The Economic Impact of the Cultural Sector in Scotland

Stewart Dunlop*, Susan Galloway**, Christine Hamilton** and Adrienne Scullion**

*Fraser of Allander Institute, University of Strathclyde
** Centre for Cultural Policy Research, University of Glasgow

1. Introduction

The report attempts to estimate the economic impact of the cultural sector in Scotland. In 1988 John Myerscough's report *The Economic Importance of the Arts in Britain* (London: Policy Studies Institute, 1988), with its analysis of the economic importance of the arts in Glasgow, had a significant effect on the city's view of its arts organisations and the contribution of the arts to Glasgow's economic well being. This research, more than a decade on from Myerscough's study, takes a view across the whole of Scotland and, thus, aims to inform policy debates around Scotland's National Cultural Strategy, not least the new policy agenda to be developed following the First Minister's speech on the future of culture in Scotland made on St Andrew's Day 2003

2. Defining the Cultural Sector

The principal aim of this study is to measure the volume of economic activity that is supported in Scotland, both directly and indirectly, by the cultural sector, and the first step is, therefore, to define the cultural sector.

Many different terms are commonly used to refer to cultural activities, including the arts, the cultural sector, the cultural and the creative industries. But even the meanings of these terms are shifting, context specific, and, therefore, ambiguous. Our discussion of definitions examines the terminology currently used by government and public bodies, as well as by academics. However, this does have the potential to lead to confusion because there is – in public policy at least – no consistent use of these terms. In our discussion of definitions we have tried to clarify potential confusions by, at the very least, maintaining consistency in our own use of terms.

As the present study is principally concerned with the economic aspects of the cultural sector, we have chosen to focus on definitions drawn from recent work on the economics of culture. In addition, we also felt that it was appropriate to examine recent official work in this area. The UK government and the Scottish Executive have developed policy initiatives concerning the 'creative industries'. These government definitions of 'creative industries' include within them what are termed as 'cultural industries'. This approach is also implicit in Scottish policy initiatives developed by Scottish Enterprise (SE). An examination of the relationship between the 'cultural' and the 'creative' industries is, therefore, important, and is discussed in the first part of the report.

In deciding what criteria should be used if we wish to include an activity within the cultural sector, we examine the issue from both cultural and economic perspectives, and begin by looking at David Throsby's 2001 study, *Economics and Culture*.[1] This traces the development of the term 'culture' and examines how it evolved from describing the intellectual development of the individual to describing features such as the belief system, customs, expressions, and so on, of a people or society. As both types of usage are now widespread, we should, in defining the cultural sector, employ a definition that encompasses both the individual and communal aspects of 'culture'.

However, it is also clear that, whatever group of people within society is under discussion, a definition of the cultural sector should include those activities that involve the generation or communication of meaning. Such meaning may concern either the intellectual, moral or spiritual development of an individual, or it may communicate what it means to be part of a group. Producing culture is, thus, essentially about generating and communicating some type of meaning.

Throsby defines three conditions that allow us to define the cultural sector, as follows:

1. the activities of the cultural industries involve some form of creativity in their production;
2. the cultural industries are concerned with the generation and communication of symbolic meaning; and,
3. their output embodies, at least potentially, some form of intellectual property.

All three of these conditions are necessary to decide whether an industry is part of the cultural industries, but we believe that they provide a clear set of criteria for doing so.

We also argue that this approach is consistent with government industrial classification schemes, which form the basis for the majority of industry data. For example, most UK industrial data are based on the Standard Industrial Classification (SIC) where industries are typically defined on the basis of the use of some similar input and/or production process. Using this procedure, we would define the cultural industries as above, that is, as those where the common link is that the creative input generates and communicates symbolic meaning.

[1] David Throsby, *Economics and Culture* (Cambridge: Cambridge University Press, 2001).

The above notwithstanding, we argue that some problems remain in delineating the exact shape of cultural sector. One problem concerns joint goods, where it is clearly difficult to identify the proportion of output that is cultural. In architecture, for example, buildings may have both functional and cultural elements, and it is extremely difficult to decide what proportion of output is cultural and what is functional. Similarly, advertising and design may produce genuinely cultural statements, and create value that is both cultural and non-cultural.

