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The dialectics of economic characteristics and industry structure in cultural industries

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Abstract

In recent years, the global cultural industry has been booming, and digital technology has brought new business models, opportunities, and development potential to the industry. According to reports from the World Intellectual Property Organization (WIPO) and the United Nations Educational, Scientific and Cultural Organization (UNESCO), the global cultural industry has reached a production value of 12 trillion US dollars, steadily increasing since 2000. However, the definition and scope of the cultural industry are still ambiguous. The United States refers to it as the entertainment industry, while the United Kingdom and Europe prefer to use the term creative industries. China and South Korea call it the cultural or content industry, while Taiwan refers to it as the cultural and creative industry. The academic and industrial sectors also use the terms media industry and cultural industry interchangeably. While each nomenclature carries its own merits, they also possess inherent limitations. In any case, they are all highly related to leisure, entertainment, creativity, and media. The detailed industries include film, broadcasting, cable, music, publishing, professional sports, performing arts, gambling, games, theme parks, and fashion luxury, among others. This work attempts to explore the differences and similarities in the industrial structure and competitiveness of various sub-industries from the perspectives of historical

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context, economic characteristics, industry structure, and competition. It also provides a series of dialectical arguments and suggestions on the government's role and policies.

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1. Historical Development Context

The concept of cultural industries was initially proposed by Adorno and Horkheimer [1], emphasizing that popular culture is not naturally produced by the masses, but rather a culture imposed by the ruling class for the purpose of control and governance. Its standardization and regulation will result in the loss of individuality. During this period, the concept of cultural industries focused on culture rather than the economy. Subsequently, Garnham [9] defined cultural industries as the use of commodity production models and industrial organizational structures to produce and distribute various symbols and symbols in the form of cultural goods and services. As the concept of the opposition between economy and culture changed, culture became a catalyst for creative and economic development. As Cave [2] proposed the concept of creative industries, emphasizing that the industry can produce products and services that contain art or creativity. Throsby [16] defined cultural industries as starting from the definition of cultural products, which contain creativity and embody intellectual property, and can convey some symbolic meaning. The core of the industry is oriented towards creative ideation, including music, dance, visual arts, performing arts, crafts, etc., while the outer layer still revolves around creativity, including publishing, broadcasting, television, and film. The outermost layer is the industry that only contains some cultural content, including advertising, architectural design, and tourism. Hesmondhalgh [10] revealed that the basic characteristics of cultural industries are the creation, production, and circulation of texts, which can be divided into core and peripheral categories. The former includes advertising and marketing, mass communication, image, music, publishing, and computer games, while the latter is an industry that cannot be mass-produced. Kunzmann [13] believes that regional cognition and tradition will affect the definition of cultural industries in different countries. In other words, the perception of cultural industries in different countries will vary depending on national circumstances.

There is currently no consensus among countries on the definition of cultural industries, whether from a cultural or industrial development perspective. However, in 1997, the UK became the first to unveil cultural industry policies and named it the creative industries, defined as industries that originate from individuals' creativity, skills, and talents, and have the potential to create wealth and employment through the development and use of intellectual property. Other countries such as New Zealand, Hong Kong, and Singapore have adopted similar definitions. Subsequently, countries have followed suit in promoting their own cultural industry policies. For instance, Finland emphasizes transferring cultural significance into various forms of product production based on cultural context. Australia's approach is content-oriented, showcasing the characteristics of information and communication exchange, emphasizing content's intellectual property and digital presentation. France focuses on the replicability of culture, emphasizing the business's replicability in traditional cultural enterprises. The United States has no specific concept of cultural industries and has taken a market-oriented strategy for long-term industrial development, hence referred to as the entertainment industry. Canada is divided into concepts of tangible cultural products, virtual cultural services, and copyrights. The United Nations defines cultural industries based on a cultural content perspective, as content that combines creation, production, and business, with the content being intangible assets and having cultural concepts and protected by intellectual property, presented in the form of products or services. (Cultural industries [6]; Department for Culture, Media & Sport, Creative Industries Division DCMS [7]; UNESCO [17])

Overall, various countries currently refer to the same concept of cultural industries using different terms, including creative industry, royalty industry, or entertainment industry. However, upon closer examination, similarities and differences in the definition and classification of cultural industries are evident across different countries. This work presents a compilation of the definitions of cultural industries in various countries, as detailed in Table 1, and the classification of cultural industries in various countries, as detailed in Table 2.

