

Keynote Lecture at a conference on Creative industries – Experience  
Tourism in Reykjavik, Iceland 2004.  
Jenka Nordic Seminar. 9-12 September 2004

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## **Creative Industries in Iceland**

### **Biography of the author**

Professor Einarsson is the former dean of the Faculty of Economics and Business Administration at the University of Iceland. He obtained his PhD in Germany. He is the author of 6 books on microeconomics, business administration and cultural economics and over 50 journal articles and conference papers and over 400 shorter articles on economics, fisheries and politics in magazines, newspapers, and on websites. Professor Einarsson is a former Member of the Icelandic Parliament and the chairman of the board of the Central Bank of Iceland and served as a delegate at the General Assembly of the United Nations in New York.

Ladies and gentlemen

We are dealing with three concepts when we talk about creative industries, culture, creativity and Entrepreneurship. The background and forces behind these concepts result in enterprises, usually SME's or small and medium sized enterprises.

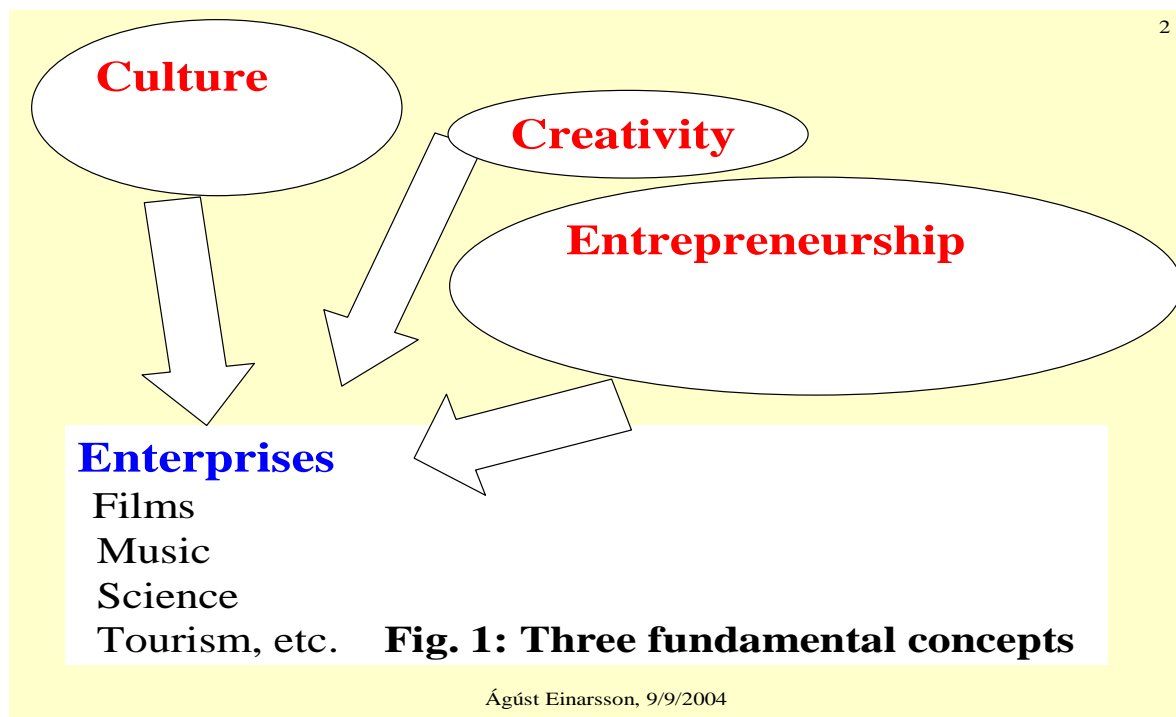


Fig. 1: Three fundamental concepts

As examples of such enterprises we can point out here in Iceland Björk and Sigur-Ros within the music sector, Lazytown in films, Decode in science and the Blue Lagoon in tourism. Nordic examples of creative industries based on these three ideas are Ingmar Bergman, ABBA, Nokia and Tivoli.

I want today to talk about the culture and the cultural sector in the economy, argue on creativity and the size of the creative industries in Iceland, discuss exports, tourism, films and researches and conclude with some remarks on policies to support creative industries

## **1. The cultural sector in the economy**

There are various definitions of culture in use; but in any case, culture forms a part of the creative industries. In certain contexts, culture has been compared to oxygen, which is vital to Man, and it has been suggested that the community of Man subsists on material of this kind, in the same way that oxygen is vital to all life. The anthropological definition is that everything done by Man falls into the category of culture.

Cultural economics is a special field within the discipline of economics, and it addresses the economic impact of the individual aspects of culture. Culture is also studied from other points of view and within the scope of numerous other academic disciplines. The creative industries are a growing aspect of cultural economics.

The production of goods and services forms the basis of all economic activity. Goods and services within the cultural sector take the form of creation or artistic expression. As in the case of other production, cultural production is based on the three traditional factors of production, that is to say labour, capital and natural resources. Other aspects, such as knowledge, human resources, technology, environment and organisations, are also significant and they are also interconnected.

Culture, for our purposes, is defined as any human behavior or activity passed from one generation to the next, which describes, creates, preserves or transmits emotions or surroundings of human society,

consisting of languages, beliefs, ideas, customs, arts, sports, or other related aspects.

Generally speaking, culture can be regarded as a public good, as in the case of cultural heritage, but not every aspect of culture falls under the heading of pure public goods.

Culture and creativity can be regarded as a positive externality, because increased cultural and creative activities result in a more diverse society and offer more possibilities for a better life. Public initiatives in support of culture and creativity for the purpose of increasing positive externalities are often very effective, and externalities are important in connection with public goods.

UNESCO has defined culture for the purpose of international economic statistics, dividing the concept into nine categories: cultural heritage, printed matter and literature, music, performing arts, audio media, audiovisual media, social activities, sports/games and environment/nature.

In today's market economy, prices in the free market play a fundamental role in controlling production. Within the cultural and creative sector, however, it may be desirable for public authorities to support creativity or the production of cultural goods, because of their positive externalities. The same applies here as in the case of education, where the government supports the school system to a large extent out of public funds because the benefits of an educated society are enjoyed by so many more than just those who go to school. Increased education in a community considerably increases the creation of value, that is to say Gross Domestic Product.

In many cases public support is unavoidable in some branches of the arts as otherwise the artistic activities would not take place at all.

The financial problems relating to numerous aspects of culture, especially in the arts, are a result of the fact that increased productivity, for instance as a result of technological advance, is not possible. For example, it takes just as long now to stage a performance of Hamlet as it did in the days of Shakespeare and it requires the same cast as 400 years

ago. It takes four performers to play a Beethoven string quartet, and always has.

