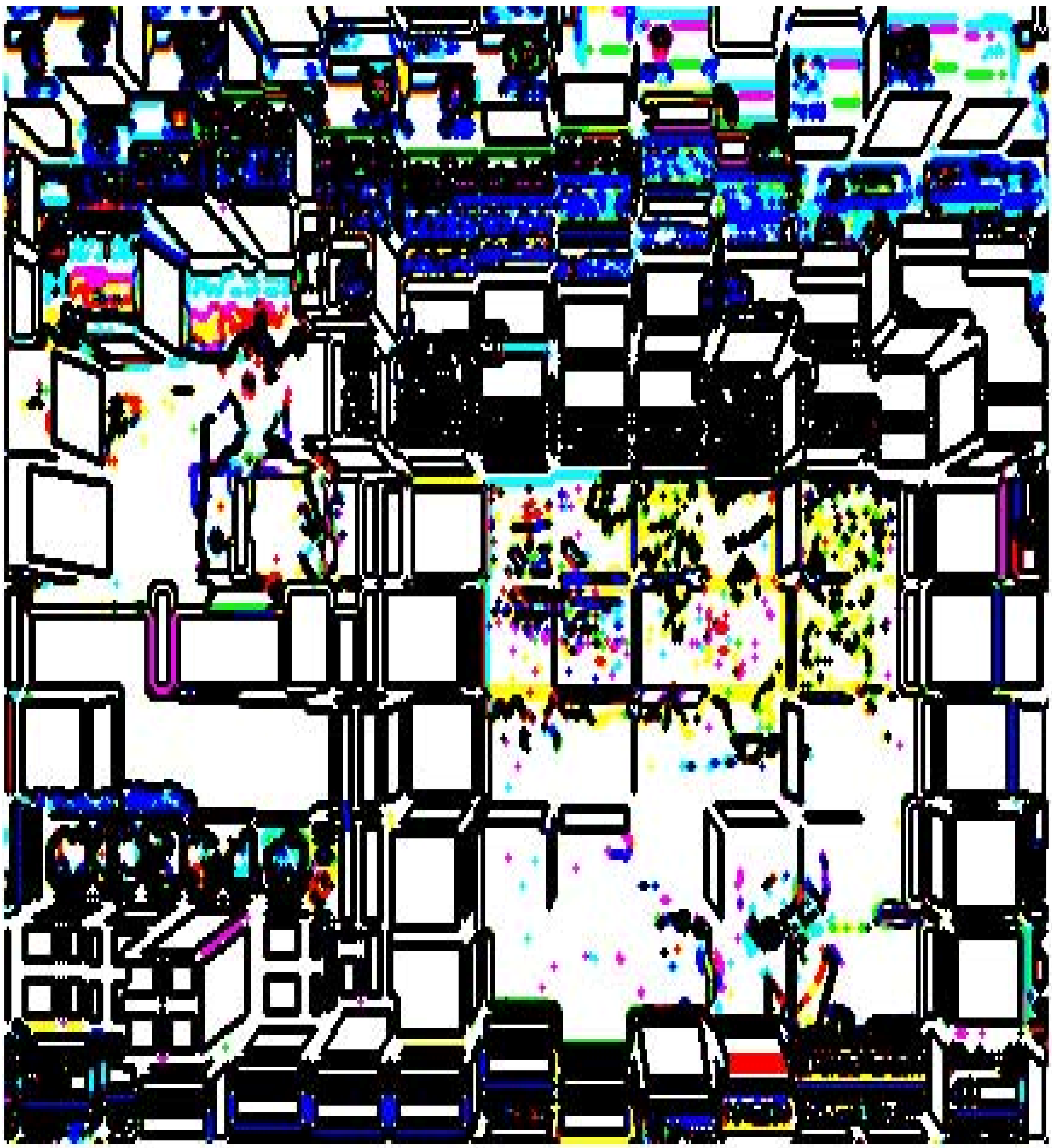
Cultural Advantage for Cities

An alternative for developing countries

V. Christianto & F. Smarandache



May 2008
InfoLearnQuest, USA

Cultural Advantage for Cities

An alternative for developing countries

V. Christianto & F. Smarandache

May 2008
InfoLearnQuest, USA

This book can be ordered in a paper bound reprint from:

Books on Demand
ProQuest Information & Learning
(University of Microfilm International)
300 N. Zeeb Road
P.O. Box 1346, Ann Arbor
MI 48106-1346, USA
Tel.: 1-800-521-0600 (Customer Service)
http://wwwlib.umi.com/bod/basic

Plenty of books can be downloaded from the following
Digital Library of Science:
http://www.gallup.unm.edu/~smarandache/eBooks-otherformats.htm

Peer Reviewers:
(*) Dr. Sukanto Bhattacharya
UQ-KPMG Centre for Business Forensics
UQ Business School
The University of Queensland
QLD 4072
Australia

(*) Dr. M. Khoshnevisan, School of Accounting and Finance, Griffith University, Gold Coast, Queensland 9726, Australia.

ISBN: 9-78159973-060-8

Standard Address Number: 297-5092
Printed in the United States of America

Content

Prologue

After more than a decade Michael Porter's book *Competitive Advantage of Nations* stays ahead of the other books, in particular as alternative framework from the *comparative advantage* idea inspired by Adam Smith.

This small book is merely an alternative proposition, a postscript perhaps, to Porter's book, with basic idea that one cannot rely merely on industrial processes alone to keep stay ahead of market changes. Hence, for cities in developing countries the municipal shall find out their city's best resources, and develop their city starting from there, instead of striving blindly in the conventional industrial path.

We focus our discussions in this book on cities, because in our opinion a city is the smallest economic entity which has *'self-organizing'* character [1][2], in a sense that a city can grow by itself (with minimum intervention). Nonetheless, this book will not discuss the self-organization character itself [3], but a new concept called 'Cultural Economy' development. Cultural Economic here is part of leisure and tourism industry, and depends on taste, advertisement, history, and the quality of being diverse, distinctive, with a large spectrum of varieties. [4]

What we would like to emphasize here is the word 'alternative' in this book title. What we mean is that the proposed strategy is not always true for all conditions. for instance, in Hawaii, where industrialization and resources are very few the best strategy is perhaps to foster its 'cultural approach', see chapter 3. Meanwhile for other cities where there is no extensive cultural potential, then industrialization approach seems still working.

In the end of each chapter we introduce *Box* where we discuss possible links with more thoughtful discourses; these sections were intended for more philosophically-inclined readers.

After all we do not pretend to have the last word on proper remedies to problems encountered by each developing country. It would need substantial study based on each particular country's problems, contexts and resources.

The ideas presented in this book emerged from a discussion starting around two years ago with a few best friends. Thanks to L and S in C for their all-the-time enthusiasm and encouragement for ideas related to this issue; and also to other colleagues who may share their views related to cities in developing countries.

We also use the poly-emporium theory; etymologically comes from *poly* = many, and *emporium* = trade center, store with a wide variety of selling things; therefore *poly-emporium* is the study of interactions among many (big and small) firms in the market.

This book is suitable for policy makers, economists focusing on development studies, readers in cultural studies, and other readers who want to learn more on city development and its link to Cultural Economy.

Our hope is that this book may be found useful to understand emerging phenomena in the past recent years, and how it may affect city development.

May 8th 2008
VC & FS

Further reading

[1] J. Portugali, *Self-Organization and The City, http://www.eslab.tau.ac.il/contentsocity.html*
[2] J. Portugali, *et al.,* www.envplan.com/abstract.cgi?id=b240263
[3] P. Krugman, Self-Organizing Economy, http://www.cscs.umich.edu/~crshalizi/reviews/self-organizing-economy/
[4] personal.ashland.edu/~jgarcia/**Cultural**Econ/**Definition**%20of%20**Cultural**%20**Economics**%20-Word%20format.doc

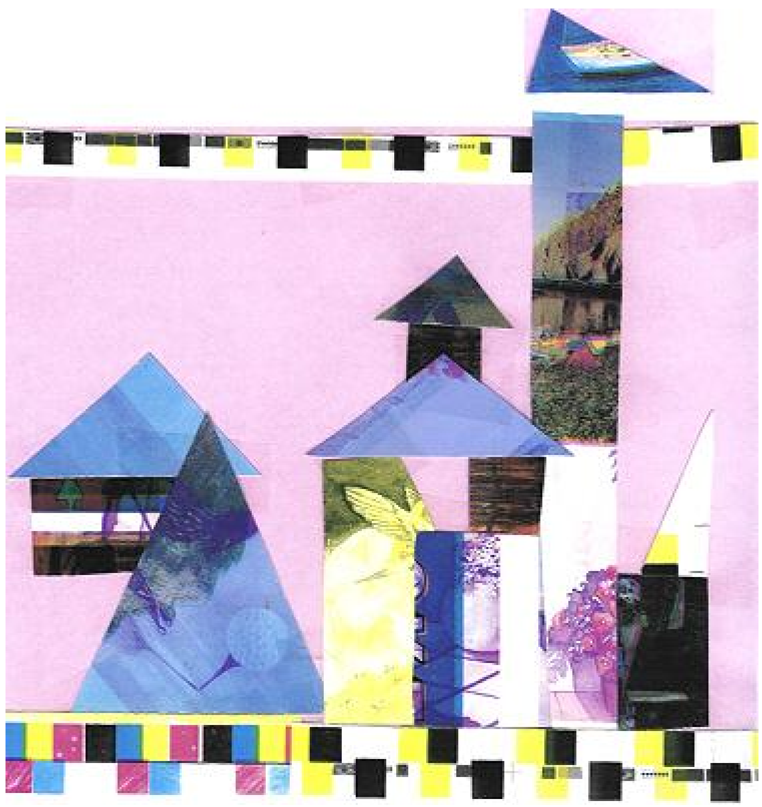
Biography of Authors

F. Smarandache – was born in Romania, and received his PhD in mathematics from the State University of Moldova at Kishinev in 1997. After emigration to the US, he continued post-doctoral studies in various universities. He worked as software engineer (1990-1995) and was an adjunct professor at Pima Community College (1995-1997). In 1997 he became an assistant professor at the University of New Mexico (Gallup) and was promoted to associated professor of mathematics in 2003. He is the chair of Math & Sciences Department. F. Smarandache is the authors of many books, published plenty of scientific papers in various proceedings and journals, and as a polymath he is also an artist, painter, poet.

