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A world turned upside down: the cultural economy, cities and the new austerity

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Introduction

The aim of this chapter is to examine the relationship between the cultural economy and the 'rest' of the economy in the context of global cities. Specifically, it questions the normative assumption that the cultural economy is wholly dependent on the 'real' economy of global cities, usually interpreted as the financial services sector. The current economic situation has provided us with a hint of a natural experiment: and the result is that whilst one might have expected culture to suffer hardest and first, in fact it has not, and seems to have higher rates of growth than most parts of the economy. This provides us with good reason to re-examine the relationship between the cultural economy and cities, and the position and role of culture in and out of austerity¹. My conclusion is that the outcome is different to what normative explanations would lead us to expect.

The generally accepted view, rooted in conventional economic theory, is that economic recession and periods of government funding austerity programmes reduce demand, this results in falling expenditure. Moreover, personal discretionary spending falls at an

¹ A special issue of *Cities* (2012) is dedicated to this theme. The arguments in the current paper are developed more extensively in Pratt and Hutton (in press), and Indergaard, Pratt and Hutton (in press).

even faster rate than 'basic' spending. The general expectation is thus that culture suffers, either through reduced state spending, or through starkly reduced discretionary spending. In real terms this means that we buy less music, eat out less and see fewer films; and prefer to spend our diminished income on food and shelter.

The problem is that economic practice does not follow this script. The film industry did attract rather good audiences in the decade post- 1929 crash; in fact it is often referred to as the 'golden decade of Hollywood'. There is strong support for the theory that culture provides a 'feel good factor' that is important in periods of austerity². The evidence more generally for a rational hierarchy of needs is found wanting³.

In the last fifty years the cultural economy has grown, restructured, and recalibrated its relationship with the rest of economy and society. Let us set aside the recent infatuation with the creative city, a concept that has become rather threadbare and more a tool of neo-liberal boosterish than economic or cultural policy (Peck, 2005; Pratt, 2008). As I have noted elsewhere, there are various version of the creative city, not all of they play to the same script (Pratt, 2010, 2011).

This chapter argues that we need to reconceptualise the cultural economy, and its relationship to particular economies, and specific cities. In effect we need to turn upside down previous normative conceptions of cities and culture where culture is presented as dependent and secondary. Let us be clear, the suggestion is not that the cultural economy is replacing finance or manufacturing in the urban economy, but rather that culture is becoming a more significant part of the urban mix, less a spectator, more of a player. In exceptional cases, like London, we can note that the cultural economy ranks as 4th largest sector of employment (Freeman, 2007). The chapter is divided into four parts; we begin by laying out the normative view and expectations, and then examine austerity and the recession as it affects culture. Following this we examine what

² The latest recession has not dented subscriptions to premium charge cable and satellite broadcasting in the UK (see BARB 2012)

³ The reference here is to both Maslow's 'hierarchy of needs' and Engel's Law (recall Engel was a statistician reporting on data in the early-19th century), both of which underpin lazy arguments here.

actually happened, and finally what lessons we can learn from this outcome.

Good times

There is a substantial body of work attesting the growth and strategic dominant position that the finance industries have taken in global cities in the latest phase of internationalisation. The particular growth focused on a few major cities, linked to financial deregulation, has created a new urban structure and redefined social polarisation within those cities, and between them and other cities. The historical competition for mobile manufacturing investment has morphed into a battle for banks and insurance houses, and latterly for the creative class. Just as with manufacturing relocation governments have sought to tempt investors with not only financial deals, but significantly with quality of life attractions. In global cities, the standard quality of life score sheet of rubbish collection and parks has been supplemented by a cultural offering expressed in terms of the must have modern art gallery or opera house (Rogerson, 1999). Significantly, the cultural offer is aimed at decision makers, and key workers who are mobile. Naturally, this target audience skews the investment in 'high culture', and culture tailored to international taste.

