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# Valuing Culture Measuring and Understanding Canada's Creative Economy



Valuing Culture: Measuring and Understanding Canada's Creative Economy  
by *The Conference Board of Canada*

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## Preface

This report was prepared by The Conference Board of Canada for the International Forum on the Creative Economy. It sheds light on the value of culture as a cornerstone of the creative economy and as a contributor to economic performance across all sectors. It also presents evidence of how countries around the world recognize the pervasive role of the culture sector in building social cohesion and improving quality of life. The report examines key trends and drivers that are fundamentally changing the way we create, access, and experience culture, and the business models that support culture activity. New interactive Internet-based digital technologies are central to the changes taking place in the creative production process and emerging global value networks.

Taking into account the substantial direct, indirect, and induced contributions of the arts and culture industries, the Conference Board estimates that the culture sector's economic footprint was \$84.6 billion in 2007, constituting 7.4 per cent of Canada's gross domestic product (GDP). Employment in the culture sector exceeded 1 million jobs.

This report is a joint initiative of the Conference Board's Organizational Effectiveness and Learning Division and Forecast and Economics Division, in collaboration with the Government of Canada's Department of Canadian Heritage.

As a companion to this report, we have prepared a compendium of research papers presented at the International Forum. The compendium will be available for free download at [www.conferenceboard.ca](http://www.conferenceboard.ca) in summer 2008.

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# Foreword

The International Forum on the Creative Economy brought together over 200 scholars, researchers, professionals, and public officials from across Canada and around the world to build understanding and develop new insights about valuing arts and culture as cornerstones of the creative, knowledge-based economy.

A large and growing body of research has documented the many social, cultural, and economic benefits of the culture sector to international economies. Efforts to measure the culture sector statistically, and make comparisons internationally, have begun. Statistics Canada has developed the *Canadian Framework for Culture Statistics*, which underpins the economic impact analysis for the culture sector in Canada. However, data limitations still exist.

Using available data to develop a model, The Conference Board of Canada estimates that the economic footprint of Canada's culture sector was valued at \$84.6 billion in 2007, constituting 7.4 per cent of Canada's real gross domestic product. The Conference Board's estimate takes into account the substantial direct, indirect, and induced contributions of the culture sector, which together resulted in over a million jobs in the Canadian economy.

In Canada, the culture sector plays a critical role in attracting people, business, and investment, and in distinguishing our country as a dynamic and exciting place to live and work. Clearly, a growing, dynamic culture sector is central to Canada's success as a creative, knowledge-based economy. The culture sector also serves as a magnet for skilled and creative people, as Canada becomes increasingly dependent on international migration to sustain the size of its national labour force. Today, there is also growing recognition of the important linkages between arts and culture industries and urban and rural development. Innovation is driven by creativity and diversity.

The Forum presented studies that shed light on the development of interactive and Internet-based digital technologies. Coupled with increasingly versatile digital hand-held wireless devices, these technologies have fundamentally changed how we create, access, and experience culture. Cultural content is now available from a multitude of sources and on a multitude of platforms. It is more important than ever to understand these technological transformations in the value chains of the creative industries.

Improvement in our ability to measure the creative economy will greatly help us present the implicit and explicit impacts on economies writ large.


This compendium report brings together important ideas, models, and evidence supporting the critical role of the culture sector. This outstanding collection of research papers centres on four major themes:

- ♦ The Creative Economy in Transition: Arts and Culture in Domestic and Global Markets

- ♦ Measuring Arts and Culture as an Economic and Social Engine of a Country's Wealth
- ♦ Consumption Dynamics: Consumers Driving Change
- ♦ Innovation and Research: Mobilizing New Practices

A significant amount of work has gone into the International Forum and into the research papers contained in the compendium report. We are grateful to all those who participated. Your contributions are valuable to us all as, together, we advance our understanding of this complex and fascinating subject.

Sincerely,



Michael Bloom  
Vice-President  
Organizational Effectiveness and Learning  
The Conference Board of Canada



Jean-Pierre Blais  
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## EXECUTIVE SUMMARY

# Valuing Culture Measuring and Understanding Canada's Creative Economy

### At a Glance

- ◆ A dynamic culture sector is a magnet for talent and a catalyst for economic prosperity.
- ◆ Arts and culture industries bring people together locally, globally, and virtually, helping to bridge large geographical distances and create communities of interest.
- ◆ The Conference Board of Canada estimates that the real value-added output by culture sector industries totalled \$46 billion in 2007. Our estimate, taking into account direct, indirect, and induced contributions, is that the economic footprint of the culture sector was approximately \$84.6 billion in 2007, or 7.4 per cent of Canada's total real GDP, and that the culture sector contributed 1.1 million jobs to the economy.

**A**rts and culture industries contribute significant value to the Canadian economy. This phenomenon is universal: increasingly, countries around the world, as well as cities and regions, are recognizing the pervasive role that a dynamic culture sector plays as a magnet for talent, an enhancer of economic performance, and a catalyst for prosperity.

This paper has been developed for the International Forum on the Creative Economy to stimulate participants' dialogue concerning the value of the culture sector. We present a comprehensive literature review and analysis of Canada's culture sector, and offer insights regarding the substantial contributions made by arts and culture industries as the foundation of the creative economy.

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**The arts and culture industries that make up Canada's culture sector employed about 616,000 in 2003, which represented 3.9 per cent of national employment.**

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In recent years, the culture sector has grown increasingly complex, changing rapidly and demanding new skills, new business models, and new global perspectives. At the same time, the sector has grown significantly in economic importance. The arts and culture industries that make up Canada's culture sector employed about 616,000 in 2003,<sup>1</sup> which represented 3.9 per cent of national employment. Taking into account direct, indirect, and induced contributions to employment, The Conference Board of Canada estimates that the culture sector accounted for 1.1 million jobs in 2007. Moreover, the arts and culture industries also help to attract people and spur creativity across all sectors of the economy.

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1 Statistics Canada, *Economic Contribution of the Culture Sector*, p. 20.

The Conference Board estimates that the culture sector generated about \$46 billion in real value-added GDP in 2007, which constituted 3.8 per cent of Canada's real GDP. However, when considering the effect of culture industries on other sectors of the economy—accounting for indirect and induced effects—the overall impact was much larger. According to our estimates, the economic footprint of the culture sector was valued at about \$84.6 billion in 2007, or 7.4 per cent of total real GDP.

Culture industries bring people together locally, globally, and virtually, and play an important social role, helping to bridge large geographical distances and create communities of interest. Culture industries help to raise people's awareness of cultural distinctiveness and to establish common cultural connections.

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**The Conference Board estimates the culture sector generated about \$46 billion in real value-added GDP in 2007, which constituted 3.8 per cent of Canada's real GDP.**

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Cultural diversity is an important driver of the creative economy, a critical strength that contributes to our national competitiveness. Canada is internationally recognized as a culturally diverse, prosperous society that has attracted—and welcomed—newcomers from over 200 countries.<sup>2</sup> Canada is characterized both by an aging population and by a tech-savvy youth cohort. These segments represent unique opportunities for cultural expression and commercial activity.

Two of the most powerful drivers of growth in the culture sector are digital technology and expanding Internet use. Digitization is changing how many culture goods and

services are created and disseminated. For players involved in today's sophisticated cultural value network, the impact of digital technologies presents opportunities and raises challenges relating to business models, copyright and intellectual property, content, talent, investment, and government intervention.

Canada's culture industries are increasingly focused on harnessing the energies of "prosumers"—well-educated, demanding consumers who often participate directly in the experience of producing creative value. The Internet and the proliferation of Web 2.0 applications have elicited an explosion of popular creative activity. On a mass scale, individuals are creating their own digital content, co-creating with others and contributing to the development of commercial applications.

This paper highlights the important social and economic contributions of Canada's culture sector, as well as major trends and key drivers affecting its performance. The paper is organized into five core chapters. Chapter 1 provides a definition of the culture sector and explores the multiple dimensions of culture in society, including economic benefits and social benefits to individuals and communities. Chapter 2 examines critical trends affecting the culture sector, particularly demographic and technological changes, expanding global interconnectivity, new consumer trends, intellectual property and copyright issues, and the role of arts and culture in generating, regenerating, and branding creative cities. Chapter 3 provides a detailed analysis of the economic footprint of Canada's creative economy. In Chapter 4, we examine key drivers, with emphasis on the impact of technology on business models in the culture sector and on consumption dynamics. Chapter 5 looks at Canada's creative economy relative to the global marketplace.

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2 Chui et al., *Immigration in Canada*, p. 9.

## CHAPTER 1

# Valuing Arts and Culture as Cornerstones of the Creative Economy

### Chapter Summary

- ◆ In a dynamic environment of global competition, demographic change, and migration, Canada's culture sector plays a critical role in attracting people, businesses, and investment; stimulating creativity and innovation; and distinguishing Canada as an exciting place where people can celebrate their heritage and achieve personal and professional fulfilment.
- ◆ Use of the Internet, digital technologies, and mobile devices has grown exponentially over the past decade, serving as a major driver for growth within the sector, and also influencing consumer dynamics and business models.

There is clear empirical evidence that Canada's culture sector, encompassing arts and culture industries, generates a wealth of contributions to Canada's cultural, social, and economic fabric.

Traditionally, the culture sector has been recognized for its multi-faceted role in contributing to individual and community development, social cohesion, and quality of life; however, in recent decades there has been growing understanding and examination of the substantial economic contributions of arts and culture industries and of their central role in the *creative economy*.

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**Canada's culture sector generates a wealth of contributions to Canada's cultural, social, and economic fabric.**

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### THE MULTIPLE DIMENSIONS OF CULTURE IN SOCIETY

This report has been prepared as a common text for the International Forum on the Creative Economy, one that provides a basis for dialogue on the value to Canada of the *culture sector* as an economic engine, a magnet for talent, and a catalyst for prosperity. By drawing upon the growing body of international literature on arts and culture as cornerstones of the creative economy, it seeks to promote thinking and discussion about the value of arts and culture to Canada's social and economic well-being.

A creative economy extends beyond the culture sector to harness creativity and bring about positive social and economic changes across a broad spectrum of industries, sectors, and social organizations. Leadership is key in all these areas to getting the most from creativity. To do so, leaders work with the "raw materials" of culture—including imagination, attitudes, habits of thought and action, work expectations, talents, and values.

The rise of the creative economy is an international phenomenon. In this paper we focus on the culture sector as the foundation of the creative economy, recognizing that there are other key players, such as scientists and engineers.

Countries around the world, as well as cities and regions, recognize the pervasive role that a dynamic culture sector plays in the overall economy—generating employment and wealth directly within arts and culture industries, but also attracting people and spurring creativity and innovation across all sectors of the economy. Richard Florida suggests that “powering the great ongoing changes of our time is the rise of human creativity as the defining feature of economic life. Creativity has come to be valued—and systems have evolved to encourage and harness it—because new technologies, new industries, new wealth and all other good economic things flow from it.”<sup>1</sup>

Cultural diversity is an important driver of the creative economy and a critical strength that contributes to our national competitiveness. The United Nations ranks Canada among the best countries in the world in which to live.<sup>2</sup> Canada is internationally recognized as a culturally diverse, prosperous society that attracts and welcomes newcomers from over 200 countries.<sup>3</sup> Data from the 2006 Census indicate that the proportion of Canada’s population born outside the country has reached its highest point in over 75 years. More than 6 million (20 per cent) of those living in Canada were born outside the country.<sup>4</sup> Immigrants’ role in Canada’s labour market will become increasingly vital over the next few decades, as the international competition for talent intensifies within creative industries and across all sectors of the economy.

In this dynamic environment of global competition, demographic change, and migration of people, Canada’s culture sector plays a critical role in attracting people, businesses and investment; stimulating creativity and innovation; and distinguishing Canada as a dynamic and exciting place, where people can celebrate their heritage and realize personal and professional fulfilment.

## DEFINING THE CULTURE SECTOR: THE FOUNDATION OF THE CREATIVE ECONOMY

### UNDERSTANDING THE CULTURE SECTOR: LIMITATIONS

Creative enterprises and individuals are found throughout every sector of the Canadian economy. For the purpose of this research, we focus on the production of goods and services in the arts and culture industries, which we refer to as the culture sector.

Culture is multi-dimensional with many tangible and intangible benefits, making it difficult to measure the full extent of its importance. Furthermore, there is no standard definition of culture that allows for a direct comparison of the economic contribution of culture sectors internationally. Throughout the literature, numerous terms are used in association with the creative economy, including culture, culture industries, culture sector, creativity, creative sector, and the creative economy. As a result, a comparative empirical assessment of the culture sector in Canada with that in other countries and jurisdictions presents significant challenges.

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### Countries, cities, and regions recognize the pervasive role a dynamic culture sector plays in the economy.

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The Organisation for Economic Co-operation and Development (OECD) examined the feasibility of undertaking an international comparison of culture sectors, using five countries and four cities to develop a comparative analysis. The OECD indicates that such comparisons should be made with “extreme caution.”<sup>5</sup> The OECD identified significant challenges associated with international comparisons of culture sectors—for example, variations in cultural industry typologies across countries. At the city level, the availability of data for the culture sector is even more restricted than at the national level.

Within Canada, the definition of culture has undergone significant changes. That makes assessment of the economic performance of the culture sector over time challenging as well.

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1 Florida, *The Rise of the Creative Class*, p. 21.

2 United Nations, *Human Development Report 2007/2008*.

3 Chui et al., *Immigration in Canada*, p. 9.

4 Statistics Canada, “2006 Census: Immigration, Citizenship, Language, Mobility and Migration.”

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5 Gordon and Beilby-Orrin, *International Measurement*, p. 19.

## CANADIAN FRAMEWORK FOR CULTURE STATISTICS

Statistics Canada has developed a framework for culture statistics.<sup>6</sup> The *Canadian Framework for Culture Statistics* includes a definition of culture that encompasses written media, the film industry, broadcasting, sound recording and music publishing, performing arts, visual arts, crafts, architecture, photography, design, advertising, museums, art galleries, archives, libraries, and culture education. It also includes, to some degree, government support for culture, and activities by unions and associations related to culture.<sup>7</sup> The definition of culture and culture industries set out in this framework covers most of the economic activity in the culture sector.

Statistics Canada notes that there are establishments in Canada that define their products as “digital interactive media.” However, these activities are not defined as a separate industry under the North American Industry Classification System (NAICS), nor under any international classification system. Some of the culture commodities produced by establishments involved in interactive digital media are integrated with other industries in the Statistics Canada framework for culture—for example, digital video, audio, animated images, computer graphics, and arts products.<sup>8</sup>

Interactive media products such as video games straddle two industry sectors. The content creation portion, which includes activities related to factors such as animation, music, audio, characterization, art direction, script, special effects, acting, design and motion-capture photography, already resides within culture in the film industry, while the middleware or specialized software used to bring the effects together is considered part of the information and communications technology (ICT) sector. The result is that the activities are difficult to measure and do not have a separate NAICS identity.

In addition, artisanal crafts are not defined within culture by international classification systems, including those

used by Statistics Canada. Currently most aspects of artisanal crafts are considered to be part of the manufacturing sector.

Although firms in the culture sector may undertake a range of cultural and non-cultural activities, only their cultural activities are included in cultural statistics. It is worth noting that the cultural activities of non-cultural firms are not included in cultural statistics based on this framework, such as the publishing activities of a university. The Statistics Canada definition of culture does not include environment, sports, recreation, and technology. It also excludes tourism.<sup>9</sup>

As well, the substantial contribution of volunteers working in the culture sector is not directly valued in measures of economic contribution.

The *Canadian Framework for Culture Statistics* identifies the distinct activities that form the “creative chain.”<sup>10</sup> The creative chain encompasses creation, production, manufacturing, distribution, and support activities, as well as consumer and social effects. Culture products and services do not necessarily flow through all steps of the creative chain:

- ◆ Creation refers to “establishments that are involved in the development of a creative artistic idea,” such as organizations employing writers and performers. Creative activity may also occur within firms whose primary activity is not creation, such as newspapers.
- ◆ Production includes “establishments involved primarily in the act or process of producing a creative good or service that can be readily identified,” such as book publishers.
- ◆ Manufacturing includes “establishments involved in the mass reproduction of culture core goods from a master copy,” such as printers.
- ◆ Distribution includes “establishments that distribute core culture goods, [and] the mass distribution of visual arts and photography to a variety of players such as wholesalers and retailers, radio and television broadcasters, or the Internet.”

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6 This section of the research paper is based on direct extractions from Statistics Canada’s *Canadian Framework for Culture Statistics*.

7 Statistics Canada, *Canadian Framework for Culture Statistics*, p. 8.

8 Statistics Canada, *Economic Contribution of the Culture Sector to Canada’s Provinces*, p. 10.

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9 Statistics Canada, *Canadian Framework for Culture Statistics*, p. 8.

10 *Ibid.*, p. 13.

- ◆ Support activities include “activities related to culture that help to finance or support creation and production,” such as management and promotion.<sup>11</sup>

Understanding consumption of culture requires an understanding of the characteristics of consumers—for example, their age and gender, and their motivations for consumption, as well as the characteristics of the goods and services they consume. The framework also considers social effects: that is, ways in which the well-being of an individual may be enhanced as a result of consumption of culture goods and services, and the potential benefits to Canadian society.

In the case of film, for example, independent artists, writers, and performers are involved in creation; a motion picture or video production company may be involved in production; manufacturing may involve firms that make and reproduce magnetic and optical media; and distribution may be carried out by motion picture and video distribution firms. An agent or manager may provide supportive services at any step along the creative chain. The type of film selected is influenced by consumer characteristics such as age, gender, and ethnicity. The experience may provide an opportunity for social interaction and learning.

In the case of heritage, the value chain also includes preservation of culture goods such as historical artifacts.<sup>12</sup>

The framework follows a set of criteria established for the Culture Statistics Program. To be included in this definition of culture, a good or service must meet at least *one* of these criteria. It must be:<sup>13</sup>

- ◆ a creative good that warrants intellectual property rights;
- ◆ a service associated with presenting or preserving creative goods;
- ◆ a good or service supporting creation, production, or transmission of other creative goods or services, including a service that adds to, or alters, the content of a cultural product—for example, editorial services;

- ◆ a service associated with conserving, exhibiting, or interpreting human heritage; or
- ◆ an educational service aimed at workers who produce creative goods or services.