V. Christianto – is a sciprint.org administrator, and an independent researcher. His research interests include astrophysics, quaternion number application in theoretical physics, and computational methods in science. He has published more than 14 papers, some of them can be found in EJTP, AFLB, and Progress in Physics (www.ptep-online.com). He has published some books (with Prof F. Smarandache and others) including *Multivalued-Logic, Neutrosophy, and Schrodinger equation* (Hexis-Phoenix, 2006); *Unfolding Labyrinth: Unsolved Problems in Mathematics, Physics and Astrophysics and other areas of Sciences* (Hexis-Phoenix, 2006); *Quantization in Astrophysics, Brownian Motion and Supersymmetry* (Chennai, Tamil-Nadu, 2007); and *Hadron Models and Related new Energy issues* (InfoLearnQuest, 2008).

The present book is an experimental book by these authors on how the best way to implement 'scientific' advancement into city development, and it is partially inspired by F. Capra's book "*The Turning Point*" Bantam Book (1982).

Chapter 1
Historical Precursor



Chapter 1
Historical precursor

Pitfalls of industrialization

It was well-known since 1960s and taught in all economics classes, that the best way for a country to become prosperous is that it should develop its industry. Agriculture is of low benefit and hard to cultivate and to farm the land, and is also very prone to weather, natural fluctuations etc. Sometimes under-developed countries can rely on tourism and culture for their economy, which is good, but at the core of the economic development programs, the industrialization process as part of '*five steps of economics development*' must be integrated to their economies. [2]

But if we observe carefully to economics of developing countries, only few countries that practicing the Rostow's theory are actually improving their economics compared to where they began. For instance, Argentina which was well-known as agriculture powerhouse in the beginning of 20th century now faces complicated economic problems. (see chapter 4).

Where does the problem come from? After studying on the origins of Walt W. Rostow's idea of five steps of economic development [2], it seems that the problem comes from the fact that most developing countries seem to try to duplicate what happened in England the past few centuries ago. This approach can be summarized as follows [2]:

> “Since England is the first county to industrialize and many countries have based their strategies for expansion upon her actions, her history of growth is essential in any study of economic development.”

While almost all historians agree that a nation history differs from one to another, the same fallacy seems to keep going on in the developmentalism.

The ramification of implications of this industrialization to cities development are already apparent, because as we know a national economic development implies that cities shall adapt to the same policy. For instance, the massive growth of urbanization surrounding the main city with sub-urban regions is the result of such industrialization program. Similarly, agricultural economic in rural areas are going nowhere.

Another implication of such a massive industrialization is that the increasing of plenty of infrastructure problems, like road, river, housing etc, because most of these cities were not well prepared to support the industrialization.

Somehow, suddenly we realize that we’re not in Kansas anymore…

Now it seems like there is something deep going wrong here, isn’t it? Is it really true that there is something wrong with developmental programs, or there are deep flaws in the so-called comparative advantage, competitive advantage theories? Does this problem come from blind-industrialization or from flawed and ill-used globalization? [1]

(For you who don't hear yet of these theories, comparative advantage is coined after Adam Smith, while competitive advantage is coined after Harvard's Michael Porter with his book 'Competitive Advantage of Nations.') [4]

Is there alternative to industrialization?

Albeit arguable, our proposition in this small book is to re-consider new alternative approach for city development other than industrialization *per se*. It does not mean that industrialization approach will fail at all, but that a city can consider also its own human potential, cultural potential rather than merely produce '*massive products*' which then cannot be exported. *Development through destruction* of human potential cannot prevail forever.

When the big wave of industrialization began at early 18^{th} century in Europe continent, it was the barter market that prepared the way for this big wave. Interestingly, most developing countries seem to try to duplicate this historical path, without re-thinking of their own historical roots. Of course, after some decades of industrialization, their efforts end up with scattered results.

While some of these developing countries (Asian, Africa, Latin America and other countries) report great achievement as a result of developmental programs (in particular during 1970s-19780s), most of these developing countries are today in the middle of limbo, with regions torn apart between the agriculture economy and sporadic regions of industrialization. In the mean time, most of these developing countries have sold almost all of their '*natural resources'* but left with the burden of economics deficit, because their products cannot be exported.

And worse of all, these developing countries are put in pressurized conditions (under the name of ‘g*lobalization*’ and ‘*liberalization*’ [1]), where they have to open all their economies for foreign goods from industrialized countries, while their own goods face great barriers to enter the industrialized countries for various reasons: international standards, protection, excessive import taxing, dumping, etc.

A review of economics thinking

In Keynesian economics, it is believed that macroeconomics tends towards extended business cycles with large un-employment. J. M. Keynes (1883-1946) argued that government should stimulate and manage the economy in order to alleviate its problems. The government can influence the supply and demand. In time of crisis, the government can use the monetary and fiscal policies to re-launch the economy.

Since excessive demand leads to inflation and low demand causes unemployment, the government has to intervene to make equilibrium between demand-supply: government should stimulate demand when demand is insufficient by cutting taxes (so people have more money to spend) and increasing government purchase. When demand it high, the government should stimulate the supply.

Keynesian economics are opposite to Adam Smith [1723-1790]’s ***laisser-faire*** [“allow to do” in French] strategy, which meant that the government should have a minimum interference with the economy. Government deregulations reflect the laisser-faire, and more regulations is synonym to government intervention in economics.

Fluctuation in national income, developed by Sir William Petty (1623-1687) in his *trade cycle*, encouraged governmental intervention to dampen the fluctuation in order to maintain economy's stability. These business cycles are determined by changes in technology, changes in taste, and multiplier-accelerator.

Roy Harrod (1900-1978) and Paul Samuelson (b. 1915) model the fluctuations through government interventions, in the below increasingly chain links:

governmental expenditure → consumer income → output → investment

and this cycle is repeated.

The equation of economic accelerator is:

$$\mathbf{I = \alpha\Delta t}$$

where I = net investment I year t, α = accelerator coefficient, and Δt = change in annual income. So, investment is connected to economic output, and both of them depend on the capital each of them need. This acceleration principle was enunciated by John Clark (1884-1963) in 1917.

The wholesale is referring to the selling of goods in large quantities and at lower price than retail sale. In general the practice is to sale to retailers who will re-sale to customers. Nikolai Kondratieff (1892 - c.1931) discovered that the peaks and troughs of wholesale prices and interest rates fell at regular intervals, intervals equal to 50-60 years, according to J. A. Schumpeter who named them "Kondratieff cycles", or equal to 54 years according to researchers from Harvard. In general, business cycles are caused by fluctuations, wars, international politics, governmental elections, over-investment, under-consumption, credit changes, taste change, etc. A cycle comprises: recession, recovery, boom, and recession. The longest business cycle may have 60 years, but short cycles may be up to 12 years.

Michael Kalecki (1899-1970) revised Marx's idea, that fluctuations are provoked by politicians who manipulate money and fiscal policy in order to get elected or reelected, creating the so-called *political business cycles*. The politicians introduce before elections inflationary policies, but after successful elections they do deflationary policies (*lessening the amount of circulating money*), which brings economy in imbalance.

Kenneth Arrow (b. 1921) and Gerard Debreu (b. 1921) advocated for a **multi-market equilibrium**, called Arrow-Debrew model, set up in 1954. In this model there should not be allowed any excess of supply or demand. Any disequilibrium, to a side or another, should be corrected.

Léon Walras (1834-1910) developed the **general equilibrium theory**, based on firms that are perfectly competitive and consumers that are utility maximizers. The question was, amongst economists, if such a system is stable and unique?

An **equilibrium theory** had previously be elaborated by A. Smith and David Ricardo (1772-1823), who considered that market prices fluctuate/tend around/to the natural price, while the wages as factors of contraction or expansion of population. Prices and population are thought as main factors of keeping the equilibrium.

Alfred Marshall (1842-1924) has proved the continuous change in economy in short and long runs, and developed the **partial equilibrium theory**.

Walras went further and proposed a unification framework (called **Walras's stability**) for the theory of change, theory of production, and theory of formation. He stated that if n-1 markets are in equilibrium and there are n markets, then the last market must also be in equilibrium.

Jean-Baptiste Say (1767-1832) has argued that the economy is **self-regulating** (called Say's Law), provided there is a flexibility of prices and wages. The law states that "supply creates its own demand" and there is no super-production. Keynes challenged it a century later.

The rate of exchange of a currency, in time of inflation, no longer equates its purchasing power. This is called **fundamental disequilibrium** (since 1945). Under-developed countries are the most affected by this disequilibrium.

Every economy's intent is price stability, low inflation, and full employment, which should balance the payments. Internal and external balance should be in equilibrium. In classical macroeconomics, envisaged by J.-B. Say, it is asserted that full employment is reachable in absence of regulations but with market price flexibility.

No dough that demand, supply, production, and prices are dynamic and inter-dependable. The *cobweb theory*, defined in 1934 by Nicholas Kaldor (1908-1986), focuses on the cyclical demand, and price and production changes in order to produce equilibrium.

Oppositely, the *supply-side economics* emphasizes rather on supply and it is concerned with productivity, and governmental measures for this: deregulations, tax cuts, public expenditure reduction, mobility of labor.

Another theory was developed, after 1970s, called the **new classical macroeconomics**, by Robert Lucas (b. 1937) and Thomas Sargent (b. 1943) and Patrick Minford (b. 1943) and Michael Beenstock (b. 1946), against Keynesian economics, saying there is a natural rate of unemployment in economy and disturbance of this equilibrium is counter-balanced by economic agents. The main agents are: investment, consumption, and saving, which tend to be continuously in equilibrium and they hold at their rational expectations.

Therefore a number of immediate questions arise from the present economics thinking:
(a) So, what economic model would better work: much or less government interference, for cultural economics?
(b) How to dampen the cultural economic trade fluctuations?
(c) Do prices for cultural economics fell at regular intervals too?
(d) Should the cultural economics be a pre-economic step for third world countries before industrialization?
(e) How to maintain the equilibrium or partial equilibrium or some kind of stability in cultural economics?

Box I: Cultural Advantage and Cultural Studies

As we know, natural sciences are normally considered as '*hard science'*, while social sciences are considered as '*soft science'*. This terminology can be traced back to Fritjof Capra etc. [5] In the meantime, some economists consider themselves as doing 'hard science' while other seem to be inclined to 'soft science'. Not surprising, therefore, that some economists seem very accustomed to prescribing solutions to economics problems, using hard technologies, hard methods, *vis a vis* humanistic considerations. See also E.F Schumacher's thinking on 'meta-economics'.