Cities have also sought to compete for more tradition consumption in the form of tourism for some time. Of course, many cities have been able to trade on their heritage, especially as represented in the built forms. In many respects this is a perfect 'product differentiator', a unique selling proposition. Perhaps these days not so unique as cities have sought to either create replicas, or join an elite competition of seeking to become home to a global brand such as Disney world, or a franchise such as Guggenheim. Others have gone the whole way and focused on rebranding the city (Anholt, 2007).

These urban cultural initiatives have a number of dimensions. First, they are focused on consumption. Second, the intention is not so much direct revenue generation at the turnstile, but through spill-over or indirect effects in the hotel trade, retail, or brand recognition (to attract FDI). Third, that they are infrastructure based capital projects. The risk with such projects is that long term revenue funding does not continue; or, that competition or current fashion favours others, leading to the danger of underuse of these expensive facilities. Moreover, such a trend related development is an

expensive treadmill requiring constant new investment to 'refresh' projects to attract new or satiated audiences. Finally, that the focus on an external market alienate locals whose interests and tastes may be relegated in such an international race. It is the locals that pay the taxes that finance these endeavours.

Florida's Creative Class thesis (2002) has been interpreted by policy makers as an imperative to create a playground for the creative class. This is but a small iteration of but basically the same FDI story that has governed place-based competition for much of the last century. In the latest version the palette of cultural consumption is shifted slightly to the (marginally) experimental, and those targeted for attraction are the workers for hi-tech industries who have liberal tastes.

In parallel, there is the traditional state support of culture, usually focused in capital cities. Here we find the national museums and galleries, theatres and concert halls. These have long been part of a idealist state model of cultural investment supportive of a particular form of humanism. Of course, such cultural infrastructure, and heritage, has a massive impact in cultural tourism (especially elite tourism, which has greater spend per person) (Richards, 2007).

Thus, cities, especially global cities, have become vast storehouses of cultural value and this has been leveraged in place marketing, and supplemented by a marginally more diverse cultural offering and lifestyle associated with the Creative Class model. Culture is characterised as consumption that has spill-over effects that benefit the economy. Culture might be seen as a vital part of gaining, or holding on to globally mobile investors. Moreover, it is assumed that some related cultural producer services (web design, publishing, etc.) would be generated to serve banking activities. In short, culture is dependent, and firmly positioned as consumption. It is related to the discretionary spend of the upmarket cultural tourist, and the salary bonus payments of those in the banking sector.

Austerity and recession

In times of austerity then we expect culture to take multiple body blows for a number of reasons. First, state investment is reduced absolutely, but also in a relative sense (culture gets cut more than health or education). Second, the level of tourism and salary bonus

spending is reduced. Third, the 'build it and they'll come' state-led entrepreneurial urbanism evaporates. In short the normative expectation is that culture will be hit first, and then be last out to emerge from conditions.

Spending cuts are a state response to a massive problem in the financial system, rooted in its main institutions – the banks; this is linked to highly leveraged and securitised debt, a significant proportion of which were very high risk loans. This condition had been generated by multiple failures in the banking system related to over extension of assets, and a lack of separation of wholesale and retail banking, and plain malfeasance. All of this was enabled, not caused, but by lax regulatory regimes. In the five years since the first signs appeared (2007) the problems have multiplied; debts for individual banks have had to be underwritten by nation states, which have then resulted in a crisis of sovereign debt.

There are competing responses to the banking crisis and its concomitant freezing of credit for the rest of the economy. On one hand there is a growth strategy based upon Keynes and others analyses of the 1930s US recession. The strategy is based on future growth effectively discounting the cost of current investment and hence providing the means for immediate stimulus for the economy. On the other hand, are neo-liberals who reject this Keynesian analysis in principle, and instead view the problem in ideological terms as one of a too large state, which it is argued is crowding out the market. In their terms the only solution is to cut any state debt and balance budgets as soon as possible. The problem is that empirical realities don't seem to match with how the market ought to behave.

