Measuring the Value of Art: Towards an Arts Industry Satellite Account

Michael Edwards

Phone: (02) 62583818

Email: medwards@homemail.com.au

Measuring the value of service industries, including the arts, presents challenges for the delivery of efficient government policies and programs. Goods and services related to the arts may be traded in their own right, but they may also be traded indirectly when embodied as intermediate inputs into other goods and services traded elsewhere in the economy. The value of the arts may therefore be misrepresented and misunderstood. This paper discusses the implications of this, focusing on the visual arts sector and its role as an embodied service in Australia's domestic and international travel and tourism industry. The paper draws attention to the value of the arts in understanding the role of innovation and creativity in supporting Australia's productivity and competitiveness. It concludes that the traditional approach to investment in the arts may be suboptimal in terms of increasing the sector's potential contribution to artistic and economic outputs.

Biography

Michael Edwards is an artist who recently completed a PhD through the School of Art and Design at the Australian National University. His practice-led research investigated the relationship between economic circumstances and still-life painting, examining how material culture – the objects that help define, interpret and understand the world we live in – may be used to represent economic conditions. He has participated in a number of solo and group exhibitions in Australia. Michael worked previously as an economic analyst for several Australian government departments, including industry departments and the Treasury.

Measuring the Value of Art: Towards an Arts Industry Satellite Account

Introduction

This paper discusses approaches to measuring the value of art. It takes an economic approach, focusing on the arts as a sector of industrial activity and its public sector governance.

Measuring the value of art is challenging. Goods and services related to the arts can be measured directly using conventional economic and statistical approaches. This has advantages, but also limitations. These limitations risk misrepresenting what that value is, which in turn contributes to suboptimal industry policies and investment decisions. An alternative approach, outlined in this paper, is to measure the value of art indirectly as well as directly, recognising it as an embodied input into goods and services traded elsewhere in the economy. The paper discusses this approach, focussing on the role of the arts as an input into Australia's travel and tourism industry, and puts forward the case for an arts industry satellite account.

Conventional approaches to measurement

There are several conventional approaches to measuring the contribution of the arts to the Australian economy. One is to use Australia's national accounts. The national accounts divide economic activity into a number of industry categories, one of which is the category of arts and recreational services. This category provides information about value, expressed in nominal dollars, or as percentage contributions to Australia's gross domestic product (GDP) or total industry gross value added (GVA). Using national accounts offers many advantages. One is that it measures activity based on agreed international statistical standards. This provides a consistent basis over time. Trends can be identified and domestic and international comparisons made that are, in general, meaningful and which benefit industry analysis and policy making.

That said, national accounts have limitations. They need to be reviewed constantly as economic conditions change and analytical and policy needs evolve. As the OECD has pointed out, the breakdown of the value added by industries in developed, industrialised countries has changed substantially in recent decades (OECD, 2017).

Figure 1: Australia: Industry Shares of GDP (per cent)

	Agriculture	Manufacturing	Mining	Services
1960s	13	26	2	59
2014-15	2.2	6.2	8.7	82.9

Sources: Reserve Bank of Australia, 2010, Australian Industry Report, 2015.

Figure 1 shows that in the 1960s agriculture accounted for 13 per cent of the Australian economy, mining for 2 per cent and manufacturing for 26 per cent (Connolly and Lewis, 2010a. p2). Today, the structure of industry is different. Agriculture's share had declined to a little over 2 per cent, manufacturing to around 6 per cent, while mining's share fluctuates between 8 and 9 per cent. While there has been a steady decline in traditional industries, the share for service industries has risen markedly, from 59 per cent in the 1960s to around 83 per cent today (2010b; Australian Department of Industry, Innovation and Science, 2015). Not only have services grown in terms of their contribution to gross domestic product, they have also grown in terms of their importance to employment, rising from 63 per cent to 84 per cent, and to trade, with service industries' share of exports increasing from 14 to 23 per cent (2010c). The significance of these trends, however, is not fully reflected in national accounts data. Lags in the system, together with a lack of detail, accentuate risks that policies are less efficient than they should be, and investment may be being directed to options that no longer offer the best prospects for national prosperity.