In general, culture encompasses the entirety of the life of a particular ethnic group or social community. Therefore, cultural industries cover almost everything because all industries are related to the production and consumption of culture. More specifically, culture is a communicative, reproductive, and experiential system of social order, which means that cultural industries can be seen as businesses directly related to the production of social meaning. Therefore, the definitions and scope of cultural industries in different countries include film, broadcasting, newspapers and magazines, music recordings, and performing arts. The purpose of these industries is to create new texts that communicate with audiences. In other words, all cultural products are texts, and anyone can interpret them. At the same time, all texts have both functional and communicative aspects. For instance, when discussing luxury fashion products, while sports cars have a communicative aesthetic, most people tend to view them primarily as a mode of transportation due to their functional aspects.

For the operational purposes of this work, we do not intend to expand the definition of texts to include functionality. Instead, we emphasize the symbolic meaning that evokes emotions and feelings, as a way to differentiate cultural products from general products. On the other hand, texts usually refer to "a collective noun used to refer to various cultural works," including films, programs, books, recordings, newspapers, magazines, and animations (Flew, Terry [8]; Hoskins, C. et al. [11]; Paul Ray [14]).

In short, this work defines cultural industries as "businesses that embody cultural creativity and innovation." Specifically, creativity represents the diffusive process of generating and conceptualizing ideas, while innovation is the convergent process of selecting and implementing ideas. Therefore, any business that uses cultural elements as a prerequisite for innovation, ultimately resulting in innovative products and services and exhibiting as a business model, can be considered a cultural industry.

Overall, this work divides cultural industries into five categories, as shown in Figure 1, based on the definitions and classifications of cultural industries by the United Nations, various countries, and organizations such as the Department for Culture, Media & Sport, Creative Industries Division DCMS; House of Lords Library; The National Endowment for the Arts; UNESCO; and the World Bank. These categories include: 1) Media industries, including film, broadcasting, cable, and publishing. 2) Arts industries, including visual arts, music, crafts, performing arts, and cultural exhibitions. 3) Design industries, including crafts, architecture, advertising design, and fashion. 4) Content industries, including publishing, gaming, animation, multimedia, and information services. 5) Other industries, including tourism, leisure, professional sports, gambling, and theme parks.

Figure 1 shows the interdependence between different industry categories, emphasizing the synchronous development of different cultural industry details. Subsequently, we will explain the economic characteristics and industry structure differences between different industry details one by one. (Cultural industries [6]; Department for Culture, Media & Sport, Creative Industries Division DCMS [7]; House of Lords Library [12]; The National Endowment for the Arts [15];UNESCO [17];World Bank[21]).

