Rediscovering Culture as a Source of Creativity and Innovation

The Situation in Europe

1. Introduction

The rich European cultural heritage incorporating culture and art can be considered as a valuable asset connecting and unifying European people and nations. Therefore the policy concerning culture must play a more significant role in the future development of European integration, as a decisive element in repositioning the place of Europe in the world.

At the same time the European integration process had been concentrated mainly on the economic aspects of the integration, while the cultural dimension of the integration had been mostly neglected, and the role of the cultural sector of the economy had been ignored. But recently there has been a remarkable change in this field, as there is an increasing tendency to integrate the culture to the so called “European project” at the community level. The novelty in defining the role of culture in Europe is the emphasis on the relationship between culture and economic development, considering culture as a source of creativity and innovation, and a factor of competitiveness forming a basis for creative Europe. This renewed concept is well-reflected in the initiative and proposal of the European Commission that 2009 should be the European Year of Creativity and Innovation (EYCI).
Regarding the recognition of the changing role of culture in EU integration, the paper examines the economic theoretical grounds and demonstrates some results of empirical research that can be used to describe the relation between the culture and economic development on the basis of creativity and innovation.

2. Antecedents

The Rome Treaty (1957) was focused mainly on economic co-operation, while culture was considered to be the exclusive competence of the Member States. As a consequence: the cultural policy remained under the authority of member states, and national protecting rules had been allowed.

From the middle of the 70s culture and the cultural aspects of the integration have got more attention at the community level, but the new cultural initiatives had been carried out within the framework of the Rome Treaty using other existing community funding programmes and policies (e.g. regional policy, cohesion policy).

The legal basis for the action in the field of culture was accepted in the Maastricht Treaty: the cultural dimension of European integration was formally recognized for the first time. Culture has a chapter of its own in the Treaty (IX), and the role of the EU proposed by the relevant article can be summarized in two main points:

- providing a balance between promoting the diversity of cultures and the common heritage,
- “mainstreaming culture”, i.e. to take cultural aspects into account in actions under other provisions as well.
The Lisbon Strategy, in 2000 with the aim of turning Europe to the most dynamic and competitive knowledge-based economy of the world, however did not consider the role of culture in this process, as it focused overwhelmingly on technology (ICT) and research. This approach concerning culture has not changed much with the renewed Lisbon Programme, which placed economic growth and employment in the centre, and emphasized the role of education, human investment, while ignoring the role of the cultural sector.

At the same time, from 2000, we can find more and more documents and resolutions concerning the economic aspects of culture and the so called cultural or creative industries. One of them is the study on “The Economy of Culture in Europe” prepared for the European Commission in October 2006, which tried to map the so-called creative sector in Europe in terms of statistics, with the aim of adding this sector to the renewed Lisbon agenda.¹

On the basis of these direct antecedents was born the strategic document on culture approved by Commission on the European Agenda for Culture in May 2007 which should open the way for new and coordinated EU action in the cultural field.² It is the first EU document dealing with culture in an economic context, as a source of creativity and innovation and a considerable factor of competitiveness.

The document has three, interrelated sets of objectives:

- Cultural diversity and intercultural dialogue
- Culture, as a catalyst for creativity, within the framework of the Lisbon strategy
Culture, as a vital part of the EU’s external relations.

From these objectives it is the second one which mostly reflects the “rediscovery of culture” from an economic point of view as a factor of economic development.

3. Cultural-creative industries

The rediscovery of culture in economy, and a new concept of connecting culture and economy is expressed by a quite new terminology used in contemporary policy: the creative industries or creative sector. It is a quite recent category in academic and policy discourse as well. The terminology originates from the UK as it was first used in 1998 in DCMS documents, and since 1998 it has spread quickly across different countries and international organizations.

Despite of its expansion there is an extended theoretical debate on the term in the cultural economics literature and the judgement of terminology is still controversial both theoretically and empirically, regarding its precise content. The new term tries to bring together various sectors of the economy, on the basis of types of input and output. But in most definitions the category is mainly an extension of the traditional ‘cultural industries’ terminology, incorporating activities using cultural content and symbolic goods as an input in producing non-cultural goods. The reason for changing terminology was to serve new arguments for promoting culture: using the prefix “creative” instead of “cultural” offers new possibilities for policy-makers to stress the economic aspects within cultural policy. Besides, the new terminology expands the borders and the content of the sector as well, including for instance architecture, design, advertisement in the sector, as these activities use culture as an input in the
production of non-cultural goods. The terminology has its evolutionary history as well; it is an evolving concept changing both in sideways (content, activities included) and times. The evolution is generated by the development of the new ICT technologies, the process of digitalization, and the world of the Internet.

