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# SOME ECONOMIC ASPECTS OF CULTURAL DEVELOPMENT IN YUGOSLAVIA

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The purpose of this note is to examine the amount and the structure of financial resources spent on cultural activities (to be defined later), to analyze the trends in the share of the social product these activities account for, to draw certain conclusions regarding the economic position of cultural activities, and finally to outline some

broad directions of future research. Any empirical research of the economic aspects of cultural life is limited by available statistical data and the relatively unsatisfactory state of other information in this field.

The analysis will be carried out on the basis of the official classification of cultural activities provided by the Federal Statistical Bureau of Yugoslavia. This seems to be the only way of doing a more thorough empirical analysis for a longer period of time; any other methodological procedure aimed at identifying trends in relevant magnitudes would run into serious difficulties due to a lack of necessary data.

Official statistics cover two broad sets of cultural activities. The first set, labeled „Cultural and Educational Activity”, comprises: 1. museums, archives and art galleries, 2. institutions responsible for the protection and conservation of historical monuments and other cultural treasures, 3. so-called workers' and peoples' universities, which are specialized institutions for public le-

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ctures and the dissemination (in various forms) of general culture, 4. public libraries and 5. a miscellaneous category titled „Other Cultural and Educational Institutions”. The second set, labeled „Artistic and Entertainment Activities” consists of: 1. theatres, philharmonic orchestras and the like, 2. cinemas, 3. radio and TV stations and 4. again a rather heterogeneous group of activities called „Other Entertainment Institutions”.

Table 1 summarizes the key information concerning the amount of financial resources allocated to the above defined sets of cultural activities. The absolute values are given in constant 1966 prices and growth rates and growth indices are given for relevant magnitudes expressed in both current and constant prices.

Table 1. Growth Indicators of the Total Expenses of „Cultural and Educational” and „Artistic and Entertainment Activities”

<u>„Cultural and Educational Activities”</u>						
	Total amount, millions of dinars, constant prices	Growth indicators in current prices		Growth indicators in constant prices		
		Index	Rate of growth 1965-68 & 1968-71	Index	Rate of growth 1965-68 & 1968-71	Rate of growth 1965-68 & 1968-71
1965	313.6	100.0		100.0		
1968	591.1	202.1	26.4	166.2		16.4
1971	651.2	378.5	23.3	217.2		9.3

<u>„Artistic and Entertainment Activities”</u>						
	Total amount, millions of dinars, constant prices	Growth indicators in current prices		Growth indicators in constant prices		
		Index	Rate of growth 1965-68 & 1968-71	Index	Rate of growth 1965-68 & 1968-71	Rate of growth 1965-68 & 1968-71
1965	584.7	100.0		100.0		
1968	974.1	202.6	26.5	166.6		18.5
1971	1313.9	391.5	24.7	224.7		10.5

Source: Statistički godišnjak Jugoslavije (Statistical Yearbook of Yugoslavia), 1967, p. 296; 1970, p. 292; 1973 p. 316; the figures are converted to constant prices on the basis of the implicit deflator of the social product.

Table 1 shows an extremely rapid and in places almost spectacular increase of expenses of the services as regards various cultural activities. All rates of growth exceed 9% per annum and indicate the efforts of society to foster cultural development and strengthen its economic base. In the six-year period from 1965-71, which was one of relatively slow economic development, expenses in both sets of activities, measured in *current* prices, increased by almost four times. Of course, expenses in constant prices given in Table 1 showed a less spectacular increase. Nevertheless, they more than doubled in

the short period under consideration. It is perhaps important to emphasize that very few purely economic aggregates underwent such a high rate of growth in the time period under analysis or in any other period.