Therefore, by considering Cultural advantage here, we are practically introducing more '*soft sciences'* into economic thinking. In other words, unlike modern economics that are more likely to be 'alienated' to the cultural context of the 'people' where they are implemented, here we propose to introduce more 'Cultural studies' before prescribing a new solution, especially for developing countries.

And to take into consideration cultural approach, we can consider for instance Cultural studies by Storey etc [6].

References:

[1] Stiglitz, J., *Globalization and its discontent* (1996); [1a] Skydelsky, Gloomy about globalization, http://www.nybooks.com/articles/21259; [1c] http://www.infed.org/biblio/globalization.htm

[2] For introduction to Rostow's five steps of economics development and its origin, see www.csua.berkeley.edu/~dxu/econ/england.html

[3] Rostow, W.W., "Beware of Historians bearing false analogies," *Foreign Affairs*, Spring 1988, http://www.foreignaffairs.org/19880301fareviewessay7900/walt-w-rostow/beware-of-historians-bearing-false-analogies.html

[4] As introduction to M. Porter, see http://www.hbsp.harvard.edu/hbsp/hbr/articles/article.jsp?articleID=90211&ml_action=get-article&print=true

[5] Capra, F., *The Turning point,* Bantam book (1982); URL: http://www.fritjofcapra.net/; [5a] The Emerging new culture, http://www.intuition.org/txt/capra.htm.
[6] Storey, J., What is Cultural studies?, http://seacoast.sunderland.ac.uk/~as1sth/john.htm; [6a] http://www.amazon.com/What-Cultural-Studies-John-Storey/dp/0340652403

Further reading on development theories:

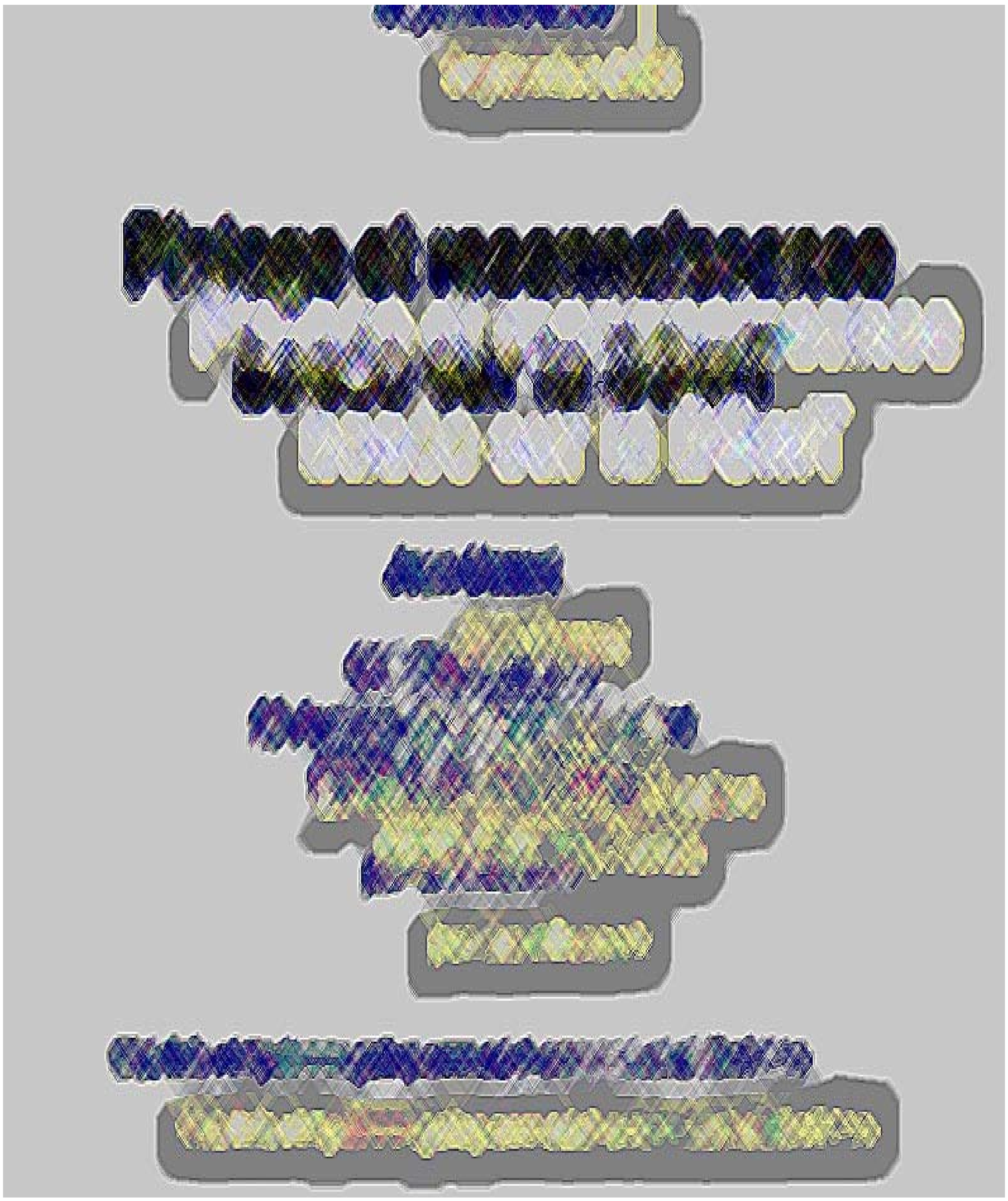
[7] R. Cameron, "A new view of European Industrialization," The Economy History Review 38(1), 1985, 1-23. http://www.blackwell-synergy.com/doi/abs/10.1111/j.1468-0289.1985.tb00355.x?cookieSet=1&journalCode=ehr
[8] I.L. Horowitz, "The search for a development ideal: Alternative models and their implications," The Sociological Quarterly 8(1), 1967, http://www.blackwell-synergy.com/doi/abs/10.1111/j.1533-8525.1967.tb01079.x

Standard texts on Economics theories:

[9] Keynes, J.M., *The General Theory of Employment, Interest and Money*, New York, 1936.
[10] Hicks, J., *The Crisis in Keynesian Economics,* Oxford, 1974.
[11] Smith, A., *The Wealth of Nations*, 1776.
[12] Matthews, R. C. O., *The Trade Cycle*, Cambridge, 1959.
[13] Harrod, R. F., *The Trade Cycle*, Oxford, 1936.
[14] Samuelson, P., "Interactions Between the Multiplier Analysis and Principle of Acceleration," in Review of Economic Statistics 21, 2, 75-78, 1939.
[15] van Duijin, J. J., *The Long Wave in Economics Life*, London 1983.
[16] Burns, A. F., and W. C. Mitchell, *Measuring Business Cycles*, New York, 1946.
[17] Haberler, G., *Prosperity and Depression. A Theoretical Analysis of Cyclical Movements*, London, 1958.
[18] Clark, J.M., "Business Acceleration and the Law of Demand," in Journal of Political Economics, vol. xxv, 3, 217-135, 1917.
[19] Kalecki, M., Political Aspects of Full Employment, in Political Quarterly, vol. xiv, 322-331, 1943.

[20] Arrow, K.J., and G. Debreu, The Existence of an Equilibrium for a Competitive Economy, in Econometrica journal, vol. xxii, 265-290, 1954.
[21] Balasko, Y., Foundations of the Theory of General Equilibrium, New York, 1986.
[22] Weintraub, E.R, General Equilibrium Theory, London, 1974.
A. Smith, An Inquiry into the Nature and Causes of the Wealth of Nations, London, 1776.
[23] Marshall, A., Principles of Economics, London, 1890.
[24] Walras, E., Eléments d'économie politique pure, Lausanne, 1976.
[25] Morishima, A., Equilibrium, Stability and Growth, Oxford, 1964.
[26] Say, J.B., Tarité d'économie politique, vol. I, Paris, 1803.
[27] Sowell, T., Say's Law: An Historical Analysis, Princeton, N. J, 1972.
[28] Horsefield, J.K., The International Monetary Fund 1945-1965: Twenty Years of International Cooperation, Washington, DC, 1969.
[29] Meade, J.E., The Theory of International Economic Policy, vol. I, Oxford, 1951.
[30] Kaldor, N., A Classificatory Note on the Determination of Equilibrium, in Review of Economics, vol. i, 122-136, 1934.
[31] Nerlove, M., Adoptive Expectations and Cobweb Phenomena, in Quarterly Journal of Economics, vol. LxxII, 227-240, 1958.
[32] Hoover, K.D., The New Classical Macroeconomics, Oxford, 1988.

Chapter 2
Cultural Advantage as an Alternative to Competitive Advantage



Chapter 2
Cultural Advantage as an Alternative to Competitive Advantage

De-industrialization and Emergence of Experience Economy

Despite all the hype in favor of industrialization, there are some reports based on local findings in Indian and elsewhere, suggesting that de-industrialization now seems to take place [4]. The downturn of industrialization can be expected thanks to the fact that in most developing countries agriculture economics remains predominating.

In the meantime, there is tendency of the growing *Experience Economics* and also *Expectation Economics* [5][6][7], which seem to suggest that a New type of customers (post-baby boomers) have grown up and they now determine what they want. This growing trend seems to shape a New Economy based on Experiences and Culture. This leads us to the next section.

In the meantime, it is known that hospitality, tourism and traveling industry forms the largest contribution to the world economy, probably at least until 2020. For instance, it is known as early as 1996, that Travel and Tourism growth rate in China is at around 9% a year, and to create more than 5.5 millions jobs over 12 years. [15] In January 2008, Shao Qiwei said, 'The World Tourism Organization has forecast that China will grow into a huge tourism market, and have

100 million each of inbound and outbound visitors and 2.8 billion domestic tourists by 2015.' [16]

Similar projection can be found for the North East [17], where the tourism and hospitality sector supports over 10% of the Region's labor force, and contributes £1bn to the regional economy. The pictures are more or less the same for other regions, with trend to increase in the forthcoming years.

Furthermore, a study for Europe region has revealed that Cultural Industry is bigger that Chemical Industry. For instance, there are 5.8 million employees in the various arts sectors, e.g. literature, film, music, architecture, performing arts, visual arts and dance and in the creative sectors like advertising, design and video games, accounted for a turnover of 654 billion Euros in 2003. [18] Furthermore, Cultural Industries contribute more towards the economy in Europe than e.g. the food industries (1.9%) or the chemical industry (2.3%). It has been stated that there are 3 major objectives that together form a cultural strategy for the European institutions:

- Promotion of cultural diversity and inter-cultural dialogue,
- Promotion of culture as catalyst for creativity;
- Promotion of culture as a vital element in the Union's international relations.