Secondly, national accounts group some industry activities under overly broad headings, suggesting a homogeneity of production and usage that may be more illusory than real. The arts, for example, are grouped into the category of arts and recreational services. When the industry gross value added from the various activities within this category are added together, their value was $13.6 billion in 2015-16 (ABS, 2016). To put that amount into perspective, the total industry gross value added from all industry sectors in 2015-16 was $1,548 billion. Arts and recreational services therefore contributed less than one per cent of the total (2016b). Given that recreational services includes such economically significant activities as sport and gambling, the balance for the contribution of the arts is probably closer to half of one per cent. Measured in this way, it not surprising that politicians and public policy makers do not recognise the arts as a priority for industry policy or for investment.

Many of the activities in the category of arts and recreational services are not homogenous. Moreover, their indirect costs and benefits tend to diverge. Recreational services such as gambling, for example, impose social costs on the community that offset their economic benefits. Not all these costs are borne by the industry nor are they fully reflected in final prices charged to consumers. If these costs were included in full, then the contribution to

GDP and GVA would be considerably less. The arts industry, on the other hand, is generally acknowledged as providing merit goods, that is, goods and services whose production generates positive externalities for the wider community. The value of these indirect benefits can be significant, even though difficult to measure. They include enhancing cultural enrichment, supporting inspiration and innovation, the preservation of national treasures, public education and increasing international pride and recognition. Many of these benefits are essential inputs into other industry sectors, including tourism.

Art and tourism

The tourism and travel industry provides an example of how relying on conventional approaches to measuring national accounts risks failing to keep pace with industry restructuring.

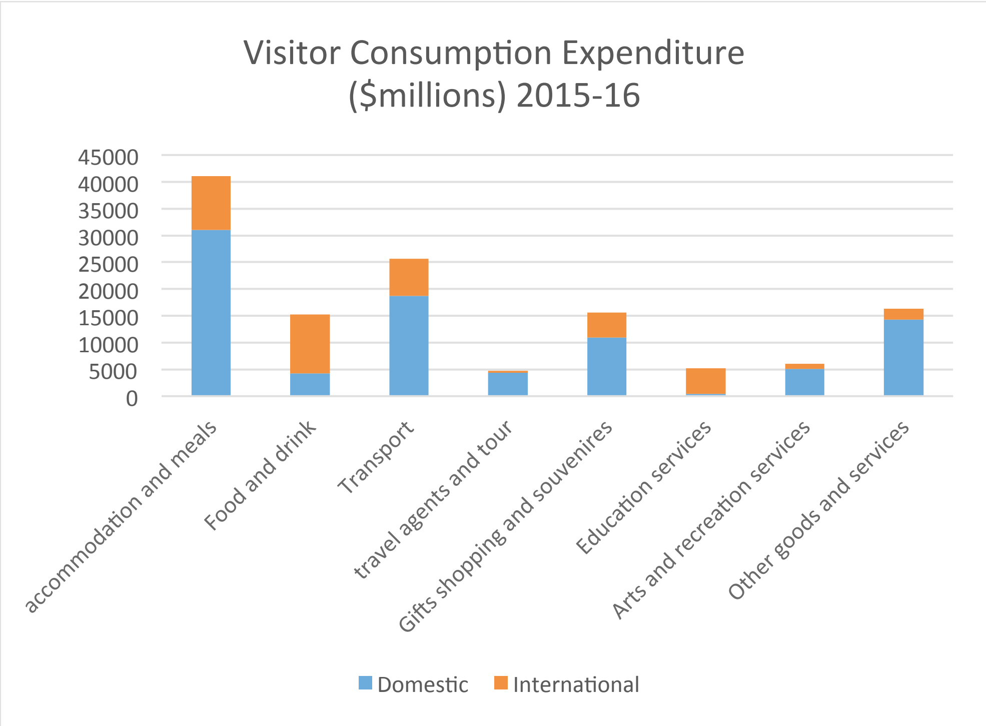
The importance of tourism to the Australian economy has grown strongly since the 1980s. Like other industrialised countries, Australia has recognised the importance of identifying and measuring what the value of that industry is, and has developed a satellite account to do so. A satellite account sits outside the national accounts but presents similar information, such as contribution to GDP and industry gross value added. It does this by identifying and aggregating data from a variety of activities relevant to tourism, such as transport, accommodation and food, retail trade and from arts and recreational services. Aggregated in this way, tourism's direct contribution to GDP in 2015-16 was valued at $53 billion, and it accounts for the employment of over 580,000 people. (Tourism Research Australia (TRC), 2017a; 2015-16a).