Another important feature of the trends displayed in Table 1 is a marked discrepancy between the growth rates of the magnitudes expressed in current prices and those expressed in constant prices. While in the first sub-period the former exceed the latter by about 50 per cent, in the second sub-period the difference is more marked, and the former are more than double the latter. This discrepancy naturally reflects the rising inflationary trends in the economy and clearly demonstrates that — due to the specific, relatively slow and rigid procedure for the allocation of financial resources — cultural activities are harder hit by inflationary tendencies than most economic activities. Namely, one can note a distinct inertia in the growth rates of nominal amounts of resources earmarked for cultural activities; the well-known time-lags in the adjustment of finances to (upward) changes in the general price-level cause the real quantity of resources allocated to culture to fall short of what was intended by policy-making institutions. One is even tempted to say that a peculiar mechanism of financial illusion operates in the field of culture: the authorities do not fully anticipate the general price increase, and continue to a significant extent to think in terms of nominal amounts, resulting in a systematic failure to fulfill the special social targets in this field. The problem will probably be further aggravated with the persistent acceleration of the process of inflation. One of the major consequences is the drop in relative incomes of cultural workers (which will be briefly discussed later on in this paper) and the growing inability to expand the number of competent professionals in this field, or to improve their competence.

It should also be noted that the rates of growth, even in nominal terms, show a certain decline. This is yet another indication of the deteriorating economic position of cultural activities, which will be more fully analyzed further on in this paper.

In order to have a more complete insight into the real meaning of the growth-rates of expenses for cultural goods and services, one should compare these rates with the growth-rate of the real social product and see in what direction, if any, the share of these activities in the social product is moving. Table 2 contains the information relevant to this question.

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Table 2. Growth-Rates of Expenses for Culture and Their Share in the Social Product

Period	Growth-Rates			Year	Share in Social Product, %		
	"Cultural and Educational Activities"	"Artistic and Entertainment Activities"	Social Product		"Cultural and Educational Activities"	"Artistic and Entertainment Activities"	Both Sets of Activities
1965-68	18.4	18.5	5.0	1965	0.34	0.64	0.98
1968-71	9.3	10.5	8.4	1968	0.49	0.92	1.41
1965-71	13.8	14.4	6.7	1971	0.51	0.98	1.49

Source: Same as in Table 1.

The most important characteristic of the trends of expenses for cultural services is the fact that their rates of growth exceed the overall growth-rate of the economy by a significant margin. The amount of resources set aside for satisfying cultural needs in society grew more rapidly than the social product. This is also an indication of the high position given to culture in the hierarchy of social requirements and preferences. This does not automatically imply that social plans and intentions in the field of culture were entirely fulfilled; as has been pointed out above, this rapid increase was probably lower than what had been envisaged by the bodies and institutions in charge of shaping various aspects of cultural policy.

The Table contains yet another indication of the growth-rate of cultural expenses being short of what was intended by society. Namely, the growth-rates of expenses in both sets of activities were much higher in the first sub-period, which was characterized by a relatively low rate of growth of the social product; the next sub-period witnessed a much higher rate of economic growth, but at the same time a significantly lower rate of growth of resources devoted to cultural activities. One plausible explanation of this phenomenon would be the financial illusion referred to above; inflationary trends made it impossible to exercise efficient control over the amount of *real* resources flowing into cultural activities, and, given the inevitable problems entailed in procuring funds for these activities, this slowed down their growth to a certain extent.

Should the fact that the expenses for culture grew more rapidly than the social product be interpreted as an indication of the ever-improving economic position of cultural activities? To answer this question, one should refer to the trail-blazing analysis of economic mechanisms determining the position of these activities gi-

ven by Professor Baumol.<sup>1)</sup> The argument is simple enough, and runs as follows: due to purely technological reasons, the (objectively given) rate of increase of labour productivity in cultural activities is considerably below the average for the economy as a whole. However, the growth-rate of wages and salaries in any sector is determined not by the growth-rate of labour productivity in that sector, but by the overall productivity increase. The growth-rate of wages and salaries in the sphere of culture will, therefore, exceed the growth rate of the quantity (however measured) of output. The wage cost per unit of output will, for that reason, systematically increase. As most cultural activities are labour intensive — again due to technological reasons — the effect will be rather strong. This implies, among other things, that a certain rate of increase of „cultural output” could be maintained only if the amount of financial resources „fed” into cultural activities increases at a rate exceeding the growth-rate of the output itself. The opposite also holds true: the fact that the rate of increase of expenses for culture exceeds the growth-rate of the social product does not necessarily imply that the „output” of cultural activities goes up at a higher rate.

