

Paper on the conference of Creative Industries – Their Role in Growth and Well  
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## **Creative Industries and Economic Impact of the Cultural Activities in Iceland**

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### **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 Chairman of the Board of the Central Bank of Iceland and served as a delegate for Iceland at the General Assembly of the United Nations in New York.

Ladies and gentlemen

### **1. Introduction**

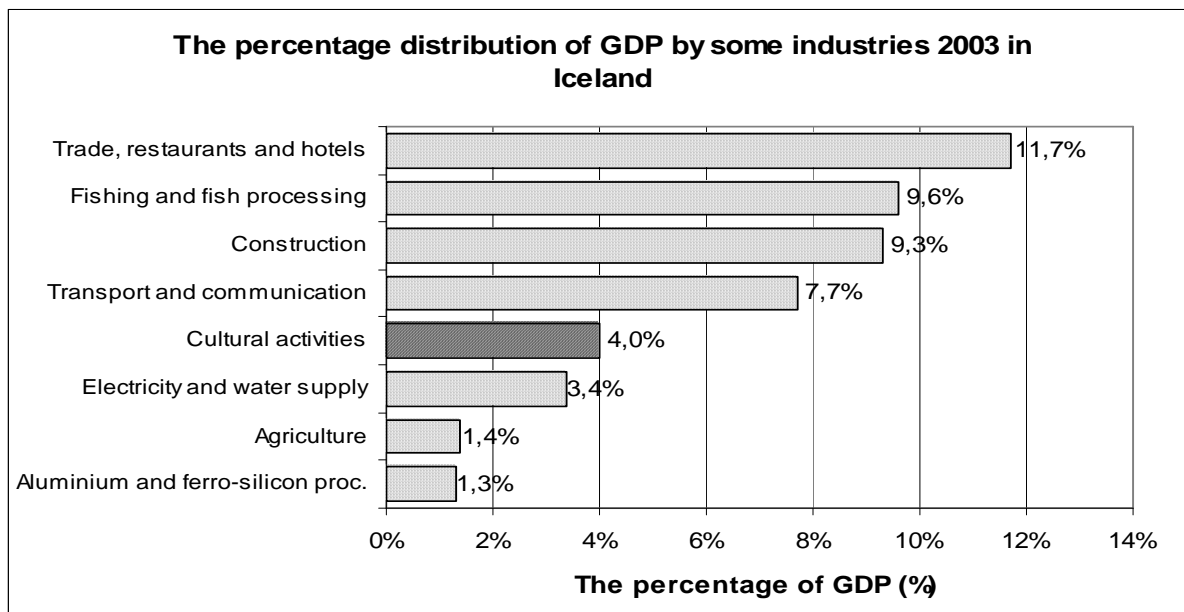
Culture can be regarded as a public good and as a positive externality, because increased cultural activities result in a more diverse society and offer more possibilities for a happier life. Public programs in support of cultural activities for the purpose of increasing positive externalities are often very effective.

One of the problems of attaching a price label to culture is that its value is not always obvious, and the value may change from one generation to the next.

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.

## 2. Economic contribution



The contribution of cultural activities to GDP is higher than one might expect. Culture contributes more to GDP (4%) than agriculture (1.4%) and electricity and water supply (3.4%). The eight industries shown in this figure contribute 48.4% to GDP in Iceland.

