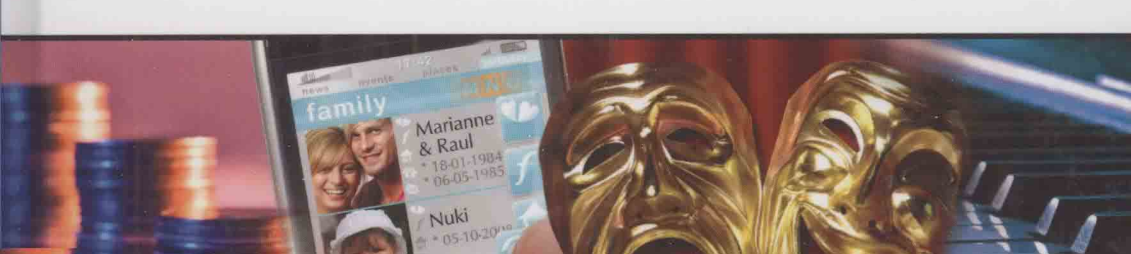
Creative Industries and Economic Evolution

Jason Potts



NEW HORIZONS IN INSTITUTIONAL AND EVOLUTIONARY ECONOMICS

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1. Introduction

1.1 DYNAMIC VALUE AND THE ECONOMICS OF CULTURE

This book offers a new way of looking at the arts, culture and the creative industries from the perspective of evolutionary economics. It offers a 'new' cultural economics, or better: an *evolutionary economics of creative industries*.

The evolutionary economic approach to cultural and creative industries is new because it largely abandons the dominant neoclassical market-failure model of welfare and subsidy that otherwise underpins modern cultural economics. An excellent survey of this is Throsby (1994). Instead, it offers a market-process model of innovation dynamics and economic and cultural co-evolution. This is not a new approach (Grampp 1989, Cowen 1998, 2002, Peacock 1993, 2006, Cowen and Kaplan 2004, among others) but more a new consolidation. I propose here a general framework to refocus the economic analysis of arts and culture away from market-welfare arguments and cultural protectionism and instead towards open-market arguments based on consumer and producer uptake of new ideas, innovation dynamics, and industrial evolution. This focus on evolutionary economic dynamics of arts and culture leads us to trace different economic mechanisms – specifically, the contribution of the creative economy to the innovation system. In turn, this leads to very different policy models. So this is a book about the economics of arts and culture but done so from the perspective of economic evolution.

Let me be clear about my intentions from the start. I do believe that the arts, culture and creativity are all good things (that is, they are 'goods') and that we should seek to have more of them. It's that last bit – the 'more of them' – that is the economics part because there are several ways you can do that. One is to find market failure and then correct it in a Pigovian manner, for example with subsidy. This is market support in theory, but in practice works as an incomes policy. From the evolutionary economics perspective, the problem with this model is that it actually fails here, just as elsewhere in the economic order, due to the stultifying effect it has on entrepreneurship and innovation. It's the 'things unseen' – *àla* Bastiat

– the frustrated dynamics that are the problem. So we need a better model, a better way of unleashing the forces of a creative economy.

The model I propose – the evolutionary economics of the creative industries – is based on the theory of innovation in the context of market-based economic evolution. Central to this model is a focus on what the arts, cultural and creative industries do best, as they have throughout history: namely they drive, facilitate and engender the origination, adoption and retention of new ideas (the innovation process) into the socio-cultural and economic system. From this perspective, the prime economic value of the arts, cultural and creative sectors is not heritage or entertainment, or the like. Rather, these are spillovers from the deeper contribution of this sector to the processes of economic dynamics. The arts, cultural and creative industries sectors are economically significant and interesting because as part of the innovation system they are a mechanism of economic evolution. That's the line I argue in this book.

