a wide range of industries, including the culture sector. This section examines government support to the cultural sector to discern whether this support is congruent with that provided to other industries.*

*Whereas this study does not seek to measure the net impact of government support to the cultural sector on public finances - ultimately to taxpayers - it attempts to provide proxies on the gross "costs" of the government support to the culture sector. As in the preceding sections, cross-sector comparisons are provided.*

### State Aid

The successive Canadian governments have acted extensively and coherently on the protection and development of Canadian cultural industries.

The Government's objective regarding culture is "to ensure the creation of a diverse range of Canadian cultural content and that Canadians have access to that content"<sup>33</sup>. To achieve this objective, state aid can effectively be provided through several ways, both financial and non-financial (e.g. through regulations). The Government of Canada has regularly intervened through the creation and support of major institutions such as the CBC, the Canada Council for the Arts, the National Film Board and Telefilm. In order to protect the national identity, the Official Languages Policy was adopted. Also, in order to support Canadian cultural activities - for both preservation of "Canadian content" and protection of the and the consequent impact on national employment - the Government has also acted more directly on the private sector through Canadian content and ownership regulations, such as :

- The Canadian Content regulations, enforced by the CRTC as a condition of licensing for broadcasters;
- The restrictions on foreign ownership in broadcasting and telecommunications enterprises (also enforced by CRTC);
- The prohibition of foreign acquisition of Canadian publishing companies (under the Investment Canada Act);
- The distribution of films by foreign companies, unless certain conditions are met.

To provide a sense of the variety of such state initiatives, Appendix A tracks some of the most notable ones since 1968, year of the creation of the CRTC.

<sup>33</sup> « The Business of Culture – Canada's Cultural Industries Annual Report 2006-07 » - Department of Canadian Heritage – 2007.

## Financial State Aid - Cultural Sector

The comparison of the level of state assistance to cultural industries presents nearly insurmountable difficulties, notably because of the combination of considerable differences between countries (definitions, classifications, socio-economic contexts, citizens' values and preferences).

Although no published study has examined the net economic impact of the overall financial state aids to the cultural sector in Canada, other studies have examined the impact of government financial assistance in sub-sectors of the industry. For instance, it is generally recognized that tax credits play a major role in attracting foreign film shooting to Canada, rather than locations abroad which are otherwise acceptable (e.g. availability of technical crews). Studies have shown that tax credits (e.g. the Canadian Film or Video Production Services Tax Credit, and its provincial counterparts) are more than reimbursed by the economic impacts that foreign film shootings generate through wages and local expenditures and in terms of net contributions to public finances. A recent study has shown that a typical foreign (US) film shot in Quebec yields net gains for the federal and provincial governments, even after the application of tax credits<sup>34</sup>. This assumes – similar to investment attraction incentives used in other industries - that this tax credit regime is key in the locational decision of an internationally mobile activity, sensitive to exchange rate variations.

Financial aid to the cultural sector is not limited to Canada. For instance, government aid to culture is available in many other jurisdictions such as the United Kingdom (ref.: Department of Culture, Media and Sport annual report) or France (ref.: Ministry of Culture and Communications annual report). In fact, all European states contribute to the sector, with substantial amounts. However, systematic quantitative comparisons of international state aids are so fraught with pitfalls as to make them dangerous in the conclusions they seem to indicate:

*“The goal of comparability is an admirable one, worthy of pursuit, but there will be pitfalls along the way. Will it be possible to adopt a single framework within which cultural statistics are to be gathered that will be applicable and relevant to the many different national views as to what culture and cultural policy entail? The age-old problems of definition and boundary will become familiar once again.”<sup>35</sup>*

Other studies highlight typical problems with such comparative data:

*“Key problems include: definitions of the arts varying between countries, not taking into account of both direct and indirect sources of arts funding, and the fact*

<sup>34</sup> “Impact économique des tournages étrangers au Québec” - E&B DATA – 2004.

<sup>35</sup> “Statistics in the Wake of Challenges Posed by Cultural Diversity in a Globalization Context”-J. Mark Schuster- Massachusetts Institute of Technology -Cambridge, United States- 2002.

*that exchange rate conversions do not take into account of real differences in cost of living between countries.”<sup>36</sup>*

While the data available on government support to its cultural industries does not allow for credible comparisons and rankings, it does permit to observe that the high level of government financial support (billion dollar range) is relatively common.