Tourism, however, also makes indirect contributions to the economy – that is, it demands goods and service inputs from elsewhere. When the value of these inputs is included, the total contribution of the tourism industry to GDP rises to over $106 billion and employment to around 1 million. And tourism export earnings rank among Australia's largest, currently around $40 billion per year (TRC, 2015-16b). In short, measuring the value of tourism through the alternative approach of a satellite account reveals tourism to be one of Australia's largest industries. Not surprisingly, tourism is a sector that politicians and public policy makers do recognise as a priority for both industry policy and for investment.

A satellite account, therefore, provides essential information to policy makers. That approach could be used by those in the arts industry. For example, the tourism satellite account shows that people travel for a variety of reasons. Primary motivations are to holiday or visit friends or relatives (TRC, 2017b). Other motivations include business, employment or education. Those terms, however, are broad and do not explain what is entailed. Drilling deeper into the data shows that tourism consumption expenditure is spread over a wide number of activities.

These include spending on accommodation and meals, transport, shopping for gifts and souvenirs as well as on activities that include the arts and recreational services (TRC, 2015–16c). Figure 2 shows that total visitor consumption expenditure in 2015-16 was $130 billion, and the share of that spent on arts and recreation was about $6 billion dollars, or 5 per cent of the total. Again, that share may appear comparatively small.

Figure 2: Australia, Visitor consumption expenditure



Source: ABS and TRA

These amounts, however, do not distinguish clearly between expenditure on tourism product and tourism infrastructure. Tourism product is what motivates the visitor to travel. It is the experience sought and consumed at the destination. Tourism infrastructure is what enables that experience to take place. It includes goods and services such as transport, accommodation, travel agents and tour operators. The difference between product and infrastructure is not unambiguous. Staying in a hotel, for example, may be an enabling service, but it may also be an enjoyable and memorable experience. But essentially the reason for travelling is not to experience infrastructure. It is to experience something about a tourist destination, such as its natural or built environment or its culture. In other words, tourists seek out and immerse themselves in what they see as a complex, special or even unique amalgam of qualities, values, beliefs, and practices that help define a country or a region (Murphy, Pritchard and Smith, 2015). They want to see, experience, understand and appreciate what Australia is and what it means to be Australian.

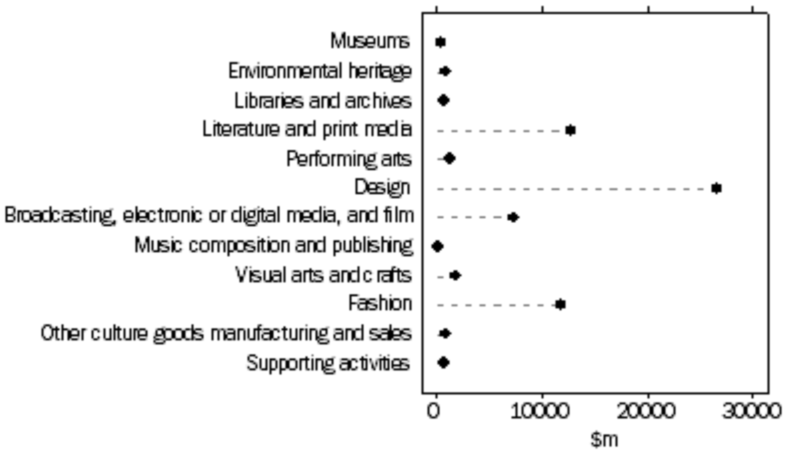
Looked at this way, visitor consumption expenditure on enabling infrastructure such as accommodation, meals and transport, could be reclassified as intermediate an input into tourism product. If the value of these intermediate inputs were added to visitor consumption expenditure on product, then the total value of the arts and recreational services would be considerably higher than the $6 billion shown in Figure 2, and the share of total visitor consumption expenditure higher than 5 per cent. Calculating what these totals actually are, however, would require something like an arts industry satellite account.

