Introduction to Cultural Economics: Theoretical Foundations and Challenges

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1. INTRODUCTION

We have devoted this special issue of Ekonomiaz to the Cultural economics. In doing so, partly to respond to the increased interest in this field in recent years, but also to pay tribute to our dear friend and colleague Victoria María Ateca Amestoy.

Professor Ateca Amestoy's contribution was pivotal in establishing Cultural economics as a recognised academic discipline in Spanish academia. Working from the University of the Basque Country (UPV/EHU), she collaborated with researchers from universities in Spain and abroad, promoting the study of the topics that now define this field. Her academic rigour and her capacity for hard work made her a key figure in the field. On many occasions, her participation in joint projects was a guarantee of quality and academic recognition. Throughout her career, Prof. Ateca Amestoy worked with colleagues from the UPV/EHU and other institutions in Spain, Europe and Latin America and her work was published in journals indexed in the main scientific repositories. We are confident that her academic legacy will live on, helping to ensure a solid foundation for the field of Cultural economics.

Cultural economics is a field of study and economic analysis that has become particularly relevant in recent decades, as the service sector has become increasingly significant in more developed economies and as individuals have begun to have greater leisure time and become more aware of the value and externalities of certain cultural goods. As in the tertiary sector more widely, digitalisation and globalisation of the cultural industry is having far-reaching consequences. The rise of streaming services such as Netflix, Spotify and YouTube, coupled with the emergence of the e-book, have revolutionised the way cultural goods are produced, distributed and consumed. In this general context of change, the Covid-19 pandemic further accelerated the move to digital formats. Some authors have been optimistic about the potential of digitalisation to democratise cultural participation. This, however, could be a mirage; digital access may be mimicking existing patterns of consumption and thus increasing inequality and polarisation in the access to culture (Mihelj *et al.*, 2019; De la Vega *et al.*, 2020; Ateca-Amestoy & Castiglione, 2023). For digital access to be truly effective and generalised, it is not enough to achieve technological availability or a first-level digital divide. It is also essential to ensure that there are no differences in the interest and skills that are required to interact meaningfully with cultural content. This is the only way of narrowing the various digital divides that have been identified in the literature (Van Deursen & Van Dijk, 2014; Scheerder *et al.*, 2020) and it is crucial for the design of optimal cultural policies, a field in which cultural economists play a pivotal role in developing effective strategies.

The importance of cultural economics lies in its ability to apply economic instruments to the analysis of the cultural industry and the arts. This chapter seeks to provide an overview of the discipline, determining its place within the framework of economic science and analysis, reviewing some of its main lines of research and identifying some of the principal challenges it faces. From an economic perspective, cultural goods and services have a value that is not merely aesthetic or symbolic; they also display economic characteristics that influence their production, distribution and consumption. The field of cultural economics examines aspects such as the way the arts are financed, the structure of cultural markets, the role of public intervention and the dynamics of supply and demand. It also addresses practical problems related to the management and valuation of cultural assets, and the market failures that make public sector action in this area necessary.

The rest of the chapter is structured as follows. Section 2 defines the economics of culture using the concept of culture employed by economists. Section 3 discusses the main characteristics of cultural goods and the allocation issues that arise from them. Section 4 briefly describes the problem of financing culture. Finally, Section 5 gives some conclusions and a brief presentation of the other papers in this special issue.

2. ECONOMY AND CULTURE

To arrive at a well-founded definition of cultural economics, we shall start by identifying the academic discipline of economics and go on to explore what economists generally mean by 'culture'. Having established these concepts, we can define the economics of culture —perhaps rather tautologically— as a field of study that uses tools of economic analysis to examine the sectors that economists see as forming part of the cultural industry.

Economics studies the way in which societies manage their scarce resources to satisfy the needs of their individual members. In today's economies, the market plays a fundamental role in the allocation of resources, by determining what, how much, how and for whom, goods and services are produced. However, markets do not always function efficiently, leading to market failures —related to externalities, public goods and incomplete information— which in many cases require state intervention.