This will advance a 'dynamic value' argument based in the theory of economic evolution: that's the underlying economics. This does not diminish or sully the many positive externalities of the arts, cultural and creative industries sector to personal or national identity, to community cohesion or humanistic integrity, or even to social justice. But these are not the most interesting thing about the arts, cultural and creative economy from the evolutionary economic perspective: for that we must look to the role of arts, culture and the creative industries in terms of their contribution to the process of economic evolution. I will venture to explain how the creative industries are in important ways on par with science and technology, also a significant force of economic evolution. The difference is that whereas science and technology deals mostly with the manipulation and development of new material forms and the economic opportunities this creates (Arthur 2009), the arts, cultural and creative sectors deal with the human interface, with the new ways of being and thinking and interacting, and with, in effect, the human side of change. In other words, they operate on the demand side of economic evolution, whereas science and technology operate mostly on the supply side. This should not be construed as 'hard' (technology and engineering) versus 'soft' (arts and play): that is a category error. Rather, we need only recognize that all innovation processes and trajectories – the processes that drive all economic growth and development as an evolutionary process of 'creative destruction' – involve people originating and adopting new ideas, learning to do new things and experimenting with variations, and seeking to embed these new ideas into new habits, routines, and even identities (Chapter 7). That is often done in a highly social context (Chapters 8 and 14). The arts, cultural and creative industries all contribute to the innovation processes that shape economic evolution (Chapter 9). That is why this book focuses on the dynamic value of the creative industries (which is not everywhere the same as their intrinsic value, cultural value or market value).

For too long this has not been the predominant view of the arts and cultural sectors. From the perspectives of popular public policy (Throsby 2001, 2006), political economy (Du Gay and Pryke 2002, Hesmondhalgh 2002) and much of cultural economics (Towse ed. 1997, 2003), the production of arts, culture and creativity is often slanted toward a view that they are somehow special, possibly separate, sometimes ineffable; too important in any case to be left entirely to the market. This gives rise to the modern (since the 1950s at the latest) protectionist instinct in cultural policy that, in turn, has led to the many various endeavours to shelter and protect this 'exceptional' sector behind walls of cultural-elite administered public funding bodies or by other regulatory and institutional means.

So this will also be an anti-protectionist book, but not from a market efficiency perspective. My argument will be closer to a gains-from-trade line, in the classic Adam Smith (*Wealth of Nations*) and Tyler Cowen (2002) sense, but it is ultimately about evolutionary dynamics. The market failure and subsequently protectionist approach is flawed, I believe, because it is built on a fundamental misconception of the economic value of the arts and cultural sector. In short, it values it as an asset (a cultural asset) to be preserved and maintained and possibly shielded from the market. Yet in doing so it overlooks the role of the arts, cultural and creative industries in the dynamic process of evolutionary change. This requires a different perspective, namely, not a view of this sector that sees just a bunch of cultural workers, assets or even treasures, but instead a view that has at its focus the 'human capital' of creativity, novelty generation, new interpretations and meanings, and all of the creative skills and abilities that enable humans to continually change and adapt to changing ecological, social, technological and economic environments. That's what this book is about.

1.2 CREATIVITY RISING

The rise of the concept of the 'creative class', the 'creative industries' and the 'creative economy', both as academic and policy focus, has occurred only recently. Through the 1970s and 1980s the industrial development orthodoxy was argued to be essentially driven by large-scale corporate R&D-based models of innovation and national innovation systems (Nelson ed. 1993, Rothwell 1994). Economists and technocrats thus favoured strong industry and innovation policy directed at high technology and emerging technology sectors, often in conjunction with government assistance (such as MITI in Japan, ITRI in Taiwan, or partnerships with military contractors such as in the US, or with government research, such as CSIRO in Australia). Economists had long pointed to the significance of human capital in the economic growth process (Schultz 1961, Romer 1990a), but this focused on the importance of investment in education, particularly higher education. Within this model, human capital contributed to the innovation system that powered economic growth and development; the arts and culture contributed little, basically nothing. The arts and cultural industries were viewed as just another industry – media and entertainment, say – or as a sector to be preserved in order to maintain cultural assets and capabilities. This was done so that citizens or future generations might perhaps enjoy and value them, but in essence it relied on non-economic justifications; for cultural reasons mostly, but social and political reasons too. Appended to this was invariably a Keynesian 'good for the economy' argument of spending multipliers, tourism and urban development; but no mention of innovation.

During the 1990s a new line of argument began to emerge – first in Australia (in a much ridiculed 'Creative Nation' report of 1994) and more fully in the UK (DCMS 1998) – that refocussed the notion of treating the arts and cultural sector as a net drain on the economy (though one worth having due to positive cultural externalities), and instead sought to connect it to economic growth and innovation policy (for example, Hartley and Cunningham 2001). This was advanced by a motley group of economists and urban geographers, drawn from the study of economic growth, human capital, urban development and innovation. They offered a very different perspective that emphasized the role of cultural investment in creating the conditions under which innovation and growth can thrive. This approach came to focus on a wider set of industries than the core arts and cultural industries (heritage, craft, visual and performing arts, and so on), extending it to the more commercial domains of fashion, design, new media, video games, and the like. The 'economics of creative industries' framework thus emerged through a focus on the growth and development benefits of creative industries at multiple levels, from entrepreneurship, urban regeneration, regional development and national economic growth (Hartley et 2005, Work Foundation 2007). I will seek here to further develop this 'innovation and growth' line of argument by unpacking it into a framework of evolutionary economics (Dopfer 2005, Dopfer and Potts 2008).

