Working Paper Series, 21

Princeton University
Center for Arts and Cultural Policy Studies
A Program of the Woodrow Wilson School of Public and International Affairs

Creative Assets and the Changing Economy[1]

Steven Jay Tepper

Journal of Arts, Management and Law, Fall 2002.

Many arts advocates and policymakers have argued that certain changes in the economy (globalization, digitalization, the rise of the "knowledge" worker, the boom in intellectual property, changes in leisure consumption) are having a catalytic effect on art and culture. In particular, the arts are heralded as engines of economic growth and development. Scholars and pundits have written about the central role of creative cities, creative clusters, creative economies, and the "rise of the creative class." Governments have begun to measure the size and scope of the creative economy as an important indicator of economic health. In short, there is a growing belief that changes in the economy have pushed creative assets to the center of economic life. In this article I will offer a critical assessment of some of these arguments and suggest ways that scholars and policymakers might usefully approach the notion of the changing economy and culture. My general point is that rather than spending time calculating the impact or size of the creative economy, we should direct our analytical and policy energies toward better understanding how creative work and institutions are changing and what might be done to encourage or foster a healthier, more robust, more creative, and more diverse cultural life.

Art, Culture, and Creativity as Economic Engines

First, what are commentators and scholars saying about the relationship among creativity, culture, and the changing economy? Let me offer a sample of quotes from recent published materials:

Regarding the creative economy as the new basis for wealth creation and economic growth, author John Howkins writes, "People with ideas—people who own ideas—have become more powerful than people who work machines and, in many cases, more powerful than people who own machines" (2002, ix). Therefore, he asserts, "The creative economy will be the dominant economic form in the twenty-first century."

Chris Smith, minister of the Department of Culture, Media, and Sport in the United Kingdom, argues that, "The role of creative enterprise and the cultural contribution to a modern world is a key economic issue. . . . These creative areas are surely where many of the jobs and much of the wealth of the next century are going to come from" (1998). Or as scholar Shalini Venturelli (2000) writes, "Wealth creation is dependent upon the capacity of a nation to continually create content." She adds,

> In short, a nation without a vibrant creative labor force of artists, writers, designers, scriptwriters, playwrights, painters, musicians, film producers, directors, actors, dancers, choreographers, not to mention engineers, scientists, researchers and intellectuals does not possess the knowledge base to succeed in the Information Economy, and must depend on ideas produced elsewhere. (16)

On a more local level, a report by the National Governor's Association states, "In recent years, innovative commercial businesses, non-profit institutions and independent artists all have become necessary ingredients in a successful region's innovation 'habitat.'"

Such commentary is fed by statistics that show a dazzling increase in the size of the market for intellectual property and creative goods.

Again, Howkins reports, "The annual growth of the creative economy in OECD countries was twice that of the service industries and four times that of manufacturing overall" (xvi). According to the Intellectual Property Association, in the United States the intellectual property sectors are "estimated to be worth $360 billion a year, making them more valuable than automobiles, agriculture or aerospace" (Robinson 2001, 42).

With regard to consumer expenditures, "The British, Americans and Japanese spend more on entertaining themselves than on clothing or health-care" (Howkins xv). These shifts in the demand for creative products and the role of creative industries have, according to some, had profound impacts on labor markets and workforce development.

Again, Howkins claims that "[a]utomation in manufacturing has cut the demand for manual labor so young people are turning to the creative industries, which may offer an attractive lifestyle and above average economic rewards" (xv).

John Heartfield (2000) provides some evidence for this from a recent survey of entering college students in England. He writes, "Many more people (in the UK) aspire to be artists and designers. In 1999 one in every 19 of all applicants for university places wanted to study either fine art or design. Just five years earlier the figure was only one in 61" (5). Robinson (2001) remarks, "The most important resources of all companies are now the ideas and creative capacities of the workforce" (56).