It is therefore important for public authorities to have an understanding of the special situation of culture within the community. The reason for this is that within culture there is a concept known as “merit goods”. This refers to goods (and services) which the public wants to be available in our community and most of us consent to the government’s use of part of its tax revenues to ensure such availability.

People are, generally speaking, prepared to pay for artistic activities, either by attendance and paying attendance fees or through the tax system where a part of our tax payments is used to support such activities.

There are various points of view within economics from which to study culture and creativity. Business economics looks at the operation of organisations and enterprises and studies the work of entrepreneurs in that area. Welfare economics analyses the optimum utilisation of limited factors of production and the distribution of welfare among the citizens of a state.

Other special branches of economics are also well suited for the analysis of culture and creativity. Ownership and organisations are important factors, and these are discussed in the New Institutional Economics. Here, the discussion centres on transaction costs, that is to say the cost of establishing business, and the right of disposal, or exclusive rights, for instance the exclusive right of artists to their creations. The Public Choice Theory analyses the factors that affect the support of politicians for culture.

The table below shows the contribution of cultural activities to GDP in Iceland.

	2000
Printing and publishing	1.36%
Artists, theatre and orchestras	0.74%
Radio and television	0.48%
Sports	0.38%
Religious affairs	0.38%
Library and museums	0.27%
Motion pictures	0.16%
<b>Total</b>	<b>3.75%</b>

Table 1: Percentage of the contribution of cultural activities to GDP in Iceland 2000

Printing and publishing accounts for the greatest contribution, followed by theatre and orchestras and other activities of artists.

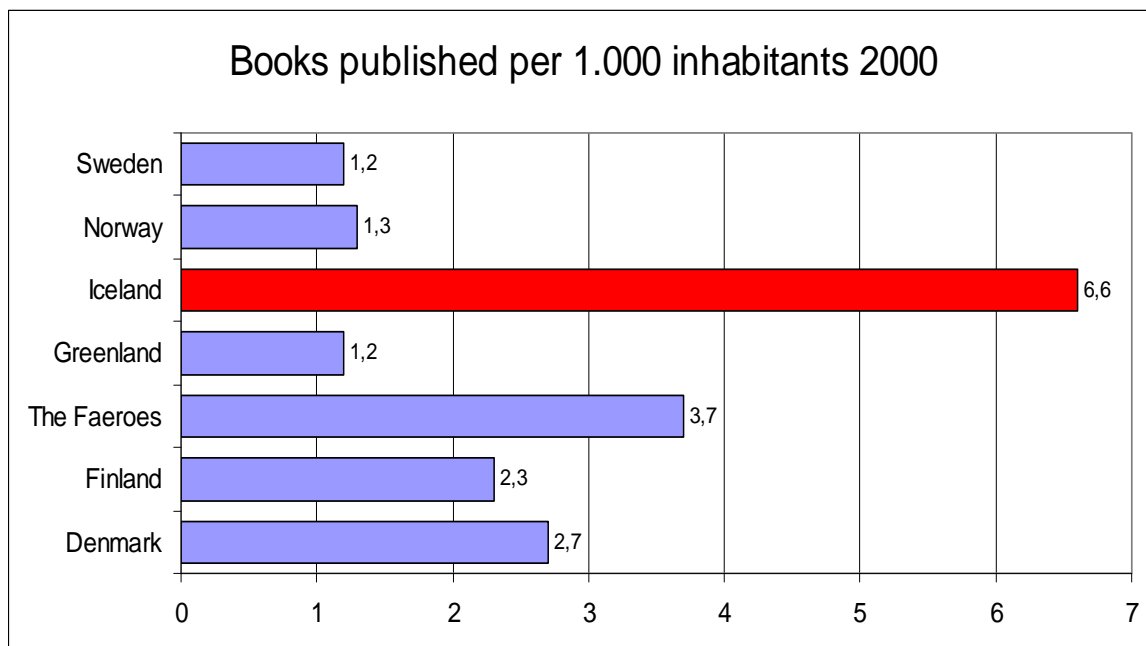


Fig. 2: Books published per 1.000 inhabitants 2000

We see here one of the reasons for strong position of the printing sector in Iceland. We publish more books per capita than any other nation in the world. We see here the Nordic countries which are very strong in this cultural and creative field, but in book publishing Iceland is far ahead.

The creation of artistic works represent primary production, but their contribution increases many times through exhibitions, printing etc. over a period of many years, decades or even centuries after their original production as we see very well within the music sector. We are still playing Verdi and Mozart and enjoying that music and their music is still contributing to the Gross Domestic Product.

This figure shows the contribution to GDP of several important industries in Iceland.