Towards an arts industry satellite account

A satellite account to measure the value of the arts industry could be constructed applying the same methodology used for the tourism satellite account. Several countries have already done this, including Australia. Unlike tourism satellite accounts, however, which are well-established, satellite accounts for the arts remain experimental and one-off. They are not intended to replace official economic and industry statistics, but to complement them by providing additional statistical detail that allows for more in-depth analysis of a particular sector of the economy (Kern, Wasshausen and Zemanek, 2015).

In 2014, the Australian Bureau of Statistics released a set of experimental measures of the economic contribution of cultural and creative activity (ABS, 2014). The data was for the year 2008-09 and measured a range of arts-related activities including art as well as relevant proportions of media, heritage, design, fashion and information technology. These activities and their gross value added are shown in Figure 3.

Figure 3 Australia: Cultural and Creative Industries, Gross Value Added by domain: 2008-09



Source ABS, 5271.0 - Australian National Accounts: Cultural and Creative Activity Satellite Accounts, Experimental, 2008-09.

As figure 3 shows, cultural and creative industries contribute significantly to the Australian economy. The sector is estimated to have contributed 5.6 per cent of total industry gross value added in 2008-09. In the context of the national accounts, this is more than twice the gross value added by agriculture, forestry and fishing and about the same size as the health care and social assistance sector. In addition, the Australian Bureau of Statistics points out that the contribution of cultural and creative industries should be acknowledged as going beyond dollar values and that they ‘play an important role in the wellbeing and quality of life of the community’(ABS, 2014).

Other countries have also experimented with arts-related satellite accounts. In 2015, for example, the United States Department of Commerce's Bureau of Economic Analysis released the results of a preliminary prototype arts and cultural production satellite account (Kern *et al*, 2015b). It calculated that the value added by the arts and cultural production industries in 2012 was about $US700 billion, with contributions coming from both direct and indirect outputs and value added, as shown in figure 4.

Figure 4: United States: Value Added by the Arts and Cultural Industries, 2012

Industry	Value Added ($US Millions)
Core arts and cultural production	**129,011**
Performing arts	45,079
Museums	5,075
Design services	71,277
Fine arts education	7,581
Supporting arts and cultural production	**547,003**
Arts support services	103,502
Information services	343,073
Manufacturing	17,012
Wholesale and retail trade	73,059
Construction	10,356
All other industries	**22,681**
Total Industry gross value added	**698,695**

Source: U.S. Bureau of Economic Analysis, 2015

Again, to put these figures into perspective, the share of GDP accounted for by U.S. arts and cultural production was 4.3 percent of gross domestic product (2015c). That made the sector more significant than industries such as mining (2.5 percent), utilities (1.6 percent), or banking (2.9 percent) (2015d).

The findings from Australia and the United States are consistent with similar international experimental measures of the value of the arts, cultural and creative industries. Figure 5 shows that the contribution of these industries ranges between 3 to 4 per cent of gross domestic product or gross value added.

Figure 5: International Cultural / Creative Industries Satellite Accounts: Share of GVA or

GDP

	Activity	GDP or GVA
Canada	Cultural industries	3.8% of GDP
Finland	Cultural industries	3.1% to 3.7% of GVA
Spain	Cultural industries	2.8% to 3.2% of GDP
United Kingdom	Creative industries	2.89% of GVA

Source: ABS, 5271.