Assertions such as these have proliferated in books, articles, government reports, and speeches. I will not attempt here to question the validity of these claims (although others have; see Fingelton 1999 and Heartfield 2000). Important shifts are clearly taking place in the economy and influencing how art and culture connect to economic life—in particular, how creative assets are produced, consumed, and distributed in the United States and across the globe. What is most striking to me about these claims and arguments is that so few are made by economists. In fact, virtually all the writing on the subject has been done by scholars in communications and cultural studies as well as pundits and consultants with expertise in media, education, intellectual property, and information. Why are economists not writing about culture and the changing economy?

Cultural Economics

This puzzle led me to the 12th Biennial Conference of the Association for Cultural Economics, in Rotterdam in June 2002. The meeting featured approximately three hundred scholars from around the world who study various aspects of the arts and economic life. Cultural economics is not a new field; hundreds of articles, several large edited volumes, and a few seminal monographs have been published over the last thirty years. Of all the academic disciplines that intersect with cultural policy, cultural economics is probably the most mature and has attracted well-known and distinguished scholars. Thus, it seemed to me that the biennial meeting of this group would be an ideal place to learn more about the empirical realities that lie behind the wide-eyed accounts of culture and the changing economy. I attended as many paper presentations as possible and also had the privilege of hosting a roundtable discussion, supported by the Irvine Foundation, with more than a dozen leaders in the field to talk about these issues.[2] What did I discover?

First, cultural economists, for the most part, are less interested in studying dynamic models (how the market and the organization of art and cultural activity shift with changing economic conditions) than in understanding equilibrium models (how markets for cultural goods operate in a particular time and place). They are interested in applying standard neoclassical models to questions about how prices are determined and the extent to which markets for cultural goods are efficient. They study the following questions: Is art a public good or a merit good? Why do artistic labor markets produce “superstars” on the one hand and chronically underemployed artists on the other? What is the extent of the productivity dilemma for performing arts organizations? Do cultural attractions produce economic impact through tourism and multiplier effects? What determines the price of artworks and how do art auctions work? How do art investments perform compared to other types of investments? And what are determinants of consumer expenditures related to entertainment and culture?[3] To summarize, their topics are either basic (yet often hard to answer) empirical questions like, "What is the economic impact of cultural attraction X?" or they are economic puzzles, such as, "How can we reconcile this odd cultural good, or this winner-take-all market, with our overall view of markets?"

Some economists, of course, have attempted to take a broader look at different types of economic and noneconomic values of art and culture (see Throsby 2001; Frey 2000; Hutter 1992). And a few scholars have looked at how changes in the conglomeration and concentration of cultural industries influence content or repertoire diversity (Beesley 1997; DiMaggio and Stenberg 1985; Heilbrun 2001; Peterson and Berger 1975). The latter set of studies is the type of midrange theory and analysis (not grand theory about epic change nor extremely focused studies of particular market transactions) that can help us begin to sort out how changing economic conditions (e.g., increasing industry concentration) might influence how art and culture are produced and experienced day to day. Ideally, more social scientists would choose to undertake research of this type, engage with the larger debates, and ultimately help develop more cogent hypotheses and well-grounded methods to examine the relationship between the changing economy and art and culture. In the remainder of this article I will report some useful cautions and promising avenues for future research and policy in this area.[4]

Creative Industries and National Accounts

First, as mentioned above, several highly visible initiatives attempt to measure or quantify the contribution that the creative industries make to national economies (see *Mapping the Creative Industries* 1998 report from the Department of Media, Culture, and Sport in England). These efforts seek to aggregate a broad array of creative activity—including advertising, fashion design, theater, computer animation, film, recording, radio, television, software design—and then measure the "output" of the activity in terms of its proportion of gross domestic product or its contribution to the balance of trade (exports).[5] Creative activity is calculated as part of existing national accounting schemes, using established industrial classifications to determine which businesses fall inside and which fall outside the notion of creative work. In general, it has been very difficult to reach consensus about what the proper boundaries of the creative industries ought to be, and many remain skeptical about whether existing industrial classifications provide enough information to correctly identify creative enterprises. As Justin O'Connor (2002) notes, "In the main, the statistical disputes around cultural sector employment figures have been the least illuminating, often the most absurd, and certainly the most tedious aspect of the debate around culture and the economy" (3). Nonetheless, England's example has been a beacon for many interested in cultural policy—and there are numerous projects underway in the United States and elsewhere to measure the size of the creative industries in one form or another at the regional and national level.