Another issue is that, in some cases, cultural input may be used as an input into final production. Advertising, design and architecture, for example, may in some instances use material drawn from the creative arts as inputs into final products

3. Cultural Definitions and Cultural Policy

While some questions remain, we believe that it is possible to develop a working definition of the cultural industries, and the report next examines how the above relates to the definitions of the cultural sector used in official documents.

We note that the definitions employed in official circles tend to take a wide view of the term culture. For example, in the Scottish Executive's approach to cultural planning, it is argued that culture has both a material and non-material dimension. A wide definition of culture could thus embrace:

> ideas, customs and traditions, beliefs, habits of thinking, religions, languages, identities, mythologies and histories, and the expression of these in myriad forms such as poetry and prose, visual arts, music, song, theatre, comedy, dance, architecture, design, costume, film, photography and a range of crafts. It is represented in the natural and historical landscape; archaeology; buildings; museum, gallery and library collections; archives and records; and shared memories and experiences. It includes aspects of lifestyle, such as sport and leisure.[2]

The Department for Culture Media and Sport (DCMS), like the Scottish Executive, acknowledges the material and non-material aspects of culture, but it takes the view that, for practical purposes, a working definition of the 'cultural sector' must focus on *material* culture. This is understood to be 'the sum of activities and necessary resources (tools, instruments and artefacts) involved in the whole cycle of

[2] Scottish Executive, *Creating our Future… Minding our Past: Scotland's National Cultural Srategy* (Edinburgh: Scottish Executive, 2000), p. 4.

creation, making, dissemination, exhibition/reception, archiving/preservation, and education/understanding relating to cultural products and services'.[3]

The concept of a 'cultural production chain' or 'cycle', on which the DCMS definition is based, has been adopted by the EU and UNESCO.[4] This 'production chain' approach has also been adopted by Scottish Enterprise, whose own definition of the 'creative industries', first developed in the late 1990s, is based on this concept.[5]

There does appear to be some correspondence between Throsby's approach and the analysis conducted by government bodies, in that official views of what constitute the cultural sector concern 'the sum of activities relating to cultural products and services'.[6] However, we would make two comments on official approaches to defining the cultural sector.

One issue is that the underlying analysis of culture cited above also forms the basis of the definition of the 'creative industries', and we believe that difficulties arise when we make this transition. Government interest in the 'creative industries' appears to stem from a belief that the UK has a strong track record in areas where individual creativity is important (in industries such as film and music), and an interest in capitalising on any potential competitive advantages.

For example, according to the DCMS Creative Industries Task Force, 'creative industries' are:

> those industries which have their origin in individual creativity, skill and talent and which have a potential for wealth and job creation through the generation and exploitation of intellectual property.[7]

The DCMS definition of 'creative industries', therefore, includes two of the three conditions used by Throsby to define cultural industries – involving creativity and generating intellectual property. The common link between 'cultural' and 'creative industries' appears to be the use of creativity. But the problem is that, while the cultural industries can be defined as those that generate symbolic meaning, official definitions of the 'creative industries' make no reference to symbolic meaning and could involve *any* type of creative activity. Individual creativity could equally well include developing scientific

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[3]Department for Culture Media and Sport, *Regional Cultural Data Framework: Final Technical Report* (London: DCMS, 2002), p. 13.

[4]DCMS, *Regional Cultural Data Framework,* p. 10. See also Andy Pratt, 'Understanding the cultural industries: is more less?' *Culturelink* (Special Issue) 2001, pp. 51-65.

[5]Andy Pratt, *Employment in the Creative Industries in Scotland, 1981-1996. (*Glasgow: Scottish Enterprise, 1999).

[6]DCMS, *Regional cultural data framework: final technical report*, p. 13

[7]See the *Creative Industries Mapping Document* prepared for the DCMS Creative Industries Task Force, October 1998.

innovations, yet industries that develop these are not typically included in definitions of the creative sector. The difficulty in identifying specific types of 'individual creativity' makes it very difficult to decide which industries are 'creative'. This clearly causes considerable problems if we want to measure the importance of the 'creative industries' to the economy.