Regardless of one's evaluation of the efficacy of either approach the political response has generally reflected a broadly neo-liberal disposition despite the analytical and historical evidence pointing in the opposite direction (Krugman, 2012). The new orthodoxy is thus cutting state funding; most governments are struggling to make any convincing steps toward effective regulation of the banks, whilst at the same time apparently being in denial about the fact that many of these banks are now state owned.

Aside from the credit freeze – basically banks not lending -that has choked off investment in the whole economy the more specific

empirical outcome has been a significant downturn in banking activity and related employment in many global cities, plus a retrenchment in levels of pay and bonus payments, and in linked hospitality expenditure. With a significant concentration of banking activity in global cities one would expect there to be large direct and indirect negative impacts. This is a classic case of a reduction in discretionary spending of individuals; in the banking case it is amplified, as one might expect this group to who would spend a greater amount in absolute terms on cultural products.

On the other side of the coin, and undoubtedly far more significant, is the reduction of state funding for the public sector. Across the board cuts in state spending tend to have multiplier effects on the economy. Moreover, cuts are not levelled equally across the state budget, but areas like health and education tend to be favoured, and areas like culture get disproportionate reductions. Moreover, the political sensitivity of cultural investment in austerity tends to see politicians wanting to make cultural budget cuts as exemplary of straightened times. Overall, these are circumstances not likely to sustain the cultural economy.

How was it for culture?

So, did the recession and austerity conditions run to script with respect to the cultural sector? Yes and no. Without doubt the state, if the UK can be taken as an example, has matched expectations and set about inflicting not only revenue cuts, but also pre-emptive dismantling and abolishing of cultural institutions (Wright et al. 2009). The normative expected outcome is confounded because the cultural sector has never been a simply state subsidised activity; it relies upon civil society, and to a lesser extent private donations. The impact depends on the mix. In museums for example, at one end of the spectrum the large national flagships have been attracting significant sponsorship for a considerable period, the call on this source has increased. For various reasons, the available sums available from corporate charitable giving do not fluctuate directly with economic cycles. At the other end of the scale small museums have suffered public funding cuts in the past 25 years that have in many cases left in fact the (local) state sponsored element very small, in many cases much of the day-to-day operation is carried out by volunteer labour. Arguably, austerity and unemployment generate more volunteer labour. The real squeeze is experienced by the mid-size museum that can on one hand attract little sponsorship, and on the

other hand, are too big to rely on volunteers, and hence are fully exposed to public funding changes (Mermiri 2009). All of which illustrates the different ways (by industry, by stage of production system, by region- in production chain), that cultural sector responds to the changing mix of funding: the cultural sector is a complex amalgam economy.

It is too early to make a final judgement on the recession, as it is clearly not over yet. However, what is striking is that the cultural sector has not collapsed as was expected. Consumer spending, whilst not at previous levels, has survived. A much-noted decline in advertising at the start of the recession was in no small part anticipatory; it is notable that advertising has begun to rally. Film going has not collapsed, people are still consuming music, TV and visiting the theatre; they are also going to museums and galleries (British Film Institute, 2011). As suggested above, there are two linked explanations at play: first, the cultural 'mixed economy'; second, people are assigning greater value to 'discretionary purchases' as well as, or sometimes in preference to, basics. This may surprise economic ideologues, but it has a strongly rooted empirical history, as reported in the US Great depression. Taking such an outcome seriously means that we are required to reconsider the normative assumed relationship between culture and economic life. Some people certainly behave as if culture (like sport) is a basic good, not discretionary, one which some are prepared to give up food and other comforts to consume, participate, or excel in.