At a minimum however, studies and statistics<sup>37</sup> available allow for the following observations:

- Canada is not the only country whose government contributes support to culture. In fact, this practice is relatively common<sup>38</sup>.
- While quantitative levels of support cannot be compared rigorously with any hope for precision, it can be reasonably said that public culture expenditures are in the billion dollar range for countries such as Germany, France and the United Kingdom as well as for smaller countries in terms of population (e.g. Netherlands, Sweden and Australia)<sup>39</sup>.
- While it is sometimes argued that the US federal government contributes little to culture, one should keep in mind the several ways through which culture can be supported in the US beyond direct government financial transfers. For instance, private contributions related to culture (“Arts, Culture and Humanities”) reached US \$12.5 billion in 2006.<sup>40</sup>

## Financial State Aid - Cross-Sector Comparisons - General

The federal departments associated with the benchmark sectors are:

- Natural Resources Canada for the Oil & Gas industry,
- Canadian Heritage for the Culture sector (excluding sports-related payments),
- Industry Canada and regional development agencies<sup>41</sup> for Pharmaceutical products and Transportation equipment industries,
- Agriculture/Agrifood Canada for the Agrifood industry.

<sup>36</sup> “Comparisons of Arts Funding in Selected Countries: Preliminary Findings”.- Claire McCaughey-Canada Council for the Arts-2005.

<sup>37</sup> E.g. UNESCO, European Commission.

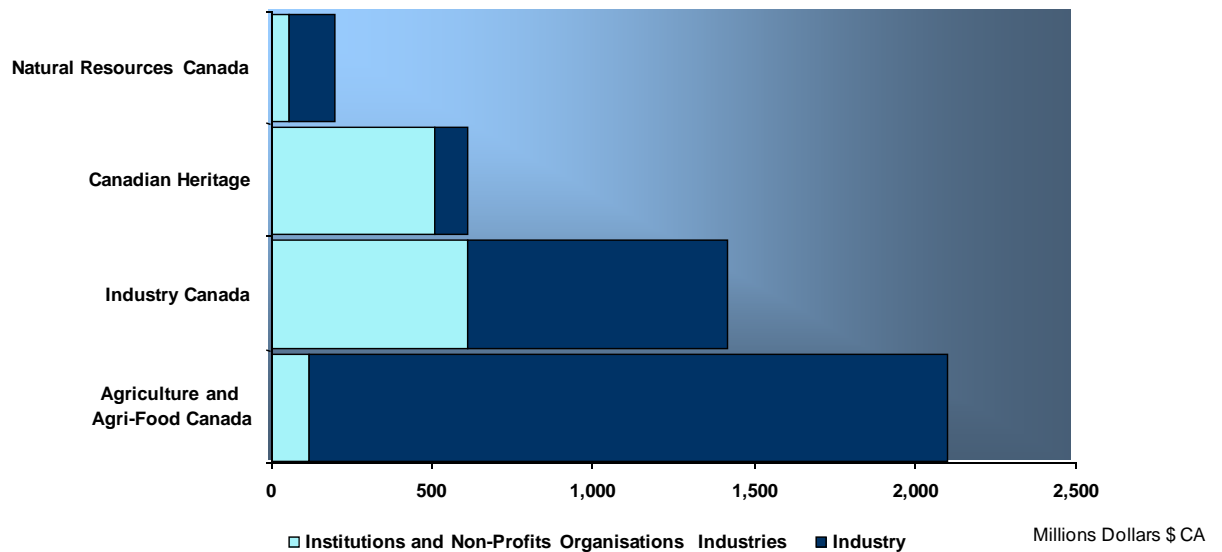
<sup>38</sup> McCaughey. Op cit note 38. This study provides comparisons of arts grants between Canada and countries with a similar mandate to Canada Council for the Arts. It provides as well some data on culture funding for some twenty countries.

<sup>39</sup> Canada Council for the Arts. Op.cit.

<sup>40</sup> “Giving USA Survey 2007” based on Internal Revenue Service (IRS) data. Individuals make an estimated 90% of the value of contributions and the forfeited tax revenue amounts in the order of magnitude of \$5 billion (estimation based on the application of top marginal tax rates).

<sup>41</sup> Namely Western Diversification Fund, Economic Development Canada and Atlantic Canada Opportunities Agency. It should be noted that these agencies may on occasion support culture-related projects, but these remain marginal and do not change the orders of magnitude provided in this paper.

**Figure 7 - Federal Transfer Payments to Industry, Institutions and Non-Profit Organizations for Selected Government Departments (2006-2007)**



Source: Public Accounts of Canada (2006-2007) - Receiver General of Canada

Some comparative analysis between sectors is possible on the basis of Transfer Payments and Tax Expenditures data. While the data available does not allow for a fine analysis, order of magnitude comparisons are possible.