In general, the economists with whom I have talked are not enthusiastic about efforts to measure culture and creative activity in this way. First, there is a sense that these efforts are primarily political and provide very little analytical or empirical insight. One person even referred to the UK's efforts as "a national accounting gimmick," where tweaking a definitional category or changing what is considered an "output" can drastically alter the figures. For example, claims about the growth of the copyright industries might exaggerate the amount of creative work being done if growth is accounted for in part by copyrights' being secured for work already in the public domain, rather than for entirely new work. Similarly, do we measure only outputs (e.g., receipts from the sale of goods and services)? Or do we also measure inputs (investment in research and development, training, etc.)? How can we measure the value of creative work that is embedded in noncreative goods and services (the logo on a tennis shoe) or embedded in larger institutions whose primary work is outside the creative industries (e.g., theater performances at a large university)? The point is that we should be explicit about the types of inputs and outputs that are important for cultural policy and realistic about what statistics we can reasonably capture.

Second, by aggregating such a diverse range of activity, one can actually obscure, rather than reveal, important trends. For example, Heartfield (2000) argues that many of the jobs that the British government lumps together as part of the creative sector are really low-end service jobs. Or aggregate statistics might reveal that jobs are growing faster in the cultural industries than in other sectors, but all the job growth might be in Web design and computer animation, with traditional sectors (theater, dance, music) experiencing sharp decreases in employment. Or book sales might be growing exponentially, but independent book dealers and distributors might be closing daily. The sector is heterogeneous, and effective policy must be informed by in-depth analysis of the component parts of the system and their interrelationships. So, the lesson is that aggregating might be good for *politics,* but disaggregating is essential for *policy and understanding.* Any national (or local) accounting scheme should collect information in a way that allows scholars and policymakers to capture and compare more discrete elements of the sector.

Third, even if national accounts of the creative industries are largely intended to achieve political and policy end, it is unclear what leverage is actually gained in this respect. One economist who advises the British government on these issues told me that by measuring the creative industries, the Department of Culture, Media, and Sport now has more leverage with the Department of Trade and Industry (to negotiate for favorable trade policy, tax incentives, subsidies, etc.).[6] But what interests are to be represented? The auto industry has a set of common interests—cheap fuel, better labor terms, lower emissions restrictions. The trucking industry wants better roads, fewer tolls, an increase in the allowable cargo weight per axle. But what are the common policy goals for an industry that supposedly represents Web design, symphony orchestras, novelists, publishers, Hollywood studios, advertising firms, and piano teachers? This is complicated by the fact that the interests of the enterprises that control the distribution of cultural work are often at odds with those of the artists and cultural workers. In some ways, the most obvious common policy agenda, at least at the national level, is for tighter copyright protection. And the businesses that represent most of the economic activity in the creative sector are pushing in this direction. But this policy objective, in certain cases, may be at odds with creativity (see Besser 2002; Boiller 2002; Healy forthcoming). So, again, before we begin to measure the size of the creative industries, let us be sure of the policy objectives we hope to pursue.

Finally, I would argue that it is better to think about the creative industries at the local and regional levels, where policy issues related to economic and workforce development are more obvious and where it might be easier to find synergies between the different parts of the sector—nonprofit and commercial, large and small firms, new media and old media. As one example of a local strategy, Walter Santagata (2002) has argued for the importance of "cultural districts" as sources of sustainable economic growth (furniture districts in Italy, textile districts in Milan, or wine districts in France) and has identified several policy interventions to help cultural districts thrive.