This big picture seems to suggest that hospitality, tourism and travel industry are very huge, beyond other industries, and they are worth to be considered seriously as part of development strategy.

Cultural Advantage, a new proposition

Back to a few years ago, a good friend and we have discussions spanning for weeks on possibility to propose a new approach as an alternative to existing development strategy for *cities* in the developing countries. Instead of focusing discussions on traditional choice between export or protectionism (import), we argue that perhaps it would be better if we focus on the conceptual foundations beneath the *Competitive Advantage* itself.

One of our thinking is plausible way to generalize Michael Porter's thinking to become *'cultural advantage'*. The reasoning behind our idea is that Porter's theory was based on his own observations on economies of industrialized countries, i.e. how to develop their own competitiveness based on their economics strengths.

While Porter's theory is able to generalize and improve Adam Smith's idea of comparative advantage, - to enable highly industrialized economy like Japan to get competitive edge over natural-resourceful countries like Brazil -, it seems that Porter's theory is biased toward those industrialized economies. Which means that developing countries like Argentina or Peru, for instance, are pushed to export their natural mining while in the same time they shall import back the processed mining (oil, nickel) etc, only at very much higher price!

If we summarize Porter's idea, we can say that industrialized process implies *'new value'* added to the raw materials, which enable the industrialized economies to get very much return over the raw materials they imported from the under-developed countries. See Figure 1.

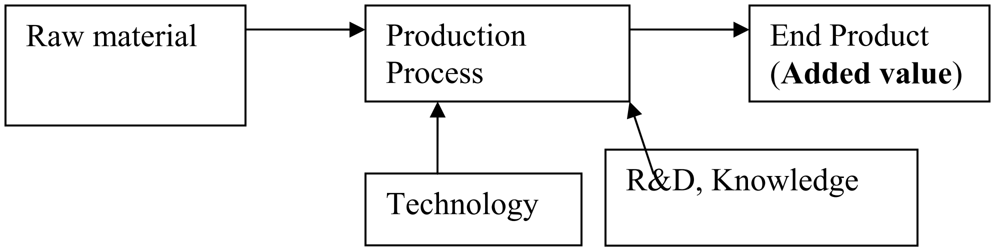


Figure 1. Added-value scheme in industrialized process (Porter)

It shall be clear from the scheme displayed above, why an industrialized country X can introduce new processes to transform steel or nickel to become machinery and then exporting it back to the original country Y.

The question now for the developing countries is perhaps: How can they find a solution to this *vicious* circle?

Considering that most of developing countries actually have economics potentials other than (non-renewable) natural-resources, like human, culture, tradition, art, history, languages etc., and also considering John Naisbitt's idea of High-tech/High-touch (1999) saying that technology *per se* is not enough to rely on in the 21st century, then it seems that now is the time to re-thinking of Michael Porter's idea of competitive advantage. How can it be done? By integrating the cultural stuff into the production process itself.

To simplify, this proposition (albeit only in sketch form) can be simplified in a theme called *'Cultural Advantage*.' The scheme can be shown in Figure 2, which is by including 'soft-process' into production process.

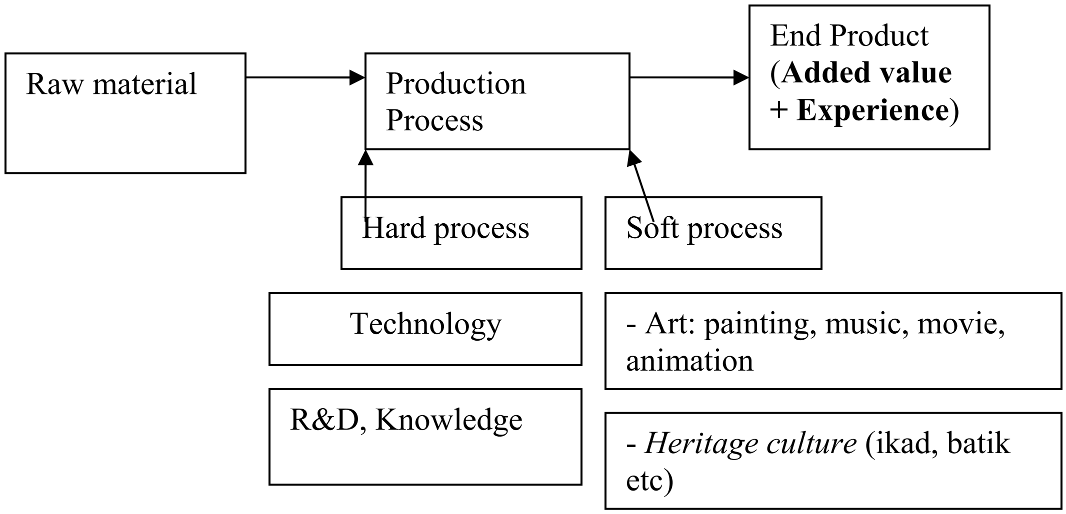


Figure 2. Added-value scheme by taking into consideration soft processes

It shall be clear too from Figure 2, that introducing soft-process will increase the *market value* of the end products, i.e. they now become the result of :

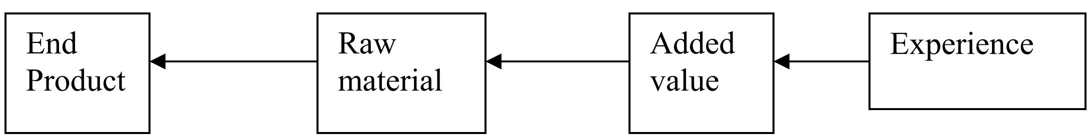


Figure 3. Cycle of product processes

In other words, the end products now have *cultural content* in the form of (exotic) experience. For instance, nowadays we often reads various cultural tourism offering exotic experiences, for instance three-to-five days trip among Sheikh in the Sahara Dessert or deep in the village of Mexican plateau. There are also a bunch of tourism packages offering for those who want to see Sauniere's historical chapel in France (ask Dan Winter) – it seems like plenty of people suddenly become interested in Baigent's books! All of these seem to indicate the emergence of cultural economy, at least in the last decade.

And by the increasing role of 'Experience Economy' instead of merely 'mass production' economy, cultural content will play greater contribution for a city's economy. For instance, it is recognized that there is increasing trend of *heritage tourism* (culture-based tourism) from around 20-25% around 1988 to become 30-35% at the first decade of 21st century. In other words, our economy tends to become *cultural based economy* (*experience economy*). [1][2]

Furthermore, this proposition to foster Cultural Advantage shall also consider facts in developing countries themselves, for instance (See Table 1):

Table 1. Supporting facts for Cultural advantage

No	Description	Implication
1	Most developing countries have cultural diversities (traditions, linguistics, literary, dance, music, clothes, puppet, sculpture)	- Enable to be included as cultural-content in production process (textile, furniture etc.)
2	*Heritage culture* has increasingly become a new trend in tourism, called cultural tourism [1]	- Enable the increasingly role of industries based on culture

3	A new trend for *experience marketing*), called as *'experience economy'* [1]	- Enable new industries based on exotic experiences, for instance: cultural experience, linguistic experience, dancing experience etc.
4	Animation industry is increasing in developing countries	- Enable integration between creative industry's sub-cultures, from art, design, and animation altogether, and influencing furniture goods etc.
5	There are cultural excellence centers which are ready to lead toward *'cultural-based economy'*. [2][3]	- These culturally rich cities can develop themselves as enabler to develop cultural potential in other cities.
6	The growing of a new generation which are more adept to creative industries, while taking more role in more ecological and culturally friendly economies.	- Enable to develop centers of art/ cultural activities
7	*Ecotourism is also in demand* , as part of heritage tourism	- Enable to develop tourism based on *exotic experience*

Box II: Why should we include Experience/Cultural content in Production Process?

Perhaps at this point, some of the readers will ask: Why should we consider and include this 'Experience' stuff in the production process? Why can't we stick with the traditional production models, emphasizing efficiency and massive production to reach economy of scale?

There are some arguments that we can point out. First of all, some philosophers have indicated that our mechanistic modern society tends to become more alienated, exactly because we don't ask anymore whether there is 'something else' other than the products that we buy and own. Just because you can buy a new iPod doesn't mean you can feel happier. Only if you start to get your favorite music played inside your iPod, then you can be happier. In other words, most of the time, it is the ‘*cultural product’* (i.e. music) that can make you feel happier, not the action of purchase of the product itself.

Similar idea has been proposed by Erich Fromm that society lacks new values, new meaning for their life, which products themselves cannot fulfill. In other words, it seems that the welfare of society is not determined by *mass-production* alone, but by something outside of the product itself.

In other words, the old production processes which rely on hard technologies, hard sciences, hard knowledge, shall be complemented with soft-knowledge, i.e. cultural sciences, cultural content, wisdom, meaning. Just like what Fritjof Capra observed.

Similarly, Jurgen Habermas from Frankfurt School [11][12] has criticized that part of the problem in economics is caused by fallacy of the assumption, that human activities are reduced to work alone. Meanwhile, all of us know that not only ‘work’ that can make us alive, we need also to talk (or ‘chatting’ in your favorite Messenger), to share our experience, and to interact with other parts of the society. In other words, In Habermas view, it is “work + interaction” that builds our society, and interaction is part of the culture, i.e. what makes us ‘human’.

The essence of Habermas’ thinking is that the welfare of society relies not only on the massive production (which costs us deterioration of environment), but also interaction, cultural values, democracy etc. The latter is part of *public sphere*.