The framework distinguishes between core and non-core culture goods and services. Core culture goods and services are defined as “those where the entire creative chain is in scope for culture. They have as their primary purpose the transmission of an aesthetic or intellectual concept, and are intended to elicit an emotional or cognitive response, and contain intellectual property rights.” Examples include broadcast programming and services, festivals, and heritage services. Non-core culture goods and services are “those where only part of the creative chain is in scope for culture. They are also the result of a creative artistic activity, but either do not have as their primary purpose the transmission of an aesthetic or intellectual concept (e.g., a building) or are the mass reproduction of visual art.” An example of a non-core culture service is advertising services.<sup>14</sup>

## THE ECONOMIC BENEFITS OF THE CULTURE SECTOR

### OVERVIEW OF ECONOMIC CONTRIBUTION

The culture sector is an important contributor to economic activity in Canada. The economic footprint of Canada’s culture sector, including direct, indirect, and induced economic impacts, is assessed in detail in Chapter 3.<sup>15</sup> Here, we provide a brief overview. The Conference Board of Canada estimates that the real value-added output by culture sector industries totalled \$46 billion in 2007, approximately 3.8 per cent of total gross domestic product (GDP). The economic footprint of the culture sector is much larger, when accounting for combined direct, indirect, and induced effects. The Conference Board calculates this full contribution was valued at \$84.6 billion, about 7.4 per cent of total real GDP, in 2007.

11 Ibid., p. 14.

12 Ibid., p. 15.

13 Ibid., p. 9.

14 Ibid., p. 10.

15 See Chapter 3 for details regarding the measurement of Canada’s economic footprint, including data sources, methodology, and key assumptions.

Statistics Canada estimates that the culture sector directly employed 616,000 workers in 2003.<sup>16</sup> The largest three culture subsectors in terms of employment in 2003 were written media, broadcasting, and the film industry. They accounted for 26.6 per cent, 9.2 per cent, and 14.8 per cent of culture sector employment respectively.<sup>17</sup> Considering the effect of culture industries on other sectors of the economy, including direct, indirect, and induced effects combined, culture and related industries employed over 1.1 million people in 2007.

Earnings within the culture sector vary significantly based on occupation and industry. In the case of artists, for example, despite the fact that 41 per cent of artists have a university degree, a certificate, or a diploma—almost double the rate of 22 per cent for the overall labour force—average earnings remain relatively low at \$23,500 per year.<sup>18</sup> In other industries, such as information and culture industries and broadcasting, average earnings are somewhat higher.

The Conference Board estimates that consumer spending on culture goods and services was close to \$21 billion in 2007, equivalent to \$18.9 billion in real 2002 dollars or 1.4 per cent of total real GDP. The total value of real culture exports was just under \$5 billion in 2007, about 1 per cent of Canada's total exports. The Conference Board estimates that spending on culture in 2007 for all levels of government combined, including federal, provincial, and local levels, reached \$7.9 billion.

One of the contributions of the culture sector that is not captured in the *Canadian Framework for Culture Statistics* is the substantial amount of volunteer time contributed by individuals and organizations. Based on the 2004 Canada Survey of Giving, Volunteering and Participating, almost 12 million Canadians, or 45 per cent of the population age 15 and older, volunteered during the one-year period preceding the survey.<sup>19</sup> Approximately 3 per cent

of these volunteers contributed their time to arts and culture organizations. On average, volunteers supporting arts and culture each contributed 120 hours over one year. In addition to their time, in 2004 Canadians gave an estimated \$188 million in financial donations to arts and culture.<sup>20</sup>

In a separate report, Statistics Canada estimates that, in 2000, the value of volunteering for culture and recreation was \$3.6 billion.<sup>21</sup>

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**The Conference Board estimates spending on culture in 2007 for all levels of government, including federal, provincial, and local levels, reached \$7.9 billion.**

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## CULTURAL VALUE NETWORKS

According to CONNECTUS Consulting Inc. researchers, the contribution of the culture sector includes a broad range of economic relationships within and across industry sectors—relationships that today are increasingly driven by digital technologies. Digitization often changes the way culture goods and services flow through the creative chain, so that a sequence of activities from new product development to final distribution is no longer linear. Instead, sophisticated value networks involve “a web of relationships that generates both tangible and intangible value through complex dynamic exchanges between two or more individuals, groups or organizations.”<sup>22</sup>

CONNECTUS Consulting Inc. conducted an analysis of the ways in which digital technologies are transforming business activities within the culture sector.<sup>23</sup> The study looks at the effects of technology on “cultural value networks” through process improvements, new platforms, and new products. New technologies also enable consumers

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16 Calculated based on Statistics Canada, *Economic Contribution of the Culture Sector to Canada's Provinces*, Table 1.7, p. 20.

17 Calculations provided by the Department of Canadian Heritage are consistent with Singh, *Economic Contribution of Culture in Canada*, 2004.

18 Hill Strategies Research Inc., *Artists in Large Canadian Cities*, 2006, p. 1.

19 Statistics Canada, *Caring Canadians, Involved Canadians*, p. 12.

20 Ibid., p. 79.

21 Statistics Canada, “Satellite Account of Nonprofit Institutions and Volunteering: 1997 to 2004,” p. 31.

22 Allee, cited in CONNECTUS Consulting Inc., *The Transformation of Value Chains*, p. 8.

23 Ibid.

to become more directly integrated into creative processes, through initiatives such as YouTube, Creative Commons, Wikipedia, Flickr, and ccMixtr, where consumers may contribute directly to, or share in, the creative process.

CONNECTUS identifies three principal effects of technology on cultural value networks, including process improvements using digital tools, new platforms that it defines as “the combination of new receivers for cultural product and the distribution systems which supply products to those receivers,” and new products or “product transformations.”<sup>24</sup> For players in the cultural value network, the impact of digital technologies raises key issues relating to business models, copyright and intellectual property, content, talent, investment, and government intervention.

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#### **Digital tools generate improvements, including enhanced quality in creation, production, and distribution.**

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Much of the culture sector is affected by transforming value chains. CONNECTUS explains that, “when new products, with no strong attachment to traditional forms, are created as a result of new platform deployment, we refer to them as ‘new media: online content.’”<sup>25</sup> New digital technologies, the Internet, and broadband collectively present a powerful digital arena for new business models.

Digital tools generate improvements, including efficiencies and enhanced quality in creation, production, and distribution. Lawrence Lessig, whose book *The Future of Ideas: The Fate of the Commons in a Connected World* was published by Random House under a Creative Commons Attribution–Non-Commercial Licence, notes that “digital technology has radically reduced the cost of digital creations . . . the cost of filmmaking is a fraction of what it was just a decade ago. The same is true for the production of music or any digital art. Using what we might call a

‘music processor,’ students in a high school music class can compose symphonies that are played back to the composer.”<sup>26</sup> Digital technologies enable music and films to be uploaded and downloaded across networks. Products can be accessed using a variety of devices, from laptop computers and iPods to mobile phones.

A critical concern arising from the transformation of value networks in the cultural sector is the impact on Canadian content. Unlike traditional platforms such as television and radio broadcasting, new online platforms (often referred to as Web 2.0) do not have mechanisms in place to control the amount of foreign content versus Canadian content.

Another key issue is piracy of creative products that are under copyright. Copyright underpins current business models for many arts and culture products. The economic value of many of these products comes from consumers’ willingness to pay for them. The copyright serves to “improve the market transaction via a well-defined property right.” To some extent, it moves the product from “non-exclusive” to “exclusive” good and influences the ability of Canadian cultural businesses that rely on the copyrights of their products to market and sell those products domestically and internationally. It also affects their ability to attract financial investment.<sup>27</sup>

## **THE SOCIAL BENEFITS OF THE CULTURE SECTOR**

Throughout history, arts and culture have contributed numerous benefits to individuals and communities. A large body of research documents the social benefits derived from arts and culture. David Throsby proposes that culture plays a pervasive, socially integrating role in fostering community identity, creativity, cohesion, and vitality.<sup>28</sup> The United Nations Development Programme has stated that “culture provides the social basis that

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24 Ibid., p. 17.

25 Ibid., p. 18.

26 Lessig, *The Future of Ideas*, p. 22.

27 CONNECTUS Consulting Inc., *The Transformation of Value Chains*, p. 18.

28 Throsby, *Economics and Culture*.

allows for stimulating creativity, innovation, human progress and well-being. In this sense, culture can be seen as a driving force for human development, in respect of economic growth and also as a means of leading a more fulfilling intellectual, emotional, moral and spiritual life.”<sup>29</sup>

Janet Ruiz of the Scottish Executive Education Department undertook an extensive literature review of the evidence base for culture, the arts, and sport policy.<sup>30</sup> Her research suggests that participation in various forms of arts and culture contributes to society in many tangible and intangible ways:

- ◆ These activities help instill self-confidence, pride, and personal well-being.
- ◆ Arts and culture promote personal, community, and national identity.
- ◆ Social networks generated through arts and cultural activities provide a sense of belonging—a sense of community.
- ◆ They help promote social cohesion and reduce isolation.
- ◆ Arts and culture provide creative mechanisms for individuals to express their individuality, engage with others, and celebrate diversity.

Many educators believe that creative activities provide positive learning experiences:

- ◆ Arts and cultural activities can help to improve communication skills and promote creative thinking.
- ◆ Libraries and reading programs contribute to improved literacy and language development.
- ◆ Creative activities often involve ICTs and help to develop information technology (IT) skills critical for employment in the knowledge economy.

However, potential social impacts of creative activities go beyond learning. For example, Ruiz suggests that substantial research demonstrates a link between participation in arts, cultural, and sport activities and a reduction in offending behaviour. Although causal relationships

have not been established, arts and culture have been shown to create a diversion from criminal behaviour and to help individuals develop personal and social skills.

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**Arts and cultural activities can help to improve communication skills and promote creative thinking.**

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François Matarasso undertook a comprehensive study of the social impacts of over 60 projects involving participation in the arts.<sup>31</sup> Many of the projects were aimed at marginalized individuals and communities. Matarasso identified over 50 social impacts of participation in the arts, which he organized in six key themes:

- ◆ personal development (improving self-confidence and skill building);
- ◆ social cohesion (building community organizational capacity and providing a forum for intercultural understanding);
- ◆ community empowerment and self-determination (enhancing environmental renewal);
- ◆ local image and identity (developing pride in local traditions and culture);
- ◆ imagination and vision (helping people develop their creativity); and
- ◆ health and well-being (contributing to a more relaxed atmosphere).

Today, digital technologies play an important role in the development of new forms of social media and in the development of creative content as they bring individuals together in online communities. Web-based communities, such as Facebook, MySpace, and Friendster, enable individuals to make connections with people internationally across cultures, and to develop meaningful and enduring relationships. They facilitate sharing of ideas, knowledge, and experience, presenting new opportunities for creative expression, and opening new channels for communicating experience and new pathways for social interaction.

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29 UNDP, *Terms of Reference for Thematic Window on Culture and Development*.

30 Ruiz, *A Literature Review of the Evidence Base for Culture*.

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31 Matarasso, *Use or Ornament*, p. 23.

## CITIES AS ENGINES OF CREATIVITY

The concept of cities as important hubs of creative activity was raised by Jane Jacobs several decades ago. Jacobs suggested that “wherever and whenever societies have flourished and prospered, rather than stagnated and decayed, creative and workable cities have been at the core of the phenomenon.”<sup>32</sup>

In its recent flagship report, *Mission Possible: Successful Canadian Cities*, The Conference Board of Canada argues that Canada’s prosperity depends on the success of its major cities.<sup>33</sup> Canada, like other societies, has transformed from a rural to a predominantly urban society, and in the future, urbanization is likely to accelerate. The Conference Board holds that “if Canada’s largest cities are to become world-class centres of design, architecture, and culture, and attract young, talented, creative people, they will have to do more than invest in physical infrastructure. They will have to sustain vibrant cultures and become centres of excellence in education . . . Cities that offer a high quality of life attract and retain firms and workers in the knowledge-intensive and creative fields.”<sup>34</sup>

In Canada, the culture sector labour force is predominantly located in large cities such as Toronto, Montréal, and Vancouver. Together, these three cities account for 64 per cent of Canadian culture industry workers.<sup>35</sup> This phenomenon is not unique to Canada. In the United States’ top 50 metropolitan areas, for example, creative workers (those working in the arts, publishing, broadcasting, architecture, advertising and design, performing arts, and museums) are 53 per cent more likely than other workers to live in “close in” neighbourhoods (close to a city centre), and 41 per cent of all creative jobs are within three miles of the central business district, compared with 17 per cent of total jobs.<sup>36</sup>

Canada’s larger cities also account for the bulk of total spending on culture goods and services. In 2005, total cultural spending was \$4.3 billion in Toronto, representing 17 per cent of the Canadian total. In Montréal, total cultural spending was \$2.5 billion, and in Vancouver, total cultural spending was \$1.9 billion in 2005. On a per capita basis, among 15 Canadian metropolitan areas, Ottawa–Gatineau ranked highest in 2005 in spending on culture goods and services, averaging \$1,064 per person. Victoria was second at \$1,007 per person, and Calgary was third at \$997 per person.<sup>37</sup>

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## THE CULTURE SECTOR: CENTRE STAGE IN THE CREATIVE ECONOMY

The culture sector is integral to Canada’s creative economy and to Canada’s overall economic performance. Many forces are driving culture to a place of greater prominence, particularly in Canadian cities. Measuring the multiple dimensions of arts and culture in Canada and internationally is challenging; nevertheless, the evidence points to significant social and economic benefits. Many of these benefits are not quantifiable but are well established in the evidence base. Among these, culture shapes our individual and national identity, fosters community and urban development, and promotes cultural understanding. Culture plays a crucial role in the attraction and retention of talent and investment.

As noted, the Conference Board estimates that the economic contribution of the culture sector was \$84.6 billion in 2007. Canada’s culture sector is experiencing solid growth and increasing its share of overall economic activity. Use of the Internet, digital technologies, and mobile devices has grown exponentially over the past decade, serving as a major driver for growth within the

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32 Jacobs, *The Death and Life of Great American Cities*, p. xviii.

33 The Conference Board of Canada, *Mission Possible: Successful Canadian Cities*, p. viii.

34 Ibid., p. 25.

35 Coish, *Census Metropolitan Areas*, pg. 7.

36 Coletta, “Community Challenge Town Hall.”

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37 Hill Strategies Research Inc., *Consumer Spending on Culture in Canada*, p. 13.

sector, and influencing consumer dynamics and business models. Strong interdependencies have been established between ICTs and many culture industries—interactive digital media, for example.

Today's culture sector is centre stage in the creative economy. Its contributions are valuable on their own and also add significant value by stimulating more broadly based creative activity across the economy.

## CHAPTER 2

# Canada's Creative Economy in Transition

## Major Trends

### Chapter Summary

- ◆ The most important demographic trend affecting Canada's future is the aging of the population.
- ◆ Rising use of the Internet and new digital technologies is influencing how people spend their time and providing new options for media choice.
- ◆ New technologies are responding to consumers' desire for greater freedom of individual expression; "prosumerism" refers to consumers' desire to participate directly in generating value from culture products and services and their preference for interactive experiences.
- ◆ The "long tail" business model of many niche markets is creating a sea change in the way many culture industries sell their products and services.
- ◆ Arts and culture industries are magnets for talent. The culture labour force is predominantly located in Canada's largest census metropolitan areas (CMAs): Toronto, Montréal, and Vancouver. Other CMAs across Canada also contain niche clusters of arts and culture industries.

Canada's creative economy is in transition. The face of Canada is quite literally changing—we are getting older and much more diverse. We are connected, we have large bandwidth, and we are interacting with the world. We are more creative. We are more engaged in social networking in ways unimaginable even a decade ago, forming bonds based on interests with "friends" around the world who share our particular passion for creative content. We are sharing, reshaping, and repackaging cultural content and co-creating in the process. We are self-selecting into niche markets that suit our tastes and demanding ever more sophisticated supply responses from others in the creative value chain. And we are voting with our feet, flocking to creative cities and communities where we can express our creative interests in new and emerging high-value-added jobs in the knowledge economy. Canada's cities and communities are retooling, branding themselves as creative hubs of one sort or another, with the right mix of amenities, skilled workers, and training capacity to attract business investment and larger numbers of creative people.

This chapter examines five important trends that are shaping Canada's culture sector during these exciting times: demographic changes; expanding global interconnectivity; today's culture consumer and key trends in supply and demand; international property and international copyright; and the role of arts and culture in generating, regenerating, and branding "creative cities."

## DEMOGRAPHIC CHANGES

### CANADA'S POPULATION IS AGING

The most important demographic trend affecting Canada's future is the age composition of the population. Canada's population and its labour force are aging, as is the case in almost every other developed nation. The Conference Board of Canada reports that nearly every major region in the world will experience a rise in the relative size of its older cohort.<sup>1</sup>

A major determinant of population growth is natural population increase—that is, the number of births less the number of deaths that occur each year. A fertility rate of 2.1 per cent would allow Canada to maintain the population at its current size without relying on immigration. Canada's fertility rate was only 1.54 births per woman in 2005.<sup>2</sup>

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**Although younger seniors today also remain quite active, seniors are more likely to engage in activities that are less physically demanding—reading and attending museums, art galleries, and theatres, for example.**

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The impact of population aging on labour force growth is substantial. Labour force participation rates are set to fall drastically. Contraction in labour force growth from 1.8 per cent annually in 2001–05 to 0.4 per cent annually in 2026–30 will occur unless there is a significant increase in immigration.<sup>3</sup>

As of October 2007, Canada's population exceeded 33 million, according to estimates by Statistics Canada.<sup>4</sup> The median age of Canada's population reached 38.8 years as of July 1, 2006, compared with 37.2 years in 2001.<sup>5</sup> In the culture sector in 2000, the average age of culture

workers in Canada's CMAs was 39.6 years, compared with 38.7 for non-culture workers.<sup>6</sup>

According to Statistics Canada's medium-growth scenarios released in December 2005, the median age of the country's population in 2056 would be 46.9 years.<sup>7</sup> Statistics Canada projects that by 2056, youth aged 0 to 19 could represent less than 20 per cent of the population, while seniors aged 65 and over could account for one out of every four individuals.<sup>8</sup>

Our aging “boomers” are dedicated Internet users and are contributing significantly to the digital retooling of the creative economy. Over the next two decades, the number of individuals aged 65 to 74 will almost double, from 2.3 million to about 4.5 million.<sup>9</sup> Generally, seniors are better off financially than they were in past decades, better educated, and Internet savvy.