Economists usually give a 'positive' definition of culture — i.e., one that is not grounded on aesthetic value judgements. One commonly-accepted approach is to consider activities to be cultural if they display all three principal features:

- Their production involves some degree of creativity.
- They have a high symbolic or informative value.
- They are subject to intellectual property rights.

Using this definition, cultural economics studies a wide range of sectors, including the performing arts (theatre, music and dance), the visual arts, cultural heritage, cultural industries (audiovisual production, publishing, recording) and the creative industries more broadly.

Cultural economics can therefore be defined as the study of the ways in which society manages its scarce resources to produce, distribute and consume cultural goods and services. From this perspective, culture may be considered to be a set of activities that generate and transmit symbolic meanings, and which are protected by intellectual property rights. By basing economic analysis on a positive definition of culture, rather than focusing on the artistic quality of the cultural output, economists analyse how resources are allocated in the sector, how prices are set and how public policies influence production and consumption of culture.

Given the importance of defining what is meant by cultural goods, in the following section we shall explore the principal characteristics of such goods and the problems they may pose for efficient allocation by the market.

3. ECONOMIC CHARACTERISTICS OF CULTURAL PROPERTY

Cultural goods possess certain economic characteristics that mark them out from other goods and services in the economy. First, they contain a high degree of symbolic information. This makes them ‘experience goods’; consumers can only properly evaluate their quality after consuming them. Examples might include a film, a novel or a museum collection. In an even more extreme case, some cultural goods (e.g. certain works of art) are what are called ‘credence goods’, i.e. goods whose value or attributes cannot be determined with certainty even after consumption. This feature causes considerable incertitude for both producers and consumers, with the result that demand for culture is strongly influenced by factors such as reputation, reviews and recommendations. Intermediaries, such as critics and experts —usually referred to in the literature as ‘gatekeepers’— play a key role in determining the market value of cultural goods.

Second, cultural products tend to be heterogeneous — i.e., no two plays, films or books are exactly alike. This lack of uniformity makes it difficult to standardise production processes and means that creating the first ‘master’ copy involves very high fixed costs. However, digitalisation has dramatically reduced the cost of reproducing the ‘master’ copy, leading to very low marginal costs associated with marketing. This contributes to the creation of significant economies of scale and scope in some cultural industries, which favours highly concentrated market structures. Add to this the strong network economies, which intensify the concentration of demand, and the result is a cultural sector that is dominated by a small number of companies. For example, the film market is controlled by just five companies, the music industry is dominated by four and just five companies account for the lion’s share of the publishing market. This concentration is another clear justification for public intervention and regulation.

Third, the consumption of culture can have benefits that go beyond the individual, such as social cohesion, education and the development of human capital. These positive externalities represent a market failure, again justifying public intervention to correct suboptimal provision.

Moreover, the consumption of many cultural goods contains elements of non-exclusion and non-rivalry, meaning that they can be classed as public goods. This feature has been accentuated by digitalisation, since digital formats allow access by an unlimited number of people without necessarily reducing the availability of the asset. The impossibility of excluding potential consumers means that some individuals can benefit from these goods without contributing to financing them (in what is known as the 'free-rider problem'). This discourages private producers, who cannot recoup their costs through price. In addition, the absence of any mechanism of exclusion makes it difficult to set a price that reflects the real value of the goods and covers production costs. This prevents an efficient market equilibrium from being achieved and constitutes a further argument for public intervention.

4. THE FINANCING OF CULTURE

One of the most recurrent debates in cultural economics relates to the financing of cultural activities. Traditionally, culture has relied heavily on public funding, either through direct subsidies, tax benefits or the purchase of goods and services by government bodies. This dependence is justified by market failures associated with the nature of the cultural products themselves, such as existence value, option value and legacy value. These values reflect the fact that culture benefits society as a whole —rather than just its direct consumers— by contributing to the country's social cohesion, education and national prestige.