There are also numerous examples from European cities (Manchester, Glasgow) of policies designed to build an infrastructure to support small and emerging cultural businesses in such areas as design, music, digital media, and broadcast. Such policies range from establishing industry forums for the identification of sectoral needs to creating publicly supported venture capital funds dedicated to the promotion of products and services made by creative industries. Other strategies include investing in digital media labs; creating low-cost production facilities; supporting art and technology studios; arranging expos to showcase new designs or local design talent; organizing trade missions around particular products or services; providing business development support and training; creating employment bulletins; providing managed workspace and cheap short-term leases for artists; and offering tour support for new musical acts.[7] These types of local policies, described by Justin O'Connor as "cultural production strategies," are where the rubber hits the road in the creative industry debates—and where industrial approaches to the cultural sector make perfect sense.[8]

Other Areas for Future Research

Putting aside whether or not it makes sense to measure the size of the creative industries, there are a number of other promising areas of inquiry and policy relating to creative assets and the changing economy. First, if creativity is increasingly valued as an economic resource, how can we better measure the value of creative assets at the firm level? Similar challenges have been addressed by scholars interested in measuring and accounting for "intangibles" as sources of value creation for firms (see Buigues, Jacquemin, and Marchipont 2000; Imparato 1999). How do investors value such things as research and development; intellectual capital; organizational capital (e.g., business strategies and networks); reputational capital (brand recognition); and information technology? The same set of questions can be asked about creative capital or creative knowledge within firms—the extent to which product managers, for example, are in touch with the cultural tastes of different consumer demographics; the extent to which firms cultivate and reward innovation and creative thinking; the value of ties to cultural industries and institutions (how should we measure the value, for example, of McDonald's relationship with Disney or Bank of America's ties with the San Francisco Opera?). Within creative industries, there is a need for ways to better measure the value of research and development both within organizations and between organizations and sectors (for example, the extent to which commercial enterprises—e.g., Hollywood—benefit from the research and development that takes place in the nonprofit sector). At the very least, a close review of existing research on the measure of intangible assets would likely yield some valuable lessons about how to approach creative assets.

Second, rather than focusing on aggregate levels of creative output, we need better theories and methods for understanding the context for creativity. In particular, to what extent are different creative activities motivated by intrinsic or extrinsic rewards? What working conditions lead to higher levels of creative output? What is an “innovation milieu” and what type of local infrastructure (institutional ties, communications channels, employment crossover or cross-fertilization) fosters higher degrees of creative work? Of course, to answer these questions we need to develop strategies for measuring innovation in the first place. How would we know, for example, if one city, or firm, or sector was more or less innovative than another?[9]

Third, we need more research on creative labor markets. How do workers flow through the creative sector? To what extent do they move fluidly between different parts of the industry (from jobs in traditional design to computer animation or from designing theater sets to building high-tech displays at trade shows)? In terms of training and education, can we better measure the economic returns to creative skill development (such as arts education)? Is there a connection between entrepreneurship and training in the arts? Are the skills developed through playing an instrument, composing a story, painting a mural, and working in theatre fungible—are they transferable to other nonarts-related jobs? And, most important, how are these features of the labor market changing?

Conclusion

Many more questions might usefully be asked about the changing economy and creative assets. The larger point is that there is a rich research agenda for scholars who wish to pursue what I described earlier as “midrange theories” that explore the relationship between economic change and culture. In this paper, I suggested several potentially fertile areas of study: measuring creative assets at the firm level; exploring the context or conditions for creativity and innovation both within organizations and at the community level; and tracing the trajectories of creative workers to better understand how they move between different parts of the sector. I also suggested that an industrial approach to creative workers and firms might best be pursued at the local level or regional level, rather than nationally.