In the culture sector, Canada's changing age profile has enormous implications not only for the labour market, but also for the way people spend their time and money. Demographer David Foot suggests that “most people, as they get older, become less active and less inclined to engage in strenuous activities. As a result, their leisure and recreation habits change. The impacts of these changes, on every recreational pursuit from badminton to birding, are dramatic. Moreover, these impacts are predictable.”<sup>10</sup> Although younger seniors today also remain quite active, seniors are more likely to engage in activities that are less physically demanding—reading and attending museums, art galleries, and theatres, for example. Today's seniors are increasingly engaging in online activities such as shopping, online training, and interactive gaming. They are participating in large numbers in Facebook, interacting with grandchildren online, and downloading music. Many are meeting new people through dating sites like Date.ca and eHarmony.

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1 The Conference Board of Canada, *How Canada Performs*, p. 25.

2 Statistics Canada, “Births.”

3 The Conference Board of Canada, *Human Talent Forecast*.

4 Statistics Canada, “Canada's Population Estimates.”

5 Statistics Canada, “Canada's Population by Age and Sex.”

6 Coish, *Census Metropolitan Areas*, p. 42.

7 Statistics Canada, “Canada's Population by Age and Sex.”

8 Ibid.

9 Statistics Canada, “A Portrait of Seniors,” p. 12.

10 Foot and Stoffman, *Boom, Bust and Echo 2000*, p. 148.

## INCREASING IMMIGRATION: CANADA'S CHANGING CULTURAL LANDSCAPE

Immigration plays an important role in shaping Canada's population. The 2006 Census indicates that over 6 million people in Canada are foreign born, representing one in five of the total population, the highest proportion in 75 years.<sup>11</sup> Statistics Canada projects that, based on current immigration trends, about one out of every five people in Canada could be a member of a visible minority by 2017.<sup>12</sup>

Immigration contributes substantially to linguistic diversity. Nearly 150 languages were reported as a mother tongue among the foreign-born population in 2006.<sup>13</sup>

As well, Canada's Aboriginal population is also experiencing strong growth, increasing 45 per cent between 1996 and 2006. According to the 2006 Census, more than 1 million people in Canada identify themselves as Aboriginal. In 2006 Aboriginal people accounted for 3.8 per cent of Canada's total population.<sup>14</sup> Overall, about half of Aboriginal people live in urban areas, largely in Prairie cities.

Many social and economic benefits of diversity are documented in the literature, from strengthened cultural values to enhanced service levels and customer satisfaction. The increasing diversity of Canada's population has significant implications for business and government. Jeffrey Gandz, a professor at the University of Western Ontario's Richard Ivey School of Business, notes that "one estimate is that visible minorities possess \$76 billion worth of combined purchasing power in Canada."<sup>15</sup> Many organizations are awakening to the reality that cultural diversity is good for business. Diversity drives changes in consumer patterns and behaviour. Increased diversity affects demand for multilingual music and television programming, written media, and other culture goods and services. Reflecting diversity in our creative economy is also a way of tapping into global markets, because consumers of diverse content may be in Canada

or abroad. Viewers of diverse programming on OMNI Television also strengthen bonds within their own cultural communities and maintain links with their country of origin.

The increasing cultural diversity of the Canadian population is affecting the Canadian broadcasting sector significantly. In the midst of demographic change, technological change, and the transformation of business models, there is growing pressure to ensure that Canadian programming reflects the increasing diversity of the Canadian population. Canada's ethnic broadcasting choices have expanded considerably over the years.

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**Diversity drives changes in consumer patterns and behaviour. Increased diversity affects demand for multilingual music and television programming, written media, and other culture goods and services.**

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## EXPANDING GLOBALIZATION AND THE INTERNET: IMPACTS ON CULTURE CONSUMERS

### THE RISE OF INTERNET USAGE, BROADBAND, AND DIGITAL TECHNOLOGIES

Increasingly, people around the world are connecting through the Internet. The percentage of Canadians using the Internet is among the highest in the world. In 2005 the proportion of Canadians using the Internet was 69 per cent, compared with 85 per cent in Sweden, 74 per cent in Finland, 70 per cent in the United Kingdom, and 63 per cent in Australia.<sup>16</sup>

Based on Statistics Canada's 2005 Canadian Internet Use Survey, an estimated 16.8 million adult Canadians used the Internet for personal activities during the 12 months prior to the survey. More than 15 million adult Canadians used the Internet from home in 2005; almost two-thirds of those used it every day during a typical month, and just under one-quarter reported using it 10 hours or more during a

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11 Chui et al., *Immigration in Canada*, p. 7.

12 Statistics Canada, "Canada's Visible Minority Population in 2017."

13 Chui et al., *Immigration in Canada*, p. 11.

14 Statistics Canada, "Aboriginal Peoples in Canada in 2006."

15 Gandz, *The Business Case for Diversity*.

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16 Statistics Canada, *2005 Canadian Internet Use Survey*, p. 7.

typical week.<sup>17</sup> Adult Canadians living in larger cities are more likely to be Internet users than those living in small towns or rural areas.

The growing use of the Internet has significant implications for the culture sector. New digital technologies influence how people spend their time and provide growing options with respect to media choice. Among Canadian adults, young adults between the ages of 18 and 24 are the biggest Internet user group. A 2004 Canadian study found that 90.3 per cent of young adults in this age group are online, and 87.9 per cent of those aged 18 to 34 are online.<sup>18</sup>

The Internet, increased bandwidth (broadband), and digital technologies have created substantial changes in the way people learn, work, and play. These technologies have become embedded across all sectors and substantially influence business models for many culture industries. Recent surveys in the United Kingdom, for example, suggest that “schoolchildren today are as attuned to IT as past generations were to the blackboard, timetables and spelling tests.”<sup>19</sup>

A recent Ipsos Reid survey of over 1,200 online teenagers in Canada between the ages of 12 and 17 suggests that “the Internet is changing the social fabric of interpersonal communication among teens.”<sup>20</sup> For Canada’s teens, socializing is the most popular online activity. Millions of users have accounts on social networking sites such as Facebook and Friendster. Sending and receiving e-mail, instant messaging, and online gaming are among the most common weekly online activities among teens responding to the survey.

Teenagers are not only users; they are also content creators.<sup>21</sup> In the United States, 57 per cent of some 21 million online teens create content for the Internet. These activities include creating a blog; creating or working on a personal web page; creating or working

on a web page for school, a friend, or an organization; sharing original content such as artwork, photos, stories, or videos online; or remixing content found online into a new creation.

Sites such as YouTube, MySpace, Flickr, and Second Life offer interactive environments that enable users to become involved in creating and producing as well as consuming cultural content. A survey of over 2,000 American adults (aged 18 and older) conducted between October and December 2007 indicates that 48 per cent of Internet users said they had visited a video-sharing site such as YouTube, compared with 33 per cent of Internet users one year earlier, representing a 45 per cent increase in one year.<sup>22</sup> Creative Commons provides free tools that enable authors, scientists, artists, and educators to mark their creative work with the freedoms they want it to carry, such as “some rights reserved” versus “all rights reserved.”<sup>23</sup>

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### **Among Canadian adults, young adults between the ages of 18 and 24 are the biggest Internet user group.**

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Guess who is playing games on the Internet? The average game player is 33 years of age. In 2005, 69 per cent of American heads of households played games on the Internet. Twenty-five per cent of gamers in the United States in 2005 were over the age of 50. The average number of years adult gamers have been playing computer or video games is 12. In 2005, computer and video game sales combined reached \$7 billion, compared with \$2.6 billion in 1996.<sup>24</sup>

Online commerce has dramatically transformed industries such as music and film, largely as a result of increasing speed of streaming or downloading, and resources for sharing and selling music and video files.<sup>25</sup> For example, Canada’s audiovisual industry, valued at almost \$5 billion in 2006, is significantly affected by global technology.

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17 Statistics Canada, “Canadian Internet Use Survey.”

18 Canadian Internet Project, *Canada Online!* p. 37.

19 Holden, “Culture and Technology,” p. 14.

20 Ipsos Reid, *The Internet is Changing*.

21 Lenhart and Madden, *Teen Content Creators and Consumers*, p. 1.

22 Rainie, PEW Internet Project Data Memo, p. 1.

23 [www.creativecommons.org](http://www.creativecommons.org), retrieved February 4, 2008.

24 Entertainment Software Association, *Essential Facts*, p. 11.

25 Holden, “Culture and Technology,” p. 16.

The industry comprises Canadian television production, which accounts for 59 per cent of the total; foreign location production, which makes up 35 per cent; and feature film production, which comprises 7 per cent.<sup>26</sup> A recent study by GR Strategies Inc. suggests that “there is now widespread recognition that the business models, policy tools, and perhaps even legislation developed for the analog environment must change to meet the challenges of a digital society.”<sup>27</sup>

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**Although Internet users spend less time watching television, listening to radio, and reading magazines and newspapers, they still spend considerable time using all three of these forms of traditional media.**

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Historically, government’s role in the development of Canada’s audiovisual industry has been significant. GR Strategies reports that “market forces, as they are traditionally understood, are not at play in the Canadian television system. The competitors, whether they are producers, broadcasters or distributors, are either regulated or dependent on government support or approval to conduct business. No foreign competitors have been permitted to enter the market.”<sup>28</sup> Today, consumers have many choices for their audiovisual entertainment. In addition to television and radio, Internet platforms such as YouTube and mobile devices, from cell phones to iPods, are gaining audience participation. Moreover, they are also capturing advertising revenues.

### **IMPACTS OF THE INTERNET ON THE USE OF TRADITIONAL MEDIA AND CANADIAN CULTURAL CONTENT**

The Canadian Internet Project, involving a telephone survey of 3,014 individuals in Canada aged 18 or older, finds that use of the Internet appears to supplement rather than replace traditional media use.<sup>29</sup> On average, Internet users spend only about 1.8 hours less per week using traditional media than do non-users. Although Internet users spend less time watching television, listening to

radio, and reading magazines and newspapers compared with non-users, they still spend considerable time using all three of these forms of traditional media. Younger users and heavier Internet users report that Internet use has led to a decline in the amount of time spent watching television. However, compared with non-Internet users, Internet users engage more in reading books, watching movies in theatres, listening to music, and using the telephone.<sup>30</sup> The study found that 74 per cent of Internet users believe that the Internet has reduced their telephone use. Compared to non-users, Internet users tend to make greater use of all ICTs—for example, VCRs, DVD players, cell phones, video game consoles, digital cameras, MP3 players, and personal digital assistants (PDAs) in the household.

The Canadian Internet Project looked at the types of websites Internet users accessed. About 70 per cent of respondents reported that they never or rarely access Canadian cultural content online. Only 27 per cent of survey respondents are aware of the Canadian portal website culture.ca and only 12 per cent access the site.<sup>31</sup> The report suggests that Canada will see rapid growth in online commerce, the delivery of news and cultural productions through the Internet and new communication services, and various forms of online leisure, such as interactive gaming.

### **TODAY’S CULTURE CONSUMER: KEY TRENDS IN SUPPLY AND DEMAND**

Three significant trends affect the consumption of culture goods and services, which have been strongly influenced by digital technologies. They are prosumerism, the long tail, and social networking.

#### **PROSUMERISM**

The term “prosumer” was coined by Alvin Toffler over 25 years ago in his 1980 book, *The Third Wave*.<sup>32</sup> The term is a hybrid of the words producer and consumer and was popularized by Don Tapscott in 1995 in *The Digital Economy*.

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26 GR Strategies, *Report on the Impact of Technology on Culture*, p. 1.

27 *Ibid.*, p. 2.

28 *Ibid.*, p. 15.

29 Canadian Internet Project, *Canada Online!* p. 1.

30 *Ibid.*, p. 85.

31 *Ibid.*, p. 8.

32 Toffler, *The Third Wave*.

Facilitated by new technology and largely by consumers' demands for personal freedom and individual expression, prosumerism refers to consumers' desire to participate directly in generating value from products and services and their preference for interactive experiences. Prosumers are keenly interested in directly customizing and controlling their consumption experiences.

*Ericsson Business Review* reports that "consumers around the world are taking an active part in the creation of content. The prosumer trend is strong. Users want to take part in creating, distributing and recommending anything and everything."<sup>33</sup> Through new media, the cultural creative process has been democratized in many ways, and the boundaries between audience and creator have become blurred.

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**Prosumerism refers to consumers' desire to participate directly in generating value from products and services.**

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Participatory technologies such as the Internet and mobile networks enable consumers to engage in knowledge exchange and content production. Generally referred to as Web 2.0 or social software, these interactive technologies have contributed to a rapid increase in user-led content by providing tools to create, share, and remix content and to engage in collaborative innovation. YouTube (broadcasting), "The Sims" (an interactive game), and BitTorrent (a file-sharing program) are a few examples. Music videos play a leading role in the emerging business of consumer-driven websites.<sup>34</sup>

The impact of prosumerism extends beyond cyberspace and the culture sector. A similar phenomenon is occurring in other sectors of the economy. In the ICT sector, for example, the Linux operating system is a free, open-source software supported by IBM, Dell, and other major ICT firms.

Prosumers not only blur the traditional distinction between producer and consumer; they also drive traditional creative producers to develop new business models. These

new business models, in turn, require creative producers to find new approaches to commoditizing creative goods and services, commoditizing the virtual neighbourhoods in which creative expression takes place, or perhaps even commoditizing aspects of the creative experience itself.<sup>35</sup>

### THE LONG TAIL

The concept of the "long tail" is not new. The long tail involves a process by which products with appeal to a narrow audience of consumers can collectively make up a substantial market share. Chris Anderson, editor-in-chief of *Wired* magazine and author of *The Long Tail*, suggests that, given the power of the Internet to access a huge critical mass of people, niche markets can become viable—and quite profitable. Cyber-stores can offer products that have been taken off retail shelves, as well as products that never made it to the shelf. Lower distribution and inventory costs allow businesses to sell smaller volumes of niche products online. *The Long Tail* offers a long list of successful examples, including Amazon, Rhapsody, Netflix, and many others. About 25 per cent of Amazon sales are now products that are not available in offline retail stores.<sup>36</sup>

The long-tail business model is creating a sea change in the way many cultural industries sell their products and services. Anderson suggests we "forget squeezing millions from a few megahits at the top of the charts. The future of entertainment is in the millions of niche markets at the shallow end of the bitstream."<sup>37</sup> Anderson is referring to the virtually unlimited selection of consumer goods and services available on the Internet—selection that is unconstrained by the physical space of bricks-and-mortar retail stores and movie theatres, and a limited number of TV stations and radio stations.

According to Anderson, the online version of the long tail is a new economic model for the media and entertainment industries.<sup>38</sup> He proposes that there is a new economics of abundance rather than scarcity and suggests

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33 Medman, *Doing our Own Thing*, p. 1.

34 *Ibid.*, p. 49.

35 Policy Research Group, "The New Consumer," slides 3, 6, 10, 13–15.

36 Anderson, *The Long Tail*, p. 7.

37 *Ibid.*, p. 3.

38 *Ibid.*

new rules for the entertainment economy in this shifting paradigm.<sup>39</sup>

- ♦ Make everything available. (Spend less time on demand analysis.)
- ♦ Cut the price in half. Now lower it. (Online music and videos have no packaging costs.)
- ♦ Help me find it. (Mix mainstream with long tail. For example, Amazon advertises “If you like X, you’ll love Y.”)

### SOCIAL NETWORKING

Today, consumers use new technology not merely to gain access to new markets, new goods, and new services, but also to network. Through networking, they engage in commercial transactions that intensify and deepen their networking experience. Thus, consumer networking is as much socially motivated as it is consumer oriented. Consumers participate in social networking to become part of virtual communities of like-hearted people. Examples of the virtual communities consumers occupy include virtual neighbourhoods such as Facebook, Friendster, and MySpace. In the process of integrating themselves into virtual communities, consumers sometimes assume different identities in cyberspace (such as the avatars on Second Life). Services such as Craigslist help consumers connect with urban communities that match their personal creative profiles.

Community sites make tools available to consumers that allow them to modify their personal web pages and form new communities. Tools that consumers use include Blogger, del.icio.us, digg, and Flickr. These tools facilitate blogging (Blogger), bookmarking web pages and sharing collections of links with others (del.icio.us), and sharing photos (Flickr). Other tool websites such as Technorati enable consumers to search for, find, and organize blogs and other forms of independent, user-generated content.

Community sites also recommend products and services that consumers can purchase on shopping sites, such as Amazon, CafePress, eBay, iTunes, and Puretracks, all of which cater to niche markets. Creative new consumers share and promote their own self-created content and that of others, which they have downloaded themselves or

acquired from peer-to-peer networking on community sites or within tool websites. Creative new consumers customize and personalize creative content produced by others and become co-creators of content, over which they exercise control by posting materials to their own websites or personal blogs.

### CONSUMER SPENDING ON CULTURE GOODS AND SERVICES

Cultural activities generate substantial consumer spending on culture goods and services. In addition, they generate significant indirect spending effects that are realized through related spending on, for example, restaurants, hotels, and transportation services.<sup>40</sup> Indirect benefits are also derived from culture employees spending their earnings, business owners spending (or investing) the profits they generate, and government spending the additional tax revenues generated by those wages and profits. In turn, these purchases lead to further increases in employment, wages, income, and tax revenues that can be felt across a wide range of industries.