If you think that Habermas’ idea is very near to Fromm’s idea, you’re right, because both of them are leading philosophers from Frankfurt School.[13][14]

References:

[1] Salzburg Research, 'Promoting cultural tourism through ICT," May 2007, http://www.salzburgresearch.at/research/gfx/histurban-study_part-1_cultural-tourism_experiences_srfg_gg_20070531.pdf
[2] W. B Kim & J.Y. Yoo, Culture, Economy and Place: Asia-Pacific Perspectives. KRIHS Report 2002, http://168.126.177.8/icons/project/en2002%5Cculture.pdf
[3] Nicolucci, F., Digital applications for Tangible Cultural Heritage, URL: http://public-repository.epoch-net.org/publications/SOTU2/sotu2.pdf
[4] http://mpra.ub.uni-muenchen.de/799/1/MPRA_paper_799.pdf
[5] B. Joseph Pine, Experience Economy, http://www.chapters.indigo.ca/books/The-Experience-Economy-B-Joseph-Pine-II/9780875848198-item.html?pticket=t14i3q5524n2dl55j3ntve55MVvLbNeiuQmNTVCN4yoCWGvxaEo%3d
[6] http://www.trendwatching.com/trends/expectationeconomy.htm
[7] "Experience the message," http://experiencethemessage.typepad.com/blog/2005/06/screw_roi_roe_r.html
[8] Robert-Nicoud, F., "Off-shoring of business services and de-industrialization," Center for Economic Performance, July 2006, http://ideas.repec.org/p/cep/cepdps/dp0734.html.
[9] Capra, F., *The Turning point,* Bantam book (1982); URL: http://www.fritjofcapra.net/; [9a] The Emerging new culture, http://www.intuition.org/txt/capra.htm.
[10 Fromm, E., The Revolution of Hope, http://www.wishtank.org/magazine/well/five_pages_of_fromm_the_revolution_of_hope;
[11] Haysom, K.R., "Discourse ethics and the relations of production" (2004) URL: http://www.allacademic.com/meta/p_mla_apa_research_citation/0/8/2/9/1/p82917_index.html
[12] Review to Habermas, Knowledge and Interests, http://www.generation-online.org/p/phabermas.htm
[13] Habermas, J., Structural transformation of the Public Sphere, http://www.gseis.ucla.edu/faculty/kellner/papers/habermas.htm

[14] Gidden, A., Giddens critique to Habermas, http://www.arasite.org/giddhab.html
[15] http://www.hospitalitynet.org/news/4001205.search?query=forecast+2010+hospitality+tourism+industry
[16] “Tourism to boost hotel industry,” (January 2008) http://www.chinaeconomicreview.com/hotels/category/hospitality-services/
[17] People 1st, ”The hospitality, leisure, travel, and tourism sector in The North East,” www.tuc.org.uk/extras/NEtourism.doc
[18] Culture Creative News, http://www.european-creative-industries.eu/
[19] European Commission, First European Strategy for Culture, Brussels, May 2007, http://www.european-creative-industries.eu/Portals/0/EU%20Culture%20Strategy.pdf

Chapter 3
High-Tech/High-Touch and Cultural Advantage

Chapter 3
High-Tech/High-Touch and Cultural Advantage

To automate or not to automate?

With regards to High-Tech/High-Touch of Naisbitt (1999), we interpret his idea as balancing the massive production driven by high-technologies (automated machine etc) with the cultural content (i.e. the soul of the people).

Therefore the aforementioned Cultural Advantage can be developed further to become a set of new approaches or methods to develop particular cities/regions based on their own cultural potentials (read: resources). See Figure 4.

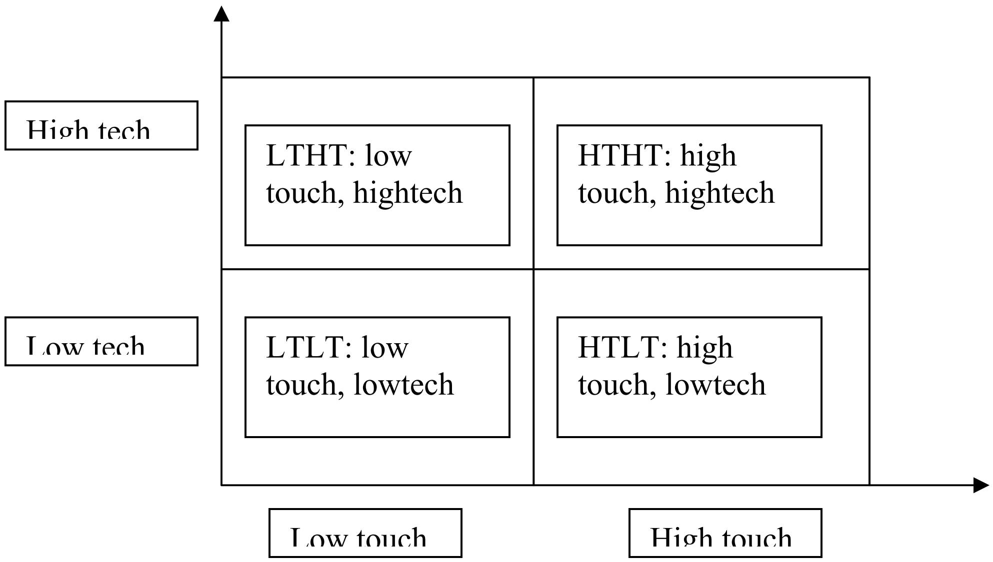


Figure 4. Developing scheme for Cultural Advantage based on High-tech/high-touch (Naisbitt)

Based on this scheme one can consider a new approach considering a city's own potential and capacity. Let say, City A with high art/cultural heritage can develop LTHT (low-tech high-touch), emphasizing cultural content to develop this economy. And so forth.

These variants are shown in the Figure 5 below. Of course, it would need extensive study for particular city to recognize and improve their own capacities, and to be integrated with city development planning.

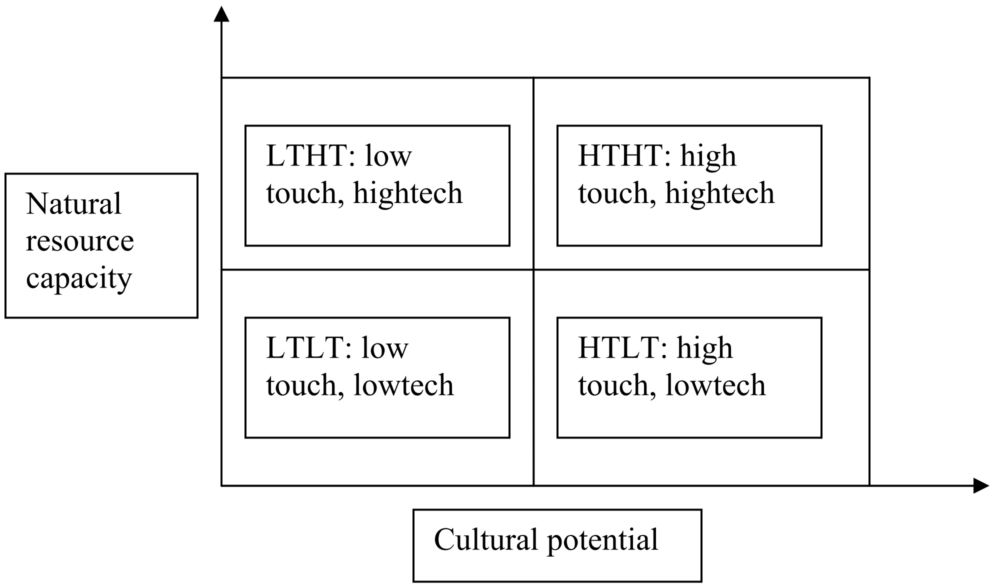


Figure 5. Variants for city development based on cultural potentials

A particular good example here for city that develops *low-tech/high-touch* (LTHT) approach to its economy is Hawaii [4], with a sharp statement: ”…it was human creativity that opened up new possibilities.” Barbados and Caribbean seem to follow similar approach with Hawaii.

How to implement Cultural Advantage in city development

While surely implementing this new idea to the city development process is not an easy task, there is good principle, i.e. we can learn from those cities that already managed to survive this difficult transformation process, for instance Toronto. See the next chapter.

The essence of Toronto's approach is that the new development includes all stakeholders into the development planning, i.e. business sector, public, education sector, and also government (city administrator). Therefore enhancing communication process among these stakeholders becomes the first prerequisite of the new development process.

The next step is to implement City Development Strategies (CDS). First one shall realize that using a well-formulated strategy has advantages [10], as follows:

- It encourages stakeholders to participate and invest;
- It cost-effectively allocate resources to a few key strategic areas;
- It helps a city anticipates future shocks;
- It enables a city anticipates the rate, type and direction of growth.

It would also crucial need to revitalize the concept of democracy at city level. As we know that the concept democracy is adopted from Ancient Greece, where Athena becomes the central of decision-making. Then when the same democracy was put into national context, the communication and public sphere as its essence (Habermas) became weakened.

The definition of Cultural Economic development can be given as follows [11]. *Cultural* Economic Development is what happens when you bring these two areas of interest together in an economic development effort that:

- Uses arts and cultural talents, strengths and/or assets as the core driver for its success,
- Engages both economic development and cultural partners in the planning and implementation of the effort,

- Has a clear and deliberate purpose in terms of its intended cultural and economic impact,
- Has clearly stated cultural and economic goals and impact measures and
- Has a formal written plan for financial and programmatic sustainability

What are typical activities in Cultural Economic development [11]:

- Affordable Artists Live/work space
- Artist studio-only space
- Public Art Programs
- Creative Industries Innovation Centers
- Culture-infused community planning
- River Art Walks
- Arts & Entertainment Districts
- Historic Preservation Districts
- Cultural Tourism
- Arts Incubators
- Performing Arts Centers
- Arts and Cultural Festivals

The possible strategies for Cultural Economic development is shown in Table 2

Table 2. Possible strategies for Cultural economic development [11]

Strategies	Steps to take
Partnerships	- Find out what cultural and economic development groups already exist in your community.
	- Get organized/create the infrastructure (both cultural and economic).
	- Create relationships and develop an environment of trust across culture/commerce boundaries
	- Seek out a Neutral Convener who can set the stage for closer working relationship by setting up meetings, hosting events, convening task forces on

	cultural economic development, etc.
	Make a formal case for Cultural Economic Development as a powerful strategic economic development tool.
Projects	Institutionalize cultural economic development wherever you can by making it part of someone's job responsibilities
	Put together a small leadership team that includes both economic development and cultural players who will take responsibility for the work outlined below
	Conduct an Environmental Scan – could take the form of a basic SWOT Analysis (Strengths, Weaknesses, Opportunities and Threats) Regardless of the method, make sure you identify what makes you unique
	Develop a strategy or brand that builds on the unique strengths and assets of your community
	Develop a brief written concept for your cultural economic development project
	Conduct anecdotal market research to see if you are addressing a need or just ascribing to the "build it and they will come" school of thought
	Benchmark your project concept
	Assess your community's readiness for the project
	Develop a preliminary written plan that is a half-baked cake.
	Engage a wide range of community stakeholders from the beginning
	Devote adequate resources to planning at all levels (at the project, city and county level)
	Identify/nurture strong creative leadership - You will need a core group of individuals
	Acknowledge economic development as the primary driver of the effort

Box III: Cultural Advantage and Anthropology

In anthropology and psychology, there are many worthy of consideration concepts:
For example, the term of *cultural relativism* [6], which states that each ethnic group needs to be understood in its own cultural terms. All cultures are considered good, but they have their specific ways of expressing the life and world. Cultural relativism was developed by Franz Boas (1858-1942) in 1911.
Oscar Lewis (1914-1970) has introduced, around 1961, the term of *culture of poverty* [7], which considers that poverty develops its own values [for example in literature, arts, dancing, its philosophy and psychology of life], besides its material deprivation.
Cultural determinism [8] was promoted by Franz Boas (1858-1942) who concluded that human being acts and is shaped by cultural and social factors.
Cultural absolutism [8] asserts that there is a universal standard according to whom a culture can be judged and comprehended.