Unquestionably, many of the old governing assumptions about economic life are changing. But rather than simply celebrate a new era for art and culture—pointing to the unparalleled growth of the creative industries—we need to examine more closely how the organization of creative work is changing and, more importantly, under what conditions we can expect innovation and diversity to blossom in the future. Perhaps most crucial is the need to link our research and our strategies for "measuring" the creative industries to realistic, tangible, and practical policy goals. In our wildest imaginings, future studies and accounting schemes might show that the creative industries compose 50 percent or more of the gross domestic product. And such calculations might usefully amplify the message that the arts and culture matter to economic life. On the other hand, we may find that arts and culture do not matter so much economically. Whatever the case may be, we need to have a set of policy goals in mind to hook up to this engine, ready to drive us in directions that make sense for art and culture.

Notes

1. I use the term "creative asset" to refer to both the goods and services that are the principal product of an expressive act—music, design, painting, theater, dance, television, film, animation, educational media, etc.—as well as the workers who produce those goods or services. "Asset" refers to the fact that these creative workers, goods, and services have economic value for consumers, investors, firms, and governments and that such value can, in principal, be measured and accounted for. The term "changing economy" was chosen rather than "new economy" because the latter term seems to be almost wholly discredited by serious economists. Much about the so-called new economy is not fundamentally new, but rather reflects a change in degree or emphasis. For example, knowledge has always been an important asset to firms and industries, but there is evidence that knowledge is now more highly valued than in the past. The "old economy" has not been replaced, but rather new forms of economic life (changes in firm

structure; changes in labor markets; changes in product distribution channels) are superimposed on existing economic patterns.

2. Participants in the roundtable discussion, sponsored by the Irvine Foundation as part of its research initiative on culture, investment, and entrepreneurship, included Orley Ashenfelter, Mark Blaug, Arthur Brooks, Bruno Frey, Ann Galligan, Victor Ginsburgh, Michael Hutter, Stephan Meier, Walter Santagata, Bruce Seaman, Ruth Towse, and Peter Tschmuck.

3. A good review of the literature can be found in Victor Ginsburgh's "The Economics of Arts and Culture," in the *Encyclopedia of Social and Behavioral Sciences*.

4. Much of the discussion that follows draws on insight from conversations at the Rotterdam conference and the Irvine-supported roundtable.

5. "Creative activity" is generally thought to encompass those services and products whose value is almost entirely symbolic. Such activity can encompass traditional arts (painting, music, theatre) as well as the media industries, fashion, and design. Creative work generally involves manipulating images, text, and sound in new ways in an effort to communicate, entertain, and educate. The products of creative work are often governed by copyright and patent law. Although art and entertainment are clearly within most people's definition of creative activity, there are disagreements over whether such areas as science, engineering, and software development should count among the creative industries.

6. However, a visit to the DTI Web site reveals that the "creative industry" is still not recognized among the thirty industries that the department supports.

7. Examples of specific creative industry policies can be found in the New England Council's 2001 report, "The Creative Economy Initiative: A Blueprint for Investment in New England's Creative Economy" and the Manchester City Council's 1999 report, authored by Justin O'Connor, called, "The Cultural Production Sector in Manchester: Research and Strategy."

8. My colleague Kieran Healy points out that there are still very important policy issues at the national level that concern the cultural industries—especially important legal questions about regulation (intellectual property, ownership of communications infrastructure and conglomeration, Web governance issues, etc.). My point is that I do not think conceiving of different parts of the creative sector as a single industry will provide a set of coherent policies for these issues. Different parts of the creative industries need to have a stronger voice on these national issues, but it is unlikely that the sector itself will respond to the issues in any collective or unified way. On the other hand, I think an industry approach will likely yield more consensus over policy at the local level and more opportunities to bring together diverse parts of the sector around workforce and business development.