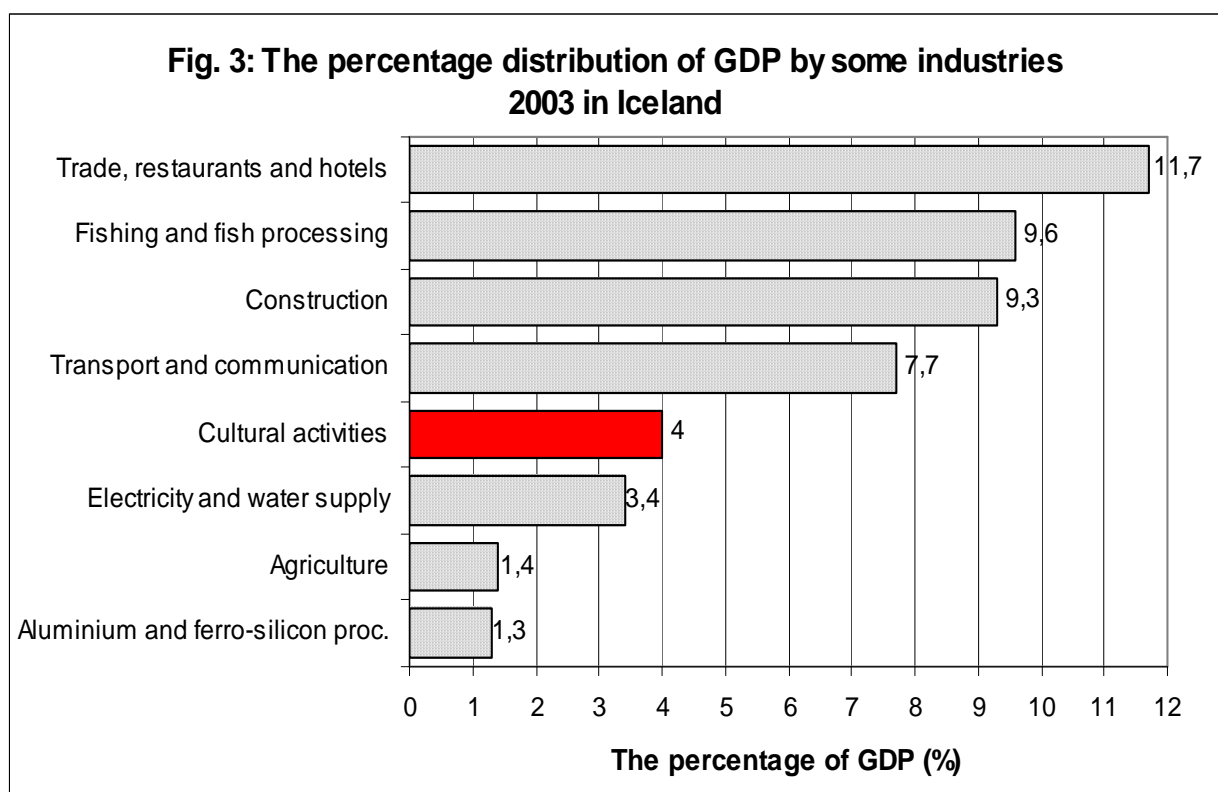


Fig. 3: The percentage distribution of GDP by some industries 2003 in Iceland

The contribution of culture to GDP is higher than one might expect. For example, culture contributes more to GDP (4,0%) than the power industry (3,4%) and agriculture (1,4%).

It needs to be kept in mind here that some industries benefit from special public contributions which are a part of the creation of value. This applies in particular to agriculture and culture. Public support for agriculture in Iceland amounts to approximately 1,6% of GDP, which is

a higher contribution than the value created. Culture enjoys substantial public support but this is much less than the value created.

Most of the enterprises involved in cultural activities in Iceland are SMEs. Of the cultural enterprises in Iceland, 79% have 1-5 employees, 16% have 5-20 employees and 5% have more than 20 employees. The business activities of artists are frequently conducted in very small units or organizations. The cultural sector attracts entrepreneurs, and new enterprises in culture and creativity are very common in Iceland.

The importance of entrepreneurs is significant in the creative sector. SMEs and entrepreneurs enjoy a strong position in creative industries and economies of scale are not as prominent as in other industrial sectors. It is therefore important for governments to stimulate further the activities of SMEs and entrepreneurs within the creative industries.

Figure 4 shows the number of employed persons by economic activity for the year 2002. The comparison gives a good indication of the weight of culture in the economic environment.

**Fig. 4: Employed persons by economic activity  
2002**

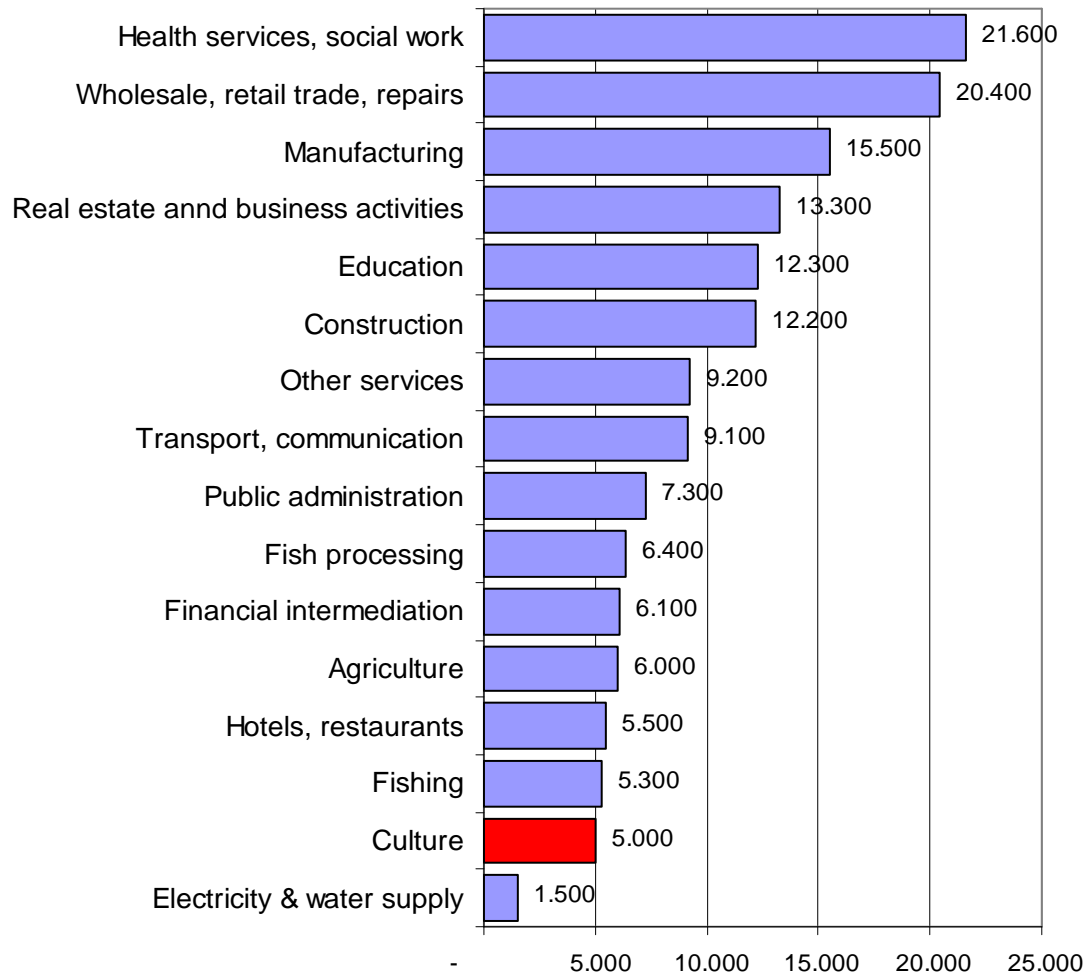


Figure 4: Number of employed persons by economic activity in the year 2002.

A total of 157,000 individuals are employed in the Icelandic labour market. Health services and social work, together with wholesale, retail trade, and repairs, are by far the largest sectors in Iceland, measured in number of positions, with over 20,000 jobs in each sector. According to Figure 4, the fisheries industries accounts for 6,400 jobs. Financial services, a growing and much discussed sector, has over 6,000 jobs. Culture has 5,000 jobs, similar to the fisheries sector, much more than electricity and water supply, and similar to the hotel and restaurant sector.