Evolutionary economics centres on the study of economic growth and development. But it differs from 'new growth theory' (Paul Romer, Robert Lucas et al.) by placing less emphasis on human capital, ideas and technology spillovers *per se*, and more on the role of entrepreneurship, innovation trajectories, and the market process of Schumpeterian creative destruction. These are certainly not mutually exclusive domains and there is much theoretical overlap. But because the evolutionary approach focuses on the disequilibrium processes of an innovation trajectory, it allows us to elucidate the role of the creative industries in the dynamics of economic evolution. Specifically, it connects the creative industries to different phases of an innovation trajectory and to the organizations, social networks and institutions that facilitate this process. It seeks to explain how the creative industries are an integral part of the innovation system (Handke 2006, Bakhshi et al. 2008, Potts 2009b). Whatever their cultural value or static economic value, the creative industries are from the evolutionary economic perspective also a much underappreciated part of the explanation of long-run economic growth and development.

This may seem a curious thesis. For how can it be that industries devoted to seemingly superficial domains of media, fashion, craft, design, performing arts, advertising, architecture, heritage, music, film and television, games, publishing and interactive software can possibly contribute to the deep and serious pathways of economic growth and development? At first sight, the creative industries are not progenitors of the standard causes of economic growth in developing new technology, in capital deepening, in operational efficiency, in business model innovation, or in institutional evolution. Yet look closer and it becomes apparent that many of the people and businesses in this sector are intimately involved in all of these things.[1] The creative industries are deeply engaged in the experimental use of new technologies, in developing new content and applications, and in creating new business models. They are broadly engaged in the coordination of new technologies to new lifestyles, new meanings and new ways of being, which in turn is the basis of new business opportunities. The creative industries are not seminal forces of material economic growth, but they are commonly germinal in their role in coordinating the individual and social structure of novelty and in resetting the definition of normal.

To be clear, I am not arguing the trivially obvious point that the cultural and creative industries produce economic value. Of course they do: they are part of what people like (that is, they produce goods), and so there is production and consumption on the order of 3–8 per cent of GDP in most developed nations, which is a lot. Nor am I arguing that they are of unappreciated economic significance, which was more or less the line advanced by creative industries champions such as the UK's DCMS when pointing to their contribution to jobs and value added in most OECD economies. I take these points as given and, to be frank, largely uninteresting. (Note for example that you could make the same argument about the 'destructive industries' (demolition, waste processing, recycling, and so on): they too are economically significant and probably underappreciated.) But I want to argue a stronger and perhaps more contentious point, namely that the creative industries are important and significant in the evolutionary process of economic growth and development due to their hitherto underappreciated role in the *facilitation and* re-coordination of economic change. Creative industries are important mechanisms in the process of economic evolution through their role in the origination, adoption and retention of new ideas.

This may seem counter-intuitive. We know that economic growth and development is driven by innovation as new ideas are developed and diffused through the economic order. Yet this is not as orderly a process as if new ideas were somehow piled on top of old ideas. Instead, economic growth is an evolutionary process of 'creative destruction' (as explained by both Karl Marx and Joseph Schumpeter) in which the knowledge-base of agents, firms, industries and nations are transformed from within. This will often involve significant disruption of previous activities along with new connections and patterns of trade, production and consumption. Economic evolution involves people changing what they do, changing who they are, how they live, and even what they think; the creative industries are key providers of the mechanisms and resources for this process of adaptation.

Economic growth requires continuous re-coordination of the economic order[2] and the principal mechanism to achieve this is the market system. Yet coordination through price signals is only one (albeit the central one) of many coordination processes at work in an evolving economic order. Other mechanisms include hierarchy and power relations (as in a firm or organization), networks, and a broad class of social mechanisms of shared signs, symbols, stories and other messages (Hermann-Pillath 2010). It is this latter set of functions in relation to the dynamics of 'messages, identity and meaning-making' that, I hypothesize, plays a fundamental role in an evolving economy by socially processing innovations to re-coordinate the economic order (a theme examined in Chapter 14). The creative industries contribute to the social technologies of the innovation system.