9. Richard Florida provides a very rough measure of innovation at the city level by examining the number of patents per capita issued over a certain period of time.

REFERENCES

Beesley, M. E. 1997. Media concentration and diversity. In *Privatization, regulation and deregulation,* 429–51. New York: Routledge.

Besser, Howard. In press. Commodification of culture harms creators, building an information commons. American Library Association Web site and publication. Available: http://www.info-commons.org/

Boillier, David. 2002. Silent theft: The private plunder of our common wealth. New York: Routledge.

Buigues, Pierre, Alexis Jacquemin, and Jean-Francois Marchipont, eds. 2000. *Competitiveness and the value of intangible assets.* Northampton, MA: Edward Elgar.

DiMaggio, Paul, and Kristen Stenberg. 1985. Conformity and diversity in the American resident stage. In *Art, ideology and politics*, ed. Judith Balfe and Margaret Wyszomirski. New York: Praeger.

Fingleton, Eamonn. 1999. *In praise of hard industries: Why manufacturing, not the information economy, is the key to future prosperity.* Boston: Houghton Mifflin.

Florida, Richard. 2002. *The rise of the creative class.* New York: Basic Books.

Frey, Bruno. 2000 *Arts & economics : analysis & cultural policy*. New York: Springer.

Ginsburgh, Victor. 2001. The economics of arts and culture. In *The Encyclopedia of Social and Behavioral Sciences*, ed. N.J. Smelser and P.B. Baltes. London: Elsevier Science.

Heartfield, James. 2000. *Great expectations: The creative industries in the new economy*. London: Design Agenda.

Healy, Kieran. Forthcoming. Digital technology and cultural goods. *Journal of Political Philosophy.*

Heilbrun, James. 2001. Empirical evidence of a decline in repertory diversity among American opera companies 1991/92 to 1997/98. *Journal of Cultural Economics* 25 (1): 63−72.

Howkins, John. 2001. *The creative economy: How people make money from ideas.* London: Allen Lane.

Hutter, Michael. 1992. Art productivity in the information age. In *Cultural Economics,* eds. Ruth Towse and Abdul Khakee. Berlin: Springer-Verlag.

Imparato, Nicholas, ed. 1999. *Capital for our times: The economic, legal and management challenges of intellectual capital.* Stanford: Hoover Institution Press.

National Governors Association. 2001. "The role of the arts in economic development." NGA Center for Best Practices Issue Brief.

New England Council. 2001. "The creative economy initiative: A blueprint for investment in New England's creative economy." Report of the New England Council, Boston.

O'Connor, Justin. 1999. "The cultural production sector in Manchester: Research and strategy." Report of the Manchester City Council. Available: <http://www.mmu.ac.uk/h-ss/mipc/iciss/reports/cultprod.pdf>.

———. 2002. Public and private in the cultural industries. Unpublished paper, Manchester Institute for Popular Culture, Manchester Metropolitan University.

Peterson, Richard A., and David G. Berger. 1975. "Cycles in symbol production: The case of popular music. *American Sociological Review* 40:158–73.

Robinson, Ken. 2001. *Out of our minds: Learning to be creative.* Oxford: Capstone.

Santagata, Walter. 2002. "Cultural districts, property rights and sustainable economic growth. *International Journal of Urban and Regional Research* 26 (1): 9–23.

Smith, Chris. 1998. *Creative Britain*. London: Faber.

Throsby, David. 2001. *Economics and culture*. Cambridge, U.K.: Cambridge University Press.

Venturelli, Shalini. 2000. "From the information economy to the creative economy: Moving culture to the center of international public policy." Center for Arts and Culture Issue Paper, Washington, DC.

Steven Jay Tepper is deputy director of the Princeton University Center for Arts and Cultural Policy Studies and lecturer at the Woodrow Wilson School of Public and International Affairs. He has written about sociology of art, cultural policy, and democracy and public space and is currently completing a book on cultural conflict in seventy-five American cities.