This figure 5 shows the expenditures of the general government, i.e. central government and local government, to culture in Iceland from



1980 to 2001 at 2001 price levels, and the share of these spending in total expenditures and in GDP.

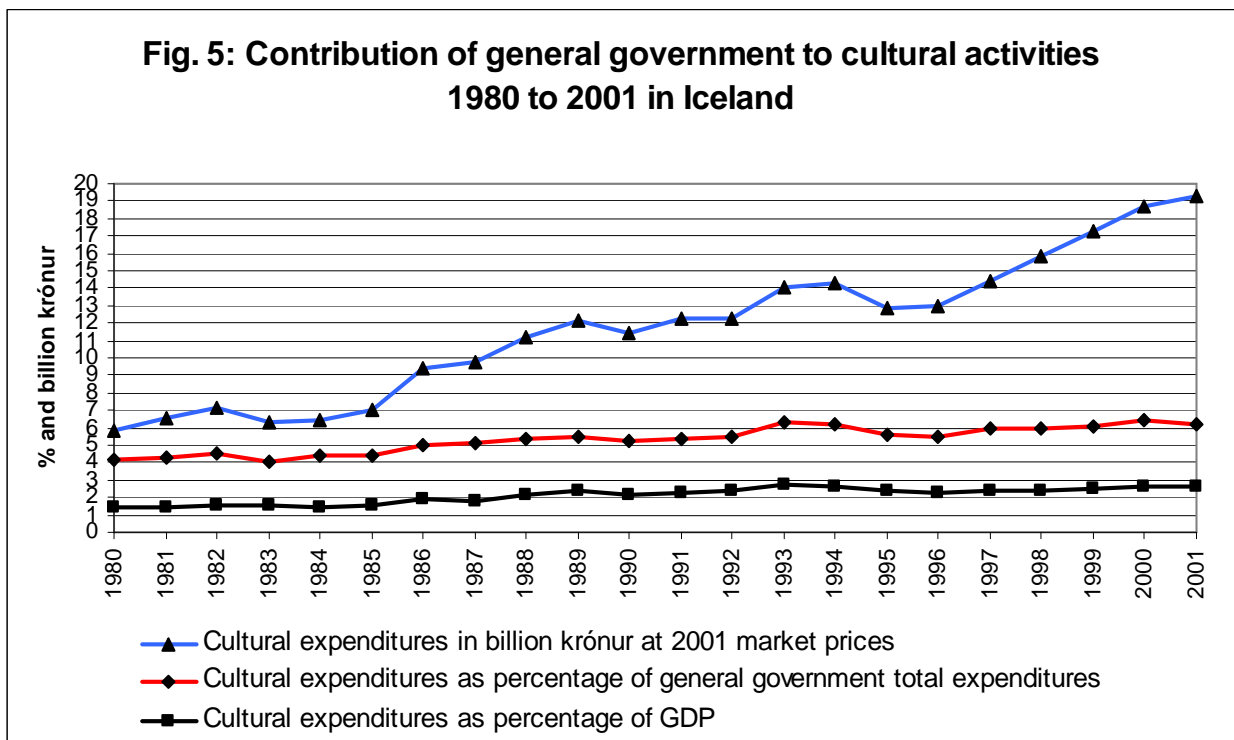


Fig. 5: Contribution of general government to cultural activities 1980 to 2001 in Iceland

The general government expenditures on culture have increased greatly from 1980 to 2001. Expenditures increased from 6 billion krónur to 19 billion krónur. The percentage of total spending to culture rose from 4.1% to 6.2%. The share of GDP increased from 1.4% to 2.6%. About 60% of spending to culture is through local government and about 40% is received from central government.

This figure shows the expenditures of the general government in Iceland, classified by sector.

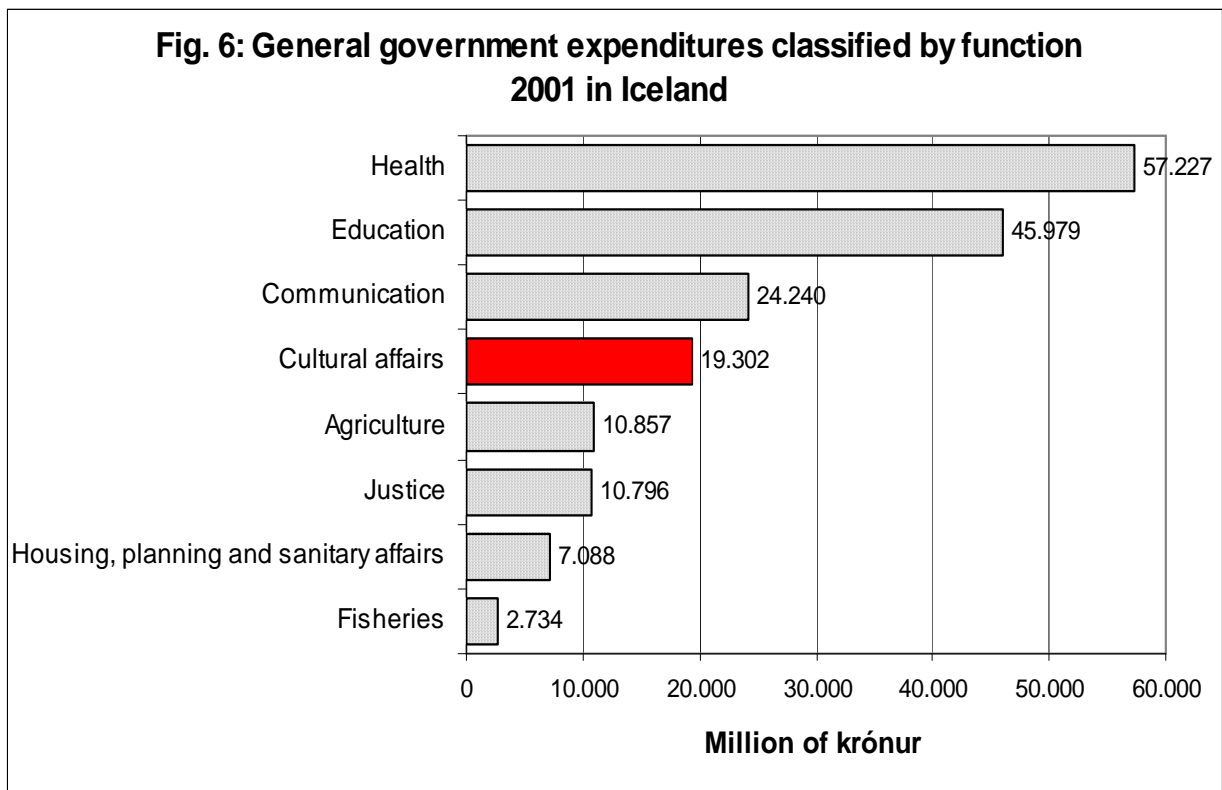


Fig. 6: General government expenditures classified by function 2001 in Iceland

These sectors represent 57% of total general government expenditures. Public cultural spending is one third of that of health and almost half of the spending on education.