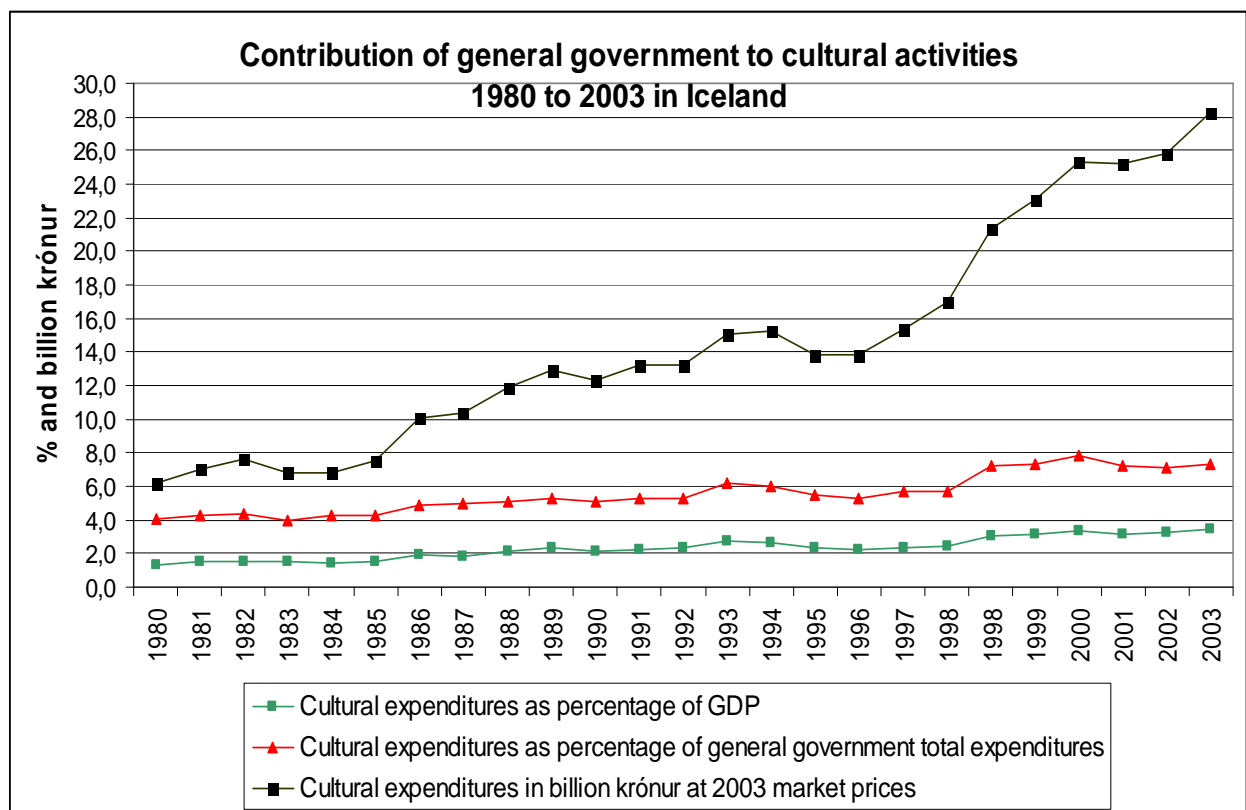
Printing and publishing has the biggest share within the cultural sector, followed by theatre, orchestras and other activities of artists. The creation of artistic works constitutes primary production, but their contribution increases many times through exhibitions, printing etc. over a period of many years, decades or even centuries after their original production. The number of books published in the Nordic countries per 1.000 inhabitants is by far the highest in Iceland, at more than double, and theatre visits and museums visits per capita are highest in Iceland. The Internet is an important medium for distribution of culture. The Internet access in the home in Iceland is the highest of all EU and EFTA countries in 2001.

Most of enterprises involved in cultural activities in Iceland are SMEs or micro-enterprises. Of cultural enterprises in Iceland, 79% have 1-5 employees, 16% have 5-20 employees and 5% have more than 20

employees. In fact, most enterprises in Iceland are small or medium sized. Enterprises with fewer than 20 employees are defined as SMEs in Iceland. The business activities of artists are frequently carried out in very small units or organizations.