Admittedly, this may seem abstract. With the exception of advertising and possibly architecture it is far from obvious that the creative industries are consciously and deliberately engaged in this function to advance the dynamic efficiency of market capitalism. Indeed, in the cases of the subversive arts, music, fashion, and again architecture, the opposite may seem closer to the truth. Yet consider how economic growth generates increased surplus that will be in part consumed through increased arts and culture (messages and meaning), which in turn feeds back to renewed sources of economic growth as the messages and meaning-making in effect processes the new technologies such that they become socially embedded, opening new opportunities for value creation. This process may well be indirect, possibly in the extreme, making it difficult to analytically trace and examine. But a world of continual change in the underlying ideas that compose the economic order is sustainable only to the extent that mechanisms operate to continually re-coordinate the personal identity, social organization and institutions that ultimately compose the economic order.

Economic growth, in other words, involves more than just the existence of new (technological) ideas, or the broad adoption of new ideas, but fully requires that these new ideas lead to changed behaviours, habits and routines, changed personal identities and social organization, and to a renewed sense of what is normal, all of which is the outcome of the sorts of services provided by the creative industries. This requires more than just research, development, production and distribution. It also requires new ways of thinking that lead to new ways of living (as examined in Chapter 7 on identity dynamics): it is here that the creative industries, however indirectly, play their role in the process of ongoing economic evolution.

This dynamic emergent conception is a long way from the conventional economic and policy treatment of the cultural economy. The long-standing orthodoxy is that these humanities-soaked cultural industries are simple beneficiaries of the wealth-creating and societal-transforming power of the science, technology and engineering-based growth of knowledge processes as the main drivers of economic growth since the industrial revolution. They are certainly not, in this canon, responsible for any aspect of such growth and development. They are grudging and begrudged beneficiaries of technology-led growth, not generators.

The arts and cultural aspects of the economy do of course produce value *qua* value – but it is artistic and cultural value that adds to cultural wealth, not economic wealth. These economic domains are, it is commonly supposed, properly viewed as objects of cultural policy not economic policy. But my central thesis is that this view is wrong because it misrepresents the extent and indeed existence of the many essential services involved in the process of adaptation to novelty and the facilitation of change that by definition underpins economic evolution.

I will not much argue here that the economic value of the creative industries derives from their seminal 'creative' contributions as generators of new ideas. I will not argue the insipid line that creative industries produce creativity. The creative industries are probably no more or less creative in this sense than, say, the engineering or agricultural industries, both of which also deal in the origination of new ideas. I stress this because I think a singularly unhelpful misunderstanding has crept into much thinking and theorizing about the economic role of the creative industries that in effect treats them as the suppliers of creativity,[3] as a literal reading of the term 'creative industries' would imply. But I do not argue this. Rather, from the evolutionary perspective, the economic value of the creative industries accrues not from their supply of originating ideas (although of course there will be some of this) but more importantly from their role in the subsequent adoption and retention phases of the innovation process.

1.3 CREATIVE INDUSTRIES

Two overarching analytic ideas are joined in this book: creative industries and economic evolution. The concept of economic evolution is long-standing and broadly understood by many economists and social scientists, referring to the application of evolutionary thinking to the study of economic structure and dynamics. Yet the concept of creative industries is more recent (*circa* 1998 not 1898) and outside of a small group of cultural academics, regional geographers and certain policy circles the notion of creative industries is still somewhat novel and often ambiguous. Worse, the concept has overtly political rather than disinterested academic origins. So, we ought to briefly embark on a survey of this concept and its analytical and socio-political context, as well as its connection to evolutionary economics.