Table 1

Definitions of Cultural Industries by Country

Country	Definition
United Nations	An industry that combines creativity, production, and commerce, with content that is essentially intangible and has cultural concepts, protected by intellectual property rights, and can take the form of goods or services
United Kingdom	An industry that originates from individual creativity, skills, and talents, with the potential to create wealth and employment opportunities through the generation and application of intellectual property, and promotes overall improvement of the living environment.
Finland	An industry that includes the production of meaningful content, traditional and modern cultural arts, reproduction of artistic works, and combines entrepreneurial spirit with cultural business mechanisms.
France	An industry that emphasizes the reliability of culture, including businesses in traditional cultural industries that have particularly replicable businesses
Canada	An industry that includes tangible cultural products, virtual cultural services, and copyright concepts.
Denmark	Goods and services produced, purchased, and sold by businesses that are closely related to art and culture, covering the entire value chain of culture, including all cultural exports and related services and support.
Japan	Refers to all industries related to culture, including the content industry, leisure industry, and fashion design industry.
China	Activities that provide cultural and entertainment products and services to the general public, as well as a collection of activities related to these activities.
South Korea	An industry that uses industrial means to produce, showcase, and sell cultural arts and their products and services, and uses this as a means of operation.
Taiwan	An industry that originates from creativity and cultural accumulation, with the potential to create wealth and employment opportunities through the formation and application of intellectual property, and promotes overall improvement of the living environment.

Table 2
Classification of Cultural Industries by Country

Country Industry	UN	UK	Australian	New Zealand	South Korea	Japan	China	Taiwan
Visual Arts	O	Art & Antique Market		O	Performing Arts		+Entertainment + Art +Cultural Relics	O
Performing Arts	O	O	Entertainment Industry & Theater	-	Fine Arts & Crafts			-
Crafts	Crafts & Design	O			Crafts & Cultural Tourism			O
Design		O	O	O	O			O
Fashion	O	O		O				Designing Fashionable Brands
Publishing	Printing & Publishing	O	Literary Publishing Magazines	O	+Publishing +Magazines +Audiovisual Publishing + News +Comics	+Publishing +Newspaper	Publishing	O
Broadcasting		O	Film, Television, Video Tapes & Broadcasting	Television & Radio	O	Broadcasting	Broadcasting, Television & Film	O
Television								O
Film	O	Film & Video Tape		Movies & Video Tapes	O	O		O

Advertising	O	O		O	O		O	O
Architecture	O	O		O				Architecture Design
Music		O		Music & Performing Arts	O			Music & Performing Arts
Aultural facilities			+Library + Museum +Art gallery +Zoo +Botanical Garden				- +Museums+ Libraries	O
Software & Computer Services				Software & Computer Services (including leisure software)				Digital Leisure & Entertainment
Leisure Software					+Digital & Mobile Content +Games +Animation +Characters	Gaming		
Other	+Cultural Tourism +Sports		+Community +Cultural development +Multimedia				+Popular Culture +Cultural Tourism +Gambling +Competitive Sports +Other	Creativity Lifestyle

Note: O indicates the same name; + indicates a detailed subcategory; - indicates a merger with another category.

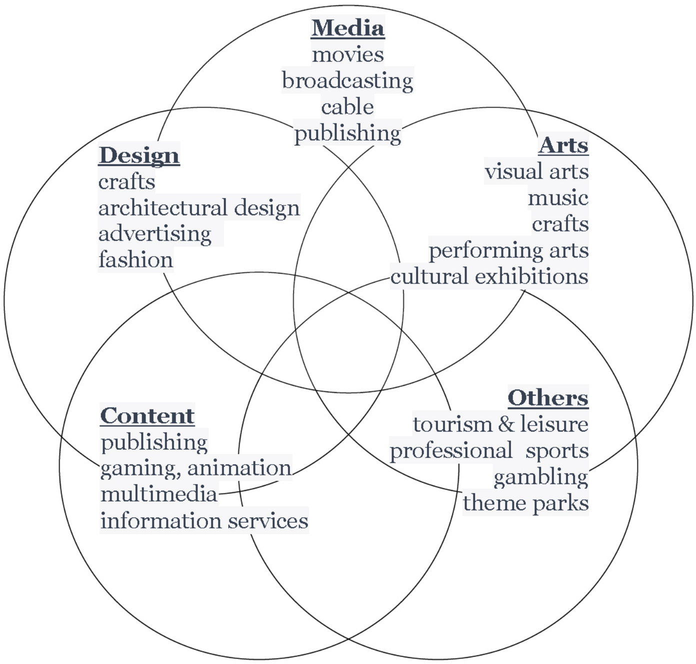

Figure 1

The five major categories of cultural industries

2. Universal Characteristics

Despite cultural industries varying in scale and changing rapidly, we can identify long-term common traits by examining factors such as historical context, operational and marketing strategies, and financial evaluation (Chih-Kai Chen [4,5]; Vogel [18,19]; Yung-Teen Chiu & Chih-Kai Chen [22]). These universal characteristics include:

2.1 *Minority of success and profits*

The cultural industry exhibits several important trends, including the fact that as the industry enters a stable growth stage, put simply, after reaching a market economy scale, the industry is usually controlled by a few large enterprises, and only a minority of works can achieve bestseller status and profits, which are often used to offset the losses of the majority of works. This applies to industries such as film, broadcasting, video games, and music. They generally share similar characteristics as described above. As for the performing arts industry, creating rare sales successes is few and far between, meaning that long-term operating losses have become inevitable.

2.2 *Huge marketing expenses*

The life cycle of many cultural products or services is very short, so it is necessary to continuously attract potential audiences. For instance, Las Vegas casinos, Florida theme parks, or new video games often have unit marketing expenses that far exceed unit production costs. For instance, movie marketing expenses often account for 50% of the average distribution cost of a blockbuster. From an economic perspective, investing in huge marketing expenses aims to shift the demand curve to the right and reduce the price sensitivity of demand, meaning to make consumers less sensitive to prices.

2.3 *Significant subsidiary markets*

Due to the unique nature of sunk costs, revenue generated from cultural products is used to offset direct costs. Therefore, cultural products often create significant revenue returns from other subsidiary and secondary markets. Because the market consists of consumer groups with varying degrees of demand elasticity, differential pricing strategies can be employed to exploit this. For instance, movie revenues usually come from cable and DVD sales rather than box office sales, so different exhibition windows for movies may be sequenced, which may involve licensing of derivative products such as transforming movie scripts into TV or novel texts, including differential pricing strategies during the conversion process.

2.4 *Oligopolistic market tendency*

Once many cultural industries pass the initial development stage, which requires relatively high capital and operational costs, they often become unavoidable barriers for newcomers. Therefore, most cultural industries are ultimately monopolized by large enterprises with strong financial resources. For instance, movie distribution, casinos, theme parks, cable systems, video games, and broadcasting are generally inclined towards oligopoly.

2.5 *Public goods characteristics*

The concept of public goods in economics represents that one's consumption does not diminish the consumption experience of others. Although many cultural products or services are often traded on the market in a private goods manner, including movies, music albums, broadcasting, and professional sports programs, they all have public goods characteristics. In addition, because the reproduction cost of cultural products is usually relatively low, creating scarcity through artificial means to increase value is possible. Through copyright policies, people can be prevented from freely copying texts and limiting the circulation opportunities for near use and reproduction, making copying more difficult.

2.6 *Non-standardized products*

Non-standardization facilitates market disruption but is not conducive to production efficiency. Although the cultural industry market often belongs to an oligopoly structure, those with innovative spirit can often rise up. For instance, drama, movies, music, and video games are often independently created by a single or small group, rather than by large enterprises generating creative ideas. Overall, non-standardized innovations can be textual works, such as movie scripts, music composition, musical or dance performance art, video game story design, etc. In addition, non-standardized innovations also include unique operational processes, marketing strategies, or financial systems, such as movie and professional sports often employing innovative financial models such as option contracts.

2.7 *Enthusiastic about the new, but not tired of the old*

The way of delivering textual content has been evolving. While the introduction of new media may weaken the importance of traditional media, the latter will not disappear. For instance, the launch of radio and television broadcasting or home video systems does not affect people queuing up to watch movies in cinemas or enjoying exciting artistic performances on Broadway, or tuning in to wireless broadcasts on their radios. Even in the digital and smartphone era, radio and television broadcasting and cable TV systems still exist, and people still frequently purchase newspapers, books, and magazines.