Policy and investment implications

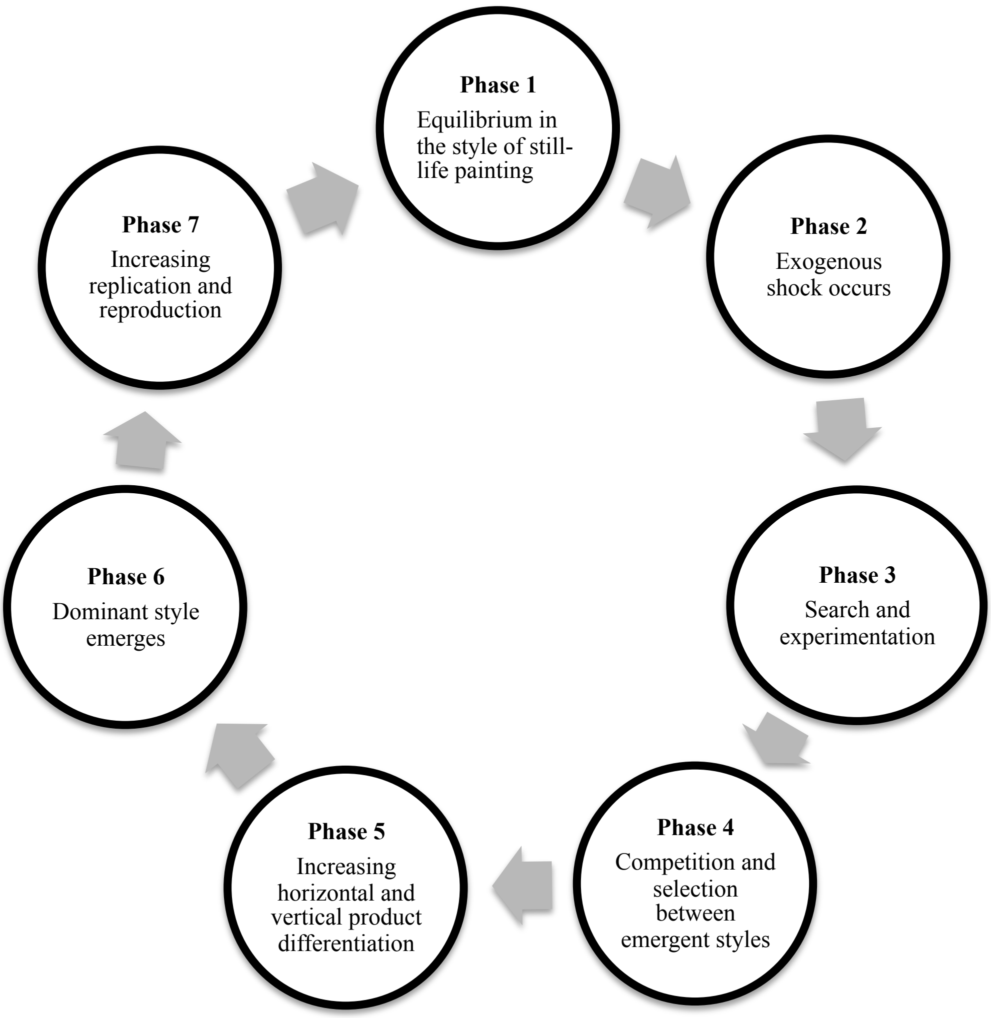
One of the benefits of measuring the value of the arts using a satellite account would be to confirm what is known, reveal what is not known, and point out where problems exist. The importance of this for the arts sector is that it would allow governments to put in place effective policies and programs to enable the sector to achieve its full potential as well as contribute to achieving the potential of other industries to which it is an essential input, such as tourism.

It is not clear, however, that these possibilities are fully appreciated. According to Australia's peak industry body for the service industries - the Australian Services Roundtable - the services sector overall is not well recognised, and even where it is the implications of this for public policy and trade are poorly understood (McCredie, Söderbaum, Drake-Brockman, Kelly, Chou, Taborda and Hodges, 2010). Adding to the difficulty is that public sector agencies and politicians responsible for Australia's service industries, including the arts, are under pressure to deliver more outcomes with fewer resources. Competition for public funding is therefore intense. A sector unable to present its case with objective and convincing statistics is disadvantaged compared with those that can – and do. As the saying goes, what cannot be measured will not be managed.

While undertaking research for my exegesis, I investigated the relationship between art and economic conditions. As part of that, I looked at the evidence that suggested the role of orthodox economics to justify the timing of investment in the arts might be suboptimal. The orthodox view is that when economic conditions are buoyant funds will be made available for expenditure on economically marginal activities, such as the arts. But when economic conditions are hard that expenditure is set aside and attention focused on industries that matter. In other words, attention is focused on industries that are measured.