If we look at the aspects of culture that are closer the traditional economy in its for-profit guise we find that employment and output are not just holding up in recession but out-performing other parts of the economy. At an international scale cultural trade has outperformed most sectors of the economy in terms of growth in the recession (UNCTAD, 2008, 2010)⁴. At the European level, the transformation of the economic sphere is registered by the form profit cultural economy exceeding traditional staples such as chemicals and motor manufacture (KEA European Affairs, 2006). At the urban level we can see the emergence of substantial parts of the urban economy devoted to the cultural economy (Freeman, 2010).

⁴ The recession has not affected all nations the same, in fact the Global North is the outlier here (Fujita, 2011).

The statistical base that would allow us to 'drill down' into these changes does not exist. This is not due to 'flaky statistics' or 'dubious definitions', this is a myth that can be immediately be laid to rest, all data is based on national statistical agency output. The reasons are due to the fact that the activities that are sought to be documented are new: like any innovative sector, many of the industries did not exist, or were statistically insignificant, when statisticians created their taxonomies, and hence, they are obscured or buried in 'not otherwise classified' or bundled in with conventional activities. Focused analyses do point not only to growth in the field, but also new organisational forms (another fact that confounds normative data collection based upon units such as the firm) (Pratt, 2009). Hence, 'reading off' any sort of analysis is doubly difficult. However, the headline data exists; and should cause pause for thought. So, the observed does not match the expected; the model needs recalibration.

What can we learn?

It is clear that austerity measures and the recession are having an impact on cities; however, not all aspects of economy and society are affected in the same manner. As noted above, even within the cultural economy there are differences; these changes have exposed the transformation of the cultural sector, and its emergent relationship to contemporary urbanism. As a consequence the outcomes are not consistent with normative expectations. If we are to grasp the real nature of change, rather than viewing it through a distorting lens, some re-conceptualisation will be required, if nothing else to guide us to explore the relevant empirical changes (which, as the cultural sector exemplifies, have until now been overlooked, or assumed to be not relevant).

The broader rhetoric of the transition of cities to a new knowledge economy, perhaps exemplified by culture and design, is problematic not least in its teleological narrative (Webster, 2006). Moreover the popular hope, or desire, for the knowledge economy in general, or culture in particular, to replace finance (in an echo of manufacture previously) is clearly misplaced. In both cases evidence and concepts are left wanting. We need to dig deeper, and attend to a more nuanced analysis. Specifically, we need to explore what role the cultural economy plays in economic change. The old assumption of the cultural economy as dependent (on finance, manufacture, or state

support) clearly needs re-thinking. Moreover, we should not forget the (co-dependent) relationship of the commercial and non-commercial cultural sectors and their conflicting representations of 'value'.

The field of the cultural economy, comprising of a variety of cultural industries and activities, clearly has some distinctive forms of organisation (which impact on relations within the sector, and the nature of employment and training, and on finance, and product development), this extends not only to relationships with the wider economy, but also to the broader society and other value systems aside from the purely commercial. In this latter instance issues associated with the relationship of informal and not for profit cultural production that supports, or sits along side, for profit cultural production is important. The permeability of the formal/informal, and for/not for profit boundaries is distinctive; moreover, it is embodied in labour market practices and the means of, and motivation for, knowledge transfer.

Specifically, the implied relationship of the cultural economy to FIRE activities as discussed in urban theory, and in particular in the global cities debate, is mis-specified, or it has been recently transformed. Some cultural activities are beneficiaries of discretionary spending as a result of the banking bonus culture (but one may say this about cars and houses too). But, the creative economy is not a dependent advanced producer service reliant on financial sector activities. The creative economy clearly has developed a relatively autonomous position. One which in some cases, design, for example, is driver for the 'culturalisation' of the economy (in the sense that increasingly product differentiation is based on design; hence, innovation in design is a critical factor in any sale). Moreover, the cultural economy is driven by demand that is not linked to the discretionary spend of the public, it has shifted into a 'core' spend. Clearly more research is needed here, but the outcome of the latest recession constitutes a natural experiment in this respect.