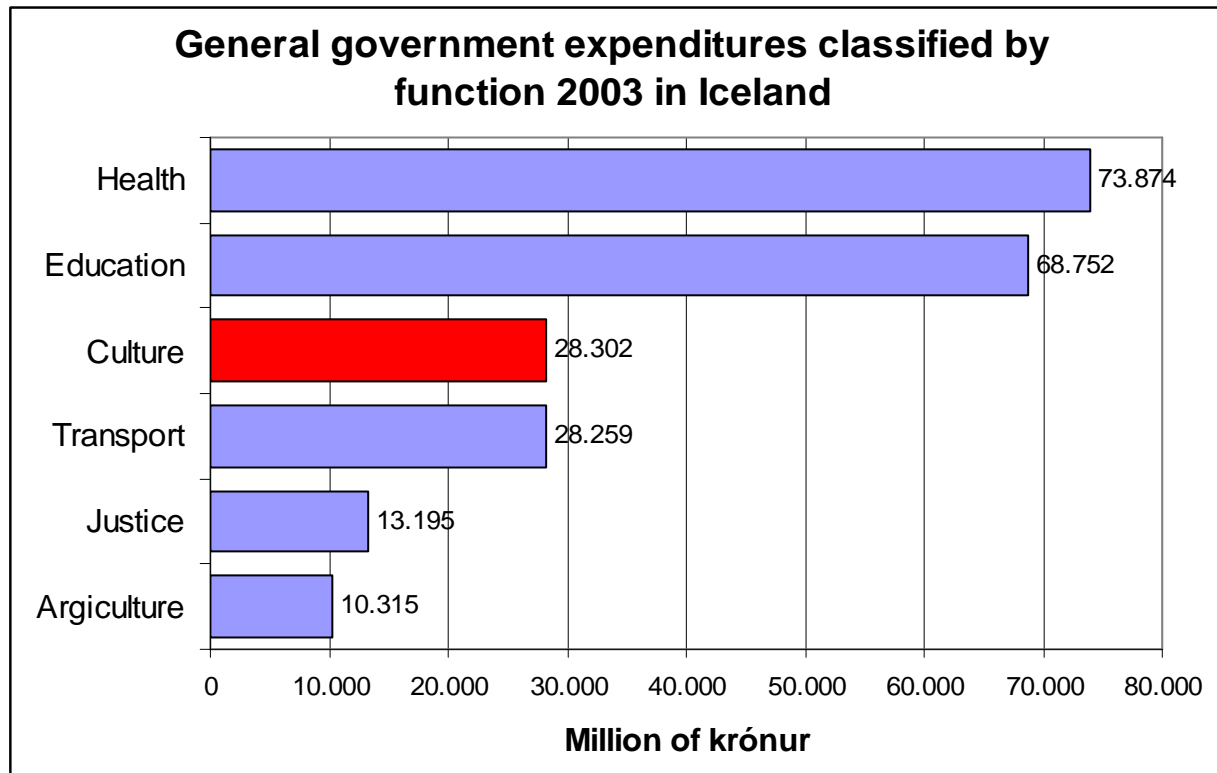
### 3. Public expenditures on cultural activities

This figure shows the expenditures of the general government, i.e. central government and local government, to culture in Iceland from 1980 to 2001 at 2001 market prices, and the share of these spending in total expenditures and in GDP.



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% are received from central government.