Psychometrically, how to measure the differences between two subpopulations? Raymond Bernard Cattell (b. 1915) has proposed the concept of *cultural bias hypothesis* [9], that the typical group is favored, compared to those neglected, and thus less likely to get a high score in testing.

Certainly, there is no culture that is better than others, but some cultures are more known than others. "The acquirement of culture is the development of an avid hunger for knowledge and beauty", said Jesse Bennett.

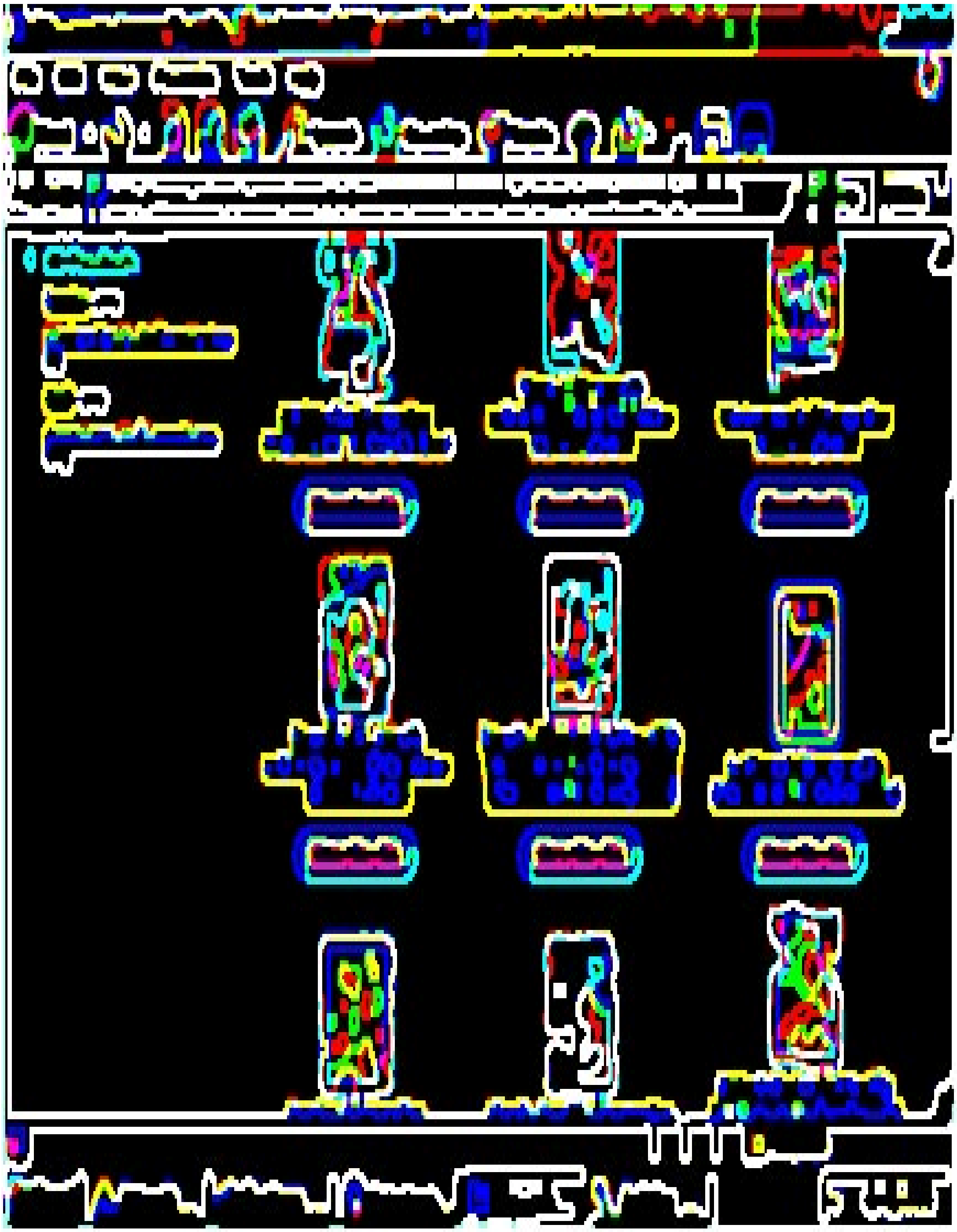
References:

[1] Salzburg Research, 'Promoting cultural tourism through ICT," May 2007, http://www.salzburgresearch.at/research/gfx/histurban-study_part-1_cultural-tourism_experiences_srfg_gg_20070531.pdf
[2] W. B Kim & J. Y. Yoo, Culture, Economy and Place: Asia-Pacific Perspectives. KRIHS Report 2002, http://168.126.177.8/icons/project/en2002%5Cculture.pdf
[3] Nicolucci, F., Digital applications for Tangible Cultural Heritage, URL: http://public-repository.epoch-net.org/publications/SOTU2/sotu2.pdf
[4] Uncommon alliances in sovereign Hawaii's, URL: http://www.futures.hawaii.edu/j4/uncommon.pdf
[5] Creating competitive advantage through cultural heritage, http://tradeteam.bb/cms/pstt/files/tradenews/Creating%20a%20Competitve%20Advantage%20through%20Cultural%20Heritage%20-%20Entertainment.pdf
[6] J. Tennekes, Anthropology, Relativism and Method, Assen, Holland, 1971.
[7] O. Lewis, The Children on Sanchez, New York, 1961.
[8] H. Triandis, Handbook of Cross-Cultural Psychology, Boston, 1980.
[9] A. Anastasi, Psichological Testing, London, 1982.
[10] The role of city development strategies, http://www.citiesalliance.org/doc/resources/cds/cds-guidelines/role_of_cds.pdf
[11] Delaney, N., "Cultural Economic Development, A Practical Guide for Development," June 2004, URL: www.coloarts.state.co.us/programs/economic/defining/creativeEconomyArticles/**Cultural**%20Economic%20Development.doc.

Futher reading

[12] Comedia, "Harnessing and Exploring the Power Of Culture for Competitive Advantage," A report for Liverpool City Council and the Core cities group, March 2003, http://www.institutumeni.cz/res/data/004/000569.pdf
[13] Ruiz & Dragojevic, http://www.eurocult.org/uploads/docs/577.pdf

Chapter 4
A few examples:
Lessons to learn



Chapter 4
A few examples: Lessons to learn

In the previous chapter we have discussed how city development and planning needs to be re-assessed, to take into consideration public resources, local cultures, and to preserve environment sustainability.

In this chapter, we will discuss some examples where the new propositions discussed in the preceding chapters can be implemented. It is our hope that city administrators and city planners can develop their own approaches based on a city's own resources and cultural advantages.

We will discuss a few examples, but not limited to cities: (a) Nicosia, (b) Toronto; (c) Venice example; (d) Huzhou, (e) Valencia; (f) Chicago, (g) Romanian example, (h) Eastern Europe, and (h) Argentina Lesson. Of course our comments are tentative, i.e. more study is required before a good prescription for each city can be made.

(a) Nicosia

As a very old city with history spanning back to 1000 years as the capital city of Cyprus, Nicosia can revitalize their own cultural and historical richness. [6] First it can develop modern building surrounds old churches and other medieval buildings. Then it can display new art performance based on its tradition, goes back to Byzantine era.

(b) Toronto

Since 2003, the City Council of Toronto adopted a new Cultural Plan for the Creative City [7][8] as part of their strategy to bring the city to become a global cultural capital. This is part of growing consensus among economists that besides fundamental infrastructures as pre-requisite to the quality of life, cultural and heritage is vital to support Toronto expanding economy. In this sense, cultural and heritage can be viewed as part of the 'cultural content' as we discuss in the earlier chapter.

Therefore, Toronto's economy will rely not only to commercialization and industrialization, but also by flourishing idea, which not becomes known as 'creative industry.'

The result of implementing this Cultural Plan is impressive [7][8]: Overall expenditures in arts and culture have increased by $10 million (2003-2007); however, this has not come close to the $25 million increase over five-years recommended in the Culture Plan. The Progress Report shows that in all indicators, except film, Toronto is making progress. In 2006 over 11.5 million people attended over 24,000 arts and culture events funded by the City, and in 2007 grants to the Major Cultural Organizations went up by 25% and grants to the Toronto Arts Council went up by 18%.

(c) Venice

Venice is probably the most well-known city in Italy, second to Rome, thanks to Shakespeare's *'Merchant of Venice'*. After years becoming a stagnant city, nowadays the city has put some real efforts to revitalize its economy by emphasizing arts and craftsmanship. [1]

What is more interesting from Venice’s approach is its cultural emphasis, including: introducing new festivals, and giving access to people to see Venice’s treasures [2].

(d) Huzhou

Known as pivotal city in Yangtze river, located at the northern part of Zhejiang province, the new infrastructures and railways make Huzhou a real transportation hub in the northern part of Zhejiang province. It would open new ways for the city administrator to attract cultural tourism with art performances, based on its history spanning through 2000 years. [9] For instance, it can design various offering to tourism based on the fact that it is the origin of the Chinese silk culture, tea culture and brush pen culture were born.

Furthermore, as part of the town’s plan to become eco-friendly city, it can also offer various program designed to promote eco-tourism.

(e) Valencia

Its has plenty of historical and cultural heritage that makes other cities envy, including the origin of enigmatic Holy Grail, and the legendary El Cid.[11] Therefore the city has plenty points of attraction where cultural tourism can be pulled.