In addition, government payments are broken down according to whether they are addressed to “Industry” or “Non-Profit Institutions and Organizations”, as presented in the Figure 7 above<sup>42</sup>.

While in general, most of the financial support is dedicated to industry, one can see that Canadian Heritage financial support is mainly provided to the non-profit sector (85%).

### Comparisons - Top Programs Review

An indication of the type of assistance for various industries can be derived from an analysis of the most important programs and initiatives, in terms of the value of their

<sup>42</sup> Excluding transfer payments to “persons”, “provinces and territories”, to or on behalf of “international organizations and foreign countries”, to “municipalities and local organizations”, the latter excluding not-for profits.

In most programs observed, government's intervention is justified by a need to support private sector organizations in weathering risks and uncertainties or by the uncertain technological-commercial outcome of R&D. In most cases, a concern for international competitiveness is at stake.

contributions. Their justification as well can be pertinent for comparison purposes. Since all programs and tax initiatives of all benchmark sectors could not be examined in the scope of this project, the top two programs or tax initiatives were examined. In all cases the amounts at stake were sufficiently high to warrant close attention. Also, the top programs typically account for a majority of all transfers (upwards of 50% in the case of culture). As can be seen in Figure 8 below, the cultural sector sits among the industries for which the top programs and tax initiatives<sup>43</sup> are the most generous (as estimated by the first and the second major program of transfer payment and the largest "tax expenditure" for each industry). Only the agri-food industry receives more financial support. The most recent data available was used for this comparison. While the level of support for culture is relatively stable from one year to the next, this is not necessarily the case for other industries<sup>44</sup>.

The preceding Figure compares federal financial support with the benchmark sectors (except the financial sector for which there is little to no financial assistance) - (See details in Appendix B).

The programs included are:

- Agriculture and Agri-food- Income Stabilisation Program and Inventory Transition Initiative program.
- Culture - Canadian Film or Video Production Tax Credit, the Publication Assistance Program and the contribution to the Canadian Television Fund.
- Transportation Equipment - Program for Strategic Industrial Projects and Technology Partnerships Canada program.
- Oil & Gas - Resource Allowance<sup>45</sup>.
- Pharmaceutical Products- Scientific Research and Experimental Development Investment Tax Credit (this tax regime also applies to other industries).

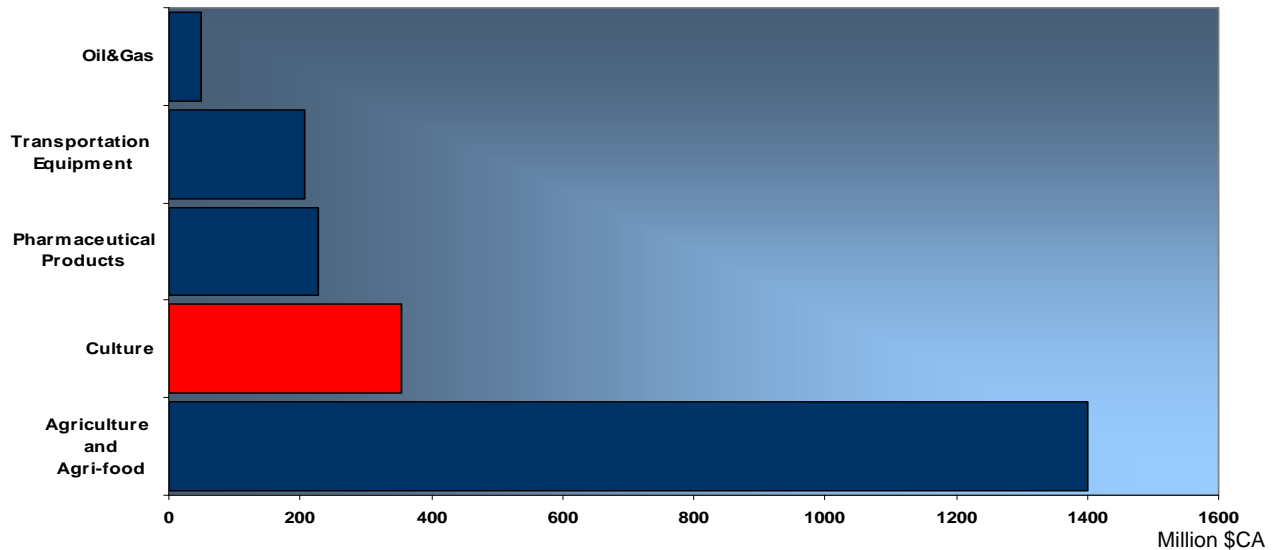
In most cases, the Government's intervention is justified by a need to support organizations in weathering risks and uncertainties, such as those caused by commodity price variations (e.g. oil, agricultural products) or by the uncertain technological/commercial outcome of R&D, in particular for the aerospace and pharmaceutical industries. In most cases, a concern for international competitiveness is at stake. These issues are not absent of government intervention for culture, such as protection from imports.