According to the concept of creative industries as used in the European Union’s documents and studies, the creative sector it is perceived as a “radiation process, a model of the cultural industries centred around the locus of origin of creative ideas, and radiating outwards, as those ideas become combined with more and more other inputs to produce a wider and wider range of products” So the creative sector consists of sub-sectors building on each other like layers. This term indicates a shift of the paradigm, connecting culture to other parts of the economy as an intermediate product, an input in producing goods and services.

At the heart of the creative sector lies the arts, the so-called “creative core”: performing arts, visual arts, literature. The next layer is composed by industries engaged in reproduction, distribution and the delivery of goods created at the core: film, media, publishing. They are the “traditional cultural industries”, based on the mass production of cultural goods – transforming cultural value to tradable, commercial goods with economic value.

The next circle consists of the new creative industries in the narrow sense including activities, where cultural goods and contents function as intermediate products.
4. Links between culture and economy

The relation between the creative industries and the rest of the economy as a whole can be explained in several ways. In cultural economic studies and literature four models of this relation are hypothesized. Each model is:

- characterized by a special relation of the creative sector and the other sectors of economy
- based on different economic theories
- associated with different kinds of economic policy
- associated with different concepts of culture

In the welfare model the cultural sector and the economy are negatively related to each other, which means that the development of cultural-creative industries depends on sources extracted from other parts of the economy. The model, theoretically based on welfare economics, uses the well-known market failure arguments. According to this theory the public support of the sector is justified by the public good characteristics of cultural goods. There is also a special argument for public support: the cost-disease phenomenon, based on specific technological conditions in culture.

The negative linkage can be derived from the public choice theory that also considers public support for the culture as a result of a rent-seeking process where the scale and structure of support depend on the ability of articulating and enforcing interests of those engaged in the cultural sector.
The competitive model is characterized by neutral linkage. In this context the cultural creative industry is just “another industry”. The only difference lies in the characteristics of goods produced here. In the centre of the model there are the media, film and publishing industries engaged in the reproduction and dissemination of cultural content. Industries are based on business-type mass production, characterized by economics of scope and scale underlying monopolistic or oligopolistic market structures. Therefore these activities should be regulated by the antitrust laws and special regulatory tools within the framework of competition policy.

The growth model indicates a positive relation, as the creative industries are considered to be an important factor of economic growth contributing to the increase of GDP and employment on local, regional and national level. In this model the importance of culture is due to its increasing proportion in income and consumption. This contribution is growing, as it is demonstrated by the results of some empirical research. The increasing contribution of the creative industries is explained both on demand and supply side arguments.

The innovation model (or creative economy model) describes the relationship as emergent. In the context of the model the creative sector is not just another sector, it contributes to the growth of economy not only directly as a sector, but indirectly, as an element of the innovation system of the economy. “The economic value of the creative industries, in this view, does not stem from their relative contribution to economic value (as in models 1–3), but from their contribution to the coordination of new ideas or technologies and thus to the process of economic and cultural change.” From this point of view the creative industries do not constitute a set of traditionally
perceived industries, but rather a social network functioning as a special market. The relevant policy connected to this model, is the innovation policy, and the model is rooted theoretically in evolutionary economics..

5. Relevance of models in Europe

The models described above cannot be found in their pure form in any particular economy or country, rather we can find a mixture of models with the dominance of one or another type of them. Also, there are changes from time to time reflecting the varying role of culture in the economic development and also the structural transformation of cultural-creative sector itself.

The welfare or public policy model is a European “invention” – especially till the 80s it was the dominant model in most European countries. The state supports the culture not only giving financial aid but also by state owned prestigious national institutions though the size and the methods of subsidizing are different across countries.

Figure 1 shows that according to the data based on the Eurostat’s definition of culture from 27 countries, the average national spending on culture as a percentage of GDP for the period 2000 to 2005 varies from 0.2% to 1.8%, but in the majority of countries it is between 0.5 and 1 %.
The second model had been developed in the US while in Europe the first model was the dominant one. The technological advantage and the size of US economy, parallel with traditions of financing culture by the market gave a comparative advantage to the development of US media, recording and film industries as compared to Europe, with its diverse and fragmented markets in the cultural fields.

But despite of the public support model financing mostly the elitist high culture, the mass production of cultural goods began to spread on the basis of new technologies in Europe as well, and it has led to the recognition of the positive effects of cultural industries on growth and employment. The elements of the competition model are relevant on the EU level as well, but there is a special element of the EU’s competition policy regarding the regulation of state aid. According to Article of the Treaty 87 cultural enterprises operating in EU territory are, subject to the Community competition rules, which take into account the specific nature of the cultural sector,
therefore the state aid to promote culture and heritage conservation may be authorised, if it does not affect competition in the Community to an extent that is contrary to the common interest..