However, public financing also has its critics, who argue that it can generate dependency, discourage innovation and distort market prices. Consequently, in recent decades there have been moves to promote a better balance between public and private funding, by encouraging arrangements such as patronage and sponsorship.

Private funding also comes from the sale of tickets or cultural goods. However, pricing in the cultural sector is a complex issue that requires taking into account both production costs and the market structure in which these goods are produced and distributed. On the one hand, the marginal cost may be very low, so that setting the price efficiently by matching the marginal cost may not be sufficient to recover the fixed costs. On the other hand, the distribution of cultural goods via two-sided markets entails failures, due to the existence of network externalities and scale effects, leading to excessive concentration which favours monopolistic behaviour. Moreover, two-sided markets may have an optimal pricing strategy that distorts the pricing structure, since they may subsidise one group of users while charging high rates to others. This can produce prices that do not reflect the real costs and reinforce the dominance of large platforms.

Similarly, in many cases, ticket prices for concerts and museums, for example, do not reflect the real cost of the cultural experience for consumers, which also include implicit factors such as travel time and accommodation costs. Moreover, the demand for cultural goods is influenced by qualitative aspects, such as the quality of the experience, the reputation of artists and the comfort of the facilities.

In conclusion, pricing in the cultural sector is particularly complex due, *inter alia*, to the non-uniformity of the goods, the existence of features typical of public goods and positive externalities. Compounding this situation is the fact that the goods are protected by intellectual property rights and the existence of highly concentrated market structures. In this context, a cultural policy that promotes access to culture and regulates the allocation of resources and pricing is essential.

5. CONCLUSION

As discussed, cultural economics is a heterogeneous field of study that analyses the production, distribution and consumption of cultural goods and services. While sharing certain common features, there is notable diversity among these goods, especially in the processes whereby they are produced and distributed. It is hardly surprising, then, that the papers in this special issue of Ekonomiaz explore a broad gamut of topics, ranging from the evaluation of cultural policy and cultural participation to the impact of technology and artificial intelligence on the cultural sector.

The topics covered in this issue might be grouped into three main theme areas: the role of new technologies and artificial intelligence; cultural participation and the importance of cultural capital and cultural policy; and the management of cultural institutions.

The study by **John O'Hagan** and **Marta Zieba** (2025) focuses on an analysis of changes in the cultural sector resulting from digitalisation and technological innovation. The authors examine how technology and the increased streaming of classical music concerts and performances are transforming production and consumption in this area. The paper raises questions about the future of orchestras in a context of increasing digitalisation, where the 'winner-takes-it-all' phenomenon might be exacerbated.

Concetta Castiglione and **Davide Infante** (2025) analyse the adoption of artificial intelligence and its various applications in the US cultural sector. Their findings suggest that the use of AI in this area is still in its infancy, with similar levels to the rest of the economy, although disruptive changes are expected in the near future. Nonetheless, AI is already being used to a significant degree in the cultural industry. For example, AI algorithms are being used to customise cultural offerings in online services such as Spotify, Amazon Music and YouTube. It is also contributing to the dissemination of cultural heritage, through automatic translation and subtitling tools that enable local works to reach a much wider international audience. In addition, AI is being used to compose music, generate images and new digital artwork and to restore damaged pieces by completing missing sections of paintings and sculptures. It is also being employed in the production of creative texts, from poems and short stories to film and television scripts, raising issues of authorship and originality in the digital age.

Beatriz Plaza Inchausti, **Marisol Esteban Galarza** and **Ibon Aranburu Amiano** (2025) examine the impact of iconic architecture on tourism, with particular emphasis on the interaction between two buildings designed by Frank Gehry: the Marqués de Riscal Winery and the Guggenheim Museum Bilbao. They show that iconic architecture can be an effective tool for repositioning brands and attracting tourism, with a positive economic impact for the region. They also highlight the role of social networks and online content in shaping the tourist demand associated with buildings of this kind, amplifying their visibility and reinforcing their appeal as cultural destinations. The authors' research suggests that further analysis is needed of the semiotic connections between iconic buildings and their influence on cultural tourism.