(f) Chicago

This big industrial city has some ’hidden’ dimension consisting of its Art and Culture centers. [13] With history goes back to the 19th century, it has plenty of things that the world can learn from. For instance, the beginning of automobile industry, etc. Though perhaps not as historical as Nicosia, the town has played big role in the course of history.

(g) Romanian lesson

In Romania the former socialist government tried to develop the industry first, and the level of life raised. After the socialist regimes failed in eastern Europe, westerners came in Romania, Bulgaria and said that their industry was old and inefficient, and they have to destroy it and these newcomers will build a better one. Romanians, Bulgarians destroyed their factories and westerners... did not construct anything in lieu! Now 10% of Romanians and Bulgarians left their countries and went in the west to work unskilled jobs, and be discriminated and blamed for anything.

Prescription: What can Romanian people do in this situation? Their industry has been destroyed after ill-advise by ill-doctors. Perhaps they shall study their own advantages/resources and start from where they are. Doing 'jump' too high is not advisable.
For instance, if they have good IT resources (considering good education and plenty of mathematicians in this region), they can start from this, instead of re-doing industrialization again. India uses this strategy (i.e. a HTHT strategy, see previous chapter), therefore their approach can be rather different from China, which is purely using industrialization approach.

(h) Eastern Europe lesson

Eastern European people are unhappy with European Union since they have to pay millions of dollars in tax to the European Union (for various projects EU has), and they get in exchange very little; actually this was the main reason that Eastern European were included in EU: to pay lots of taxes/contributions to EU.

Therefore some people may think that EU, as part of globalization, is a form of *re-colonization* {modern form of colonization in economics, politics, culture, science; i.e. re-forming again new regions} by some hidden forces against people in underdeveloped countries. (This term 're-colonization' is coined by M. Chossudovsky). Yet, we call it "neocolonialism".

Prescription: Instead of just taking these pills as 'elixir', EE people shall learn and re-reading again their own advantages and resources. If possible, re-using their natural resources can be considered as the first step to regain their economic condition. Then again it can start to do possible ways to improve their market bargain instead of merely using traditional industrialization which is very 'capital intensive' approach. The city administrators may consider European Capital of Culture way to improve their cities. [10]
Alternatively, using Information Technology as leverage can be a good choice (i.e. 'HTHT' strategy, see previous chapter), since normally new companies based on IT does not need too much initial capital. Then biological and cultural economic can be considered.

(i) Argentina Lesson:

Coined with term 'South' in a famous Borges' story, Argentina is probably the most significant country in the Latin America continent. While in the beginning of 20th century this is a very wealth country with strong agriculture economy, now it has great economy problems.

Nowadays its government uses cultural approach to regain its economy, including: ” *The culture secretariat established the Laboratory of Cultural Industries, for example: a virtual information system that keeps sector statistics, that publishes market studies, and that shows the geographic distribution of cultural enterprises on a map of Argentina. Handicraft is an important component and also touches on the other priorities of the cultural policy: cultural diversity and social development.”* [4]

We hope that the few examples described above can be used to devise new strategic choices for particular cities.

Box IV: A few notes on Cultural Economics Development

Cultural economics should focus on *exotic, unusual, colorful* specific events, ideas, galleries, exhibitions, museums, zoos, theatres, concerts, ballets, native dancing, local music, libraries, recreational areas, historical preservations, architectures, creative organizations or unions. [14]
It is a less competitive amongst cultures in the world than among produced objects for examples, since one cannot assert that one culture is above or more needed than another culture.
According to the *paradox of value* resulted from the Greek philosophy, the price is not determined by usefulness of the product but by scarcity. Consequently, people are attracted by the diversity of cultures, by curiosity in cultural economics.
An similarly, as in the *paradox of voting* (K. J. Arrow [15]),

when people face a selection among cultural events to attend, a stalemate might result. Therefore, herein a good advertisement would be decisive.

Actually, there is an *economic theory on location*, therefore 'market economy' also works on land/town development. One of theorists on this issue is Hirsch.
We think that art/culture/music etc., at least as a transitional stage to the great industry, would help the economy. In addition: IT, electronics, applied scientific ideas / consultancy too.

References:

[1] Modern Venice: MSN Encarta entry, http://encarta.msn.com/sidebar_761593475/modern_venice.html
[2] UNESCO, ”Revitalizing Venice,” http://portal.unesco.org/culture/fr/ev.php-URL_ID=3582&URL_DO=DO_TOPIC&URL_SECTION=201.html
[3] The New York Times, ”In Venice, keeping the world afloat,” http://query.nytimes.com/gst/fullpage.html?res=9B0DE4DE1638F937A15756C0A961948260&sec=&spon=&pagewanted=all
[4] Argentina, http://www.powerofculture.nl/en/policy/argentina.html
[5] Over boundaries: theory for people at work. http://cybernetics-society.wikispaces.com/space/showimage/Over+boundaries.pdf
[6] http://www.world66.com/asia/middleeast/cyprus/nicosia
[7] http://www.toronto.ca/culture/cultureplan.htm
[8] http://www.toronto.ca/culture/brochures/2003_cultureplan.pdf
[9] http://www.hzbiz.gov.cn/en/c01/c01-3.htm
[10] http://ec.europa.eu/culture/our-programmes-and-actions/doc435_en.htm
[11] http://www.whatvalencia.com/
[12] http://www.european-creative-industries.eu/
[13] http://chicago.about.com/od/artsculture/Arts_and_Culture_Chicagos_Arts_Music_Theater_and_Cultural_Scene.htm

[14] N. Delaney, Ric Geyer, Cultural Economic Development / A Practical Guide for Communities, Office of Governor Jennifer Granholm, June 2004.
[15] K. J. Arrow, A Difficulty in the Concept of Social Welfare, in Journal of Political Economy, vol. LVIII, 328-346, 1950.

Further reading

[12] McKee et al., "Community Culture and Marketing Strategy as Sources of Economic Development," *Journal of Macromarketing* Vol,. 17:68-87 (1997) http://jmk.sagepub.com/cgi/content/refs/17/1/68
[13] Pocket book on cultural statistics can be found at: http://www.lesrencontres.eu/index.php?option=com_content&task=view&id=26&Itemid=43&lang=en

Chapter 5. Introduction to Poly-Emporium Theory

Chapter 5
Introduction to Poly-Emporium Theory

We now propose the **poly-emporium theory**. A search done in Google on May 3^{rd}, 2008, for the term "poly-emporium" returned no entry, so we introduce it for the first time.

Thus "poly-emporium" etymologically comes from *poly* = many, and *emporium* = trade center, store with a wide variety of selling things; therefore *poly-emporium* is the study of interactions among many (big and small) firms in the market.

Poly-emporium is different from *oligopoly* since poly-emporium takes into consideration the small firms too (not only the big firms that dominate the market as in oligopoly). [11] Poly-emporium considers the *real situation* of the market, where big firms and small firms co-exist and interacting more or less.

First, let's present the *duopoly* theory, which is a theory of two firms that dominate and interact in the market, proposed by A. Cournot (1801-1877) in year 1838.

In Cournot's model, if one firm changes its output, the other will also change its output by the same quantity, and eventually both firms will converge towards equilibrium.

In 1883 Bertrand's duopoly model, devised by Joseph Bertrand (1822-1900), if one firm changes its price and the second firm follows, eventually both firms would reach a price (equilibrium) where they would stay.

Both models are similar to two mathematical sequences that little by little converge towards the same limit.
Bertrand's model is criticized because it ignores the *production cost* and market entry by *new firms*.

In oligopoly, which is an extension of duopoly, a small number of <u>selling firms</u> control the market. There is a big degree of interaction among these firms, which set the price, and the price is high and rigid. There is a perfect oligopoly, where all firms produce an identical product, and imperfect oligopoly, where the firms' products are differentiated but in essence are similar.

Sir Thomas More (1478-1535) used this theory in his "Utopia" (1516) and then A. Cournot. Each firm can act as a leader on its market share, or they collude, or one firm sets the price and others follow.

An analogue of oligopoly is the *oligopsony*, where a few <u>buying firms</u> control the market. They set the price which is normally low and rigid.

The cartel (or trust) influences the price too by regulating the production and marketing, but its influence is of less degree than monopoly's or oligopoly's.

Inflexible price or administered pricing (1930s) is set in monopolies, oligopolies, government organizations, cartels.

The theory of poly-emporium

How would interact n firms, F_1, F_2, …, F_n, for $n \geq 3$, producing a similar product in the same market? A firm can be a business, a corporation, a proprietorship, or a partnership.

There are three cases of the poly-emporium, which will be detailed below:

1) All firms are large and they dominate the market, so we have an oligopoly or oligopsony.
2) Some firms are large, and dominate a big share of the market, while others are small, and do not dominate.
   In this sub-case, either the small firms are grouped around some of the large firms (as satellites) just as in growth-pole theory, other small firms might exit the competition.
   This case also includes the possibility that new firms enter the market, so they commence by small investments and later can grow.
   The relationship between large firms in this case can lead either to oligopoly/oligopsony if they succeed to eliminate the small competitors, or to semi-oligopoly/ semi-oligopsony if they control a big part of the market, but not the whole market.
   Small firms might collude and form larger firms.
3) All firms are small and they do not dominate the market.

As in mathematics, it is akin having n sequences, which interact, that we need to study their limit. Would they converge towards the same limit?

Surely, there would always be a *monopolistic competition* between them.

As in *monopoly*, each firm attempts to dominate the market, to prevent competition, in order to control the price. But monopoly is outlawed in most capitalistic countries. If one firm, let's say (without lost of generality) F_1, alters its output, the others F_2, …, F_n, should also respond, otherwise they loose customers.

If it's an imperfect competition, i.e. a market with a large number of sellers and buyers but having differentiated products, the interaction between these firms is less than in a perfect competition, and they all tend towards a so-called in our opinion **multi-equilibrium**, as in a weighting machine with many balances, or as in a mathematical weighted average.

Nevertheless, if these firms produce a homogeneous product for many buyers, as in perfect competition, their interdependence increases. Disequilibrium of one firm would affect others.

If superior technology commences to be introduced by some firms, the quality of their product will increase and the price decrease.

This may generate the theory of growth-pole, enunciated by Sir William Petty (1623-1687) and François Perroux (1903-1987), which refers to the fact that smaller firms are grouped around a central core of firms that become catalysts. Maximum growth and product excellence for these firms presumes optimal management.