## 2. Creativity

Culture is a creative industry. Creation is a positive factor in the economy. Research into creation was originally the domain of sociology and psychology, and the focus of analysis was on the creative individual. Now, the discussion is centering increasingly on the environment of creation and the creative industries. The economic focus on creation and the creative industries has also sharpened in recent years. Creative individuals can be studied on the basis of factors such as background, life experience and temperament, but account can also be taken of environmental influence, which is of substantial importance, as the environment is the factor that external parties, such as leaders and politicians, are able to change.

An important tool for creativity is an internet access. This figure shows the distribution in the Nordic countries and once again is Iceland on the top which means that we have good opportunities for using the Internet as an important media in the creative sector.

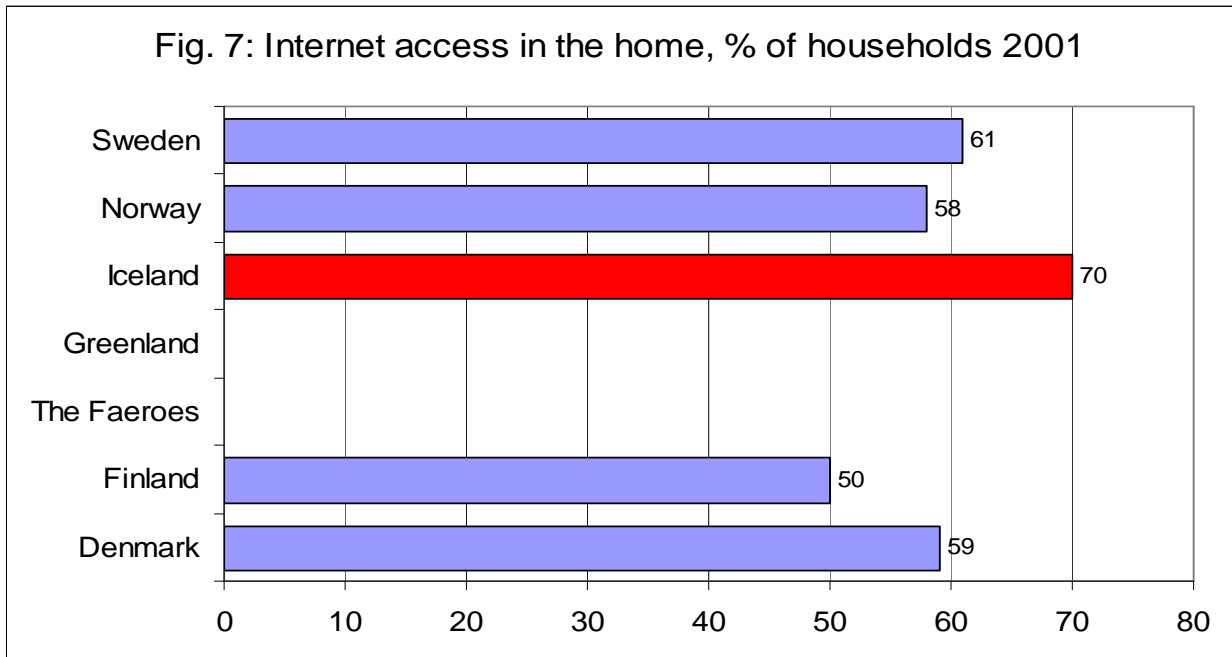
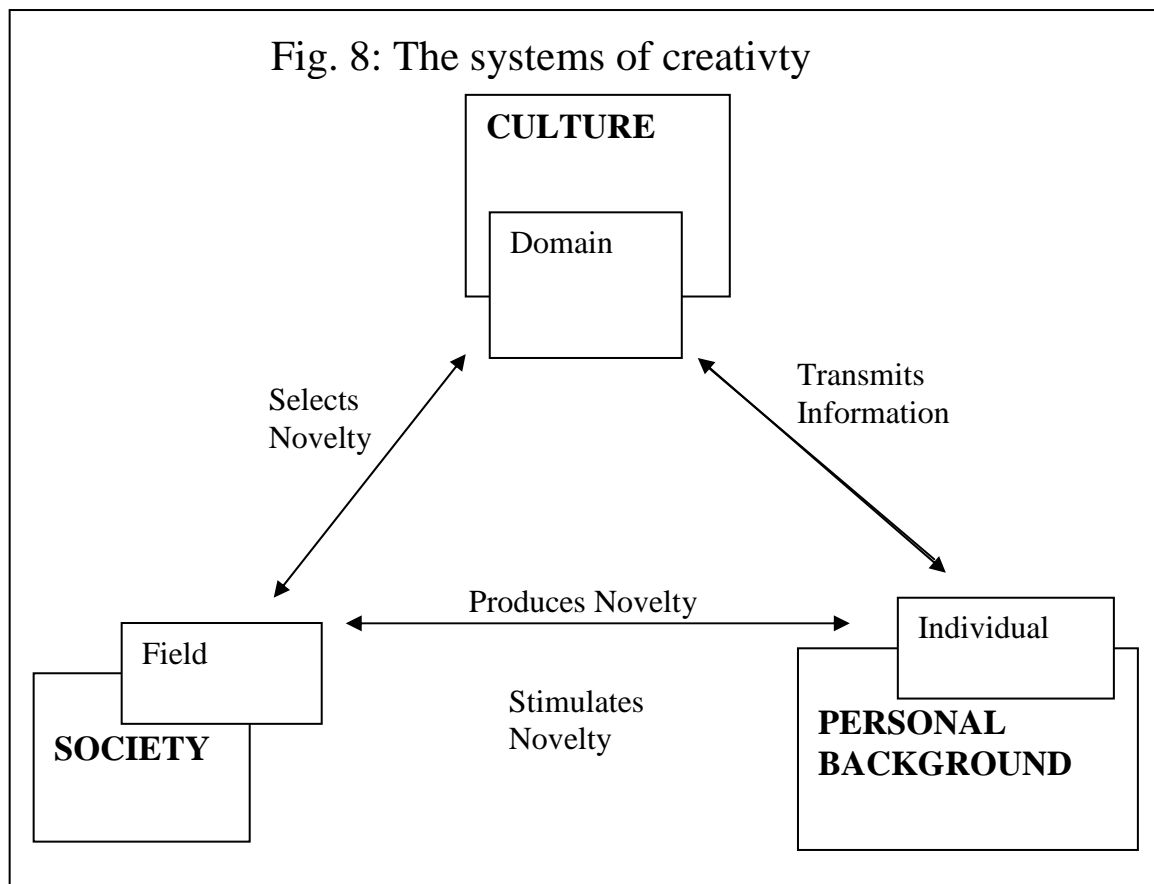