<sup>43</sup> Canadian Film or Video Production Tax Credit, the Publication Assistance Program and the contribution to the Canadian Television Fund.

<sup>44</sup> The oil & gas and mining industry is a case in point. It received \$50 M in 2006-2007 for the top contribution (resource allowance), while that amount was \$ 215 M in 2002-2003. As an example of the extent that payments can reach for a single company, one commercial corporation received more than \$ 450 M over a five-year period in respect of certain royalty provisions (Public Accounts of Canada (2000-2001 to 2005-2006)).

<sup>45</sup> This is not a direct federal transfer payment to industry.

**Figure 8 - Cross-sector Comparative Transfer Payments and Tax Expenditures for the Top Programs Initiative Comparison \* – 2006-2007**



Sources: Public Accounts of Canada 2006-2007, Government of Canada Tax Expenditures 2007, E & B DATA compilation. E&B DATA estimation for the pharmaceutical products industry.

\* The Top programs estimate by the first and the second major program of transfer payment and the largest “tax expenditure” for each industry.

## Conclusion

Canadian cultural industries are not exceptional in the financial support they receive from the government, when compared to other industries or compared with cultural industries in other countries.

The culture sector is not the only industry in Canada to benefit from state financial support. In fact, the justification for the support it receives is not without relation to the justification for the government support to other sectors. Indeed, there are other examples of subsidized sectors with little to no wealth creation associated with it. An example can be found in municipal sports infrastructure<sup>46</sup>.

It should be pointed out that the vast majority of such aid is provided to institutions and non-profits, because of their constraint of operations which are inevitable for some sectors (e.g. performing arts<sup>47</sup>) and also because, in its equity redistribution role, the gov-

<sup>46</sup> The sole cost of refurbishing municipal sport infrastructure is estimated at upwards of \$14 billion. Source: National Recreation and Sport Infrastructure Program, Briefing Note from Canadian Parks and Recreation Association (2006).

<sup>47</sup> Ref. The famed “Baumol’s curse”, or the “cost disease” of performing arts. Baumol and Bowen (1966) pointed out that the same number of musicians are needed to play a Beethoven string quartet today as were needed in the 1800s; that is, the productivity of classical music performance has not increased. On the other hand, wages of musicians (as well as in all other professions) have increased greatly since 19th century. Referred to in “Economic circumstances of the performing artist: Baumol and Bowen thirty years on” - Davis Thorsby- Journal of Cultural Economic 20: 225-240- Netherlands- 1996

ernment wishes to lower costs to make culture available to consumers who cannot afford its full cost.

Further, Canada is not the only country to provide substantial support to the culture sector. In fact, virtually all countries examined provide substantial financial support to cultural industries, through a broad scope of means, ranging from direct aid to beneficial tax treatment. While detailed comparisons are beyond the scope of this study, the data assembled provides no reason to suspect that Canada's taxpayers carry a cultural burden heavier than that carried by taxpayers from other countries.

## 4. Citizens

*While the three other public dimensions of the individual examined in the previous section have immediate links with economic factors, thereby facilitating comparisons with other economic sectors, the same cannot be said of another public dimension of the individual: the citizen. This section discusses the state of the situation.*

### Beyond Culture Trade

While apparently attractive, the objective of comparing an externality-generating sector with conventional data from other industries can lead to difficulties especially when the latter sectors' economic data (e.g. prices) do not reflect the full extent of their externalities (e.g. oil & gas).

The approach followed in this paper has focused on the comparison on commercial values, essentially based on transactions, at a time when it is becoming increasingly apparent that current market prices, at least for basic commodities such as oil or even food products, do not reflect negative externalities associated with them, and which are only slowly being quantified (e.g. carbon markets). Current pricing systems are therefore not reflective of all market forces and comparisons on this basis are skewed. Even the valuation of "production" value (e.g. GDP) for culture is subject to debate: some even argue that some forms of art (e.g. the act of creation itself) has no economic value, while only its duplication and diffusion have an economic value<sup>48</sup>.

Examples of such attempts to valuation of externalities refer to concepts related to ecosystems and sustainability:

*There is a growing view within the cultural world that new and convincing methods must be found to validate public funding. This report shows how alternative ways of valuing culture are possible, by drawing on disciplines as diverse as brand valuation by accountants and the language of sustainability used by environmentalists.<sup>49</sup>*

Valuation and pricing methods associated with environmental services could possibly be used for culture, such as the hedonic pricing method<sup>50</sup> or contingent valuation<sup>51</sup>.