In Scotland, Scottish Enterprise's (SE) Creative Industries Team has also identified a set of 'creative industries', and we can draw a similar conclusion to that above. When defining 'creative industries', for example, SE advances the notion that 'creative industries are those in which creativity fundamentally is the enterprise.'[8] This could include any industry, and the meaning of the 'creative industries' is, to say the least, difficult to pin down.

Our second comment concerns the 'production cycle approach' used in official documents to measure the size of the cultural and creative sectors. The argument in favour of this approach is that it is policy focused and deepens our understanding of the cultural sector. It includes the inputs that are used in the 'making' of culture, for example, the inclusion of manufacturing activities such as the making of television and radio transmission equipment, as well as commercial means of 'disseminating' cultural products, such as distribution and retailing. It is also argued that it helps to clarify the inter-relationships between industries, for example, the way in which advertising may be a training ground for film production or the way in which literature and poetry might feed into the performing arts. In so doing, it is argued, the definition also helps our understanding of the complex relationship between the commercial and publicly supported areas of cultural activity.

We have noted above that an industry usually means a collection of activities, which use some common input and/or technology. However, the term is also used to describe the wider grouping of activities necessary to produce a final product (as in, for example, the 'music' industry or the 'film' industry).[9] This more common usage also obviously underlies the 'production cycle approach' employed in official attempts to classify both the 'cultural' and 'creative industries'. Using the term in this sense, SE claims that the 'creative industries' provide 70,000 jobs and £5 billion worth of economic activity in Scotland.

However, we should note that using this wider definition (which counts all parts of the production chain necessary for the creative input itself to be marketed as part of the cultural or creative sector itself) might lead to confusion about the economic impact of that industry.

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[8] Scottish Enterprise Creative Industries Team, *Creativity and Enterprise* (Glasgow: Scottish Enterprise, 1999), p. 4.

[9] Throsby, *Economics and Culture*, p. 112.

An example may make this clear. Suppose a theatre purchases costumes to use in a drama production. If we were to include both those employed in the drama *and* those employed in the textile industry within the cultural sector, we are clearly overstating the numbers employed in the cultural sector – employment in textiles is supported by the cultural sector, but is not itself a part of it.

The problems with the SE estimates become apparent if we look more closely at the activities that SE counts within what *they* term the 'creative industries' [10]. To take one example, within TV/Radio, SE includes areas such as the manufacture of valves and tubes and other electronic components (SIC 3-digit sector 32.1). It is clearly open to question whether this sector should itself be counted as part of the creative sector, for essentially the same reason as above: the creative industry may support valve production, but producing valves is not itself part of the creative sector. We could quote many further examples, but instead again refer the interested reader to Appendix 2 of the full report, which details the economic activities, defined by SIC code, that SE includes within the 'creative industries'.

We would argue that the correct way to determine the total volume of activity supported by either the creative or cultural sectors (irrespective of how one chooses to define them) is actually to undertake the type of analysis performed here. An Input-Output analysis of the cultural and creative sectors allows us to determine the total amount of economic activity that is supported, both directly within these sectors and through purchases placed with other industries in order to undertake the cultural or creative activity itself.

4. A working definition

Using the three-fold definition of culture established by Throsby, we have focused on those activities – the creative arts – that lie at the centre of his model. These are the activities that meet all three of Throsby's criteria for culture – they are what Throsby terms 'traditional artistic activities'[11], such as music, dance, theatre, literature, visual arts, crafts, plus newer forms such as video art and multi-media.

Our definition also focuses on the museums and galleries sector. There are two reasons for this. Firstly, the museums and galleries sector is an inter-dependent part of the visual arts sector in Scotland; it is very difficult to separate the two. For example, in terms of local authority provision, museums and galleries are typically combined, meaning that exhibition space for the contemporary visual arts is housed along with heritage. At present, disaggregating the two is not a possibility. Secondly, the vital interpretative role of museums and galleries means that they are, to a significant extent, involved in the process of creating and generating symbolic meaning, in a way that libraries, for example, are not.