The concept of creative industries was first mooted in Australia in the early 1990s in the context of a radical reformation proposal for arts and cultural policy funding mechanisms and justifications. It is nowadays associated with a bunch of breakthrough monographs by a largely unconnected group of scholars of the creative economy (for example, Caves 2000, Howkins 2001, Florida 2002). Yet the concept of creative industries I use in this book originates in 1998, with the release by the UK Government's Department of Culture, Media and Sport (DCMS) of its first 'Creative industries mapping document'. This was based on the idea that a set of new growth industries in the post-industrial UK economy could be usefully grouped into 13 (later 11) sectors to be collectively labeled the creative industries. They were all artistically and creatively driven producers of intellectual property (IP), such that in the creative industries: creativity is the input and IP is the output.[4]

Details of this new industrial sector classification need not concern us immediately, although it has been much copied and criticized (often simultaneously). The central point was its underlying premise – that the arts are a powerful but largely unrecognized source of economic regeneration as drivers of innovation. Deftly and unabashedly, the concept of creative industries shifted arts economics in a single throw from mostly Pigovian/Keynesian welfare-theoretic foundations to a very different economic argument in Schumpeterian innovation-theoretic foundations. In consequence, a new economic way of thinking began to descend upon the economics of arts and culture in terms of open complex innovation systems, an insight recognized in some quarters as a potential line of progress. The underlying idea (as articulated by Richard Florida, Danny Quah, Charles Leadbeater and John Howkins, among many others) was that the next big 'resource boom' was in being smart and creative and then selling that to others.

The impetus for creative industries came from public policy experience of regional economies experiencing simultaneous economic decline through loss of traditional manufacturing, along with 'new economy' regeneration that was in part through creative industries growth. The tides of globalization that eroded the old economy base of modern cities also, it turned out, opened new channels through which the creative industries flowed with new ideas, business models and markets (Roodhouse 2006). The rise of the creative industries has also been pushed by the significant changes in recent decades in digital information and communications technologies and the growth of new media (Jenkins 2006a).

I will explore in this book the evolutionary economic logic of this new source of growth and development, why it is happening, and what it means for cultural and economic analysis. The answer is roughly this: the creative industries are not a fortuitous happenstance emerging just in time to save declining industrial regions, but the systematic outcome of economic liberalization and globalization that has produced, among other things, real growth (that is, falling relative costs of ICT, and so on) and also much reduced real costs of education and leisure, leading to higher levels of cultural and creative consumption. As modern economies become increasingly wealthy, they also become smarter and better leisured, or at least better at blurring the line between work and leisure, than at any time in human history. The rise of the creative industries follows. Academic and policy interest follows soon after. And that's about where we are up to now, it seems. The focus of this book is somewhere over that horizon and specifically with what this means for: (1) our general understanding of the process of economic evolution; (2) our general understanding of the process of cultural evolution; and (3) the interaction of the two, especially with respect to institutions and policy. The rise of the creative industries should be no less surprising than the rise of communication and transport industries, for example, or even financial services, as instances of enabling mechanisms that are part of the same process of the growth of knowledge and the continual remaking of the space of economic opportunities to create and consume value.

1.4 CREATIVE INDUSTRIES AND NEW ECONOMIC POLICY

Ideas have consequences and the DCMS re-conception of the creative industries as a source of competitive advantage, economic growth and regional revitalization had an electric effect on many a regional policy manifesto. Civic leaders now had an audited and compelling 'good for the economy' argument to promote cultural amenities, inner city development, and local arts and media industry support, and so on. These programs, often previously on the books as liabilities, as for example with heritage maintenance, festivals or bike paths, were now re-calibrated as growth drivers of evolutionary significance. No longer, went the new story, did a region have to be serious and hard-working to be vital and growing (Currid 2007). Post-industrial economic logic instead required a region to have great cafes, theatres, and wi-fi for all, which is politically a much easier sell than a new oil refinery or container port. Mining, refining and manufacturing would now be done elsewhere, perhaps in Brazil or China, freeing post-industrial nations to concentrate on their comparative advantage in building a new economy of services and experience goods (Andersson and Andersson 2006, Sundbo and Darmer 2008). These were the rewards of going post-industrial, even post-modern. The creative industries thus became an attractive proposition to those who could exploit such comparative advantage.

A new economic reality thus emerged in terms of a knowledge-based or 'weightless economy' (Leadbeater 2000, Quah 1999). The creative industries thus became a central element in the 'new economy' where ultimate scarcity would increasingly shift from physical resources to human creativity in defining the limits on economic growth. In the new economic order, it was explained, machines (or perhaps China) will do the work, leaving people time to think – a sentiment not heard since the 1940s. On the strength of a 'what's good for the creative arts is good for the (new) economy' argument, a small number of social sciences and humanities academics, along with numerous industry interest groups, quickly adopted the new industrial classification of the creative industries. Like Pinocchio, the creative industries had become a 'real' industry: something that actual people did, that serious scholars studied, and that effective policy targeted.