2.8 *The universal power of emotions*

Stories are the religion of the cultural industry. Stories can provide comfort and move people's hearts. They often point to a long-gone past or an unattainable future, allowing people to stay in a beautiful emotional state through unlimited imagination. The universal power of emotions can cross different cultures and realities, bringing global appeal to the cultural industry, creating massive sources of revenue and profit. Novels and films are important media for storytelling, and even the professional sports industry knows this. For instance, live coverage of sports stars, both on and off the court, whether successful or unsuccessful, captures the attention of fans and followers, and with various publishing media and feature reports, shapes how idols grow and face challenges in their hearts. Similarly, luxury fashion items such as Bordeaux wines can transform the process of seasonal changes on the farm and how they affect grape growth and production into touching harvest scenarios, arousing anticipation for fine wines.

2.9 *The contradictory industrial logic*

The cultural industry is a text-based creative industry. For a long time, the romanticism and autonomy of textual creativity have been highly respected. However, once it enters the market logic, the creation of text is still subject to the control of intermediaries such as creative managers, producers, and editors. In a sense, while culture and art pursue elegance and aesthetics, industry and the market pursue efficiency and returns. The thinking and operating logic of the two are highly contradictory, like the two ends of a spectrum. Paradoxically, the cultural industry is an innovative contradiction that attempts to combine both ends. Therefore, the complexity of the cultural industry always stems from the aforementioned contradiction. In other words, if we focus on culture and art, we can create art for the sake of art, leading to long-term artistic immortality, which is superior to short-term profits. On the other hand, if we focus on industry and the market, not making a profit is the biggest unethical behavior, so short-term imitation is more profitable than long-term innovative losses. The cultural industry is an openly contradictory industry. To solve the aforementioned problems, perhaps we can outsource the production of textual products to external independent studios. In general, the intrinsic value of textual creations, which is universally cherished, should not be subject to the control of bureaucratic organizations or creative suppression. However, in terms of finance and marketing, to reduce the risks associated with managing creativity, strict control of reproduction, distribution, and marketing by large organizations is a viable compromise.

2.10 *Maximizing audience reach*

Since the demand for text is often highly subjective and irrational, listening and viewing habits are often fickle and uncertain, and the product lifecycle of text after conversion may be extremely short. Therefore, in order to maximize the audience reach, it is necessary to continuously attract the attention of listeners and consumers, and massive marketing exposure has become an inevitable strategy, such as movies, music, and digital games, where marketing spending is often higher than production costs. Facing such uncertain nature, a typological strategy can be adopted to reduce the possibility of a work's failure. Feasible practices include: 1) Establishing the star system, that is, listing the names of important cast members, stars, or performers on the text, and continuously shaping the star halo of the above authors or performers. 2) Establishing genres, such as categorizing text into horror, epic, detective, or pure literature, informing the audience in advance what satisfaction can be obtained from this text. Generally speaking, unless the creator is already a star, it is very suitable to market in a genre manner. 3) Creating a series, usually successful texts will eventually lead to many secondary and ancillary works, and successful movies are also expected to release sequels or prequels.

2.11 *Minimizing consumer surplus*

As the demand for cultural products is often highly subjective, irrational, and varies from person to person, pricing strategies can adopt a completely differentiated pricing approach, with higher prices for high demand and lower prices for low demand, meaning that each audience member is unique. Therefore, the exclusive usage experience of cultural products often becomes the pricing basis, while traditional product pricing often adopts a cost-oriented strategy. As it is not based on the audience's self-perceived ultimate value, it often underestimates or distorts the value of intellectual property rights. In general, the pricing strategy of the cultural industry is demand-oriented rather than cost-oriented, focusing on satisfying personalized emotions and enriching anyone's exclusive experience. Under the premise of highly subjective and irrational demand, the pricing setting will have no upper limit.