[10] This is shown in Appendix 2, column 2, of the full report.

We have also chosen not to employ the ‘production cycle approach’ in our research, and thus have not chosen to include the ancillary activities needed to develop and market the cultural activities. This on the grounds that the Input-Output method used to develop the results reported here actually measures the economic activity that is supported by the core cultural activities.

5. Data Sources

Data for the study were gathered by means of self-completion questionnaires sent to all Scottish Arts Council core funded organisations and to all museums and galleries that were participants in the Scottish Museums Council’s (SMC) *A Collective Insight, Scotland’s National Audit*. We distributed 104 questionnaires to Scottish Arts Council core funded organisations, and 56 were completed and returned to us (a response rate of 54%). The analysis was performed for all eight major Scottish Arts Council core funded sectors (Dance, Music, Visual Arts, Drama, Festivals, Arts Centres, Arts Development and Literature), and results are given for each sector.

A total of 165 questionnaires were distributed to museums and galleries that were participants in the SMC’s *A Collective Insight, Scotland’s National Audit* and 22 were returned, a response rate of 13.3%. In light of the relatively low response from museums and galleries, we supplemented data for museums and galleries with direct expenditure estimates for large Local Authorities in Scotland taken from the Group of Large Local Authority Museums (GLLAM) survey undertaken by the University of Leicester. We have taken the results of this survey work and also made use of published data in these sectors – particularly the SMC’s *A Collective Insight, Scotland’s National Audit* – to arrive at conclusions about the economic activity of the cultural sector. The analysis was undertaken for four separate sectors within museums and galleries (Independents, Universities, Local Authorities and Nationals) and results are again given for each sector.

A number of other important studies have recently been carried out to assess the economic value of some of the cultural industries in Scotland. For this reason it was decided, after careful consideration, not to survey organisations within the publishing and screen industries but, as part of this project, to review recent studies made of them to try and give as wide a view as possible of the economic impact of the wider creative sector.[12]

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[11] Throsby, *Economics and Culture*, p. 15

6. Research Methods

The study derived Input Output multipliers for both Scottish Arts Council core funded organisations and the museums and galleries sector. Wage and intermediate commodity expenditures made by the cultural sector in Scotland were derived from survey questionnaires, and were then recoded into Input-Output categories that matched a reduced Leontief coefficients matrix, derived from the 1999 Scottish Input-Output Tables. Income multipliers, defined as the additional income created outside the cultural sector from direct income within the cultural sector, were estimated and employment multipliers were subsequently derived from income/employment ratios.

7. Results for Scottish Arts Council Core Funded Organisations

i) Local Spending

Survey results show that the majority of both wage and commodity spending by the arts is spent locally. With regard to wage expenditure, it might be expected that most wage expenditures would be placed in Scotland. However, a number of Scottish Arts Council core funded bodies (perhaps most commonly in the opera and festivals sectors) will spend some part of their wage bill on national or international performers to headline presentations, and may also make use of internationally-based directors, designers and so on.

However, it is apparent from the figures shown below – not least the headline figure that 97.8% of the expenditure of the Scottish Arts Council's core funded organisations was spent in Scotland – that the majority of wage spending goes to local residents. It therefore seems reasonable to infer that most wage spending will actually help to develop Scottish-based artistic excellence and expertise.

A finding that most spending on goods and services is placed locally would also show that the Scottish arts sector is supplied by a range of local companies. This relates to the important issue of whether Scotland is able to provide the kind of specialist supporting services necessary to allow the arts to perform.