Fig. 7: Internet access in the home, % of households 2001

Creation consists in making something new. “Creativity”, as a process or an action, is linked to factors which are powerful in the environment, such as technological know-how and technological power, which falls within the scope of creativity. The term “innovation”, however, is a product. Creative sectors are linked to human resources, the competence or ability of human resources and knowledge, but also diversity and social tolerance. This is the framework to which the creative industries belong. Part of this is an industry of experience.

Creativity usually means novelty, even though it does not necessarily involve novelty for everyone; instead it may be sufficient for the creation to be novel for the individual in question. This is therefore not a definition which relates only to artistic creation; the concept is much wider. Three fundamental concepts, i.e. Culture, Personal Background and Society, can be linked in a visual manner, where creation is a process that takes place at the limits of these three fundamental factors, as shown in figure 8.



*Figure 8: The framework of creation (Model Csikszentimihalyi)*

Figure 8 illustrates the division of culture into numerous domains where information is carried to and from individuals. Background plays a significant role, for instance education. Society is also divided into many fields, where the production of individuals or production of novelty flows back and forth.

Culture should be viewed as a delimited factor. However, it is so diverse that it is difficult to discuss culture as a single concept. Creativity can be regarded as an activity within a specific framework of culture. If we assume a need for public acknowledgement of the novelty and the creation, this requires an audience.

Each community is composed of numerous smaller groups and creation often spans a long period of time, even many years. It is assumed that the principal initiative lies with the individual, not the group. However, this can be viewed from different perspectives and also in other aspects

of creation, such as scientific work, where many individuals are working on the same idea. The idea of analysing this system on the basis of three fundamental factors, as described in Figure 8, has to do with the relations of individuals with other individuals, which shapes a framework conducive to creation, which in turn has a positive economic impact.

An important aspect of any discussion of creation is to realise that creation often takes place in clusters, where many individuals appear at the same time and changes occur. It is important in all creative work that individuals should have access to a fertile environment, for instance where others are working on similar things in the direct neighbourhood, as is commonly the case in scientific research within universities.

Another relevant factor is timing, that is to say when the creation occurs. A group is also needed, of individuals or organisations, to participate, and the group needs to be strong enough for ideas to gain acceptance and support so that they can be realised – and in this context different conditions are extremely important. Creation requires an audience to have any significance. It is not enough for creation to take place only for the individual in question, except as a part of his or her own personal development; it must extend to other people.

In the United States of America, which this field of study is most advanced, the concepts of industries or occupations are used as a basis. There are two perspectives on the creative industries. On the one hand, we can focus on creative industries which produce goods and services possessing cultural and artistic value, or recreational value. The emphasis here is on the product. Creative industries from this perspective include industries such as the movie industry, the music industry and the book publishing industry (Caves, 2000).

On the other hand we can look at the individuals in the separate occupations and classify their work into the following four categories, i.e. primary production, manufacturing, services and creative industry (Florida, 2002). We will here focus on the second method.

Occupations classified as creative industries are science, teaching, art, design, media, sports, computer sciences, engineering, technology,

architecture and management. Creative industries also include leadership positions or management positions in health-care, marketing and finance. Management is included as part of the creative industry, together with high technology, where new ideas are shaped. A creative industry involves the spreading of knowledge, where all kinds of contact networks are formed, and it also involves sensation and experience. Table 2 classifies employed persons by occupation in Iceland in 2002.

<b>Table 2: Working people in 2002, classified by occupation</b>	
Occupation	Employed persons by occupation 2002
Senior officials and managers	12.700
Professionals	25.100
Associate professionals	21.800
Clerks	12.600
Service and shop workers	30.800
Agricultural and fishery workers	9.000
Craft and related traders workers	22.500
Plants and machine occupations	9.800
Elementary occupations	12.500
<b>Total</b>	<b>156.700</b>

Table 2: Working people in 2002, classified by occupation

The labour market in Iceland consists of slightly less than 160,000 jobs, as shown in Table 2. This study assesses how many of these jobs fall within the definition of creative occupations, as described earlier.

A comparison is made over a longer period, taking account of estimates in the USA and in other studies in this field. Figure 9 shows the division of jobs in Iceland into primary production, manufacturing, services and creative industries in the years 1990 and 2002 and a comparison with the United States in 1999.