Specifically, though, this segment on consumer spending on culture focuses on direct spending on culture goods and services. Hill Strategies reports that Canadian consumers spent \$25.1 billion on culture goods and services in 2005, an amount that is “5% higher than the combined consumer spending on household furniture, appliances and tools (\$24.0 billion)” and “over three times larger than the \$7.7 billion spent on culture in Canada by all levels of government in 2003/04.”<sup>41</sup>

Canadian households spent an average of \$1,450 on culture goods and services in 2004, compared with \$1,290 in 1999.<sup>42</sup> Table 1 shows the total household spending on cultural activities from 1996 to 2003 according to the Statistics Canada’s Survey of Household Spending and Family Expenditure Survey. Overall, spending on cultural activities increased by 45 per cent between 1996 and 2003.

40 Wiesand and Söndermann, *The “Creative Sector.”*

41 Hill Strategies Research, *Canadians Spend Over \$25 Billion*, p 1.

42 Statistics Canada, *What Canadian Households Spend*.

39 Ibid., p. 13.

Spending on heritage and on broadcasting experienced the largest percentage change between 1996 and 2003, increasing 132 per cent and 101 per cent respectively. Performing arts experienced an increase of 53 per cent. In 2005, Canadians' spending on live performing arts was double their spending on live sports events.<sup>43</sup> Canadians spend \$13 billion on home entertainment, \$4.8 billion on reading material, \$2.7 billion on art works and events, \$2.2 billion on photographic equipment and services, \$1.3 billion on movie theatre admissions, and \$1.1 billion on art supplies and musical instruments. Spending on museum admissions exceeded \$500 million for the first time in 2005.<sup>44</sup>

Of the eight culture subsectors reported in Table 1, only visual arts experienced an overall decline in household spending between 1996 and 2003, decreasing by 12 per cent.

It is worth noting that video game purchases are not included in these totals.

Many of the purchases by Canadian consumers, including culture goods and services, are online. In 2005 Canadians spent \$7.9 billion on the Internet shopping, including travel arrangements, reading material and electronics. Nearly seven million adults bought something online in 2005.<sup>45</sup>

## INTELLECTUAL PROPERTY AND INTERNATIONAL COPYRIGHT

CONNECTUS Consulting Inc. recently released a study on the economic impact of Canadian copyright industries.<sup>46</sup> Copyright is fundamental to the business models supporting arts and cultural enterprise. "In most cases, the right to use a product is the value—not the physical package that contains the content."<sup>47</sup> CONNECTUS

43 Hill Strategies Research, *Canadians Spend Over \$25 Billion*, p. 1.

44 *Ibid.*, p. 1.

45 CBC News, "Internet Spending Reaches \$7.9B."

46 CONNECTUS Consulting, *The Economic Impact*, Executive Summary.

47 CONNECTUS Consulting, *The Transformation of Value Chains*, p. 25.

**Table 1**

Household Spending on Cultural Activities, Canada  
(\$ millions)

Cultural Activity	1996	2003	Percentage Change (1996 to 2003)
Heritage	213	493	132
Broadcasting	3,260	6,542	101
Performing arts	765	1,170	53
Written media	3,874	5,315	37
Libraries	125	155	24
Photography	1,191	1,466	23
Film industry	3,711	4,484	21
Visual arts	915	804	-12
<b>Total</b>	<b>14,054</b>	<b>20,430</b>	<b>45</b>

Source: Culture Statistics Program, Statistics Canada, *Economic Contribution of the Culture Sector to Canada's Provinces*, p. 89.

notes several ways in which copyrights may be set, including "by individual negotiations between rights holders and users; by collective bargaining between groups of rights holders and either individual users or groups of users; by collective bargaining, but with recourse to an arbitration tribunal; and by mechanisms which provide alternative compensation for rights holders."<sup>48</sup>

Using the World Intellectual Property Organization (WIPO) definition of copyright-based industries—that is, "those engaged in the creation, production and manufacturing, performance, broadcast, communication and exhibition, or distribution and sales of works and other protected subject matter"<sup>49</sup>—the study encompasses both "core" and non-core industries. Core industries include press and literature; theatrical and music productions, and opera; motion picture and video industries (and sound recording); radio and television; software, databases, and new media; advertising services; photographic, visual, and graphic arts; and copyright collective management societies. The study found that Canada's copyright

48 *Ibid.*, p. 26.

49 CONNECTUS Consulting, *The Economic Impact*, p. 5.

industries generated \$46.8 billion (calculated in 1997 chained dollars) with core industries accounting for \$34.7 billion. Canada's copyright industries employed 655,000 people in 2004, according to the study.<sup>50</sup>

International piracy of culture goods has become a critical copyright issue. In Canada, "the Copyright Act provides the legal framework within which creators and other rights holders are entitled to recognition and control of, and payment for, the use of their works."<sup>51</sup>

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**Canada is not facing these issues of intellectual property and copyright alone. Countries around the world are struggling with piracy and counterfeiting.**

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A study conducted by LEK Consulting estimated that U.S. movie studios lost about US\$6.1 billion in 2005 due to piracy. The Institute for Policy Innovation released a subsequent study suggesting that the U.S. economy lost a total of \$20.5 billion in 2005 as a result of movie and TV piracy, including impacts to related industries such as DVD retailers and pay-per-view and video-on-demand providers, as well as secondary and tertiary losses.<sup>52</sup>

Canada is not facing these issues of intellectual property and copyrights alone. Countries around the world are struggling with the problem of piracy and counterfeiting. A recent OECD study points to several factors driving the use of the Internet by counterfeiters and pirates, including anonymity; flexibility; the size of the market (the ability to market a small number of infringing products multiple times can undermine enforcement efforts); global market reach; and deception (such as contrived ratings).<sup>53</sup> These challenges are substantial and growing as the digital revolution gains momentum, enabling greater rates of connectivity and increasing consumers' appetite for interactivity, control, and choice in accessing and producing creative content.

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50 Ibid., pp. 6, 8.

51 Government of Canada, *A Framework for Copyright Reform*, p. 2.

52 Sweeting, "Pirates robbed U.S. of \$20.5 billion."

53 OECD, *The Economic Impact of Counterfeiting and Piracy*, Part IV, Executive Summary, p. 12.

## THE ROLE OF ARTS AND CULTURE IN GENERATING, REGENERATING, AND BRANDING "CREATIVE CITIES"

Current economic theories suggest that advanced industrial nations are transforming into knowledge-based, service-oriented, and creative economies. In the industrial economy, competitiveness was driven by physical resources such as coal and oil and by commodities such as steel, automobiles, and machinery. While many of these continue to be important to Canada's economy, in the knowledge economy competitiveness is driven by people. The economic success of nations and cities depends increasingly on their scientific capacity and on their capacity to generate innovative business models and increase productivity. Creativity is the source of innovation.

For many scholars, including such notables as Richard Florida and Charles Landry, creativity is central to economic vitality. Both of these authors characterize creativity as the engine of growth for cities.

Florida proposes a theory to help explain the growth of the knowledge economy—the rise of the creative class. Florida asserts that creativity is now the source of competitive advantage and that the "centre of gravity has shifted from traditional industrial regions toward new axes of creativity and innovation."<sup>54</sup> He suggests that economic growth will occur in places where creative people cluster. In this new paradigm employment is not the central driving force for location decisions; rather, creative people choose to live in places that are centres of creativity and diversity, such as San Francisco, Austin, San Diego, Boston, and Seattle—places with a flourishing artistic and cultural environment.<sup>55</sup>

According to Florida, the creative class grew 10-fold over the 20th century and has doubled since 1980 alone.<sup>56</sup> Approximately 38 million Americans, 30 per cent of all employed people in the U.S., belong to this new class, including scientists, engineers, architects, designers, educators, artists, musicians, and others whose economic

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54 Florida, *The Rise of the Creative Class*, p. 11.

55 Ibid., p. 246.

56 Ibid., p. 9.

function is to create new ideas, technology, or creative content. Additionally, a broad range of creative professionals support core creative functions, including business services and law. Creative workers are generally highly educated and open to diversity, and they work relatively autonomously.

In Canada the culture labour force, which is at the core of the creative class, is predominantly located in the three largest cities: Toronto, Montréal, and Vancouver. (See Table 2.) Culture industries as a percentage of the total labour force in the CMAs were 6.1 per cent in Toronto, 5.5 per cent in Montréal, and 5.2 per cent in Vancouver in 2001. Toronto's culture labour force in 2001 was 154,000; Montréal's was 97,800; and Vancouver's was 54,500.<sup>57</sup> Together, these three cities accounted for 64 per cent of the 27 Canadian CMAs' culture labour force.

For Florida, the capacity of cities to attract both people and investment depends on the coexistence of three constitutive elements: talent, technology, and tolerance. He notes that “globalization increasingly takes shape around city-regions with large concentrations of talent . . . Even as technology enables us to work from virtually anywhere, a key fact of the creative age remains its tremendous geographic concentration.”<sup>58</sup> He points to a 2000 study by the Milken Institute that identifies immigration as one of the most powerful demographic trends shaping cities and regions in the United States, including New York, Atlanta, and Silicon Valley.<sup>59</sup>

Like Florida, Landry also suggests the city has a special role in the new economy. He notes that, despite the importance of global virtual networks, place attachment is a powerful human trait. Quality of place is tied to

**Table 2**

Share of Labour Force in Culture Industries, by Census Metropolitan Areas, 2001  
(per cent)

Cultural Industry	Toronto	Montréal	Vancouver	Canada
Advertising and related services	0.81	0.67	0.43	0.39
Agents/managers—artists, athletes, entertainers, and other	0.04	0.03	0.04	0.02
Architectural services	0.17	0.14	0.19	0.08
Book, periodical, or music store	0.21	0.19	0.18	0.15
Heritage institutions	0.09	0.12	0.10	0.16
Independent artists, writers, and performers	0.43	0.35	0.55	0.30
Information services	0.43	0.29	0.44	0.31
Manufacturing and reproducing magnetic and optical media	0.09	0.07	0.03	0.01
Motion picture and video industries	0.69	0.79	0.96	0.38
Newspaper, periodical, book, and database publishing	0.74	0.62	0.54	0.52
Pay and specialty television and program distribution	0.20	0.14	0.15	0.12
Performing arts companies	0.18	0.23	0.17	0.13
Printing	0.94	1.01	0.63	0.61
Promoters/presenters—performing arts, sports, and other	0.09	0.12	0.07	0.07
Radio and television broadcasting industries	0.35	0.32	0.23	0.22
Sound recording industries	0.08	0.05	0.05	0.03
Specialized design services	0.57	0.39	0.44	0.28
<b>Total</b>	<b>6.10</b>	<b>5.54</b>	<b>5.19</b>	<b>3.83</b>

Source: Coish, *Census Metropolitan Areas*, pp. 68–69.

57 Coish, *Census Metropolitan Areas*, pp. 12, 15.

58 Florida, *The Creative Compact*, p. 8.

59 Florida, *The Rise of the Creative Class*, p. 253.

geographic location: “The physical world has fundamental sensual qualities which make actually being there the greatest experiential effect.”<sup>60</sup>

Cities around the world have developed clusters of cultural activity—the new gold of the creative economy. Cities rich in cultural resources are “hotbeds of creativity,” economic wealth generators in their own right, and magnets for talent across all sectors of the economy.<sup>61</sup> Landry suggests that culture be elevated from its undervalued, peripheral role in urban planning to a central force in shaping the growth of cities: “Cultural heritage and contemporary expressions of it have provided a worldwide focus for urban renewal. In the midst of economic development we find inspiration in the buildings, artifacts, traditions, values and skills of the past. Culture helps us to adapt to change by anchoring our sense of being; it shows that we come from somewhere and have a story to tell.”<sup>62</sup>

For Landry, technological transformations, globalization, and mass international migration have important cultural effects on cities and on their relationships, domestically and internationally.<sup>63</sup> All three factors contribute to increasing integration of societies, greater access to information and insights, and increasing economic interdependence among cities, domestically and globally.

While arts and culture industries play an important role in fostering economic development, creative cities are not limited to areas that possess large concentrations of cultural industries; creativity is defined much more broadly. However, the existence of culture clusters or niche concentrations of culture industries are generally considered to be important indicators for creative cities. In particular, they are viewed as magnets for talent. In Toronto, for example, a full 6 per cent of culture workers living in that city in 2001 came from outside the country within the preceding five-year intercensal period, and in Vancouver the corresponding figure was 7.9 per cent.<sup>64</sup>

Canada’s three largest CMAs—Toronto, Montréal, and Vancouver—are generally considered the nation’s cultural capitals. Montréal, well established as one of Canada’s most creative cities, was successful in luring Ubisoft, the largest video game company in Europe, and Electronic Arts, an American-based video game publisher, to open creative studios in the city. According to Ubisoft’s French CEO Martin Tremblay, Montréal “offers four key conditions for success: talented and creative resources, the proper educational infrastructure, a technology community and government support.”<sup>65</sup> Notable government support comes in the form of a refundable tax credit for the production of multimedia titles of up to 37.5 per cent of labour costs, and a refundable tax credit for companies in the IT sector that carry out major employment-generating projects of up to 25 per cent of eligible salaries. Ubisoft has recently created the Ubisoft campus in Montréal. The campus provides training for employees from all of the company’s studios, develops future professionals for the video game industry, and will be the hub of the company’s partnerships with schools to attract and develop future employees.<sup>66</sup>

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**Cities rich in cultural resources are “hotbeds of creativity,” economic wealth generators, and magnets for talent across all sectors of the economy.**

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Canada has many examples of technology clusters that respond to consumer demand in the creative economy, including Canada’s Technology Triangle in the Kitchener–Waterloo region. Headquartered in Kitchener–Waterloo is Research In Motion (RIM), the company that invented the BlackBerry and revolutionized business communications. Research institutes in the universities located in Canada’s Technology Triangle have spawned many new technological start-up companies. Kitchener has developed a cultural plan to ensure that it retains technology companies and creative workers, based on the assumption that world-class cultural amenities, a

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60 Landry, *The Creative City*, p. 37.

61 *Ibid.*, p. 9.

62 *Ibid.*, p. 39.

63 *Ibid.*

64 Coish, *Census Metropolitan Areas*, p. 65.

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65 Investissement Québec, Montréal, *Multimedia Capital*.

66 KEA European Affairs et al., *The Economy of Culture in Europe*, pp. 171, 278.

highly skilled and creative workforce, and region-wide commercial networks will help to attract more investment, more firms, and more creative workers.<sup>67</sup> In May 2007 Waterloo was named the “World’s Top Intelligent Community” by the Intelligent Community Forum and ranks among the top five “Small Cities of the Future” in North America.<sup>68</sup>

Other CMAs across Canada form niche clusters of cultural activity. For example, Halifax has established a strong presence in domestic film production; Victoria in literary, performing, and visual arts and information services; Halifax, St. John’s, and Ottawa–Gatineau in information services and performing arts; and Winnipeg and St. Catharines–Niagara in performing arts. Calgary is building its capacity for architectural services and specialized design.<sup>69</sup>

Demographic and technological changes, globalization of value chains, consumer dynamics, and emerging regulatory issues are significantly affecting individuals, organizations, cities, and nations. Together these critical trends result in exciting opportunities for growth in the creative economy, but they also demand enhanced adaptive capacity to create relevant business models, policy and regulatory tools, and responsive institutional support to foster positive social, cultural, and economic transformation. The continued growth of Canada’s creative economy requires strong linkages across all levels of government, integrative synergies between the public and private sector, innovative approaches to business development, and enriched understanding of Canada’s cultural wealth in its many delightful forms.

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67 Department of Canadian Heritage, *Creative Communities for a Knowledge Economy*, p. 13.

68 Canada’s Technology Triangle, *Area Named*.

69 Coish, *Census Metropolitan Areas*, p. 66.

## CHAPTER 3

# The Economic Footprint of Canada's Creative Economy

### Chapter Summary

- ◆ The Conference Board estimates that real value-added output by culture sector industries was over \$46 billion in 2007, roughly 3.8 per cent of Canada's total real gross domestic product (GDP).
- ◆ When the effects of arts and culture industries on other sectors of the economy are added—to account for indirect and induced effects—the overall impact is much larger. We estimate that the economic footprint of the culture sector was \$84.6 billion in 2007—7.4 per cent of total real GDP.
- ◆ Employment attributable to the arts and culture industries through direct, indirect, and induced impacts amounted to over 1.1 million people in 2007.

The phrase “l’art pour l’art” or “art for art’s sake” has been a slogan of the creative class since 19th-century France. This phrase has commonly been invoked to remind us that art and the creation of art, in itself, is valuable, regardless of whether it serves a moral purpose or is valued economically. Increasingly it is being understood that art and, more broadly speaking, culture have value beyond the aesthetic sphere. Chapter 1 argues

that arts and culture have provided numerous benefits to individuals and communities, and documented the social benefits from arts and culture.

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**Increasingly it is being understood that art and, more broadly speaking, culture have value beyond the aesthetic sphere . . . arts and culture have provided numerous benefits to individuals and communities.**

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This chapter is focused on assessing the size and economic impact of those components of culture that can be more easily quantified. To this end, we rely on Statistics Canada's framework and data to measure the size of culture industries in Canada. The available data are extended to 2007, utilizing a number of statistical methods, to yield a more recent perspective on the size and economic weight of the culture sector in Canada. The results show that the direct impact of the culture sector, measured as the real value-added output by culture industries, was estimated at \$46 billion in 2007 or roughly 3.8 per cent of total real GDP. Finally, macroeconomic models of the Canadian economy are used to assess the broader economic impacts of culture in Canada—the economic footprint of culture. Summing the quantifiable direct, indirect, and induced impacts suggests that Canada's culture sector contributed \$84.6 billion to total real GDP in 2007. Moreover, nearly 1.1 million jobs can be attributed directly and indirectly to economic activity generated by culture sector industries.

## A FRAMEWORK FOR QUANTIFYING THE CREATIVE ECONOMY

In 2004, in a collaborative effort with the Department of Canadian Heritage, Statistics Canada produced a framework to define culture industries in Canada.<sup>1</sup> Statistics Canada defines culture as a “creative artistic activity and the goods and services produced by it, and the preservation of human heritage.” While the framework may have gaps, it does establish a definition for the culture sector that can be quantified with available data.