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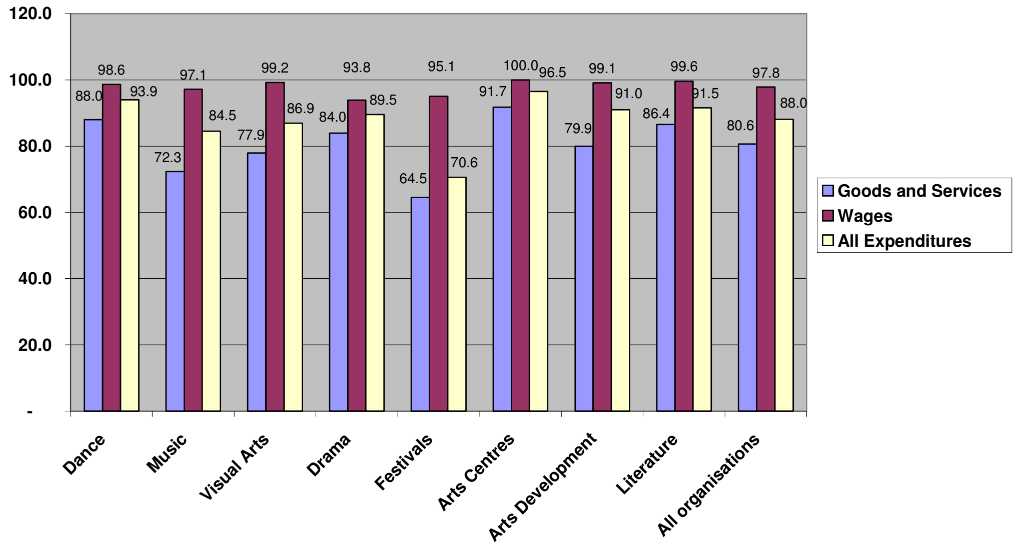
[12] These are discussed in Section 5 of the full report

Figure 1- Proportion of Expenditure in Scotland by Scottish Arts Council Core funded organisations by sector (£M, 2002-2003)



While there are some differences in the proportion of spending in Scotland, both between the various arts sectors and in terms of the two expenditure categories, what is very clear from Figure 1 are the high proportions spent in Scotland by the Scottish Arts Council core funded arts organisations.[13] The findings reported in Figure 1 make clear the extent to which Scottish Arts Council core funding is used to support Scottish artistic development.

ii) Expenditure by Type

The study also identifies spending by seven types of expenditure category (Premises & Equipment, Artistic Activity, Marketing & Promotion, Education, IT and Retail) and shows that a high proportion of all expenditure typically goes to support the principal artistic activity undertaken by the arts institutions.[14]

iii) Employment Supported

Table 1 below shows our estimate of the total employment supported in Scotland by Scottish Arts Council Core funded organisations.[15]

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[13] See full report, Figure 5.
[14] See full report, Figure 6.
[15] See full report, Table 8.

Table 1 – Total employment created in all Scottish Arts Council core funded organisations by sector (2002-2003)	Initial Employment	Additional Employment Created	Total Employment Created
Dance	113	72.8	186.1
Music	443	363.7	806.7
Visual Arts	162	175.7	337.2
Drama	736	695.7	1,432
Festivals	82	173.4	255.2
Arts Centres	429	172.2	601.1
Arts Development	189	102.9	291.9
Literature	52	64.3	115.8
Total	**2,206**	**1,821**	**4,026**

We estimate that the 2,026 FTE employees in Scottish Arts Council core funded companies support an additional 1,821 FTE jobs in other Scottish industrial sectors, and, therefore, support a total of 4,026 jobs in total across Scotland.

ii) Income Supported

The Total income supported in Scotland by Scottish Arts Council Core funded organisations is detailed in Table 2 below[16]. We estimate that payments to their own employees create £38.8M worth of direct income, and that this creates a further £33.7M to employees in other industrial sectors in Scotland. In total, therefore, Scottish Arts Council core funded organisations are responsible for supporting some £72.5M worth of wage income across Scottish industry.

Table 2 - Total Income created by Scottish Arts Council core funded organisations by sector (2002-03)	Initial Income £M	Additional Income Created £M	Total Income Created £M
Dance	3.4	1.5	4.9
Music	11.0	9.3	20.3
Visual Arts	3.3	3.6	6.9
Drama	10.8	9.7	20.5
Festivals	1.8	3.3	5.1
Arts Centres	4.0	2.8	6.8
Arts Development	3.3	2.1	5.4
Literature	1.2	1.4	2.6
Total	**38.8**	**33.7**	**72.5**

iii) Employment and Income Multipliers.