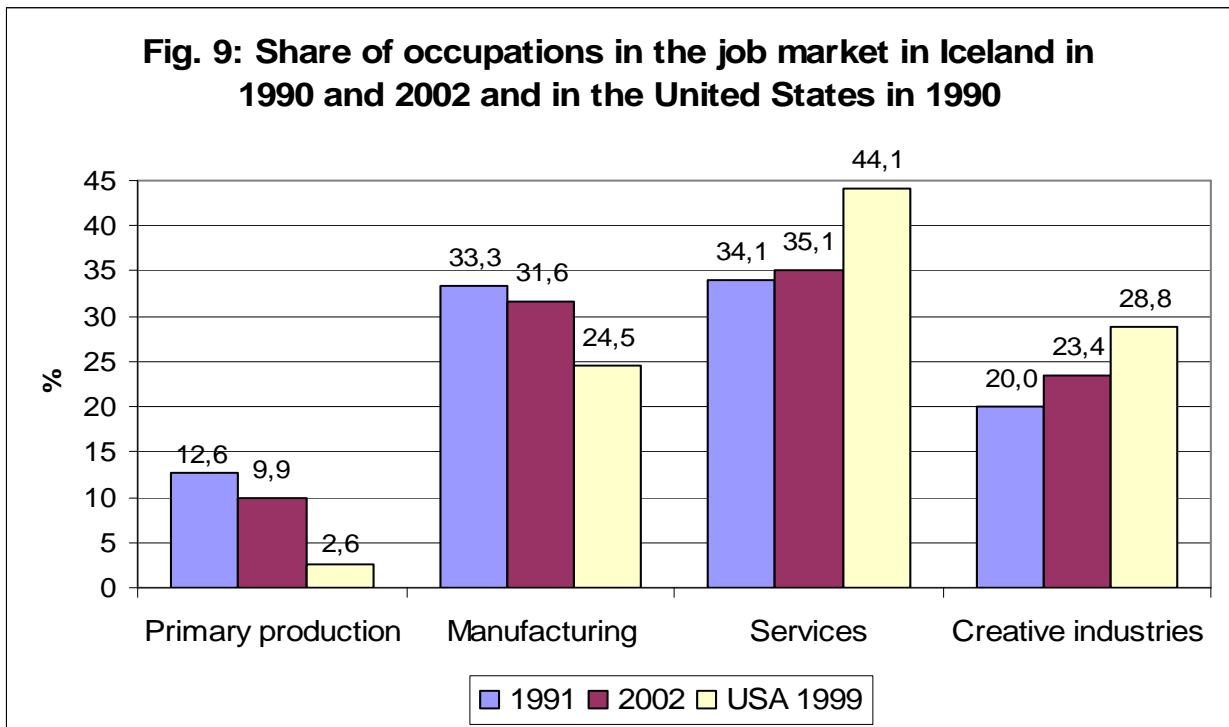


Figure 9: Share of occupations in the job market in Iceland in 1990 and 2002 and in the United States in 1990, primary production, manufacturing, services, creative industries

Figure 9 shows that the share of primary production falls in Iceland from 13% in 1990 to less than 10% in 2002. Manufacturing falls from a 33% share to 32% in these 12 years and services rise from 34% to 35%. The creative industries increase their share from 20% in 1990 to 23% in 2002.

The corresponding proportion for the United States in 1999 is 29%. In 1999, primary production had become a minor element in the US labour market, at 3%. Manufacturing had a share of 24%. Services, which are prominent in the US economy, account for a 44% share.

Creative industries in Iceland thus account for slightly less than a quarter of all jobs, or 40,000 people, and the share is growing. This approach to the analysis of the labour market clearly reflects the division of labour in modern societies and illustrates well the profound changes that have occurred in the economies of individual countries in recent decades.

### 3. Export, tourism, films and research

Direct exports of culture and recreation do not represent a significant factor yet in economic figures, at less than one billion Icelandic krónur.

Another aspect of this emerges, however, if we look at foreign visitors who come to Iceland as a result of indirect impact. An example of this could be a young tourist coming from the United Kingdom to visit the home of Björk, which also happens to have been promoted by Icelandair as the scene of an entertaining night life.

Another example of an export industry which is rarely mentioned is the game of chess. Numerous foreign chess players come to Iceland each year and spend considerable amounts of money. These individuals have almost invariably been fascinated by the country and praised it abroad, which in turn has an impact on the exposure of Iceland and creates a positive image of the country.

Figure 10 shows the foreign currency revenues from tourists from 1985 to 2003.

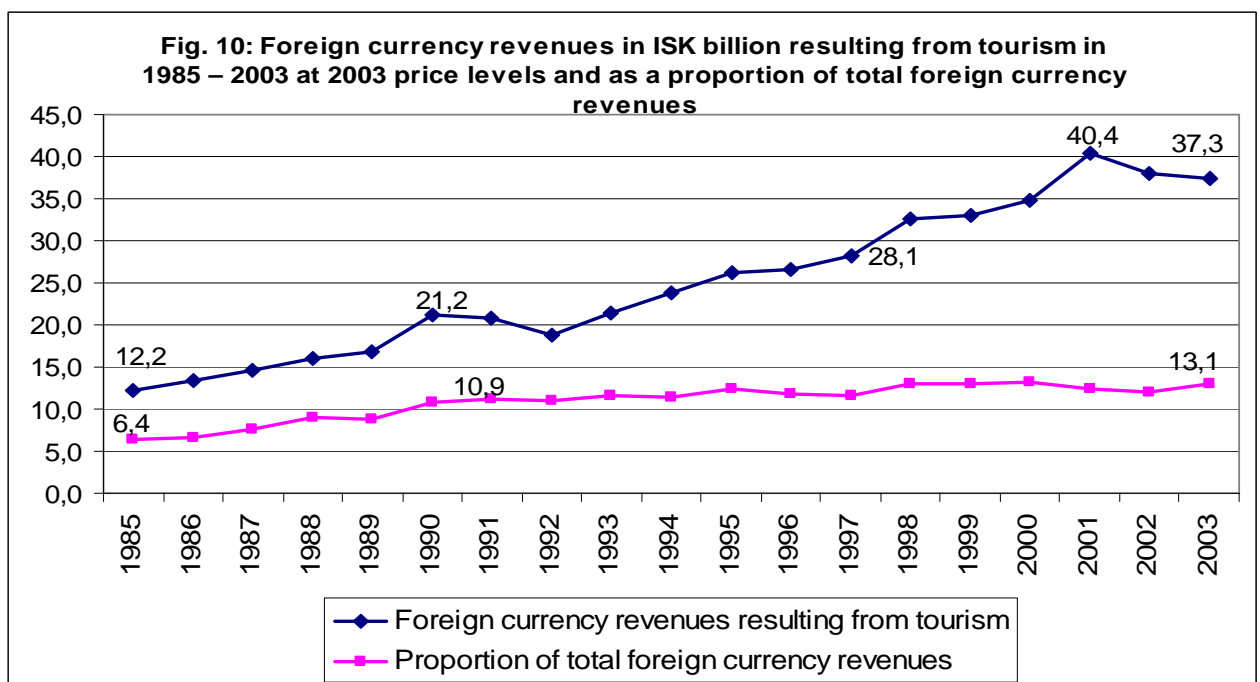




Figure 10: Foreign currency revenues in ISK billion resulting from tourism in 1985 – 2003 at 2003 price levels and as a proportion of total foreign currency revenues

Figure 10 shows that foreign currency revenues at 2003 price levels have gone from just over 12 billion Icelandic krónur in 1985 to 37 billion Icelandic krónur in 2003. The revenues peaked in 2001, at a total of 40 billion krónur. Foreign currency revenues resulting from tourism as a proportion of total foreign currency revenues in Iceland (exports of goods and services) have gone from 6% to 13%, as shown in Figure 10. In the last 10 years the proportion has been about 12%. Some of this can certainly be attributed to culture and creativity.