<sup>48</sup> Such arguments are traceable to « L'oeuvre d'art à l'époque de sa reproductibilité technique » - (The Work of Art in the Age of its Mechanical Reproduction) - Walter Benjamin -1939.

<sup>49</sup> Source : [www.demos.co.uk/publications/culturalvalue](http://www.demos.co.uk/publications/culturalvalue). Presentation and comment on the Demos report entitled "Capturing Cultural Value" – 2004.

<sup>50</sup> "The hedonic pricing method is used to estimate economic values for ecosystem or environmental services that directly affect market prices. It is most commonly applied to variations in housing prices that reflect the value of local environmental attributes. It can be used to estimate economic benefits or costs associated with environmental quality, including air pollution, water pollution, or noise (and with) environmental amenities, such as aesthetic views or proximity to recreational sites." Source: [www.ecosystemvaluation.org](http://www.ecosystemvaluation.org) - Site developed and written by Dennis M. King, Univ. of Maryland.

Despite several studies on links between cultural sector's externalities and economic growth, there has been so far little empirical evidence to that effect.

Apparent examples of positive externalities of culture which have received much attention<sup>52</sup> are national identity and social cohesion. Further, some studies have established links between social cohesion and economic growth<sup>53</sup>. Nevertheless, the link between culture development and the civic dimension is more difficult to establish empirically despite several attempts to do so<sup>54</sup>.

While theoretical discussions on the economic importance of culture have made remarkable progress over the past years, the provision of statistical data matching these developments has trailed. An example is the 2004 Rand report<sup>55</sup> which distinguishes between intrinsic benefits derived from arts (e.g.: pleasure, cognitive growth) and instrumental benefits (e.g. economic growth, development of social capital, improved test scores). The report still comes short of actual, comprehensive statistics and indicators which would allow for a quantitative analysis of these various dimensions<sup>56</sup>. Further, the intrinsic-instrumental distinction is not without disadvantages :

*"(...) the instrumental/intrinsic debate has tended to polarise on class lines: aesthetic values for the middle classes, instrumental outcomes for the poor and disadvantaged."*<sup>57</sup>

Further, when cause-to-effect analyses are desired, in particular between government assistance and its economic effects, the extent of the lack of data appears. An example of such a limitation is the Richard Florida approach<sup>58</sup> whose appealing intuitions on the link between the support to the creativity of a community and its economic growth has found little statistical support as of yet<sup>59</sup>. This missing link is becoming increasingly apparent with authors mentioning the "disconnects" between (...) "the development of cultural indicators" and (...) "the development of theoretical constructs to ground these indicators"<sup>60</sup>.

<sup>51</sup> Used for instance as the main estimation method in "Valuing the Canadian Broadcasting Corporation", Adam Finn et al. - Journal for Cultural Economics -Edmonton- 2003.

<sup>52</sup> "What's different about Cultural Products? An Economic Framework" -Jeff Dayton-Johnson- Strategic Research and Analysis - Strategic Planning and Policy Coordination, Department of Canadian Heritage, Hull, Canada – 2000.

<sup>53</sup> "Where did all the growth go ? External shocks, social conflicts and growth collapse" - Dani Rodrik - National Bureau of Economic Research- Cambridge Mass, United States -1998. "Does social capital have an economic payoff ? A cross-country investigation"- Knack and Keefer- Quarterly Journal of Economics - 1997 - As referenced in Dayton-Johnson (op.cit).

<sup>54</sup> "Social Capital and the Economy" Shaun Hargreaves Heap, St-Martin Press, New York, 1999.

<sup>55</sup> "Gifts of the Muse : Reframing the Debate about the Benefits of the Arts"- Kevin F. McCarthy, Elizabeth Heneghan Ondaatje, Laura Zakaras - RAND corporation-Santa Monica, United States - 2004.

<sup>56</sup> "Assessing the Impacts of the Cultural Industry"- David Throsby - University of Chicago, United States-2004, as another example of such efforts.

<sup>57</sup> "Capturing Cultural Value - How culture has become a tool of government policy" - John Holden – Demos – UK– 2004 – p25

<sup>58</sup> E.g. The Rise of the Creative Class - Richard Florida -2002

<sup>59</sup> E.g. "Struggling with the Creative Class", Jamie Peck, University of Wisconsin-Madison-2005 - among other criticisms or R. Florida's approach.