Figure 2. Contribution of the European cultural and creative sector to GDP, 2003

In 2003, the turnover of the cultural and creative sector in Europe amounted to €654,288. In terms of the value added to the European economy as a whole, it represented 2.6% of Europe’s GDP. The economic output is concentrated in the largest countries, while the sum of the national GDPs of the five largest economies equals 74% of the EU 25 GDP. Similarly, the five largest EU Member States account for almost three quarters of the economy of the cultural and creative sector in Europe. The contribution of creative-cultural sector to national GDP is at its highest in France, UK, Norway, Finland and Denmark (more than 3%).
The innovation model should be the suitable one in promoting culture as catalyst for creativity and a source of innovation. But adopting this model, it is more complicated to estimate the contribution of the sector to the economy because the sector produces a special class of outputs, namely innovation and not only the traditional cultural goods and services. Though it is possible to put forward arguments for creativity generating both social and technological innovation and stimulating growth, the exact, theoretically based mechanism of this role of culture is still to be elaborated. Also a plenty of empirical research has to be performed, measuring the effects of creative industries as a factor of innovation in the knowledge-based economy.

6. Special features of creative-cultural sector

Finding the adequate policies applied in the framework of the innovation model, it is inevitable to identify the characteristics of the sector. In this paper I should like to mention three types of such specific features.

6.1. Shaping consumer preferences, the changed role of consumer-user in production and dissemination

In cultural economics theory, it is an evidence that preferences for cultural goods are based on cultivated taste and determined by choices of others. But due to the digitalization and using the internet this feature is much stronger because consumers using networks participate in both creating and disseminating content which is a new source of innovation, originated from non-market mechanism, from consumers connected by social networks.
6.2. The “atypical” nature of cultural employment

Figure 3 represents the importance of cultural-creative sectors in the employment as a whole, in European countries.

Table 3. Cultural employment in the EU 25 in % of total employment 2004

Cultural employment accounts for 2.5% of EU 25 total employment without cultural tourism, and 3.1% with cultural tourism, and it varies between 4.2 and 1.9. But cultural employment has special characteristics as well. These are the following:

- Higher education level: 46.8% of the workers in the cultural sector have at least a university degree in comparison to 25.7% in total. This trend can be observed in every European country with no exception.
- Atypical forms in working: the share of independent workers is more than twice as high in the cultural sector as in total employment. The cultural sector
is dominated by small businesses, micro-businesses and self-employed (freelancers). These freelancers can be described as “entrepreneurs of their own human capital”.

- The jobs are less secure: 17% of workers are under temporary contracts in the cultural sector compared with 13.3% in total employment.
- From the other side, the higher risk is reflected in the fact that the share of workers with side-jobs is much higher in the cultural sector than in total employment.

6.3. Organizational structure

- The sector is characterised by the coexistence of for-profit and non-profit organizations, but the role and proportion of nonprofits - especially in the core art fields - is higher than in other sectors
- There are large-scale, horizontally and vertically integrated conglomerates functioning at a global level (in media, publishing, recording and film industries) exploiting the economics of scale or scope and often protected by copyright laws. At the same time the majority of enterprises are micro-enterprises, or small or medium size enterprises, as we can see in Figure 4. The small firms may be either related to conglomerates or be totally independent operating mostly at local or regional levels.
<table>
<thead>
<tr>
<th>Sector</th>
<th>Number of Employed (1000)</th>
<th>Number of enterprises</th>
<th>Employed/enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creative industry</td>
<td>6 420</td>
<td>1 394 162</td>
<td>4,6</td>
</tr>
<tr>
<td>Manufacture of machinery</td>
<td>3 527</td>
<td>162 257</td>
<td>21,7</td>
</tr>
<tr>
<td>Chemical industry</td>
<td>1 929</td>
<td>31421</td>
<td>61,4</td>
</tr>
<tr>
<td>Automobile and car industry</td>
<td>2 163</td>
<td>16 834</td>
<td>128,5</td>
</tr>
</tbody>
</table>

Figure 4. Number of employed and enterprises in creative industries: a comparison 2002

7. Conclusion

According to the characteristics of creative sector demonstrated previously, a very common and determinant feature of creative industries is the risk (as in consumption, production, employment and organizations) Therefore the policy applied in treating cultural-creative industries must address the problems regarding that kind of risk within the framework of the innovation model of connecting culture and the economy. Some new initiatives of the EU - mentioned and examined in the paper - reflect the recognition of the interdependence of culture, creativity and innovation, therefore may pave the way for culture in the context of creativity and innovation to become an additional pillar of the European integration process.
1 The Economy of Culture in Europe. Study prepared for the European Commission, (KEA, October 2006).


5 The Economy of Culture in Europe, Study prepared for the European Commission, (KEA: October 2006), 53.


8 Source of data: Financing the Arts and Culture in the European Union. (Study by Policy Department Structural and Cohesion Policies, 2006.).

9 Source of data: The Economy of Culture in Europe, Study prepared for the European Commission (KEA: October 2006).

10 Jason Potts, “Art and innovation: An evolutionary view of the creative industries” UNESCO Observatory e-journal. (2007).