An example of a cultural and creative industry which received greatly increased public support following a scientific study of its importance is the motion picture industry. In 1998, a report was published which had been prepared by the Institute of Business Economics of the University of Iceland for Aflvaki, a development agency operated by the City of Reykjavík. The report revealed, among other things, that the profit of the State from the production of motion pictures was extensive, not only because of the revenues from sales of the films themselves, but also because many foreign travellers decided to visit Iceland after seeing an Icelandic film on television or in a theatre. The amount of money spent by these tourists in Iceland alone had the result that the annual revenues of the State Treasury from the VAT on the goods they bought was a higher figure than the annual contribution of the State at that time to the Icelandic Film Fund.

Figure 11 shows the contributions from the State Treasury to the Icelandic Film Fund from 1985 to 2004 at the 2003 price level.

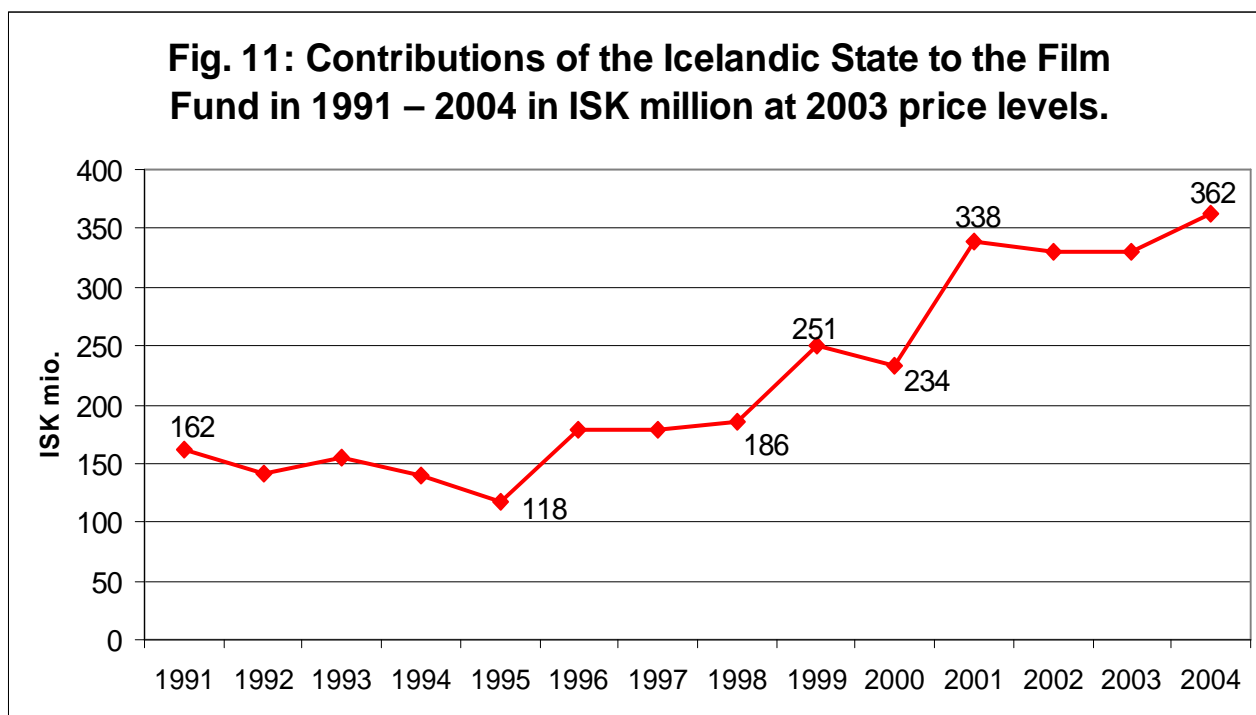


Figure 11: Contributions of the Icelandic State Treasury in 1991 – 2004 in ISK million at 2003 price levels.

As Figure 11 shows, the contributions from the State Treasury to the Icelandic Film Fund increased much after 1998. In 1998, the contribution amounted to ISK 186 million, but six years later, in 2004, this figure had reached ISK 362 million, calculated on the basis of the same price level. The huge increase in public funding for the Icelandic Film Fund after 1998 can largely be traced to the positive public and political discussion which followed in the wake of the study mentioned earlier of the Motion Picture Industry. In the course of this 13-year period, contributions to film industry have more than doubled. No art form can show off a greater increase in public funding in such a short time, which is understandable in light of the great opportunities for expansion afforded by the motion picture industry.

Nowadays, it is not only the usefulness of goods and services for consumers that matters, but also the experience of the consumption.

#### **4. Policies to support creative industries**

Increased creative activities, especially by SMEs, can be achieved by strengthening the school system in the field of culture and creativity, especially fine arts and creative industries. This has a twofold effect. First, it increases knowledge among the population and, second, it expands the interest of young people, who will later participate actively as professionals in cultural and creative activities. The school system is often used as a means of securing equality of young people with different economic backgrounds.

In some countries, public authorities have supported programs either by direct subsidies or through the tax system, e.g. by granting tax discounts to enterprises which support cultural activities. An arrangement of this kind would obviously increase the interest of enterprises in promoting cultural and creative activities, as part of the contribution would be covered by lower income tax payments.

Another way to utilise the tax system might be to impose lower taxes on SMEs, e.g. payroll taxes, especially in their first years of operation.

The latest development in Europe is the support for fine arts characterized by indirect support in the form of changes in tax regulations, technical support and payments for copyrights. Public support in some countries is more closely connected with regional and social policies than before.

It has produced good results, e.g. in the Nordic countries and in France, to place culture under a separate government ministry. The tasks of such a ministry could include the administration of programs and supports for SMEs in the field of culture and creativity, e.g. by promoting increased research and by providing expert advice and funds for entrepreneurs. Setting up a ministry of culture and creativity would show the political priority of culture and creativity as a political issue.

Yet another option is to focus especially on the marketing of domestic culture across borders by a concentrated effort. This has been done with good results in the motion picture industry in Ireland, which has benefited from a system of public support.

SMEs are extremely important in this context, a good example being the Icelandic company Smekkleysa, which first marketed the world famous singer Björk outside Iceland.

The priority of a sector can be described in terms of the proportion of public expenditures allocated to that sector. In Iceland we have a strong financial support for cultural activities.

The emphasis of smaller nations on cultural activities is understandable because they are fighting for their cultural heritage in a turbulent world which is, among other things, characterized by increasing globalization.

For smaller nations it is even more important today to take good care of cultural policies and cultural and creative activities than before. It seems to me that the leaders of smaller nations are quite aware of the importance of supporting cultural and creative activities. Iceland may be a good example of this.

Creativity is feature that in my opinion represents an opportunity for Iceland. If we do not seize this opportunity, someone else will. There are numerous opportunities in the creative industries. However, three things are needed here: increased research, increased understanding from public authorities and increased education.

Thank you for your attention