The last of these analyses of the impact of new technologies on the cultural sector is by **Sara Suárez Fernández** and **Hugo Rodríguez Gómez** (2025). In their paper, the authors study regional differences in the consumption of video games in Spain, using data from different series of the Survey of Cultural Habits and Practices (Encuesta de Hábitos y Prácticas Culturales). Their findings suggest that although regional differences in video game consumption have decreased over time, specific patterns persist in some regions (autonomous communities) of Spain.

The second theme of this special issue might be labelled 'Cultural participation, taste formation and cultural capital'. This is the focus of the piece by **José Ignacio Azuela Flores** (2025) which analyses how early exposure influences cultural participation in adulthood and confirms that cultural habits are transmitted intergenerationally. The study underscores the key role played by parents and schools in the formation of cultural capital and highlights the need for policies that encourage early participation in cultural activities, in order to reduce inequalities in access to culture. This is especially true of cultural goods that are not produced and promoted by the large cultural industries, which have their own mechanisms of promotion.

In a similar vein, **Luisa Gutiérrez Navratil** and **María José Pérez Villadóniga** (2025) explore the intergenerational transmission of reading habits in Spain. Again, they show that early exposure to reading in childhood not only consolidates lifelong reading habits, but also influences the transmission of such habits to subsequent generations. Their findings suggest that cultural policies should focus not only on young people, but also on families, promoting reading at home, including among adults, to serve as role models for children and young people.

Blas Díaz León, **Ignacio Martínez Fernández**, **Luis Palma Martos** and **Jesús Heredia Carroza** (2025) focus on the differential factors in the demand for the performing arts in the Basque Country, and examine how cultural capital influences cultural participation, especially among people aged over 65. The study raises the need for public policies that promote cultural participation among older adults, fostering active ageing and narrowing the access divide.

The final theme in this special issue centres on the evaluation and management of cultural policies. **María José del Barrio Tellado**, **Fátima Espinosa Casero**, **Jonathan Daniel Gómez Zapata** and **Luis César Herrero Prieto** (2025) explore the preferences of agents involved in running museums and cultural institutions (managers, creators and suppliers) with regard to policies on participatory management, finding that they prefer strategies of social and technological innovation to co-governance actions.

Manuel Cuadrado García, **María Luisa Palma Martos** and **Juan de Dios Montoro Pons** (2025) look at cultural participation among people with disabilities and identify the primary attitudinal and physical barriers they face. The study underscores the importance of cultural inclusion and proposes some strategies for improving accessibility and the experience of cultural consumption among people with physical and psychological disabilities. The authors highlight the need to design more inclusive cultural policies and to create environments that are more accessible for people with disabilities.

Ilde Rizzo (2025) addresses the relationship between cultural heritage and a 'sense of place', emphasising its importance for economic development and social welfare. They propose a territory-centred approach, in which tangible and intangible cultural heritage help to generate a collective identity and greater social cohesion. These two positive externalities justify public-sector intervention to allocate more resources to cross-cutting cultural policies that integrate heritage into sustainable development strategies, addressing the conflicts that arise from the coexistence of different 'senses of place' within a community.

Finally, **Anna Villarroya Planas** and **Victoria Ateca Amestoy** analyse perceptions on the living conditions and welfare of workers in the cultural industry in Spain. Their research should raise awareness that the enormous economic and social potential of the cultural and creative sector requires not only social recognition for workers in the industry, but also greater professional and economic recognition.

To sum up, the papers in this special issue of Ekonomiaz reflect the wealth and complexity of the economics of culture. From cultural participation and the formation of cultural capital to an evaluation of cultural policy and the impact of technology, the papers address a wide range of topics that are fundamental to understanding the challenges and opportunities of the cultural industry in the twenty-first century. The diversity of topics, approaches and methodologies should result in practical recommendations for cultural policymaking.

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