There is, however, an alternative view. When I looked at the example of still-life painting in the Netherlands during the seventeenth century, I noticed a correlation between the pace of economic change, investment and artistic innovation. When there is significant economic change existing paradigms become increasingly contestable. Many Dutch artists took advantage of their economic transition to search for, experiment with and compete for new markets using new ideas and styles. Still-life artists sought to distinguish themselves and their work from their competitors through a variety of techniques. This included horizontal and vertical product differentiation. Horizontal product differentiation resulted in the emergence of specialised categories, such as the breakfast scenes or the lavish *pronkstilleven* style. Vertical product differentiation occurred as artists distinguished their work from their competitors by the intensity of their embedded labour or the value of the objects they painted. This can be seen in the elaborate flower paintings of the seventeenth and eighteenth centuries. Overall, this period of creativity and innovation can be presented as a series of phases, moving from an initial equilibrium to shock, followed by search, competition, experimentation and investment leading eventually to a new equilibrium. These phases are shown in Figure 6.

Figure 6: The phase-cycle model of innovation in still life painting



The resulting Dutch golden-age of still-life painting was a period of extraordinary 'artistic efflorescence' (Kavolis, 1964). The investments made in those uncertain times continues to richly reward us today, not only terms of ideas and ways to communicate, but in monetary terms as well.[1]

Conclusion

Australia, together with other western industrialised countries, is experiencing a period of intense economic transition following the Global Financial Crisis and its consequences. The transition presents threats as well as opportunities. Among the opportunities is the chance to re-think conventional approaches to measuring the value of the arts and government policies that support growth and investment in key enabling sectors such as the arts and the creative industries. As this paper suggests, instead of waiting for economic conditions to improve, as orthodox economic practice suggests, it may be that the most propitious time to invest in the future of Australian art is today. That investment, however, is unlikely to occur in the absence of both convincing qualitative as well as quantifiable evidence. Arguably, conventional approaches are not providing the needed quantifiable evidence. The good news, though, is that alternative approaches are being developed that appear both feasible and timely.

[1] The Netherlands' industry value added from tourism, including arts tourism, was 23.3 billion euros (about $AUD35 billion) in 2015 (https://www.cbs.nl/en-gb/news/2016/33/tourism-sector-increasingly-important).

References

ABBING, Hans. (1992). 'Externalities in the Arts Revisited II: Explanation and Legitimisation of Government Involvement with Art in the Long Term'. http://www.hansabbing.nl/DOCeconomist/EXTERNALITIES%20IN%20THE%20ARTS%20REVISITED%20.pdf. (Accessed July 2017).

AUSTRALIAN BUREAU OF STATISTICS. 5204.0 - Australian System of National Accounts, 2014-15.

AUSTRALIAN BUREAU OF STATISTICS. 4172.0 - Arts and Culture in Australia: A Statistical Overview, 2011.

AUSTRALIAN BUREAU OF STATISTICS. (February, 2014). 'Culture is Big Business'.

AUSTRALIAN DEPARTMENT OF INDUSTRY, INNOVATION AND SCIENCE. 'Australian Industry Report, 2015'. (Licensed from the Commonwealth of Australia under a Creative Commons Attribution 3.0 Australia Licence. The Commonwealth of Australia does not necessarily endorse the content of this publication).

CONNOLLY, E. and C. LEWIS. (2010). 'Structural Change in the Australian Economy'. Reserve Bank of Australia.

KAVOLIS, V. 'Economic Correlates of Artistic Creativity', American Journal of Sociology, Vol. 70, No. 3 (Nov., 1964), pp. 332-341.

KERN, P., D. WASSHAUSEN and S. ZEMANEK. (2015). 'U.S. Arts and Cultural Production Satellite Account, 1998–2012', Bureau of Economic Analysis Briefing.

MCCREDIE A, SÖDERBAUM J, DRAKE-BROCKMAN J E, KELLY P, CHOU Y, TABORDA R, and HODGES R. (2010). 'The New Economic Challenge: Responding to the Rise of Services in the Australian Economy'. Australian Services Roundtable and ACIL Tasman.

MURPHY, P., M. PRITCHARD and B. SMITH. (2000). 'The Destination Product and its Impact on Traveller Perceptions', Tourism Management 21. 43-52.

OECD. (2017). 'Value Added by Activity (Indicator)'. Paris. Doi: 10.1787/a8b2bd2b-en. (Accessed July, 2017).

TOURISM RESEARCH AUSTRALIA. (February, 2017). 'State of the Industry'.

TOURISM RESEARCH AUSTRALIA. (August, 2016). 'International Visitor Survey Results'.

TOURISM RESEARCH AUSTRALIA. (2015–16). 'State tourism satellite accounts'.