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



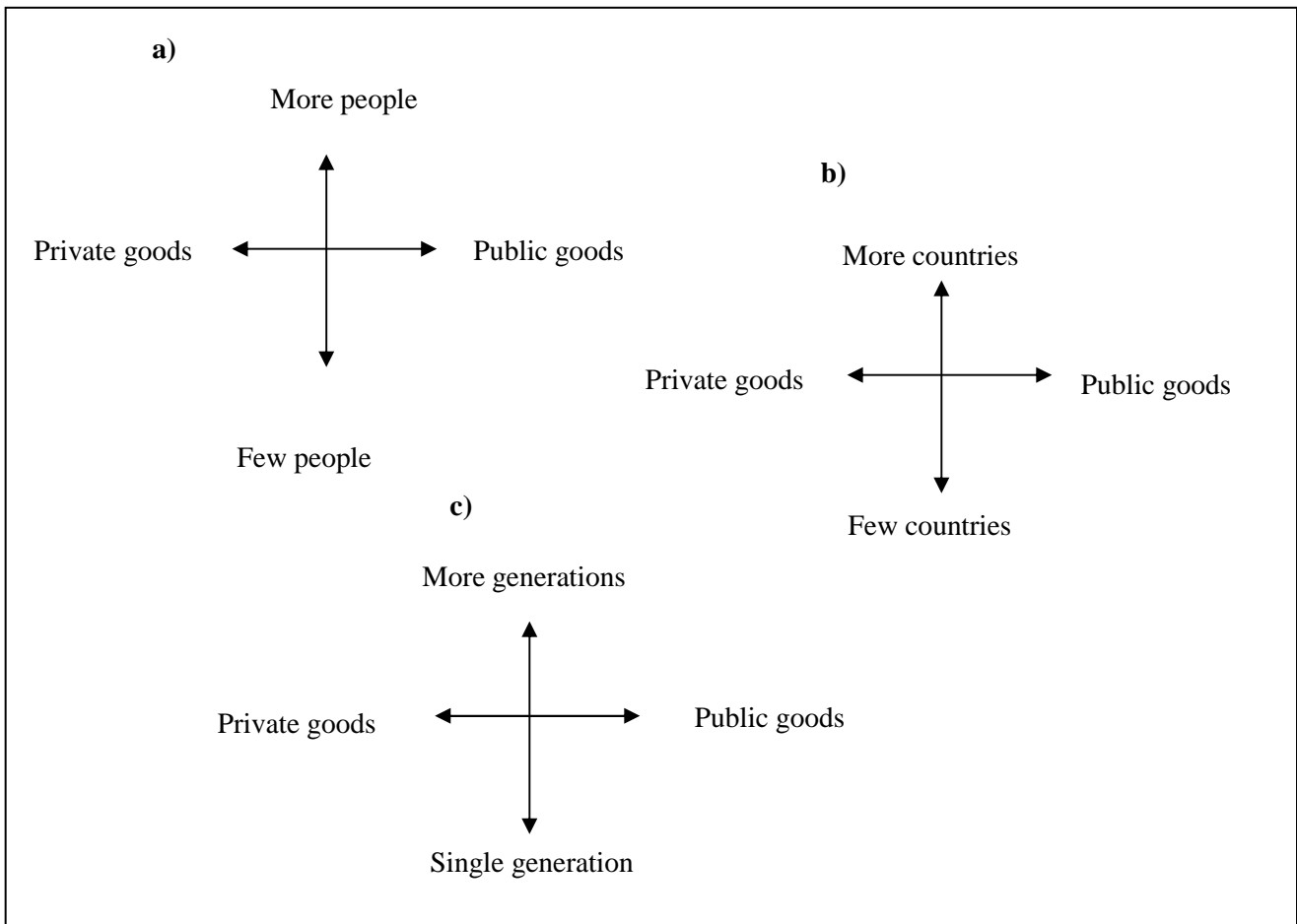
These sectors represent 56% of total general government expenditures. Public cultural spending is one third of that of health and almost half of the spending on education.

#### 4. The Globalization of Cultural Activities

The globalization of culture is a flow, which is characterized at each time by its volume. Literature, music, art and law all cross the world. Public authorities, usually democratic elected authorities, normally supply public goods. This production of goods and services results in positive externalities, which improves the lives of the general public.

It is important to see the advantages of globalization, such as bigger markets, lower transaction costs and a greater sense of identity, which contributes to peace. Not everyone agrees that these advantages in fact

exist, and instead highlight various risks and limitations caused by globalization.



Culture represents a significant value for each individual, and it is important to ensure the greatest possible access for everyone in all communities. Considerations of equality are important regarding access to cultural activities. Some scientists say that global public goods, such as cultural activities, have to reach a large majority of the population of a country and reach more than one group of nations. It is also required that global public goods meet the needs of present generations without putting at risk the needs of future generations. This is the principle of sustainability, which is here adapted to the concept of global public goods. Culture fits well within this concept, because people are trying to preserve cultural diversity, and globalization is often seen as a threat to this ideal.

Culture should be in the upper-right quadrant in parts a), b) and c) in this figure following this definition of global public goods.