It will be clear from this chapter that we need to reframe the debate beyond the boundaries of the 'creative class/cities' narrative: a reductive and narrow discussion of place marketing, labour market capture, and foreign direct investment of 'hi-tech' industries. Beyond its other failings, such a debate has nothing to contribute to a debate about the cultural economy. This is a real shame as the concomitant

obsession with consumption and experience has blinded researchers and policy makers to the elephant in the room: cultural production (which includes cultural consumption and experience, but is not exhausted by them). Moreover, it has excised the non-commercial dimension, something that is constitutive of the whole, not an optional extra.

We can thus make pointers to a recalibration of the debate primarily related to understanding that the cultural sector comprises of not only a range of industries and parallel activities based upon art or cultural forms that they produce (film, books, dance, etc.), but also that it includes the support activities that enable such production, and the specialised tools and materials required (and those industries). Thus the composition exceeds the lonely artist, or film production companies, but includes a broad set of activities: all defined by the fact that they exist mainly or wholly to facilitate cultural production (including its consumption). Accordingly, we can begin to appreciate the inter-dependencies of public and private funding streams, of audiences, of venues, distribution systems, related cultural disciplines, labour markets, training and funding streams. Empirically, simply focusing on either artists, or consumers in aggregate is not adequate. Only by exploring these processes can we hope to appreciate the causal relations of cultural production, and their relationship to the city as a whole. Only then would we be in a position to make anticipatory comments about the outcome of recession and austerity policies.

Conclusion

The main thrust of this chapter has been to point to the evidence that the normative relationship of culture and the economy is flawed, and even if it did previously exist, it does not now. On one hand the traditional dependency of the cultural sector on 'productive' aspects of the 'real' economy is misconstrued. On the other hand, glib boosterism that seeks to position the cultural economy as the 'next big thing' is also inappropriate. The reality is emergent and more complex. The recent experience of recession and austerity in the city should rightly cause us to rethink this relationship: not to simply cast culture aside as a 'busted flush', nor to unequivocally welcome it as the 'next big thing'. There are lessons to be learned about the transformation of the whole economy, as well as specifically about the cultural economy. Furthermore, this is not to suggest that the

cultural sector is immune from the recession, or of fluctuations in state spending. Rather we are arguing that the relationship is more complex, and maybe not uni-directional, as it has been previously characterised. This has implications not only for the way we study the cultural economy, but the whole economy.

A recalibration of required with respect to the dominant political usage of the creative city and creative economy as a neo-liberal disciplinary tool (Pratt, 2011). It is very clear that the cultural economy is embedded in institutions and it is social. A partial economic accounting is always going to mis-represent it. Research on the current economic forms of the cultural economy is striking pointing to its divergence from the normative expectations (based upon the 'rest of the economy'). Under the guise of inclusion and diversity, they are some of the most exclusionary and socially and economically homogenous activities. The casualization, informal networking and freelance work form afford little if any social protection and further exacerbate exclusion.

A rise of the cultural economy, which is happening in absolute and relative terms, thus brings with it a massively unequal labour market, and forms of representation. These changes then are not caused by recession, or austerity measures. Even if we view the cultural economy as a propulsive force it may have a negative social effect. As noted above, austerity policies have unequal outcomes, even when apparently applied equally within a sector. Hence, any intervention has to be based upon a nuanced understanding of this divergent, dynamic and emergent sector.

Without doubt, due to both cultural-political reasons, as well as the mis-perception of the nature of the cultural economy discussed earlier, cuts to the public funding of culture have been significant. But it has not had the simple effect of decline in the cultural sector. This should not be read as such funding cuts as not mattering, rather that the causal model is far more complex. This chapter has pointed to the fact that on one hand the cultural economy is rather more adaptable and rests on broader foundations than might have been expected. It is suggested that the impacts may be most seriously felt in the rest of the economy that is denied the driver of the cultural economy in its growth. In this sense it really is, based upon previous normative concepts, a world turned upside down.

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