The difficulty with assessing the economic value of culture is that culture industries are not separately defined under the current system of national accounting. The North American Industry Classification System (NAICS) is available at various levels of disaggregation. And while some aspects of the culture sector can be captured within some of the detailed NAICS codes, culture is not defined within the current system as an industry. Because of that, many aspects of culture are included within other NAICS codes and not measured on their own. Statistics Canada’s culture industries framework has been developed to pull, from various NAICS industries, the components that are related to culture. First, the framework divides the creative chain for culture industries into five broad categories:

- ◆ **Creation**—This segment includes people involved in the development of a creative artistic idea, such as independent artists, writers, and performers.
- ◆ **Production**—This segment of the creative chain includes organizations involved in processing or producing creative goods or services, such as books or magazines, as well as intangible services, including concerts and theatre performances.
- ◆ **Manufacturing**—This segment includes, for instance, the mass production of a book undertaken by a printer.
- ◆ **Distribution**—This segment includes the distribution of books by wholesalers and retailers, such as bookstores, general merchandise stores, and electronic shopping and mail-order organizations.
- ◆ **Support services**—Many people and organizations provide support in the provision of culture goods and services, including agents and managers who represent publishers and writers.

Statistics Canada notes that the creative chain model used to measure the provision of culture goods and services works best with a physical good rather than a culture service. For example, the preservation of human heritage is more intangible in nature, so measuring its economic value is more difficult. Many activities are required in preserving heritage, including the discovery or identification of a particular artifact, the conservation of the item (repair and storage), interpretation, and, finally, presentation. Identifying and measuring such activities can be complex, given data limitations.

The creative chain encompasses all phases of the provision of culture goods and services, from artistic inception through distribution. Thus, the written media industry, for example, includes printers, book dealers, and publishers as well as writers.

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**While the framework may have gaps, it establishes a definition for the culture sector that can be quantified.**

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The culture sector framework identifies 14 categories of culture industries. The value generated by each of these industries, defined as the value-added<sup>2</sup> or nominal GDP, is estimated by apportioning the GDP in broader NAICS industries that is attributable to culture. To estimate the shares attributable to culture, Statistics Canada often relies on more detailed occupational data. For example, it is possible to break out the value of GDP attributed to visual arts by assessing the share of occupations that include painters, sculptors, and other visual artists. Although there are simplifying assumptions—for example, relative wages or productivity are not considered—the methodology does allow Statistics Canada to estimate, in some detail, the size of cultural industries in Canada.

Table 3 displays the level of nominal GDP estimated for each of the 14 culture industry categories.<sup>3</sup> Because of lags in the availability of detailed industry data, the

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1 Statistics Canada, *Canadian Framework for Culture Statistics*.

2 Value-added or net output is the difference between total revenue and the sum of expenses on parts, materials, and services used in the production process. Summing the value added across all industries will yield the GDP in that region.

3 Statistics Canada, *Economic Contribution of the Culture Sector*.

**Table 3**  
Nominal GDP, Culture Industries in Canada  
(\$ millions)

	1996	1997	1998	1999	2000	2001	2002	2003
Written media	11,301	11,939	12,725	13,319	14,881	16,004	16,703	16,850
Broadcasting	3,686	4,759	4,756	4,962	5,478	5,905	6,438	6,991
Film industry	2,341	2,368	2,854	3,216	3,354	3,585	3,897	4,119
Advertising	1,656	1,751	1,775	2,127	2,417	2,423	2,427	2,578
Heritage	1,303	1,182	1,322	1,395	1,279	1,207	1,259	1,389
Libraries	1,276	1,182	1,262	1,360	1,223	1,176	1,284	1,305
Architecture	788	758	826	907	1,079	1,061	1,110	1,236
Performing arts	1,004	1,021	1,048	1,008	1,078	1,048	1,087	1,132
Visual arts	920	864	941	947	978	950	969	1,041
Design	981	1,040	1,075	917	975	977	1,004	985
Photography	609	627	658	639	659	685	729	755
Sound recording and music publishing	349	283	298	355	374	347	383	391
Festivals	34	34	46	50	53	64	73	82
Support services	2,856	2,836	2,987	3,296	4,061	3,845	4,182	4,329
Culture output, all categories	29,104	30,644	32,573	34,498	37,889	39,277	41,545	43,183

Source: Statistics Canada.

estimates are produced only on a nominal basis,<sup>4</sup> up to the year 2003. While the data are not current, they do provide some interesting insights. Estimated at over \$43 billion in 2003, the culture sector accounted for about 3.8 per cent of Canada's total GDP—a share that remained relatively stable over the 1996 to 2003 period. For comparison, the value-added of Canada's retail industry was just under 6 per cent in 2007. Statistics Canada also estimates that the culture sector directly employed about 616,000 workers in 2003, about 3.9 per cent of total employment. Also interesting is that over the 1996 to 2003 period, the film and broadcasting industries posted very strong growth, allowing their combined share of culture GDP to increase by a full 5 percentage points to nearly 26 per cent.

4 Estimates are provided in current dollars and thus not adjusted for inflation. The Conference Board of Canada has utilized standard price deflators to produce estimates of real culture GDP; these are presented later in this section.

While culture industries, as defined in the framework, add significantly to overall GDP, there are a number of data gaps that suggest the true contribution is larger. The recent emergence of the Internet and other digital technologies has changed the way culture is created and consumed. As such, interactive media have become an increasingly important part of Canada's cultural landscape. Mass written and broadcast media are being, in part, replaced by more interactive and participatory media, including increasingly popular websites such as YouTube, MySpace, Facebook, and Second Life. A 2006 study conducted by PricewaterhouseCoopers provides important insight into the economic importance of the interactive media industry.<sup>5</sup> Estimates from this study suggest that in 2005 total revenue generated from interactive media was \$5 billion, with total employment exceeding 50,000 jobs.

5 PricewaterhouseCoopers, *Canadian Interactive Industry Profile 2006*.

The growing popularity of interactive media is evident from the results of a 2007 study by the Pew Internet and American Life Project, *Teens and Social Media*.<sup>6</sup> The study found that:

- ♦ 64 per cent of online teens aged 12 to 17 have participated in one or more of a wide range of content-creating activities (up from 57 per cent reported in Pew's poll conducted at the end of 2004);
- ♦ 39 per cent of online teens share their own artistic creations online, such as artwork, photos, stories, or videos, up from 33 per cent reported in Pew's 2004 poll; and
- ♦ 26 per cent remix content they find online into their own creations, up from 19 per cent in 2004.

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**In 2006, spending on video games in Canada totalled \$989 million. Between 2002 and 2006, spending on video games in Canada grew 68 per cent.**

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Another example of interactive media is video games. This market reflects consumer spending on console games, personal computer games, online games (including massive multi-player online games), downloadable games, on-demand games streamed through a website, and wireless games played on mobile phones. PricewaterhouseCoopers reports that, in 2006, spending on video games in Canada totalled \$989 million.<sup>7</sup> Between 2002 and 2006 spending on video games in Canada grew 68 per cent—an average growth of 14 per cent compounded annually. More importantly, Canada has become recognized as a global leader in video game development.

Video games fit into Statistics Canada's definition of culture in that many people would argue that the development of video games involves a creative artistic activity and, hence, video game companies meet a key requirement for inclusion as producers of a culture good. Perhaps, even more importantly, the methods for producing video games closely parallel those in the film industry. These production methods include animation, art direction, producing

and directing, characterizations, texturing of surfaces, scene design, motion capture, photography, voice-overs by actors, lighting, sound, and audio. In addition to the direct development of video games, there are many support industries that produce goods or services supporting creation, production, or transmission of other creative goods or services. Vancouver and Montréal have become video game development hubs and, according to New Media BC, there were 120 companies in B.C. directly involved in video game development in 2004. Canada is home to the two largest game development studios in the world, by revenues and by number of employees: Electronic Arts employs about 2,000 of its worldwide total of 7,900<sup>8</sup> employees in Burnaby, Vancouver, and Montréal, and in 2006–2007 Ubisoft employed 1,400 game development staff<sup>9</sup> of its worldwide total of 3,950 employees in Montréal.<sup>10</sup> PricewaterhouseCoopers has noted that about 20 per cent of the top-selling games in North America are developed in Canada.<sup>11</sup> Canada's strength in the high-value-added segments of the video game production chain—development and publishing—suggests that the video game industry is making an important, albeit unmeasured, contribution to the culture sector's impact on the Canadian economy. Canada has also provided a nurturing environment for these industries and boasts numerous interactive media education facilities, such as Sheridan College and “Ubisoft University.” The country is also renowned for its 2-D and 3-D animation and imaging software developers for interactive digital media, such as Flood Software, specializing in the animation of fluids, and XYZ RGB, which performs 3-D scanning of objects, including faces and animals, for film and games such as *King Kong*, *Lord of the Rings*, *The Matrix*, and Electronic Arts' “Need for Speed.”

Statistics Canada's NAICS codes covering the culture industry do not specifically account for the cultural activities involved in producing interactive media and video games. Production, manufacturing, and distribution

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6 Lenhart et al., *Teens and Social Media*.

7 PricewaterhouseCoopers, *Global Entertainment and Media Outlook: 2007–2011*.

8 Electronic Arts, Corporate Information.

9 Kumar, “The French-Canadian Connection.”

10 Ubisoft, *Ubisoft 2008*.

11 PricewaterhouseCoopers, *Global Entertainment and Media Outlook: 2007–2011*.

of film and video do not include a NAICS code for video games. Also, there is not a category that captures Canadians' involvement with interactive media Internet sites.

Another gap highlighted by Statistics Canada is that the framework excludes the value of volunteer activity, which is not captured in the employment data. Estimates suggest that the economic contribution of the non-profit sector to culture was \$3.6 billion in 2000.<sup>12</sup>

## ASSESSING THE SIZE OF CANADA'S CULTURE SECTOR

While Statistics Canada has provided a measure of the value-added contribution to GDP of Canada's culture industries, there are other measures that can yield some sense of the importance of Canada's culture sector. Indeed, the framework developed by Statistics Canada relies on adding up the value added or economic contribution by industry. But GDP can also be measured by looking at the total demand for or spending on cultural goods and services by all the agents within an economy: households, government, and businesses. In addition, transactions across borders must also be considered. As such, foreign purchases of culture goods and services—exports—will also add to total culture GDP, while sales by foreigners of culture goods and services are measured as imports.<sup>13</sup> While it is not possible to add up all of these components to measure the contribution of culture to Canada's GDP—for example, data on business investment in culture are not available—there is good information available about the amount households spend on culture and about trade flows of culture goods, as well as some information about the size of government spending on culture. In this section we present some of these measures; we also discuss the methodology used in extending a number of culture sector indicators to 2007.

12 Statistics Canada, *Satellite Account of Nonprofit Institutions and Volunteering: 1997 to 2004*.

13 In essence, value-added GDP is the same measure as expenditure-based GDP, for the whole economy or, more specifically, for the culture sector. Of course, measurement difficulties due to data gaps and the more complex definition of culture remain present for either measure.

## EXTENDING ESTIMATES OF CULTURE INDUSTRIES TO 2007

Table 3 presented the nominal value-added GDP of culture industries from 1996 to 2003. While it is not possible given current data gaps<sup>14</sup> to extend each of the sectors beyond 2003, it is possible, using broader categories of NAICS industries, to extend more aggregate components up to 2007. Statistics Canada publishes estimates of real (inflation-adjusted) GDP in a number of related categories<sup>15</sup> and these were used to grow the industry components, on an annual basis, up to 2007. Setting 2002 as the base year, the data were deflated, over the 1996 to 2002 period, using a private wage-based deflator.

According to our estimates, real value-added output by culture sector industries was valued at just over \$46 billion in 2007, roughly 3.8 per cent of total real GDP. While the direct economic contribution of culture industries has stayed relatively stable, broadcasting, telecommunications, and publishing activities have outpaced other culture industries, with the three components now accounting for nearly 60 per cent of total culture sector output. (See Chart 1.) Those components more directly related to household-recreation spending, including performing and visual arts, festivals, and portions of heritage and libraries, accounted for about 8 per cent of total culture GDP. Motion picture and sound recording industries also accounted for about 8 per cent of culture GDP, a sharp decline from the peak of 10.3 per cent attained in 2002, prior to the strong run-up in the value of the Canadian dollar. According to Statistics Canada, from 2002 to 2007 real GDP attributed to motion picture and sound recording industries fell by nearly 10 per cent—perhaps not a bad performance considering that the loonie appreciated by nearly 46 per cent over the same period. The remaining

14 While some of the data are not yet available beyond 2004, we are also unable to replicate Statistics Canada's methodology because many of the data used in constructing the culture industry detail are unpublished.

15 In some cases, the culture sector is closely tied to the related (and available) NAICS industry code. For example, written media and broadcasting are grown out using the closely related NAICS publishing industries and broadcasting industries. In other cases, the NAICS codes are not so closely related, such that tied performing arts industries are grown out using a broader NAICS category that also includes professional sports (a sector that in Canada is not considered part of the culture sector).

components of culture sector GDP, defined as culture and support services in Chart 1, account for about 23 per cent of the total value added. These components include a wide range of private business services and public sector contributions to overall culture output.

**SPENDING ON CULTURE GOODS AND SERVICES**

While the industry estimates give us a sense of the direct economic contribution of culture sector GDP, spending on culture goods and services by households also provides some interesting perspectives. Statistics Canada conducts, annually, a detailed survey of consumer expenditures<sup>16</sup> that allows us to assess household spending on culture goods and services. Survey questions allow us to break out average household spending on 16 relatively detailed components of culture, ranging from antiques to rental of cable and satellite services, museum fees, and newspapers. The nominal expenditure estimates were available from Statistics Canada only up to 2005. These were adjusted for inflation and extended to 2007 utilizing broader categories of consumer spending in Canada.<sup>17</sup>

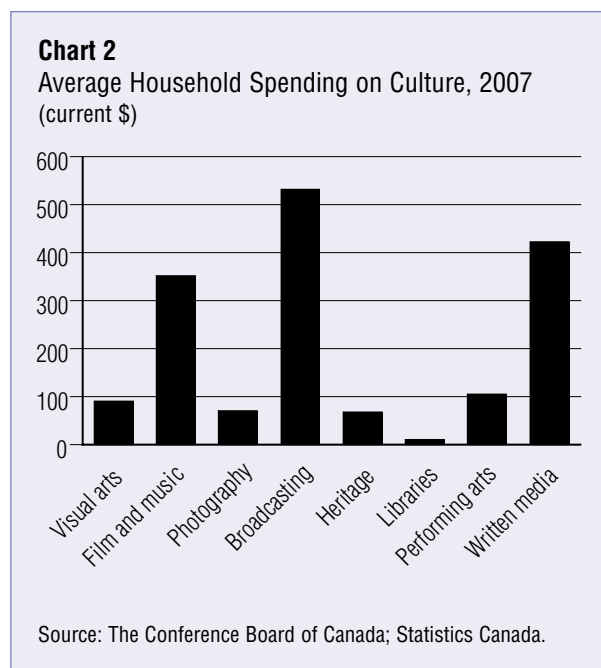
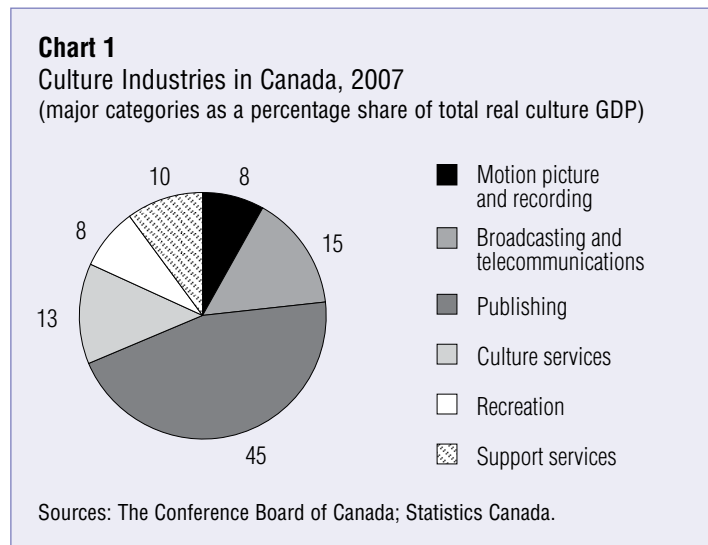
**Overall, real household spending on culture has remained relatively stable over the past decade.**

According to our estimates, in 2007 the average household in Canada spent roughly \$1,650 (in current dollars) on culture goods and services. Given that there are an estimated 12.6 million households in Canada, this suggests that consumer spending on culture goods and services was close to \$21 billion in 2007. That is equivalent to \$18.9 billion in real 2002 dollars, representing 2.4 per cent of total real consumer spending or 1.4 per cent of total real GDP. Overall, real household spending on culture has remained relatively stable over the past decade.

16 For the purposes of our analysis, survey results were pulled directly from Statistics Canada’s CANSIM database. For an overview of the survey, see Statistics Canada, *Spending Patterns in Canada*.

17 The Conference Board examined the historical relationship between household spending on culture and broader consumer spending estimates available to 2007. These relationships were maintained when extending consumption on culture sector components over 2006 and 2007. Data were deflated utilizing the consumption of other services deflator available from Statistics Canada.

However, some interesting trends are revealed within each component. For example, household spending on cable and satellite television services has increased steadily since 1997, displacing written media as the largest cultural expenditure item. (See Chart 2.) Average spending on movie theatres has been growing, however; spending on music and video CDs and rentals has been declining. This trend suggests that interactive media are playing an increasing role in consumer spending, a trend that unfortunately cannot be assessed from the current household survey questions.



On the trade side, Canada tends to import more culture goods and services than we export. The overall trade deficit, available only for 2004, totalled nearly \$2 billion in current dollars. However, exports of culture goods and services do contribute significantly to Canada's overall export performance. According to our estimates, real exports of culture services were worth over \$3.3 billion in 2007.<sup>18</sup> Adding in exports of culture goods brings the total value of real culture exports to just under \$5 billion in 2007, about 1 per cent of Canada's total exports. Data from Statistics Canada for exports of culture goods are more current, available up to 2006, and were thus extended only for one year.<sup>19</sup> It is evident that the strong appreciation in the Canadian dollar has had a significant impact on Canada's sale to foreigners of culture goods. In real terms, exports of culture goods fell by nearly 22 per cent from 2002 to 2006, while our estimates suggest

that another 12.9 per cent decline occurred in 2007. (See Table 4.) Film and video, and written works, are the two largest components of culture goods exports, accounting for nearly 65 per cent of the total.