## **5. Policies and programmes to support SMEs in Culture**

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

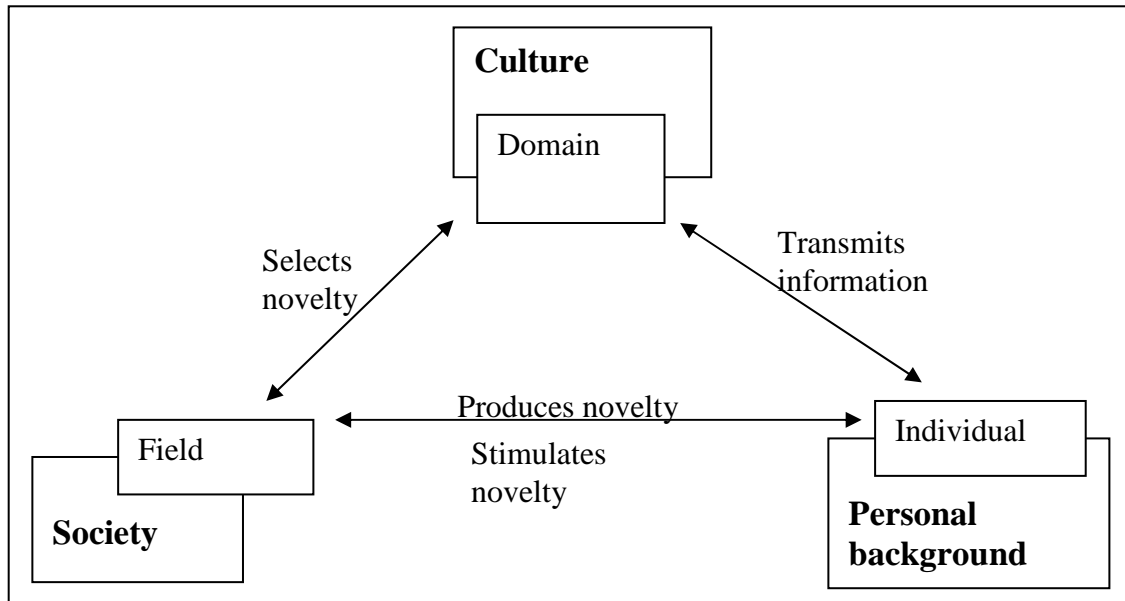
Many countries have also implemented special programs to increase cultural activities.

In some countries as France, Ireland, Germany, Romania, Chile, Australia and in some states of the United States, 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.

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

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, e.g. by promoting increased research and by providing expert advice and funds for entrepreneurs. Setting up a ministry of culture would show the political priority of culture as a political issue.

## 6. Creative Industries



The importance of entrepreneurs is significant in the cultural sector, particularly in the creative industries. Entrepreneurs work in the environment of culture, community and individuals, where the economic value of their effort marks a change in traditional perspectives. Creativity has a certain meaning for a group of individuals; as a result, community recognition is a requirement for any work to be regarded as creative. SMEs and entrepreneurs enjoy a strong position in the cultural sector and economies of scale are not as strong as in other industrial sectors. It is therefore important for governments to stimulate still further the activities of SMEs and entrepreneurs within the cultural sector.

Creation normally refers to innovation. This is therefore not a definition which relates only to artistic creation, but a much wider concept. Three principal factors can be linked together in this context, i.e. culture, personal background and society, and represented graphically, where creation is shown as a process which is created at the borders of the three principal factors, as shown in this figure.

This figure, the model of Csikszentmihalyi, shows that culture is divided into several sectors, i.e. domains, and information is transferred

to and from individuals. In this context background is extremely important, e.g. education. Society is also divided into various fields, where the creative work of individuals, i.e. the creation of novelty, flows back and forth.

Culture is so multicolored that it is difficult to discuss it as a single concept. Creation and entrepreneurship can be regarded as an activity within a certain framework of culture.

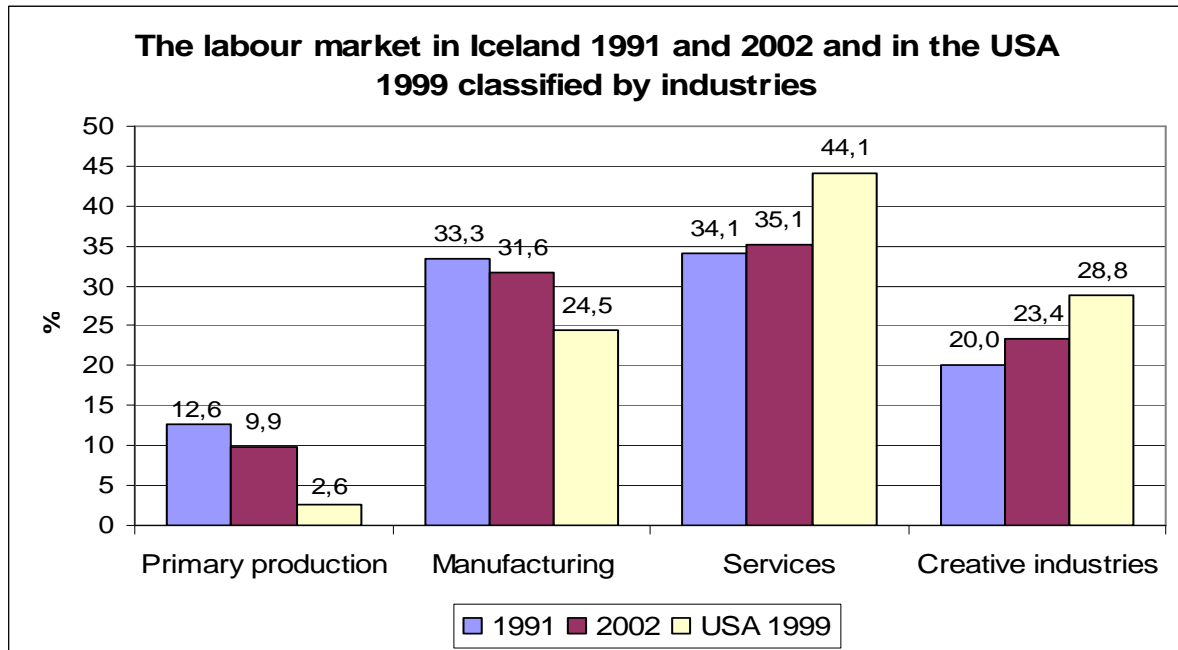
An important aspect of any discussion of creation is the realization that creation often takes place in clusters, where a number of individuals come together and a transformation occurs. It is important in all creative activity for individuals to have access to a fertile environment, e.g. with others working in similar activities as is the case when people are working on scientific research in a university.