But the concept offers something further, namely an interesting bridge between a pairing that has not historically travelled well together: humanities scholars in general but cultural studies in particular, and economists. Reframing the creative arts and industries as 'good for economic growth' has afforded humanities-style research into these domains a new legitimacy; indeed, urgency. But first they had to cross the bridge. The most striking feature of this new bridge (which we at the CCI call 'cultural science') is how smoothly it bypasses the vast and unruly political economy territories of analytic Marxism and the utopian notions of economic equality and social justice that had otherwise metastasized in the humanities and much social science. These had previously resulted in an overtly critical rather than constructive content and a reflex suspicion of economic competition and growth, along with the diminution of the value (and values) of science and technology. These almost reflexive positions had the consequence of marginalizing cultural studies, and indeed the broader humanities, from any serious economic policy discussion. So, via the bridge of Schumpeterian economic growth, academic concern with new media, fashion, consumer co-creation and the construction of meaning was ultimately, though with difficulty, re-conceptualized as the study of a significant driver of economic growth. A new language of innovation systems, complex feedback dynamics and knowledge-based economies has begun to flow through and recharge (or infect and colonize, depending upon perspective) the humanities and social sciences, pulling them into an interesting and potentially fruitful new alliance with the economists.

Industry groups were also quick to mobilize, correctly sensing a new opportunity for support in terms of an investment model ministering to regulatory, infrastructure and skills requirements, or to renewed pleas for direct subsidy by citing new evidence of (now dynamic) significance. It was here, however, that the initial vagueness became apparent in detail of what the creative industries actually comprised, and specifically how the value they created was produced and manifest. Something was new and different, but it was hard to say exactly what. Consider the interest group Focus on Creative Industries:

> Whilst FOCI welcomes the recognition of the strong economic contribution made by the creative industries in terms of wealth creation and employment, we would also keenly stress that this sector is very different from traditional industries. They deal in value and values, signs and symbols; they are multi-skilled and fluid; they move between niches and create hybrids; they are multi-national and they thrive on the margins of economic activity; they mix up making money and making meaning. The challenge of the creative industries is the challenge of a new form of economic understanding – they are not 'catching up' with serious, mainstream industries, they are setting the templates which these industries will follow.[5]

The new creative industries view thus inverted the standard cultural economics line on productivity deficits and market failure that positioned the cultural economy as a net welfare recipient, something transcendentally worthy, but inherently unprofitable (Potts and Cunningham 2008).

Instead, the new view of arts and culture sought to reposition the creative industries front and centre in the new growth of the new economy.

The economic contribution of the creative industries is thus not its output of cultural products or content *per se*, or even its role in generating employment, regional growth or exports. Rather, it contributes to the origination, adoption and retention of new technologies, as well as offering and developing new pathways for the growth of knowledge and human potential, which in turn offers new economic opportunities. The creative industries are part of the market economy, regularly supplying information commodities and experience goods. But they are also part of the mechanism by which economic systems evolve through their role in the origination, adoption and retention of new ideas. If this evolutionary hypothesis is correct, then we would expect that they would contribute to the co-evolution of political, legal, cultural and social systems. From this perspective, the economics of the arts and culture is thus presently undergoing an 'evolutionary' turn. From its traditional welfare-theoretic basis in the neoclassical economics of market failure, and its standard policy prescriptions in Keynesian economics (obliquely conditioned by Marxian economics) it is now moving inexorably towards the open-system evolutionary perspectives of the likes of Schumpeter and Hayek.

Economists have long appreciated that creativity matters (see Chapter 4). Creativity as practical imagination, as Joseph Schumpeter explained, is the generator of the evolutionary process of entrepreneurship and innovation that ultimately drives economic growth. The upshot is the beginnings of a radical remake of the economics of the socio-cultural domain in terms of the evolutionary economics of the creative economy, and of a deeper understanding of the role of creativity and its emergent industries in the process of economic evolution. The creative industries contribute through the many ways by which new ideas are adopted and adapted into new use, and socially and culturally embedded for ongoing use. They make change individually and socially possible, without which economic evolution could not occur.

1.5 THE MICRO–MESO–MACRO FRAMEWORK OF EVOLUTIONARY ECONOMICS

Given this book is themed and organized about evolutionary economics and the process of economic evolution, it will perhaps be useful to outline what that actually is.

First, evolution is a process that occurs in all open systems. It is a process of variation and differential replication (that is, selection) of some