The remaining categories include spending by government and by businesses on culture goods and services. Survey data are available for government spending but nothing is produced with respect to the private business sector, making it impossible to fully assess the size of the culture sector in Canada on an expenditure basis. According to a Statistics Canada survey, total public spending on culture, including federal, provincial, and local levels of government, reached \$7.3 billion in the 2003–04 fiscal year.<sup>20</sup> Growth in real government spending on culture has been relatively steady over the past 10 years, at least keeping pace with total government spending on goods

**Table 4**  
Spending on Canada's Culture Goods and Services  
(selected components; Conference Board of Canada estimates; 2002 \$ millions)

	2000	2001	2002	2003	2004	2005	2006	2007
Household spending	14,877	15,593	15,975	15,626	16,858	17,484	18,204	18,865
Per cent change		4.8	2.5	-2.2	7.9	3.7	4.1	3.6
Government spending on culture	6,577	6,857	7,033	7,111	7,268	7,435	7,673	7,922
Per cent change		4.3	2.6	1.1	2.2	2.3	3.2	3.2
Exports of culture goods	2,078	2,277	2,458	2,375	2,276	2,224	1,918	1,671
Per cent change		9.6	7.9	-3.4	-4.2	-2.3	-13.7	-12.9
Exports of culture services	2,267	2,412	2,226	2,148	2,966	3,021	3,182	3,321
Per cent change		6.4	-7.7	-3.5	38.1	1.9	5.3	4.4
Total culture GDP	38,943	39,745	41,545	41,160	42,556	43,760	44,882	46,082
Per cent change		2.1	4.5	-0.9	3.4	2.8	2.6	2.7

Sources: The Conference Board of Canada; Statistics Canada.

18 Statistics Canada provides data on culture services exports for 11 categories, the biggest of which are film production and distribution services and trademarks (royalties). See Statistics Canada, *Culture Services Trade: Data Tables*. Data are currently available to 2004. Total culture services exports were extended to 2007 using statistical techniques that simply tied total culture services exports to more aggregate, and current, exports of services components. The relationship was statistically strong, allowing us to "forecast," over history, an estimate of total culture services.

19 A methodology similar to that used for services was used to extend exports of culture goods. Given the very strong currency appreciation in 2007, our estimates suggest that exports of culture goods declined sharply in 2007.

20 The \$7.3 billion excludes intergovernmental transfers, providing a better estimate of net spending. Current-dollar estimates of total government spending are available from Government Expenditure on Culture Tables available through Statistics Canada's CANSIM database. The estimates are available only on a fiscal-year basis up to 2003–04. Government spending on culture provided in Table 4 is in real terms and is converted to a calendar-year basis for consistency with other indicators. Spending was projected to 2007 utilizing other measures of government spending that are available up to 2007.

and services, owing to an improved fiscal situation. Nonetheless, our estimates suggest that real government spending on culture as a share of GDP is below 1999 levels by roughly 0.3 percentage points.

While the projected \$7.9 billion in government spending on culture in 2007 is a substantive number, summing the total of household spending, government spending, and net trade of culture goods and services suggests that the total spending would be, at best, in the range of \$27 billion in 2007. This is significantly shy of the value-added industry measure that is estimated at \$46 billion. Statistics Canada does not reconcile the cultural accounts in the way that the accounts for total GDP on an expenditure and industry basis are reconciled. Consequently, we can only suggest that business spending on culture accounts for the balance or, the more likely explanation, that the survey data produced for some of the expenditure categories do not represent the full value of spending on culture.

## QUANTIFYING THE BROADER ECONOMIC IMPACTS OF CULTURE

In the preceding section, available data measuring the direct economic weight or value of the culture sector were presented. In this section, we present the results of utilizing macroeconomic models of the Canadian economy to quantify how culture industries affect the broader economy. The economic activity of culture has effects on other sectors of the economy by generating demand for goods and services from industries outside those directly involved in producing culture goods and services. Moreover, while wages in the broadly defined “arts, entertainment, and recreation industry” (which includes performing arts and heritage institutions) are low relative to wages in the manufacturing and services sectors, wages in the broadly defined “information and cultural industries” (which include written media, broadcasting, and film) are quite high relative to wages in the manufacturing and services sectors.<sup>21</sup> Since these “information and cultural industries” make up the largest portion of cultural GDP, culture industries, on net, tend to create jobs that lift

labour income and lead to other repercussions on the economy. A description of the methods for and results of measuring these and other factors, contributing to what we have defined as the economic footprint of culture, follows.

The model simulations suggest that Canada’s culture sector has a large economic footprint. On average, for every \$1 of real value-added GDP produced by Canada’s culture industries, roughly \$1.84 is added to overall real GDP. Employment is also lifted, with the culture sector and related impacts contributing to an estimated 1.1 million jobs in Canada in 2007. The economic impact on other key economic indicators is also discussed.

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**On average, for every \$1 of real value-added GDP produced by Canada’s culture industries, roughly \$1.84 is added to overall real GDP. Employment is also lifted.**

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## METHODOLOGY IN ESTIMATING THE ECONOMIC FOOTPRINT OF CULTURE

The economic footprint of culture is defined as the combined direct, indirect, and induced economic impacts, where the following definitions apply:

- ◆ **Direct impact** measures the value added to the economy by those firms directly producing culture goods and services. That was defined earlier at a total estimated value of \$46 billion in 2007 (in real 2002 dollars).
- ◆ **Indirect impact** measures the added value that the “direct impact firms” generate economically through their demand for intermediate inputs or other support services. For example, the industrial production of music CDs will require inputs from other industries, such as aluminum production. It may also require inputs that are imported, which would tend to mute the effect on the Canadian economy.
- ◆ **Induced impacts** are derived when employees of the aforementioned industries (both direct and indirect) spend their earnings and owners spend their profits. These purchases lead to more employment, wages, income, and tax revenues, and their impact can be felt across a wide range of industries.

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21 CANSIM Table 281-0036.

As such, increased demand for the products or services of a specific industry (or the collection of industries defining culture) will not only have direct impacts on the economy but will also spread through the economy via a series of multiplier effects. Indirect effects are first felt on demand for the products or services of industries that are direct suppliers. Second-round induced effects produce a widespread impact (albeit usually smaller) on all sectors of the economy, largely through a general increase in consumer spending. The overall economic multiplier is calculated as the sum of all value-added impacts (direct, indirect, and induced) divided by the direct impact of culture industries in Canada.

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**Increased demand for the collection of industries defining culture will not only have direct impacts on the economy but will also spread through the economy.**

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Given that culture industries are spread over a wide range of detailed industries, the analysis relied on the use of Statistics Canada's national model of Canada's industrial structure, in an effort to more accurately assess the indirect value-added impact on related industries. The Statistics Canada National Input-Output (I-O) model has the advantage of finely detailing the industrial structure within our economy as well as containing linkages for inputs that are imported. As such, the I-O model has the advantage of being able to assess, based on the 2004 structure of the Canadian economy, the total indirect effects of Canada's culture industries.

The industrial estimates of Canada's culture industries, realigned with the NAICS structure of the I-O model, were provided to Statistics Canada in order to simulate the model and produce industry-level results. Once Statistics Canada provided its assessment of direct and indirect impacts, the aggregate results were utilized to bring out additional induced effects. While the Conference Board's National Forecasting Model contains a more aggregate industrial sector, it has the benefit of assessing the impact of additional income, through changes in wages and profits, on a wide range of economic indicators. Moreover, the Conference Board's models allow for the analysis to be carried out over a time period, whereas Statistics Canada's

I-O model produces a point-in-time measure of the impact. The direct and indirect effects obtained from the I-O simulations were utilized as inputs in simulating the Conference Board's model of the national economy to produce the overall economic footprint of Canada's culture sector over the 2003 to 2007 period.

The methodology allowed for the calculation of economic multipliers—rules of thumb that link the direct value-added of culture industries to the broader economy—that, under not too stringent assumptions, remain relatively stable over time. The multiplier for indirect and direct impact obtained from the I-O model is presented in Table 5, as is the overall multiplier, generated using the Conference Board's model, which includes induced economic impacts.

### KEY ASSUMPTIONS

Some key points about the model simulations are worth mentioning. Although the methodology is similar to a typical economic impact analysis, measuring the economic footprint of culture in Canada is conceptually a much different exercise. In fact, we are not trying to compare a world in which there are no culture industries to one in which culture industries exist. Instead, the methodology is meant to allow us to assess the reality that exists today: the extent to which a wide range of culture industries flow through, and affect, our economy. Given this background, a number of assumptions were introduced in the model simulations. For example, prices, interest rates, and a few other key variables, which normally react to economic cycles, were not allowed to change during the model simulation. That allowed us to isolate the economic footprint of culture in the Canadian economy without having to worry about other “business cycle” impacts on the results.

### MODEL SIMULATION RESULTS

Table 5 presents, in the first column, the economic multiplier from the I-O simulation. The multiplier of 1.57 is calculated as the ratio of indirect and direct GDP to direct GDP. The I-O economic multiplier can be interpreted in the following way: For each \$1 of real GDP produced by culture sector industries, a \$1.57 increase in GDP results from direct and indirect economic effects. According to the I-O model simulations, about \$26 billion

in indirect GDP would be produced in addition to the direct GDP contribution of \$46 billion from culture industries in 2007. Interestingly, goods-producing sectors supply only about \$5 billion of the \$26 billion in indirect GDP (with manufacturing accounting for \$3.4 billion of this amount). As such, services sector industries produce the lion's share of indirect GDP, through increased output from a wide range of industries, with the largest impacts coming from information and culture industries; finance, insurance, real estate, and rental and leasing; and professional, scientific, and technical services.

In the table's second column, the GDP multiplier is lifted by including induced effects—the effects of higher wages and profits on overall consumer spending and other activities—as calculated utilizing the Conference

Board's national model. This multiplier, then, reflects the total direct, indirect, and induced effects of culture industries. As expected, the overall economic multiplier is augmented from 1.57 to 1.84. Table 6 displays the total economic impact, on an aggregate industry basis, simulated utilizing the Conference Board's national model. As expected, the economic footprint of the culture sector is much larger when accounting for indirect and induced effects. Overall, the real GDP impact is raised from \$46 billion in 2007 to \$84.6 billion, as suggested by the economic multiplier. That implies that culture and related industries affected about 7.4 per cent of total real GDP in Canada in 2007, a share that has remained relatively stable over the 2003 to 2007 period examined. Services sector industries are the most affected, with government services contributing an estimated \$14 billion and business and personal services industries (commercial services) contributing over \$55 billion, respectively 1 and 4.9 per cent of total GDP in 2007. As a result of the indirect and induced impacts, the footprint of culture industries also extends to the primary sector, the manufacturing sector, and the construction sector as direct impact firms purchase intermediate inputs from these sectors; employees of direct and indirect impact firms spend their earnings on goods and services that require inputs from these sectors; and owners of direct and indirect impact

**Table 5**  
Footprint of Culture in Canada

	Input-Output Model Multiplier	Overall Economic Multiplier
Economic multipliers	1.57	1.84

Sources: The Conference Board of Canada; Input-Output Division, Statistics Canada.

**Table 6**  
Economic Footprint of Canada's Culture Industries—Total GDP Impact by Industry  
(2002 \$ millions except where otherwise indicated)

	2003	2004	2005	2006	2007
Total cultural GDP	41,160	42,556	43,760	44,882	46,082
as a per cent of total GDP	3.8	3.8	3.8	3.8	3.8
Real GDP	77,057	77,785	79,859	82,881	84,651
as a per cent of total GDP	7.6	7.4	7.4	7.5	7.4
Primary sector	2,516	2,617	2,737	2,818	2,926
Manufacturing	8,316	8,494	8,782	9,222	9,275
Construction	1,533	1,841	2,096	2,319	2,505
Commercial services	50,057	50,605	52,237	54,237	55,409
Government services	14,635	14,228	14,006	14,285	14,535
Employment (000s)	1,049	1,057	1,074	1,102	1,123
as a per cent of total employment	7.2	7.1	7.1	7.2	7.1

Sources: The Conference Board of Canada; Statistics Canada.

firms spend their profits on goods and services that require inputs from these sectors. In 2007 the total impact of culture industries on these three sectors amounted to almost \$15 billion.

Economy-wide, employment is up by 1.1 million, a figure that represents 7.1 per cent of Canada's total employment in 2007.

In addition to the overall impact on GDP, the effect of increased economic activity plays itself out on a number of other key economic indicators. As described earlier, economic activity can be measured by adding up the value added across industries, or by measuring GDP on an expenditure or income basis. The Conference Board's economic model incorporates each of these accounting methods. Table 7 presents the economy-wide effect of culture industries on some expenditure and income components of the economy, also allowing us to infer the culture sector's footprint on overall government revenues. Stronger consumer spending has an impact on

sales tax revenues, largely responsible for the increase in federal-regional indirect tax revenues. Moreover, a lift to employment has an impact on labour income, adding to personal income tax revenue, while a rise in corporate profits yields an increase in corporate tax revenues. Overall, in current dollar terms, the impact of culture industries on the economy contributed nearly \$25 billion to federal and regional government coffers in 2007.

In summary, the culture sector is an important contributor to economic activity in Canada. Estimates suggest that culture industries produced roughly \$46 billion of real value-added GDP in 2007. However, after considering the effect of culture industries on other sectors of the economy—accounting for indirect and induced effects—it is clear that the overall impact is much larger. According to our estimates, the economic footprint of culture was valued at roughly \$84.6 billion in 2007—7.4 per cent of total real GDP. Moreover, the employment attributable to culture industries through direct, indirect, and induced impacts amounted to over 1.1 million people in 2007.

**Table 7**  
Economic Footprint of Canada's Culture Industries—Other Economic Indicators  
(\$ millions except where otherwise indicated)

	2003	2004	2005	2006	2007
Household spending (2002 \$ millions)	37,039	37,850	39,382	40,966	41,963
Household spending	37,904	39,448	41,742	44,170	46,209
Labour income	31,661	34,029	36,621	39,514	42,726
Corporate profits	44,268	46,891	43,007	47,584	39,942
<b>Government revenues</b>					
Federal-regional personal income taxes	3,419	3,993	4,593	5,202	5,868
Federal-regional corporate income taxes	7,611	7,777	7,043	7,801	6,485
Federal-regional indirect taxes	5,019	5,375	5,731	5,941	6,125
Other government revenues	5,309	5,467	5,772	6,042	6,402
<b>Total government revenues</b>	<b>21,358</b>	<b>22,612</b>	<b>23,139</b>	<b>24,985</b>	<b>24,881</b>

Sources: The Conference Board of Canada; Statistics Canada.

## CHAPTER 4

# Drivers of the Creative Economy

### Chapter Summary

- ◆ Seven key drivers of the creative economy are consumption dynamics, innovation, technology, talent, diversity, social capital and collaboration, and capital investment.
- ◆ Amid the plethora of user-generated content and the passion for co-creation, traditional producers of goods and services in the creative economy are finding new opportunities to profit from creativity by commoditizing the virtual neighbourhoods in which popular creative expression takes place.
- ◆ In the creative economy, individuals and teams are valued for their diversity of talent and innovative ideas.

This chapter identifies and describes the drivers of the creative economy, shows how they interact and combine with each other, and illustrates, with examples, new and emerging practices that contribute to the vibrancy of the creative economy and its power to shape competitiveness and growth in the broader economy.

The chapter focuses on seven key drivers of the creative economy:

1. Consumption dynamics
2. Innovation
3. Technology
4. Talent
5. Diversity
6. Social capital and collaboration
7. Capital investment

In addition, the creative economy is itself a driver of competitiveness and growth in the broader economy. The impacts of the creative economy emanate from the creative core and ripple through culture industries, and other creative industries, into the wider economy.<sup>1</sup>

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**Creativity springs from individuals and from the social interaction of individuals in groups.**

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The seven drivers listed above are ways by which we create the conditions necessary for creative individuals and teams to flourish, harness their talent, and commoditize their creative efforts. As we will show, creativity springs from individuals and from the social interaction of individuals in groups, and of groups with each other.

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<sup>1</sup> The Work Foundation, *Staying Ahead*, p. 4.

Creativity is involved in how people shape their lifestyles, form their identities, and express their sense of self and community. The story of the drivers of the creative economy builds on the narrative of how individuals and groups make meaning, share experiences, and express their orientation to themselves, to each other, and to the world.

## CONSUMPTION DYNAMICS

This section examines changing consumer dynamics, including the ways in which producers cater to demand and commoditize the experience: in other words, how they derive revenue from supplying goods and services to meet consumer demand. It also examines the phenomena of customization, user-generated content, emerging new platforms, and niche markets, and how they are moving the market from producer-centric to consumer-centric dynamics. The key message is that consumer behaviours are changing and that these changes are fuelled by the freeing of popular creativity made possible by new ICTs that allow users to create their own content, gain access to creative content produced by others, and co-create with them.

Behind the changing consumer demand is a consumer who is more articulate, more discerning, better educated, and richer than previous consumers, and who has higher expectations. This consumer highly values the experience of consumption both alone and with others. For example, Apple's iPod and video on demand are "supply responses" to demanding consumers, who seek to personalize their experience of consuming and contributing to creative content.<sup>2</sup>

### PRODUCER-CENTRIC DYNAMICS: THE ONE-WAY CULTURE MODEL

According to traditional marketing strategy in the creative economy (as elsewhere), producers, and those involved in the value chain connecting producers with consumers, have a dual focus. On the one hand, they feed known demand, based on consumption patterns. On the other hand, they attempt to stimulate new demand for goods and services that were not formerly available or were not available in new formats now on offer. In this model,

producers see themselves as protecting their market share by satisfying existing consumer demands in new and better ways, and increasing their market share by stimulating new consumer "wants" and whetting the appetite of consumers for new categories of goods and services.