In the United States, where studies in this field are most advanced, the studies are conducted on the basis of sectors or professions. In the discussion of creative industries there are two different viewpoints. On the one hand, there is the approach of looking at the creative industries that produce goods and services which have a cultural and artistic value or a recreational value. From this point of view, sectors such as the film sector, music sector and publishing sector belong to the creative industries.

On the other hand, one can look at the individuals in separate sectors and classify their work into the four following categories: primary production, manufacturing, services and creative industries. The discussion of the creative industries in this paper uses this method. The industries that constitute creative industries are science, education, arts, design, journalism, sports, computer sciences, engineering, technology, architecture and management. Management is regarded as a part of the creative industries, as well as high technology, as it is a field where new ideas are shaped. Among other things, a creative industry involves the broadcasting of knowledge, where all kinds of contact networks are formed, and it also concerns entertainment. This figure shows the division



of jobs in Iceland by primary production, manufacturing, services and creative industries in the years 1990 and 2002, and a comparison with the United States in 1999.



This figure shows that primary production in Iceland fell from approximately 13% in 1990 to just less than 10% in 2002. Manufacturing went from a 33% share to 32% in these 12 years and services from 34% to 35%. The creative industries went from a 20% share in 1990 to 23% in 2002. The corresponding share for the United States in 1999 was 29%. The creative industries in Iceland account for slightly less than a quarter of the total jobs and their share is growing. This approach to the analysis of the labor market gives a good reflection of the division of labor in modern societies and illustrates the great changes that have occurred in the economies of individual countries in recent years, where entrepreneurs are playing a big role.

The music sector in Iceland as an example is most interesting regarding creative industries

The publication of domestic music has increased substantially over the last two decades, including publication on the Internet, and most of the music published is popular music. However, the sales value of discs has

stagnated over the last decade. The film and video market is also of great significance for the music industry.

The number of radio stations has increased substantially over the last two decades, and air time has increased by a factor of seventeen, with much of the broadcast material consisting in music. Television air time has increased by a factor of twenty over the past fifteen years, and there too, music represents a growing part of the broadcast material.

The number of concerts has grown significantly in recent years, particularly in rural areas, with classical music as the dominant factor.

The number of music schools has grown by a factor of almost six over the last four decades. The number of students attending music schools has grown by a factor of almost eleven over the last four decades.

The organisation of music schools in Iceland, with its mixture of private and public enterprises, is excellent in comparison with many other countries. The key to this success is the good division of responsibility between the public and private sectors.

Icelandic studies have also shown that young people who study music are less likely to use tobacco and alcohol than other young people, with significant benefits. Musical activity in the churches and choirs in Iceland is extensive and provides employment to a large group of people.

In light of the growth of the music industry and other creative industries and the support and understanding of the status of music on the part of the public sector, it appears likely that approximately 1% of the entire workforce in Iceland will be employed in the music sector within five years, and that its contribution to GDP will amount to approximately 1.2%.

Thank you for your attention