Tables 3 and 4 below show the employment and income multipliers for Scottish Arts Council Core funded organisation by main arts sector. The employment multiplier is estimated at 1.83, which means that every one person employed within the arts supports a further 0.83 of an FTE job in other sectors of the Scottish economy. For income, we estimate that every £1 of income paid to employees of Scottish

[16] See full report, Table 9.

Arts Council core funded organisations creates a further £0.87 worth of income in other industries in Scotland.

Table 3 – Employment multipliers by Scottish Arts Council core funded sectors	Estimated Employment Multiplier
Dance	1.64
Music	1.82
Visual Arts	2.09
Drama	1.94
Festivals	3.12
Arts Centres	1.40
Arts Development	1.54
Literature	2.25
Total	**1.83**

Table 4– Income multipliers by Scottish Arts Council core funded sector	Estimated Income Multiplier
Dance	1.43
Music	1.84
Visual Arts	2.11
Drama	1.90
Festivals	2.80
Arts Centres	1.71
Arts Development	1.63
Literature	2.18
Total	**1.87**

These findings – particularly that every one job in the arts supports a further 0.83 jobs in other sectors – gives a good indication of how the arts affect the wider economy. The only other comparable figure that allows us to demonstrate the wider employment effects of the arts on the Scottish economy is the employment multiplier published by the Scottish Executive (1.66). However, the figure of 1.66 refers not the arts alone, but for the 'Recreational, Cultural and Sporting Activities' sector. This sector contains a number of arts activities, including theatre, operation of arts facilities, museum activities and motion picture production. However, it also contains a number of other activities which would not typically be included within the arts (for example, sporting activities, gambling and betting, botanical and zoological gardens) or would be considered as only tangentially so (for example, news agency activities, fairgrounds and amusements parks). The multiplier derived here is in contrast, one that specifically measures the wider employment impact on the Scottish economy of the 'core' arts activities. It is therefore, of some interest to note that these employment impacts are estimated to be larger than would be found if official estimates were used.

8. Results for the Museums and Galleries

i) Local Spending

Figure 2- Proportion of expenditures made in Scotland by museums and galleries

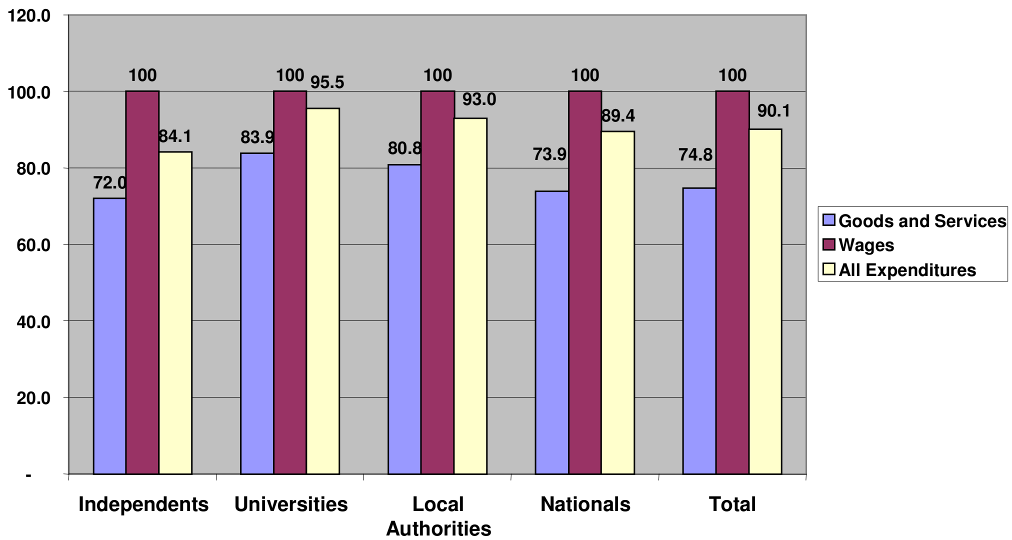

Figure 2 examines the extent to which, based on returns to our survey, the four different types of institutions purchase both labour services and commodities in Scotland. While we recognise that the numbers who responded are limited, Figure 13 does appear to indicate that museums and galleries are similar to the Scottish Arts Council core funded organisations, in that they are highly likely to use local resources to provide a local museums and gallery service in Scotland. For example, all wage spending is Scottish in all four types of institution. The proportion of goods and services purchased is also consistently high.