Much of the success of traditional marketing strategy was due to advertisers who were able to anticipate new desires, stimulate appetites, and satisfy the public's preferences. While the focus was always on the consumer, the approach was "top down" and had more to do with influencing consumers directly than accepting feedback or listening to echoes from the market. Producers and others in the value chain leading to the consumer focused on "pushing product" with sophisticated advertising campaigns.

### CONSUMER-CENTRIC DYNAMICS: THE TWO-WAY CULTURE OF THE DIGITAL AGE

The digital age has revolutionized the dynamics of production and consumption, nowhere more dramatically than in the creative economy. Consumer behaviour now drives the behaviour of producers and others in the value chain involved in commoditizing goods and services. Consumers of creative content are no longer passive recipients of content that others deem fit to provide to them. Instead, consumers are active participants in the creation of content—they are true co-creators in the value chain. The signals consumers send to producers are as important as the messages conveyed by producers and their partners to the market, perhaps even more important. Consumption dynamics are an integral part of a new two-way culture, whereby the behaviour of consumers influences the actions of producers in real time. Consumers are actively creating and articulating their own demands and their own content.

Perhaps the most succinct formulation of consumer demand comes from PricewaterhouseCoopers, which characterizes the activities of the digital consumer as "ubiquitous participation," where *ubiquitous* means "everywhere, anytime, omnipresent, unrestricted, flexible" and where *participation* signifies "connecting, imagining, inventing, collaborating, contributing, managing, marketing, selling, locating, entertaining, exploring, purchasing,

2 Ibid., p. 17.

supplying, paying, investing.”<sup>3</sup> In a certain way, advances in technology from analog to digital have not only helped create an environment that supports ubiquitous participation; in a very real sense, consumer demand has also driven the digital revolution. Early subscribers to cable television and pay-TV when these were introduced into Canada in the 1960s and 1983, respectively, were demonstrating their appetite for creative content more reflective of their tastes and interests.<sup>4</sup> Subsequent technological advances have shown just how hungry consumers really are for creative content that mirrors their experience and indeed helps them to express it.

### CONSEQUENCES OF CHANGING CONSUMER DYNAMICS FOR PRODUCERS

Amid the plethora of user-generated content and passion for co-creation, traditional producers of goods and services in the creative economy are finding new opportunities to make money out of creativity by commoditizing the virtual neighbourhoods in which popular creative expression takes place and even by commoditizing aspects of the creative experience itself. For example, corporations such as Wendy’s International, Nike, and Honda Motor Company have started to create their own social networks on MySpace.com. Their objective in posting personalized corporate profiles is to attract “friends” in the hope of cultivating a community of potential customers. Such profiles are meant to attract Internet users in much the same way as other popular personal profiles do. Participants from communities of interest share stories, likes and dislikes, and preferences for goods and services, which turns them into personal marketing agents for goods and services that firms are in the business of selling.

It is interesting to note that when corporations develop an Internet presence on the same model as individuals, they position themselves as creative peers with whom individual consumers can build bonds of attachment and loyalty. Individuals may be attracted to the creative expression associated with a firm’s web presence or persona. They may like the “look and feel” of the company’s virtual

image, quite apart from the goods and services the firm produces and offers for sale. Individuals may also identify with the messages a firm communicates, (such as a commitment to “being the best” or to “reducing, reusing, and recycling.”) Fans might then interact with each other online about the products and services they have purchased, their experience of owning a product being intensified by “chatting” and sharing with others with whom they have ownership of the product in common.

In reaching out to potential consumers, firms seek to assert their own creative presence in the virtual marketplace—a form of user content creation—and tap the creativity of potential consumers to co-create a brand with them and generate sales. In other words, such firms are working with the potential for creativity offered by the Internet.

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**When corporations develop an Internet presence on the same model as individuals, they position themselves as creative peers with whom individual consumers can build bonds of attachment and loyalty.**

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For example, Russell T. Davies and Julie Gardner, executive producers of BBC Wales’ *Doctor Who*, its sister series *Torchwood* and *The Sarah Jane Adventures*, “plus the myriad online and interactive incarnations,”<sup>5</sup> have strongly capitalized on the consumer as co-creator theme. They recognized that their remake of *Doctor Who* gave them an unprecedented opportunity to tap into the creativity of *Doctor Who* followers, who are not only loyal followers of the television series, but also *Doctor Who* gamers and word-of-mouth and Internet-based social network marketers of the *Doctor Who* suite of products.

Similarly, Terry McBride, CEO of the Canadian-based Nettwerk Music Group, whose client roster includes Avril Lavigne, Sarah McLachlan, and the Barenaked Ladies, has made a deliberate effort to use digital technologies to experiment with new ways of commoditizing the music experience. By taking advantage of peer-to-peer networks, the iPod, and digital technologies, McBride focuses on making money through multiple revenue channels that

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3 PricewaterhouseCoopers, *Global Entertainment and Media Outlook: 2007–2011*, Slide 23.

4 Ogrodnik, *Patterns in Culture Consumption and Participation*, p. 40; cf. p. 88.

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5 The Work Foundation, *Staying Ahead*, p. 11.

leave copyright with the bands and cater to fans and firms hungry for ring tones, concert tickets, and licensing agreements with TV shows and video games. McBride recognized that giving away the ProTool vocals, guitars, drums, and bass files for a new album by the Barenaked Ladies on MySpace to allow fans to make their own mixes was actually a way of increasing rather than undercutting revenues. McBride converted the band's 29 new songs into more than 200 musical assets—including a CD, four different digital versions, a 14-track collection for Starbucks in Canada, ring tones, acoustic versions, concert recordings, and a selection of 45 assets on a USB drive—that can be used by listeners on their own or in conjunction with others to create products.<sup>6</sup>

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**Creative production and consumption allow creative producers and consumers to recognize elements of shared experience.**

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The central message here is that producers and consumers co-drive the creative economy. Creative production and consumption allow creative producers and consumers to recognize elements of shared experience and spark off each other in a creative and responsive cycle of demand and supply. In the process, creative producers and consumers take on aspects of a shared identity—brand attractiveness from the point of view of the creative producer and brand relevance from the perspective of the creative consumer.

## INNOVATION

The Conference Board of Canada argues that “innovation involves more than the creation and diffusion of new ideas. It also embraces the transformation of ideas, and their use as new value-added products and services in the marketplace.”<sup>7</sup> In this section we address the process through which creative ideas are commercialized to produce economic value.

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6 Howe, “No Suit Required.”

7 The Conference Board of Canada, *5<sup>th</sup> Annual Innovation Report*, p. 5.

In the context of the creative economy, innovation requires the development of links between:

- ♦ content and technology;
- ♦ technology and creativity;
- ♦ creativity and business acumen; and
- ♦ production and consumption.

Creative people need to work closely with ICT specialists. Both need to be informed by consumer demand and both need to be able to grasp and implement business models that commoditize the creative results of their synergies and collaboration.<sup>8</sup> When creative people work with technology specialists in a business environment, they can “act as mediators at the interface of communication processes while at the same time being creators of new messages and movements with the ability to translate them into aesthetic forms” that can be commoditized.<sup>9</sup> It is not surprising that creative industries tend to be more innovative than industries in other sectors.<sup>10</sup>

The process of innovation involves “light-bulb moments, iteration and experimentation, rather than recourse to any codified body of knowledge.”<sup>11</sup> Innovation therefore requires high levels of creativity, skill, knowledge, collaboration, and application.

Building on the work of Richard Florida, Michael Porter, and Amartya Sen, Pier Luigi Sacco and his colleagues contend that innovation in the creative economy depends on the development and maintenance of what they have dubbed an *advanced cultural cluster*. These clusters are “characterized by an industrial atmosphere strongly oriented toward the production, absorption, consolidation, and dissemination of new thoughts and technologies” and involve cultural producers along with their business, education, and government partners. According to Sacco’s model, a culturally endowed city like Vancouver, known

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8 KEA European Affairs, *The Economy of Culture in Europe*, pp. 11, 39.

9 Wiesand and Söndermann, *The “Creative Sector,”* p. 14.

10 The 2005 UK Innovation Survey showed that about 70 per cent of creative businesses had been involved in some form of innovation over the period 2002–04, compared with about 55 per cent of businesses in other industries. See The Work Foundation, *Staying Ahead*, p. 35.

11 The Work Foundation, *Staying Ahead*, p. 20.

for its high quality of life, acts as a magnet for creative people and investment capital. When governments create a business environment favourable to research and development (R&D), when business-education-government partnerships support the development of entrepreneurial skills and local talent, and when players in the cluster network internally and externally, they increase their chances of innovating, including in the area of commercially viable creative products and services.<sup>12</sup>

Innovation—in the context of this chapter, the commercializing of creative value—is assisted by the concerted efforts of business, education, and government to turn cities into magnets for creative workers and investment capital. While the ICTs essential to commercializing creative content “shorten” the distance between people globally, some argue that innovation tends to require creative people, technology specialists, and business investors working in physical proximity to each other to maximize synergies and collaboration. At the same time, other analysts emphasize that “digital communities and peer production are important drivers of the innovation process,” which puts the onus on creative businesses to “embrace . . . new ways of managing reciprocal relationships.”<sup>13</sup>

## TECHNOLOGY

Technology is revolutionizing the creative economy. The Internet and ICTs are embedded in the creative economy and have enhanced the “creative production process, enabling new content distribution channels, as well as changing how and where the content is used by the consumer.”<sup>14</sup> Probably the most far-reaching integration of technology with the creative economy is the diffusion of Web 2.0, a range of online services that have facilitated the rise of user-generated content, enabled file sharing, and supported more intensive forms of social networking and participatory forms of content

co-creation. The uptake of Web 2.0 services has been made possible by increasing rates of connectivity (access to the Internet) and the widespread availability of broadband, which facilitates faster Internet connections.

But Web 2.0 is not simply a technology story. Web 2.0 services reflect the growing demand on the part of consumers to generate their own creative content and network with their peers—which more often than not involves the sharing of digital files—and their appetite to manipulate existing creative content and co-create new creative assets. In other words, Web 2.0 services are not neutral facilitators of interaction; they are responses to a popular need to express creativity and are actually fuelling the growth of user-created content.

In the context of the creative economy, the role of technology is changing—at the behest of creative users—from providing a vehicle for delivering creative content from producer to waiting consumers, to serving as a tool for authoring, co-creating, and sharing creative content on a peer-to-peer basis.

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**Web 2.0 services are not neutral facilitators of interaction; they are responses to a need to express creativity.**

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In the creative economy, the relationship between technology and creative goods and services is reciprocal and synergistic. On the strength of its iPod device, for example, Apple has commoditized music and movies in the form of iTunes.<sup>15</sup> But the Apple experience also shows that consumer demand for creative content determines the value of the software platform on which creative content rides, and the availability of high-quality creative content is what drives demand for hardware.<sup>16</sup>

PricewaterhouseCoopers forecasts that nearly half of all entertainment and media (E&M) growth over the next five years will be generated through online and wireless technologies. Demonstrating their appetite for

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12 Sacco et al., *The Power of the Arts in Vancouver*, p. 15; cf. pp. 24–27.

13 The Work Foundation, *Staying Ahead*, p. 43.

14 Department for Culture, Media and Sport, *Creative Economy Programme Technology Working Group—Final Report*, p. 1.

15 See [www.apple.com/itunes/](http://www.apple.com/itunes/).

16 KEA European Affairs, *The Economy of Culture in Europe*, p. 139.

user-generated content, consumers are migrating to convergent platforms (the convergence of the home computer, wireless handsets, and television) that enable them to create and share their own content and co-create digital assets with others, as well as participate in online gaming and take advantage of video on demand. PricewaterhouseCoopers estimates that consumer spending on convergent platforms will account for 72 per cent of total E&M spending growth after 2008. Digital distribution over convergent platforms and consumer use of Web 2.0 services are driving Internet advertising and access spending, which is forecast to grow by 12.2 per cent between 2007 and 2011.<sup>17</sup>

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**To contribute productively in the creative economy, workers require a mix of industry-specific skills.**

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The integration of the creative industry with technology is pitting the Internet against TV in a battle for revenues. A key issue is who will be more successful in monetizing the so-called long tail of specialty programming. Will it be traditional TV broadcasting, or will it be Internet content aggregators such as Babelgum, Joost, and ZIM, which replicate the traditional TV experience online or via mobile wireless devices? The key to capitalizing on the long tail lies in providing navigation and search functionality that not only “helps viewers find what they are looking for, but also helps advertisers target directly those consumers they are looking for.” Aggregators also have an opportunity to become “taste-makers—selecting content which exists, or commissioning new content, organizing it with other content in a way which appeals to viewers.”<sup>18</sup>

The real strength of technology lies in its power to connect:

- ◆ producers with consumers;
- ◆ like-hearted people, who share, co-create, and feed each other’s appetite for creative content;
- ◆ people with creative content, helping to release their own creative expression; and
- ◆ advertisers with consumers.

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<sup>17</sup> PricewaterhouseCoopers, *Global Entertainment and Media Outlook: 2007–2011*, slides 5, 13, 17, 24, 26, 30.

<sup>18</sup> Nordicity Group, *Banff Green Paper 2007*, p. 20.

Technology drives the creative economy by facilitating these connections, enhancing the experience of those who are thus connected, and stimulating demand and supply responses that feed the cycle of creative production and consumption.

It is not technology alone that triggers demand for creative content; it is also the interplay between creative consumers and—especially—Web 2.0 services providers that brings new creative demand to the surface and new opportunities for creative supply responses to meet that demand.

## TALENT

Talent is an indispensable driver of the creative economy. Skilled and knowledgeable creative people are essential to producing creative content, developing and deploying engaging delivery platforms, judging consumer demand, and designing creative responses to that demand. The creative economy, like any other segment of the economy, depends on a high-quality supply of talented people, sufficient quantities of workers with the right skill-sets, and efficient mechanisms for facilitating the flow of skilled workers into productive employment.

This section focuses on the skills and knowledge—especially the new knowledge competencies—necessary to spin creative ideas into commercial products and services. It also examines the need for multi-skilling and cross-disciplinary practices required to fuel the creative economy. Finally, it addresses the education and training necessary to develop talent for the creative economy.

## SKILLS AND KNOWLEDGE

To contribute productively in the creative economy, workers require a mix of industry-specific skills—particularly artistic skills and competencies related to the use and adaptation of ICTs, and knowledge of how to commercialize creative ideas—and business acumen and know-how, including management and entrepreneurial skills; marketing, budgeting, and financial planning knowledge; and awareness of investment opportunities.

They also require a range of “soft skills which allow tacit knowledge to be exchanged and developed.”<sup>19</sup> The Work Foundation characterizes these soft skills as “sophisticated cognitive and interpersonal skills” and argues that the creative economy places a premium on what it describes as “expert thinking . . . in which judgement is needed, often against a background of considerable ambiguity.” The creative economy also depends on “complex communication,” which goes well beyond the capacity to “elicit and transmit information” to include the ability to “convey a particular interpretation of information or use it to persuade others (e.g., teaching, selling, managing and negotiation.” Creative firms distinguish themselves from their competitors by their employees’ “expert capacity to solve problems and communicate complex ideas.”<sup>20</sup>

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**The Cultural Human Resources Council notes that employers across its sector face challenges “[f]inding workers with cross-over skills, particularly a combination of artistic or technical and ‘soft’ skills.”**

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In creative firms, the requirement to demonstrate these skills proficiently is not limited to those involved in R&D or marketing. These skills are required across the workforce, since employees are no longer called upon merely to “apply information in a mechanical sequence, but are also invited to participate, experiment and offer suggestions about how to improve the production process, and management is expected to build feedback back into that—a powerful driver of learning by doing and incremental innovation.”<sup>21</sup>

### **MULTI-SKILLING AND CROSS-DISCIPLINARY PRACTICES**

Firms in the creative economy need to be able to combine talents that run the gamut from creativity through technology to business. In practice this means “mixing creative and business disciplines, developing boundary-crossing collaborations (e.g., between technologists and content

providers, or scientists and artists), and capitalizing on the uncommon ground of core general education and industry-specific skills needs.”<sup>22</sup> With cross-disciplinary collaboration comes the need for cross-disciplinary skills, such as “adaptability, problem solving, openness to collaboration, interpersonal skills . . . [and] leadership abilities.”<sup>23</sup>

The following profile of perceived skill gaps of workers employed in the Canadian screen-based media reveals the extent of multi-skilling expected in the creative economy. It also highlights the challenge in finding individuals or firms who can combine the diverse skill-sets needed to thrive in creative businesses. The desired skills include:

- ◆ business skills, including management, financial, legal, and marketing skills (e.g., executive production, management, production, venture financing, sales, and marketing);
- ◆ information-related skills (e.g., archiving, information retrieval, management, teaching, and research skills);
- ◆ generic skills and attributes (e.g., perseverance, adaptability, and communication, teamwork, interpersonal, thinking, problem-solving, leadership, and continuous learning skills);
- ◆ creative skills (e.g., graphic modelling, animation, interface design, graphic design, scriptwriting, and storyboarding); and
- ◆ computer skills (e.g., computer programming, interactive design, games development, and website design).<sup>24</sup>

Although screen-based media are but one segment of the Canadian creative economy, other segments have similar skill requirements and workers in these sectors face similar skill gaps. The Cultural Human Resources Council notes that employers across its sector face challenges “[f]inding workers with cross-over skills, particularly a combination of artistic or technical and ‘soft’ skills.” Moreover, employers in creative businesses increasingly require their employees to have “multi-disciplinary competencies,” including career management skills and

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19 The Work Foundation, *Staying Ahead*, p. 23; cf. p. 136. See also Fleming, *A Creative Economy Green Paper*.

20 The Work Foundation, *Staying Ahead*, pp. 68, 69, 129; cf. p. 37.

21 *Ibid.*, p. 80.