In it's a monopsony, then a single buyer dominates the market forcing sellers to accept buyer's conditions. Therefore, in this case, the firms compete under buyer's conditions. For example, this would be the case if the government controls the cultural economics, the government will then set the prices.

If some firms co-operate, as in collusion theory, entailing similar output levels and prices, then other firms should either join the collusion, making a block or monopoly that controls the market, but this is outlawed in capitalistic countries, or they can alter their output by lowering price or improving production for better output quality.

Another alternative would be for the non-collusion firms to form themselves a separate collusion that will counter-balance the first one, or also have some firms to merge. Some firms may exit the market, while new firms would enter the market.

If the government controls the cultural economics, then trade unions of cultural workers should be created for counter-balancing. Because this gives birth to a bilateral monopoly, which is a market with a single buyer and a single seller, mostly referring to the government dealing conditions and salaries with unions of workers.

The dynamicity of the market keeps the firms in a permanent competition, and competition means progress.

We extend Engel's law (1857), that the proportion of income spent on food falls as individual income increases, to a similar law related to cultural economics:

As individual income increases, the proportion of amount spent on cultural event decreases.

Thus, as individual income increases an acceleration of cultural economics occurs.

Moreover, adjusted from the absolute income hypothesis (1936, 1960s, and 1970s) by J. M. Keynes and later refined by James Tobin (b. 1918), we derive the **absolute income cultural hypothesis** applicable to the cultural economics: as income rises, cultural consumption rises but generally not at the same rate.

The 18th century absolute advantage theory, which states that people and nations trade since they have exceeding production in some particular field, does not apply in cultural economics. Nor comparative advantage approach that superseded absolute advantage theory works, because we can't really compare cultures.

Comparative cost, developed by Robert Torrens (1780-1864) and David Ricardo (1772-1823), which is a feature of comparative advantage, asserts that trade between countries is benefic even if one country is more efficient, because of the variety of products. Similarly, cultural economics benefits from its <u>cultural difference</u>. The more distinguishable is a culture, the better chance of increasing the cultural economics.

Economic culture is part of entertainment industry, and depends on taste, advertisement, curiosity, history, and the quality of being diverse, distinctive, with a large spectrum of varieties.

The most interesting case is the third one, where all n firms are small and they do not dominate the market. Let's see, for example, a network of independent restaurants in a city. They interact little with each other. The quality, taste, distance, and price of course make the difference between them.

They do not collude but in rare situations since each of them has its specific, its exotism, which they don't want to loose. They cannot make an oligopoly since new restaurants may easily enter the market with its specific, and because the taste changes periodically. They remain into multi-equilibrium. Similarly for international cultural economics, where each culture has its specific, and that's what attracts visitors, tourists.

In general, the n firms eventually tend towards multi-equilibrium, where they stay for a while. In multi-equilibrium each firm tends towards its specific sub-equilibrium.

Periodically this multi-equilibrium is partially or totally disturbed, due to technology, government intervention, wars, crises, reorganization of the firms, change in customers' taste and preferences, but then again the firms return to stability. This period of multi-disequilibrium is a natural state, since economy is dynamic, and the disturbance is a launching pad to refreshment; in order to rebalance the market, these n firms must improve their technology, their structure, cut production cost, or else they exit the competition. "All the bad towards the good", says a Romanian proverb, so disequilibrium brings later new blood into economy.

This cycle of multi-equilibrium - multi-disequilibrium repeats continuously.

A new proposition: Extended Tobin Tax

Considering the obvious facts that in any market it is almost impossible to find ‘free market’, where an infinite number of players govern the price. What happens most of the time is that only a few players dominate the market and others follow (they are called ‘market leaders’ in each market segment).

Now let’s recall Tobin Tax, which is proposed in order to smoothen the market-volatility, especially in foreign exchange market. [15]

While this idea has been forgotten for practical purposes, recently for some other reasons it has been picked up again, but in different context. Called ‘carbon tax’ that is the idea to give tax on emission of carbon dioxide and other greenhouse gases. [16] In other words, this tax is given to companies/countries that contribute heavily on environmental pollution.

Generalizing the idea of Tobin Tax/Carbon Tax, it seems that one can come up with an ‘extended’ version of Tobin Tax, i.e. any form of company activities that do harm on its environment or people surrounding it can be levied with tax. Of course, this type of addition tax will work only if the government can guarantee that tax will be used to recover the environment or people that suffer from the activities.

The notion of ‘doing harm’ here can be extended to include: oligopoly/monopoly practice, non-environment friendly, carbon-producing processes etc.

To make this idea more ‘fair’ for the companies, we can introduce not only stick, but also candy into the tax package, for instance ‘Company that can switch its energy usage from non-renewable (oil, diesel engines etc) to renewable energy (wind, solar cell etc) can gain tax deduction commensurate to its contribution. Companies that are capable to deliver extra energy back to its surrounding people/society can also gets tax deduction.’ The spirit of this tax deduction is to enable ‘good’ companies to get tax deduction for its good behavior (environment-friendly), therefore it can be called ‘Energy-tax swap’ (ETS). In some countries, this has been common practice that companies can even ‘sell’ its energy back to the National Electricity Grid. The purpose of ETS is to encourage this practice.

Therefore, to generalize this proposition we can write:

Extended Tax	=	Normal Tax	+	Society+ Environment + Oligopoly + Carbon tax	-	Energy Tax Swap

Of course, how much the extended Tobin tax for each ‘problem’ can be determined based on the cultural / national context.

Hope this discussion can be found a bit more interesting.

References:

[1] M. Shubik, Strategy and Market Structure, New York, 1959.

[2] A. Cournot, Récherches sur les principes mathématiques de la théorie des richesses, Paris, 1838.

[3] E. H. Chamberlin, A Theory of Monopolistic Competition, Cambridge, Massachusetts, 1933.
[4] J. Robinson, The Economics of Imperfect Competition, London, 1933.
[5] G. Stigler, Perfect Competition, Historically Contemplated, in Journal of Political Economy, vol. LXV, 1-17, 1957.
[6] G. J. Stigler, A Theory of Oligopoly, in Journal of Political Economics, 72, 1, 44-61, 1964.
[7] E. T. Penrose, The Theory of Growth of the Firm, Oxford, 1959.
[8] E. Engel, Die Productions und Consumptionsverhältnisse des Königsreiche Sachsen, Berlin, 1877.
[9] J. M.Keynes, The General Theory of Employment, Interest and Money, New York, 1936.
[10] C. P. Kindleberger and P. H. Lindert, International Economics, Homewood, III, 1978.
[11] Zhou, J. M., Achieving global competitive agriculture without protectionist subsidies, WTO (2006) URL: http://faculty.washington.edu/karyiu/confer/beijing06/papers/zhou.pdf
[12] M. Baye, Game theory: Inside Oligopoly, http://www.mhhe.com/economics/baye/stud/chapter10.htm
[13] Oligopoly: game theory, http://tutor2u.net/economics/revision-notes/a2-micro-oligopoly-game-theory.html
[14] Garcia, personal.ashland.edu/~jgarcia/**Cultural**Econ/**Definition**%20of%20**Cultural**%20**Economics**%20-Word%20format.doc
[15] P. Davidson, Tobin Tax: Coping with financial volatility, Eastern Economic Journal, 2000, http://findarticles.com/p/articles/mi_qa3620/is_200001/ai_n8890277
[16] The Carbon tax, http://www.lindseyross.com/TobinTax/rachel.html
[17] http://en.wikipedia.org/wiki/Carbon_tax

First version: 23 apr 2008. Revised 1: 26 apr 2008. Revised 2: 30 apr 2008, Revised 3: 3rd may 2008
This initial article to be developed further. Send your comment to vxianto@gmail.com or fsmarandache@yahoo.com.

Bibliography

[1] Salzburg Research, 'Promoting cultural tourism through ICT," May 2007, http://www.salzburgresearch.at/research/gfx/histurban-study_part-1_cultural-tourism_experiences_srfg_gg_20070531.pdf
[2] W. B Kim & J. Y. Yoo, Culture, Economy and Place: Asia-Pacific Perspectives. KRIHS Report 2002, http://168.126.177.8/icons/project/en2002%5Cculture.pdf
[3] Nicolucci, F., Digital applications for Tangible Cultural Heritage, URL: http://public-repository.epoch-net.org/publications/SOTU2/sotu2.pdf
[4] Uncommon alliances in sovereign Hawaii's, URL: http://www.futures.hawaii.edu/j4/uncommon.pdf
[5] Creating competitive advantage through cultural heritage, http://tradeteam.bb/cms/pstt/files/tradenews/Creating%20a%20Competitve%20Advantage%20through%20Cultural%20Heritage%20-%20Entertainment.pdf

Yes you can contribute with your ideas too … .

The ideas contained in this book also keep growing; therefore, future edition may include new development of ideas discussed herein.

Your comments are of course welcome, you can send them by email to: vxianto@gmail.com or fsmarandache@yahoo.com.

Best wishes,

VC & FS

Cultural Advantage for Cities:
An alternative for developing countries

After more than a decade Michael Porter's book *Competitive Advantage of Nations* stays ahead of the other books, in particular as alternative framework from the *comparative advantage* idea inspired by Adam Smith.

This small book is merely a small proposition, a postscript perhaps, to Porter's book, with basic idea that one cannot rely merely on industrial processes alone to keep stay ahead of market changes. Hence, for cities in developing countries the municipal shall find out their city's potential resources, and develop their city starting from there, instead of striving blindly in the conventional industrial path.

We focus our discussions in this book on cities, because in our opinion a city is the smallest economic entity which has *'auto-poiesis'* character. A city can grow by itself, and its administrators can only expect to affect its growth, rather than stop its natural grow path.

What we would like to emphasize here is the word 'alternative' in this book title. What we mean is that the proposed strategy is not always true for all conditions. for instance, in Hawaii, where industrialization and resources are very few the best strategy is perhaps to foster its 'cultural approach'. Meanwhile for other cities where there is no extensive cultural potential, then industrialization approach seems still working.

After all we do not pretend to have the last word on proper remedies to problems encountered by each developing country. It would need substantial study based on each particular country's problems, contexts and resources.

We also use the Poly-Emporium Theory; which etymologically comes from *poly* = many, and *emporium* = trade center, store with a wide variety of selling things; therefore *poly-emporium* is the study of interactions among many (big and small) firms in the market.

ISBN 1-59973-060-X

53995>

9 781599 730608