ii) Expenditure by Type

The study also identifies spending by eight types of expenditure category, and details the high proportion of all goods and services expenditure that goes on premises and equipment.[17]

iii) Employment Supported

[17] Full report, Figure 14.

Table 5 – Employment created by museums and galleries	Initial Employment	Additional Employment Created	Total Employment Created
Independents	516	419	935
Universities	75	34	109
Local Authorities	795	465	1,260
Nationals	617	364	981
Total	**2,003**	**1,282**	**3,285**

We estimate that the 2,003 FTE employees in museums and galleries support an additional 1,282 FTE jobs in other Scottish industrial sectors, and therefore support a total of 3,285 FTE jobs across Scotland in total (Table 6). The majority of all jobs is, of course, supported by the two main sectors, with the Local Authorities estimated to support 1,260 jobs (38.4% of all supported employment) and the Nationals 981 (29.9%).

iv) Income Supported

We estimate that payments to their own employees create £39M worth of direct income, and that this creates a further £25.3M to employees in other industrial sectors in Scotland. In total, therefore, museums and galleries are responsible for supporting some £64.3M worth of wage income across Scottish industry.

Table 6 – Income created by museums and galleries	Initial Income	Additional Income Created	Total Income Created
Independents	5.4	7.4	12.8
Universities	1.9	0.7	2.6
Local Authorities	16.8	9.0	25.8
Nationals	14.9	8.2	23.1
Total	**39.0**	**25.3**	**64.3**

v) Employment and Income Multipliers.

Tables 7 and 8 below show the employment and income multipliers for museums and galleries. The employment multiplier is estimated at 1.64, which means that every one person employed directly supports a further 0.64 of an FTE job in other sectors of the Scottish economy. For income, we estimate that every £1 of income paid to employees in museums and galleries creates a further £0.65 worth of income in other industries in Scotland.

Table 7 – Employment multipliers for museums and galleries by sector	
Independents	1.81
Universities	1.46
Local Authorities	1.59
Nationals	1.59
Total	**1.64**

Table 8 – Income multipliers for museums and galleries by sector	
Independents	2.36
Universities	1.35
Local Authorities	1.53
Nationals	1.55
Total	**1.65**

9. Conclusions and Recommendations

The report, and the experience of undertaking the research, leads us to the following conclusions and recommendations:

- We believe that our research shows that here is a clear need, particularly among policy makers, to establish an appropriate definition of the cultural and creative sectors. Current work in this area is difficult to interpret, and our discussion of some of the problems we encountered in deciding what constitutes the cultural and creative industries suggests that basic work of clarification and definition are required

- For the first time in Scotland, we have been able to identify details on the type of expenditures necessary to provide cultural services. The factual detail provided by this aspect of the study will aid those who use the production cycle approach to cultural planning. As this is the approach which motivates much of the policy work developed for the cultural sector this dataset is particularly valuable.

- The results for both the Scottish Arts Council's core funded organisations and the museums and galleries that participated in the SMC's *A Collective Insight, Scotland's National Audit* show that much expenditure is used to purchase Scottish-based resources, and that Scottish companies are well able to provide the kind of specialist services necessary to support the cultural sector.

- The multiplier estimates developed in the study show that the two key parts of the cultural sector investigated here generate significant levels of additional activity in Scotland. We would not necessarily wish to argue that the ability of the cultural sector to support additional economic activity is the primary reason why we should continue to support it. - the existence of non-market benefits of the sort discussed in the report may in fact provide a more significant economic rationale for support. However, it is nonetheless the case that the cultural sector does have economic impacts, and we believe that quantifying these may help refine policy debates concerning the appropriate level of support.

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