<sup>60</sup> "Cultural Indicators and Benchmarks in Community Indicator Projects: Performance Measures for Cultural Investment?" Nancy Duxbury, Creative City Network of Canada - 2003.

## Non-Market Models

Basing public policy on economic grounds only is reductive. Several other basis of government's public policy on cultural have been and are still used in Canada and abroad.

In fact, this paper has so far implicitly referred to only one form of cultural development, i.e. the *market model* while there are at least three other models<sup>61</sup> outlined by Lorimer and Duxbury.

*“The (...) market model of cultural development has two poles. At one pole are the market forces as they are defined by current law and practice. Generally this pole is referred to as a free market mostly because, although market laws and policies are in continual flux, they are directed towards a free global market ever less hampered by governments. (...) At the opposite pole is the call for and the taking of augmentative or corrective action due to an inadequacy in the current global market model to deal with cultural products distinctive to a people, a country, or a region.”*

The core of this model, therefore, is the taking into account of market forces as primary drivers. These, however, can be considered too reductive as not to give a fair assessment of the real overall benefits of culture:

*“In sum, the identifiable measures and ‘ancillary benefits’ that flow from culture have become more important than the cultural activity itself: the tail is wagging the dog”.*<sup>62</sup>

Other “non-market” dimensions can be observed, closer to this other dimension of the individual, i.e. the citizen. Models identified by Lorimer and Duxbury refer to the state role, with a civic dimension which can be identified explicitly or implicitly<sup>63</sup>. These other models are aptly summarized by Jamieson<sup>64</sup>:

- *“the community development/animation model – based on belief in the value of information and self-knowledge and oriented to the idea of the community representing itself through various mediums that raise self-awareness;*

- *the cultural development model – aimed at making accessible to the greatest number of citizens the outstanding works of humanity, ensuring the largest possible audience for national cultural heritage and favouring the creation of such works;*

<sup>61</sup> « Of Culture, the Economy, Cultural Production and Cultural Producers : An Orientation », Rowland Lorimer, Nancy Duxbury – Canadian Journal of Communication- 1994

<sup>62</sup> Holden – op.cit. – p14

<sup>63</sup> As there is no citizen without a state, government intervention is in fact intimately associated with culture.

<sup>64</sup> “Trade Liberalization: Culture, Identity and Social Cohesion” - Bruce Jamieson - Canadian Heritage - 1999

The Cultural Framework has not given much attention to the not-for-profit aspect of cultural industries. A recent pilot study such as the “Portrait statistique de l'économie sociale de la région administrative de Montréal” shows that the cultural establishments in the social economy generate a substantial level of jobs, and examines its other social impacts (e.g. volunteers, governance, wages).

*- the public service model – aimed, more conservatively than in the cultural development model, at the preservation and promotion of national heritage (values and artifacts), especially through publicly funded institutions”.*

Note that these models are not specific to Canada; indeed, several of them can be traced to other countries such as the United Kingdom and France.

New types of primary data (such as on the value attributed to citizens to culture and its various manifestations<sup>65</sup>) could also allow for deeper analysis.

Meanwhile, it is reasonable to expect that such benchmark studies can be improved in the future as the limits to the availability of data are extended. There are several areas where progress can reasonably be expected (such as wages and remuneration, establishments and their regional dispersal) allowing finer analysis. Further harmonization of trade statistics can probably be expected, as well as more disaggregated input-output study, such as at the regional level. Interesting progress has been made recently in the statistical measure of the social economy (including not-for-profit cultural industries) in Canada. A pilot project, using conventional statistical tools was undertaken for the Montreal area, which not only measured the cultural industries employment, revenues and the sub-regional spread of establishments, but also compared it to other not-for-profit activities.<sup>66</sup> With statistics based on NAICS code, this approach could also allow comparison with for-profit activities.

<sup>65</sup> Such methods focus on the stated opinions of citizens. Indeed, surveys on citizens' perceptions can provide insights on those impacts which are collectively valued. These methods are already in use to measure the perceived importance that official languages have for Canadian citizens. (Heritage Canada's survey reports 80% of the surveyed population in favor of bilingualism compared to an incidence of bilingualism established at 17%. Source: Report on Consultations on Linguistic Duality and Official Languages - 2006.)