2.12 *Mass production strategy*

As bestsellers are often limited, and the market exposure and competition are extremely fierce, most texts do not have sales power. In other words, the success rate of most texts follows the 80:20 rule, and some text types may be even worse, almost reaching 98:2. For instance, the profit margin of music albums is usually less than 10%, with more than 70% of albums showing losses. Therefore, mass production has become an important strategy, meaning that the quantity produced is higher than the number that is likely to succeed. The core idea of the above strategy is to spread the investment risk concentrated in specific texts. Usually, the royalties for new creators are lower, and production costs are much lower than subsequent promotion and marketing distribution costs. In addition, bestsellers may often come very suddenly. Especially since most texts are intangible assets, when the production and sales scale expand, the scale economy returns may show a reversal phenomenon. In other words, the cultural industry is different from the traditional economy in that the return on scale is increasing rather than decreasing.

3. Dialectics of Industrial Structure

Economic theory divides markets into perfect competition, monopoly, oligopoly, and monopolistic competition based on how firms price and output based on the external environment. Perfect competition refers to a market where many sellers produce homogeneous products that do not affect market prices. Monopoly refers to a market where a single seller produces a unique product and can set market prices while creating barriers to entry to prevent potential competitors. However, in the real world, most industries cannot be classified as either perfectly competitive or monopolistic, but somewhere in between. Oligopoly refers to a market where a few sellers produce substitute products and can influence market prices through negotiation. Monopolistic competition refers to a market where many sellers produce heterogeneous products and can control market prices and competition through advertising and other strategies. The degree of competition in a market can usually be measured by the Herfindahl-Hirschman Index (HHI), which is an indicator of market concentration. The calculation is based on the sum of the squares of the relative market shares of each company in the industry, used to calculate changes in market share, i.e., the degree of dispersion of the size of firms in the market. The formula is:

$$H / HI = \sum_{i=1}^{N} (X_i / X)^2 = \sum_{i=1}^{N} S_i^2$$

X represents the total size of the market, X_i represents the size of the i-th company, $S_i = X_i / X$ represents the market share of the i-th company, and n is the number of entrepreneurs in the industry. As the HHI increases, market concentration and monopoly levels also increase. This indicator not only reflects the market share of large companies in the market, but also the market structure outside of large companies, which can more accurately reflect the degree of influence of large companies on the market.

In fact, pure competition or a free market is not present in the cultural industry. For instance, professional sports, cable, and newspapers are all examples of markets with monopolies. Others such as movies, music, casinos, and theme parks tend to be oligopolistic markets. Publishing, broadcasting, online gaming, and performing arts belong to monopolistic competition. However, any economic competitive system is built on the aspects of competition, taxation, contracts, and ethics of a massive legal system. (Chih-Kai Chen [3,5])

Although free and perfect competition has always been the ideal market structure, many cultural industries have been influenced by government regulations for a long time, for example, broadcasting, cable, and gambling. As for movie production, distribution, and exhibition, as well as professional sports, the opposite policy direction is presented, such as lifting the industry's antitrust regulations and encouraging oligopoly and monopoly structures in the market. (Chih-Kai Chen [3])

Balancing policy legislation has long been a challenge, particularly in deciding whether to promote industry openness or intervene in it, and whether to provide industry subsidies or tax exemptions. This issue has been a matter of concern for scholars from various disciplines, including economics, politics, culture, and society. In short, the main issues include laissez-faire versus intervention in the market, concentration versus diversity, efficiencies versus structures, and subsidies versus tax breaks. As these issues often involve different value trade-offs, there are also significant opportunity costs associated with different values. For instance, when policy legislation encourages concentration of property rights to achieve industrial efficiency, this may lead to market structure imbalances, resulting in industry monopolies and loss of innovation capabilities. In any case, the structure of the cultural industry and its industrial competitiveness are closely related. How to develop towards a highly structured industry, including increasing the average capital scale of the industry, strengthening industrial clustering and vertical division of labor, are all important pathways to enhance the competitiveness of the cultural industry (Yung-Teen Chiu & Chih-Kai Chen [23]).