To illustrate some of the relationships inherent in the above-outlined mechanism, let it be noted that the share of wage cost in total expenses for „Cultural and Educational Activities” runs as high as 50%, and the corresponding figure for „Artistic and Entertainment Activities” stands at around 40%. This is notably higher than the share of wage cost in the total sales of the economy, which somewhat oscillates from year to year in the neighbourhood of 20%.

It seems safe to conclude that the above average rate of increase of cultural expenses was determined simply by the fact that the corresponding activities are relatively stagnant with respect to the productivity increase and that those employed in this field had to share with all others the benefits of the general rise in income and productivity.

An additional indication of the economic position of cultural activities could be obtained by observing that the personal incomes for most skill categories are below incomes in other activities. On the other hand, income per „conditionally unskilled worker” (equivalent to Marx's simple

<sup>1)</sup> See: W. J. Baumol and W. G. Bowen: „On the Performing Arts: the Anatomy of their Economic Problems”, *American Economic Review* — *Papers and Proceedings*, No. 2, 1965, and W. J. Baumol and W. G. Bowen: *Performing Arts — the Economic Dilemma*, The Twentieth Century Fund, New York, 1966.

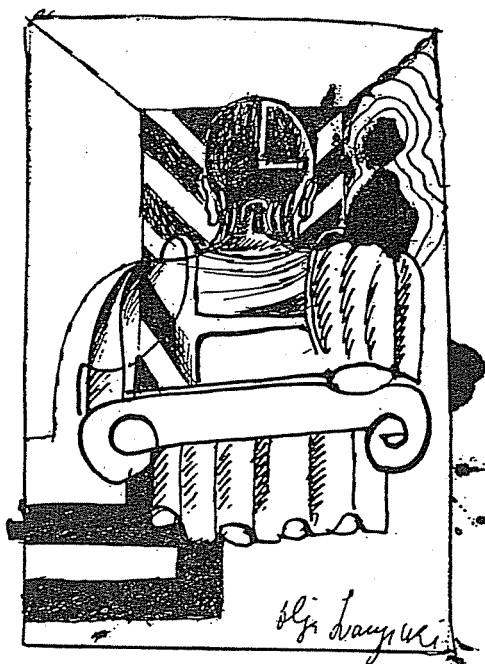
labour, calculated on the basis of income differentials) is among the lowest in cultural activities.

The general policy recommendation seems to be that these activities should systematically step up their share in the social product on a long-term basis. This is necessary not only because of the steadily increasing relative costs of providing cultural services, but also because of the high income elasticity of the demand for these services. It is to be expected that a constantly increasing share of the steadily rising per capita income will be devoted to the cultural needs of society.

Some indications for future research, and particularly for research in connection with the international UNESCO project, could be drawn from this. The most important task seems to be compiling additional data and reconstructing the reasonably long time series (fifteen years or more). This would be particularly important for Yugoslavia, as it has changed its system of providing funds for cultural activities several times; by reconstructing longer time periods it would be possible to analyze the performance and efficiency of different systems. The necessity for a long and comparative series probably applies to other countries as well: Some common principles for compiling data and reconstructing time series should be worked out in order to assure the possibility of making an international comparison of the results. It is especially important to have a uniform definition of the sets of cultural activities, as well as various financial aggregates connected with them. The differences in definitions also have to be taken into account when arriving at a uniform set of indicators. In this way the possibility will exist of making an international cross-section comparison of different systems, and their relative merits can be more fully analyzed. This will also make possible an analysis of the performance of different systems within one country. Needless to say, important policy implications should emerge from this.

Another important direction for future research should be the structure of both income and expenses in cultural institutions. Research should establish the degree of self-sufficiency of these institutions (eg. receipts collected on the market as a percentage of total receipts), and its variations with time. On the other hand, a detailed study of the structure of expenses — particularly the percentage of wage costs in total

expenses — would give valuable insights into the workings of the economic mechanism determining the position of culture, and would enable policy-making authorities to steer cultural development in a given country in a more rational and more efficient way.



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