<sup>66</sup> « Portrait statistique de l'économie sociale de la région administrative de Montréal » - Marie Bouchard, Damien Rousselière – Canada Research Chair on the Social Economy – Université du Québec à Montréal - May 2008

## 5. Concluding Remarks

*This analysis began with questions regarding the economic rationale of public financial support to the cultural sector. Elements of the answers are provided below.*

### ***Does the sector's size warrant the Government's economic interest?***

Consumer demand for cultural goods and services is substantial and warrants government attention for that very reason. Given that cultural goods and services can be traded internationally, and that Canada is in fact a heavy importer of such products, the state may wish to continue to intervene in order to increase wealth creation in Canada and to help protect national identity. In addition to helping Canada's trade balance, and contributing to wealth creation by contributing to GDP, Canadian content arguably produces greater externalities than does a cultural product with foreign content.

### ***Are there signs of positive economic outcomes?***

Although the net effect of cultural activities overall on the economy and public finances cannot be easily tracked, there are indications that the cultural sector contributes in a positive way to collective wealth. For instance, its export level is comparable or even superior to other industries, such as the pharmaceutical sector, and in fact places it among the top five exporters of cultural goods and services among Western countries. Further, the cultural sector provides employment opportunities to 433,000 Canadians, a level comparable or even superior to other industries such as the Oil & Gas and Pharmaceuticals products industries.

### ***Are levels and justification of government assistance generally coherent with economic support to other sectors?***

The analysis suggests that the federal government's support to cultural for-profit industries is a fraction of that provided to other industries, while reasons for such support are in fact comparable (e.g. support to innovation, to risk-reduction and from imports protection). Despite positive contributions to wealth creation, full financial autonomy of the culture sector is not attainable given the inherent economic fragility of certain culture sub sectors prone to well-known constraints such as limited reproducibility and lack of economies of scale (e.g. performing arts).

Also, while the Canadian culture sector presents remarkable outcomes in terms of international competitiveness, this performance is not enough to curb its major trade imbalance, despite government financial and non-financial efforts in this direction during the last number of decades.

Empirical data fall short, however, of measuring the net impact on public finances. Some other approaches seem to be making some headway in terms of theoretical economic justification of public subsidies for cultural goods.<sup>67</sup>

This paper provided several indications that the cultural sector yields a series of substantial economic advantages to society, and in particular to the various dimensions of the individuals at its basis. The most important contributions of culture may however rest outside the realm of quantitative comparisons.

---

<sup>67</sup>"Artfilms, Handicrafts and Other Cultural Goods: The Case for Subsidy" - Aubert, Cécile, Pranab Bardhan and Dayton-Johnson, Jeff - Institute of Business and Economic Research of University of California, Berkeley, California - United States - 2003.

## Appendix A - Federal Initiatives in the Audiovisual Sectors - 1968-2003

Year	Initiatives
1968	Creation of the CRTC
1968	Creation of the Canadian Film Development Corporation (CFDC) . Will later become Telefilm Canada (1984).
1969	Council decree of the Federal Government on the Canadian ownership of the radio, television and the cabledistribution.
1970	New regulations of the CRTC on Canadian content.
1971	CRTC regulation of Canadian musical content on the radio
1973	Adoption by the CRTC of a policy of French language minimum content of vocal music for the French language radio.
1982	Report of the Appelbaum-Hébert Committee on the Canadian cultural policy.
1983	Document of orientation of the Ministry for the Communications which set an in-depth revision of the Broadcasting Act of 1968.
1984	Creation of the Broadcast Fund
1984	Beginning of the system of accreditation of Canadian programs by the CRTC.
1985	Report of the Working group on the Canadian industry of the cinema (Raymond-Roth), which led to creation of Telefilm Canada, Feature Film Fund and the Feature Film Distribution Fund.
1985	CRTC: Report of the Consultative Committee on French language music.
1986	Report of the Caplan-Sauvageau committee on Canadian broadcasting
1988	Report of a Committee of the Parliament on Communications and Culture on Canadian broadcasting
1988	Adoption of a new Canadian Policy of broadcasting by the Ministry of Communications.
1988	Investment Canada: Set-up of hot lines concerning foreign investments in the field of the cinematographic distribution
1991	Adoption of a new Law on broadcasting (still in force).
1993	Adoption by the CRTC of the policy which applies at the time of transactions and obliges the purchaser to a percentage equivalent (since 1999) to 10% of the transaction value in television (6% without radio) by way of tangible advantages for the Canadian system of broadcasting.
1994	Creation by the CRTC of the Production Fund which is fed by contributions of the cable distributors and finance the production of Canadian programs.
1995	Adoption of the CIR at the federal level.
1996	Canadian Heritage decides to take part in the financing of the Production Fund.
1999	Adoption of a new Canadian Policy of the full-length film, together with a significant injection of additional financial resources
2003	Report of the Standing Committee of Canadian Heritage on Canadian broadcasting and telecommunications in the XXI <sup>st</sup> century and the maintenance of the requirements of Canadian ownership for the broadcasting companies.
2003	Report on the Canadian content of the cinematographic and televisual production in the XXI <sup>st</sup> century.