Different countries often adopt different policy legislative strategies. For instance, in the film industry, the European Union legislation adopts various tax credits, subsidies, and quota protection measures. Similarly, the United States strictly prohibits foreign forces from entering or only opens up to a few specific groups in broadcasting. The United States also has legislation in place to restrict cross-ownership between newspapers, cable companies, and broadcasters to prevent industry monopolies and maintain market diversity

In addition to economic factors, cultural and non-profit factors are also essential. For instance, why provide public spending or tax credits solely to build opera houses for the wealthy? Why not use the funds allocated for subsidizing the construction of large sports venues to help the poor or provide education and healthcare in rural areas? How can society continue to support the development of culture and the arts without the above subsidies? Should the government provide tax credits to the film industry, and why not use the funds for school construction or the development of pollution-free energy? Should the government legislate to encourage or restrict the gambling industry, and is increasing government revenue more important than serious social deterioration (Yung-Teen Chiu & Chih-Kai Chen [22])?

Finally, piracy and intellectual property protection are also important issues. The economic concept of free-ridership effect indicates that the marginal cost of adding a new listener or viewer is zero. In the music industry, although the term piracy has gained widespread attention, it is often mistakenly referred to as "riding on the coattails" when most people are downloading content from the internet for non-commercial personal use. Such views and related laws clearly affect technological development and corporate profits. In other words, if policies are biased towards supporting software or content rather than hardware, or the complete opposite, what kind of impact will it have on the sustainability of the public interest? What kind of compensation should content creators and artists receive? Facing these issues, public policies will greatly impact industry profits and growth, but no one can easily answer these questions (Chih-Kai Chen [5]; Vogel [19]).

4. Conclusion and Discussion

For most people, culture and entertainment have become important elements of life, second only to food, clothing, and shelter. When human society reaches a certain level of development, people usually allocates a certain proportion of their income to cultural and entertainment products, as economists call it "income elasticity". In addition, with the further development of technology, the rapid growth of these industries has been catalyzed. This is reflected in reports from the WIPO [20] and the UNESCO [17], which show that the global cultural industry output value has been steadily increasing since 2000 and reached nearly 12 trillion US dollars in 2020.

As stated earlier, this work attempts to propose several dialectical arguments, including what is the relationship between the government and the cultural industry? Why does the government need to intervene? What is the purpose of government intervention? This work emphasizes that this is not only an issue of industrial economy, but also a cultural and social policy issue. Ideally, the government hopes to improve the investment environment and promote industrial development through the formulation of good industrial and economic policies, thereby increasing national wealth and overall social welfare. However, different scholars often hold completely different views on whether and how the government should intervene in industrial development policies. For instance, the free-market school advocates that the government should avoid intervention because market resources can be effectively allocated and utilized under the operation of a free-market mechanism. On the contrary, some scholars believe that although the market can operate efficiently under conditions of perfect competition, the market mechanism may fail due to market imperfections, so adjusting the imperfect market through administrative intervention is a necessary strategy. In addition, other scholars believe that in the early stages of industrial development, the government needs to protect infant industries in order to enhance their international competitiveness.

Overall, high-quality policy governance should consider not only economic goals, but also cultural and social aspects. In other words, any policy should aim to maximize public interest. Although we have found that promoting the cultural industry can achieve considerable economic effects in various countries, in order to avoid focusing only on the instrumental and economic aspects of the industry, countries should also consider the dialectical relationship between the economy and culture from a macro perspective. That is, when developing the cultural industry economy, we should avoid falling into the simple economic misconception, and also focus on preserving the uniqueness and sustainability of culture, making cultural industries and activities a beautiful memory of people's lives, allowing different cultures to receive more appropriate attention and preservation, and avoiding cultural hegemony.

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