## Appendix B – Comparative Subsidies

### Major Federal Government Program/Tax Incentive Initiatives (2006) – Top Programs

Industry	Federal Government Program/Tax Incentive Initiative	Value	Description <sup>1</sup>	Desired Effects <sup>1</sup>
Agriculture/Agri-food	Business Risk Management Programs under the Agricultural Policy Framework-Canadian Agricultural Income Stabilization Program	\$ 933.2 M	"The program was designed to protect Canadian agricultural producers from income declines and loss of production caused by circumstances beyond their control."	"The program were designed to protect Canadian agricultural producers from income declines and loss production."
	Contribution Payments for the Canadian Agricultural Income Stabilization (CAIS) Program Inventory Transition Initiative	\$ 442 M	"The CAIS Inventory Transition Initiative program (CITI) is a one time initiative to re-adjust the inventory carrying values of CAIS participants to a new way of valuing inventories."	"Security of the Food System."
Culture	Canadian film or video production tax credit (CPTC)	\$ 190 M	"The CPTC is available at a rate of 25 per cent of eligible salaries and wages incurred after 1994. Also, the tax credit could provide a refund of up to 15 per cent of the cost of production, net of assistance."	"The objective of the CPTC is to encourage Canadian programming and to develop an active domestic production sector."
	Canadian Television Fund (CTF)	\$ 120 M	"The CTF is a public-private partnership funded by the Government of Canada (...) its role is to assist the creation and broadcast in peak viewing hours of high-quality, culturally significant Canadian television programs in both official languages by both majority and minority official languages production sectors."	"Its role is to assist the creation and broadcast in peak viewing hours of high-quality, culturally significant Canadian television programs in both official languages by both majority and minority official languages production sectors."
	Publication Assistance Program	\$ 45.4 M	"the Publications Assistance Program (PAP) provided Canadian magazines and non-daily newspapers with postal subsidies of over \$61M, representing an average of about 55% of their total mailing costs."	"Canadians express and share their diverse cultural experiences with each other and the world."
Transportation Equipment	Technology Partnerships Canada (TPC)	\$ 165 M	"TPC offers two main delivery mechanisms: TPC R&D, delivered directly by TPC, that is targeted at larger firms, and TPC IRAP, delivered by the National Research Council Industrial Research Assistance Program, that supports small to medium-sized enterprises (SMEs) with projects valued under \$3 million."	"(...) provide funding support for strategic research and development."
	Program for Strategic Industrial Projects (PSIP)	\$ 41.4 M	"PSIP provides a framework within which a variety of larger strategic investment projects may be administered, and will be normally individually funded, in whole or in part, from the fiscal framework."	"(...) Contribute to produce economic, social and environmental benefits to Canadians."
Oil & Gas	The resource allowance and the non-deductibility of Crown royalties and mining taxes <sup>2</sup>	\$ 50 M <sup>3</sup>	"The resource allowance is a 25 per cent deduction against "resource profits" (before deductions of interest, and exploration and development expenses)."	"This allowance is to partially compensate for the non-deductibility of provincial/territorial mining taxes and provincial oil and gas royalties, which took place in 1974. The resource allowance adjustment results in mining companies having only 75% of resource profits being subject to tax."
Pharmaceutical Products	Scientific Research and Experimental Development Investment Tax Credit	\$ 228.6 M <sup>4</sup>	"There are two rates of investment tax credits (ITCs) for SR&ED in Canada: <ul style="list-style-type: none"> <li>• the general rate is 20 per cent; and</li> <li>• an enhanced rate of 35 per cent is provided to small Canadian-controlled private corporations (CCPCs) on their first \$2 million of qualified expenditures."</li> </ul>	Reduce the fiscal burden on business to encourage scientific research and development that incorporate risks.

1. 2006-2007 - Details on Transfer Payment Programs of the Treasury Board of Canada Secretariat.

2. The resource allowance provides an annual fiscal deduction to mining and oil and gas producers.

3. Over the past five years the Government of Canada authorized payment to Syncrude for an approximate amount of \$ 467M in respect of certain royalty provisions (Public Accounts of Canada (2000-2001 to 2005-2006)).

4. Approximate amount based on the percentage of Canada's Research-Based Pharmaceutical Companies (Rx&D) expenditures on total private scientific research value and the scientific research and experimental development investment tax credit in the year 2006; Total fiscal credit X (Rx&D research and development expenditures./ Total research and development expenditures)