22 Fleming, *A Creative Economy Green Paper*.

23 The Work Foundation, *Staying Ahead*, p. 137.

24 Extracted from Ekos Research Associates Inc. et al., *Frame Work*, Table 9.9, p. 163.

export marketing savvy, along with “new competencies in new technologies” and “new personal competencies.” Competencies in new technologies include “practical knowledge” of working in computerized office environments and experience in working with digital interactive media directly linked to creating and distributing goods and services.<sup>25</sup>

Cross-disciplinary collaboration is a hallmark of the creative process. The Work Foundation observes that the process of creation “tends to be intuitive, iterative” and based on trial and error. It is, moreover, “largely sui generis to individuals, teams, networks and organizations,” so that when teams are broken up the “creative knowledge they generate can quickly be dissipated.”<sup>26</sup>

### EDUCATION AND TRAINING

To ensure the vibrancy of the creative economy, educational institutions need to work at unlocking students’ creativity. As jurisdictions maintain their dual focus on knowledge acquisition and the achievement of skill-based learning outcomes, they must strive to ensure that creativity is not lost in the “cognitive shuffle.”

Employers also have a role in encouraging employee creativity in the workplace and can play an important role in tapping into the creative talents of their workforce. Employers can be instrumental in creating environments where ideas can be discussed before actions are taken, where feedback can be given and received, and where reforming project teams can bring forth the creative assets of the workforce.

Educational institutions alone cannot remedy skill shortages reported by employers. In his foreword to the U.K.’s First Skills Strategy, Prime Minister Tony Blair stated that increased productivity, competitiveness, and growth can only be achieved if employers’ and employees’ “ambition in the demand for skills” is raised so that they are both inclined to make the necessary investments in training and learning in the workplace and in partnership with education.<sup>27</sup>

Firms in the creative economy face several challenges relating to gaps in perception among employers, employees, and educational institutions with respect to:

- ♦ competencies that new media content creators would like to develop;
- ♦ competencies that are in greatest demand (and perceived short supply) by employers;
- ♦ the way these competencies should be developed; and
- ♦ the priority employers and employees place on training to support competency development.

According to a 2004 survey by Delvinia, when it comes to researching or exploring ideas, 46 per cent of content creators feel they lack or would like to develop this competency. At the same time, 33 per cent of employers indicated that this is an area where they are experiencing the greatest competency shortages. Moreover, 46 per cent of employers indicated that new hires with formal education do not meet their expectations relative to researching and exploring ideas, despite the fact that 90 per cent of post-secondary institutions feel that this competency is best acquired through formal education. Yet only 36 per cent of employers are likely to offer on-the-job training to develop this skill. Strikingly, both content creators and their employers feel that self-education, rather than formal education or on-the-job training, is the best way to develop this quintessentially creative competency.<sup>28</sup>

25 Mercadex International Inc., *Face of the Future*, pp. 10, 14, 15, 16. See also T.J. Cheney Research, *Building on Success*, p. 21. Comparable skill gaps are reported in (a) Lowenbe Holdings, *Fast Forward: Recommendations*, pp. 13, 43; (b) Groupe Réseau Conseil, *Survey of Training Offerings and Assessment of Training Needs for Artist Managers in the Music Industry*, p. 20; (c) kisquared, *Stage Technicians*, p. 56; (d) Ekos Research Associates, *New Media Freelance Content Creators*, pp. 27, 33; Groupe Réseau Conseil, *Training Offerings Survey and Training Needs Assessment for Cultural Mentors*, pp. 22, 23; (e) Ekos Research Associates et al., *Frame Work*, p. 161 and Table 4.14, p. 48 and Table 5.9, p. 75, where employers report recent graduates not having the “right attitude”; and (f) Hill Strategies Research, *Training Gap Analysis of Documentary Filmmakers*, pp. 9, 21, 26.

26 The Work Foundation, *Staying Ahead*, p. 102.

27 *21<sup>st</sup> Century Skills: Realising Our Potential*, Skills White Paper, July 2003. Cited in Department for Culture, Media and Sport, *Creative Economy Programme Education and Skills Working Group*, Appendix 1, p. 45.

28 Delvinia Interactive, *New Media Content Creators*, pp. 21, 22, 24, 27, 35, 45, 59.

What this tells us is that employers need to talk more with post-secondary institutions about how the latter can enhance their programming to improve student outcomes with respect to researching and exploring ideas. Without this dialogue, and without employer attention to on-the-job training, a key driver of the creative economy could be weakened, threatening the competitiveness and growth of creative firms.<sup>29</sup>

## DIVERSITY

Diversity is a very powerful driver of the creative economy. In this context, diversity encompasses traditional categories such as ethnicity, gender, age, and religion, which distinguish people individually and in groups. As immigration changes the face of Canada, respecting cultural diversity and welcoming people from diverse backgrounds into our communities and workplaces are not only marks of our hospitality. They are also indicators of how successful we will be in attracting creative talent and investment to Canada, and how competitive we will be in marketing our creativity and innovation to the world.

## CULTURAL DIVERSITY

The creative economy has the potential to strengthen Canada's cultural fabric, contribute to the vibrancy of our cities, make us more cosmopolitan, attract more creative people and inbound investment, and help to define our brand in the global market.

The stories we believe about ourselves are strongly rooted in our passions, specifically in our hopes and fears. Creative goods and services speak directly to our identity, to our sense of belonging, and to our expectation that we can make a difference. Often that can mean making ourselves known to others, getting to know them in turn, and forming bonds and relationships that carry us forward into a future that we help to shape. As such, creative goods and services are a way of projecting our stories onto the world.

The modern creative economy is characterized by a demand for diverse products delivered through diverse channels to diverse markets to meet diverse client needs. A potentially great competitive advantage for increasingly cosmopolitan countries such as Canada is tapping into the creative talents of equity groups, including immigrants, Aboriginal people, women, persons with disabilities, and mature workers, and, at the same time, catering to the needs they bring to the creative marketplace. Canada's screen-based media industry, for example, has an enormous opportunity to diversify its workforce, become more inclusive, and be more reflective of the communities it serves and more responsive to their need to identify with characters who are portrayed in creative broadcast works.<sup>30</sup>

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**Social networking demonstrates the power of creative goods and services to draw people together, stimulate commercial activity, and generally get people “involved” with family, neighbours, friends, and strangers.**

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Canada's cities and communities have their own distinctive identities, which they are consciously working to develop and project to attract creative and skilled people and business investment, so it makes sense that our country's screen-based media industry would want to reflect our various city and community identities in creative ways, employing local talent and filming in regional settings.<sup>31</sup>

Participating in the creative economy—whether as a producer, distributor, prosumer, co-creator, or in any other capacity—affirms individuality and the connections that people make with each other based on shared experience or common purpose. The experience of social networking on the Internet demonstrates the power of creative goods and services to draw people together, stimulate commercial activity, and generally get people “involved” with family, neighbours, friends, and strangers.

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29 Ibid.

30 Ekos Research Associates et al., *Frame Work*, pp. xi, xiv, xv–xvii. See also Lowenbe Holdings, *Fast Forward*, p. 50.

31 Department for Culture, Media and Sport, *Creative Economy Programme Infrastructure Working Group—Final Report*, p. 14.

## COGNITIVE DIVERSITY

In the creative economy, individuals and teams are valued for the diversity they bring individually and collectively to the projects they work on. Creative firms are valued in the marketplace for their *distinctive* goods and services, which are characterized by a *diversity* of expression, a *uniqueness* in the way they are delivered to the market, and their ability to resonate with *different* segments of the marketplace.

In the creative economy, diversity can also refer to the mix of skill sets required to ensure a successful creative collaboration, one that taps the talents of creative individuals and teams, leverages the power of technologies, and commoditizes the creative experience to ensure that creative people are rewarded for their efforts and encouraged to bring forth new works to a waiting and demanding public.

In terms of skills, creative people are expected to demonstrate diversity within their own range of abilities. For example, in the advertising industry, creative individuals are valued for their power of *diagonal thinking*—in other words, firms value people who can shift quickly and easily “between linear and lateral thought processes, people who think creatively but commercially.”<sup>32</sup>

The diversity that individuals and teams bring to the table and the diversity they co-create has been described as *cognitive diversity*, which refers to the “capacity of different sets of knowledge when interacting to produce better decisions and outcomes.”<sup>33</sup>

Such innovations would not be possible if firms or creative entrepreneurs were not open to diversity, comfortable with ambiguity, and patient with change. In the creative economy, creativity involves *purposive* trial and error—even tinkering—by one or many people. Moreover, while creative teams may rely on the genius of some people at different stages of the creative process, it may well be the *unintended* result of many working together that proves to

be the commercial “hit.” The Work Foundation observes that commercial success often results from the creative tension between “exploiting old ideas that have proven technologies and ready payoffs, and exploring new possibilities that are risky but can reap large, long-term benefits.”<sup>34</sup>

The real power of diversity as a driver of the creative economy is that giving public creative expression to diverse voices not only enables different viewpoints to be heard—and responds to a deep-seated need that all people have to express themselves, to communicate, to be noticed, to be recognized, to be heard, and generally to be creative in their own right—but it also provides an opportunity for people to connect with others. That, in turn, drives demand for more diverse content and deepens relationships along personal, professional, cultural, geographical, or consumer lines. When people associate online to share, create, or co-create, savvy advertisers, marketers, distributors, and producers of commercial creative content can “listen in” or observe carefully to understand how their initial creations are seen and used by consumers and to develop fresh content or commoditize the experience of consumption in innovative ways.

## SOCIAL CAPITAL AND COLLABORATION

Social capital and collaboration, like many of the concepts we have been discussing in this chapter, are products of the creative economy and drivers of it. Social capital is created in the collaboration of diverse creative teams, in the interaction between individuals from different firms, and in the relationships that are built when consumers of creative content connect with each other and strengthen their bonds with each other based on their shared participation in a creative experience. Social capital and collaboration are factors in the organic growth of creative firms, in their ability to partner and integrate themselves in supply chains, and in their responsiveness to consumer demand.

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32 Director General of the Institute of Practitioners in Advertising, quoted in The Work Foundation, *Staying Ahead*, p. 137.

33 The Work Foundation, *Staying Ahead*, p. 138.

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34 *Ibid.*, p. 141.

Peer-to-peer interaction is not only a driver of demand, but it is also in the Web. 2.0 world critical input for new creative supply responses on the part of creative firms. The act of recommending a creative product or encouraging others to participate in a potentially “commoditize-able” creative experience can profitably be seen as the last step in one phase of co-production or the first step in another.<sup>35</sup>

### OPEN SOURCE SOFTWARE AND CROWDSOURCING

Open source software and crowdsourcing are special cases of collaboration, and their popularity and commercial prospects are on the rise. Examples of open source software co-design are Mozilla’s Firefox and Electronic Arts’ “The Sims.” “The Sims” is an online computer game that features simulated people or avatars created by the game’s users. One estimate is that 90 per cent of the online content on “The Sims” is created by users.<sup>36</sup> Firefox is a “next-generation Web browser” that actively encourages its users to co-develop the product.<sup>37</sup>

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#### The Web is increasingly a vehicle that facilitates collaboration and the accumulation of social capital.

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*Crowdsourcing* refers to a form of peer collaboration in which a business tenders problem-solving and service provision work to the general public via the Internet based on the “presumption that a large number of enthusiasts can outperform a small group of experienced professionals.”<sup>38</sup> The Work Foundation cites an example of the effectiveness of crowdsourcing as a technique for solving scientific problems that stumped experts at the firm level. In the study they describe, 166 problems were “disclosed on the InnoCentre website to over 80,000 independent scientists in over 150 countries.” This resulted in a 29.5 per cent resolution rate.<sup>39</sup>

To summarize, the Internet provides a vehicle that allows producers and consumers to interact in real time to co-produce and collaborate on problem-solving and service provision issues that enrich the creative consumer’s experience of the product, build consumer engagement and loyalty, and tap into the rich creative reserves of consumers as part of the creative process. Through their collaborative efforts, social capital is built up among members of creative teams, among partners who collaborate on a business-to-business level, between creative producers and their consumers, and among social networks of creative consumers themselves. The World Wide Web is increasingly a vehicle that facilitates collaboration and the accumulation of social capital through the web of interrelationships that creative people form.

### CAPITAL INVESTMENT

Capital investment is also a key driver of the creative economy. Here, we focus on issues relating to the capacity of creative firms to compete and grow—especially in the context of the Web 2.0 universe, where anyone who would make money in conjunction with a creative endeavour must be just as innovative about developing business models that “fly” as they are about developing, producing, distributing, marketing, and advertising creative content.

The U.K.-based Work Foundation observes that investing in creative firms tends to carry with it a great deal of uncertainty because artists themselves—not to mention those who might be interested in bankrolling their activities—cannot be sure whether their creative output will be appealing to potential consumers. But risk is not only inherent in the creative products themselves. Angel investors<sup>40</sup> and venture capitalists<sup>41</sup> may not be satisfied with the business acumen of creative firms, which may require them to invest in non-financial ways, such as business mentoring. Nevertheless, in the U.K. there does not seem

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35 Ibid., p. 99. See also Fleming, *A Creative Economy Green Paper*.

36 Department for Culture, Media and Sport, *Creative Economy Programme Diversity Working Group—Final Report*. See also the official websites for “The Sims”: <http://thesims.ea.com/> and <http://thesims2.ea.com/>.

37 See [www.mozilla.org/products/](http://www.mozilla.org/products/).

38 See <http://crowdsourcing.typepad.com>.

39 The Work Foundation, *Staying Ahead*, p. 140.

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40 Angel investors (known as business angels in Europe) are affluent individuals who provide capital for start-up businesses, usually in exchange for convertible debt or ownership equity.

41 Venture capitalists (VCs) invest private equity capital, typically in new, growth businesses. VCs generally offer cash in exchange for shares in the company they invest in. However, VCs can also offer managerial and technical expertise in exchange for a say in company decisions.

to be a shortage of equity investors. The Work Foundation estimates that there are 3,885 business angels involved in financing the activities of creative firms through a variety of networks. Business angels are known for bringing hands-on business management skills and mentoring support to creative firms. Firms that do not tap into *equity* investment must rely on *debt* financing, which tends to contribute to the precariousness of their existence in the creative economy.

While there is some evidence that access to funding for industries such as the creative industries with large numbers of small and medium-sized enterprises may be particularly tight during downturns in the economy, a more endemic issue is the capacity of creative firms to develop and implement business strategies that involve raising finances and commoditizing their creative offers. This issue relates as much to the attitude of the principals in creative firms as it does to the skill sets they bring to their creative enterprises and to their knowledge of matters related to intellectual property rights.

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**Radiohead's strategy is to appeal to their fans and their appetite for downloading, trusting that loyalty and direct appeal are sufficiently pragmatic bases for commoditizing their audience's experience.**

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Consider, for example, the innovative business model of the Oxfordshire, U.K., alternative rock band Radiohead. In 2007, Radiohead left their EMI record label and released their seventh album *In Rainbows* through their own website as a digital download that customers were encouraged to pay for by selecting their own price. *In Rainbows* had apparently been downloaded on these flexible terms 1.2 million times by the day of the physical album's release. Radiohead's lead singer, Thom Yorke, is reported to have claimed that the band's profits from the digital download of *In Rainbows* exceeded the combined profits of digital downloads from their previous six albums.<sup>42</sup>

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42 See <http://en.wikipedia.org/wiki/Radiohead>.

Radiohead's strategy is to appeal directly to their fans and their appetite for downloading, trusting that loyalty and direct appeal are sufficiently pragmatic bases for commoditizing their audience's experience. That might seem to be a particularly risky business model, but it does leverage the social networking and social capital building capacity of the Internet, which is something that advertisers are increasingly doing.

## CONCLUSION

While we have reviewed as part of our analysis the roles played by consumption dynamics, technology, innovation, talent, diversity, social capital and collaboration, and capital investment in driving the creative economy, a recurring theme of our discussion has been the psychological motors of creativity itself, whether within a creative individual, among members of a creative team, or between firms in creative value chains. Creativity is a critical manifestation of the human need to express oneself, to communicate, to be recognized, to make connections, to build relationships, and to seek fulfilment.

The Internet opens amazing vistas in which creative people can flourish. It presents enormous possibilities for creative firms or entrepreneurs seeking to commoditize aspects of the creative experience so that they can "pay the bills"—compete and grow—and continue to invest their energies in personally rewarding and socially enriching creative activities.

Throughout our analysis of the *economic* drivers of the creative economy, we have consistently emphasized the *social* aspect of creativity. Creativity is a way of reflecting cultural diversity, building social cohesion, and generating social capital.

The economic and social impacts of creativity have the potential to help industries far beyond the creative sector to enhance their value proposition to consumers, move up the value chain, and compete on the quality of the experience they provide, rather than on the low cost of production, which is an area of diminishing returns

for advanced economies. Firms in every sector can learn lessons from the creative economy about commercializing creative value, just as creative firms can learn lessons about innovation from their cousins in industries that are not typically seen as creative, but that nevertheless innovate, often with impressive commercial results.

The central message of this chapter is that creativity is not the exclusive preserve of a creative few, but a popular domain that is daily demonstrating its potential to bring

producers and consumers of creative content closer together and stimulate unprecedented social networking. The power of this social networking has yet to be fully tapped, whether in the form of rejuvenating our democratic institutions, increasing the vibrancy of our cities and communities, or creating more stimulating work environments.

## CHAPTER 5

# Positioning Canada's Culture Sector in the Global Market

### Chapter Summary

- ◆ Canada is a relatively small market dispersed across a large geography. Therefore, the success of many culture products and services depends significantly on international trade.
- ◆ In recent years, Canada has experienced substantial new injections of foreign direct investment in our culture industries. For example, the France-based gaming company Ubisoft's new operations in Montréal involve an investment of \$454 million and the creation of up to 1,000 jobs by 2013.
- ◆ Canada has also recently experienced a rise in mergers and acquisitions in the culture sector, creating larger enterprises. Canada's telecommunications, broadcasting, and new media sectors are actively contributing to the mergers and acquisition growth trend.

rapidly growing. Growth of digital technologies and Internet use are significantly affecting consumer dynamics. At the same time, a steady and rapid increase in the number of international migrants in the developed world, as well as trade liberalization and the opening up of new markets, is affecting the international marketplace for culture goods and services. These drivers also affect national policies related to doing business in a global economy, including international trade agreements and other international conventions. These same drivers of the global creative economy create both challenges and opportunities for Canada's culture industries.

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**A steady and rapid increase in the number of international migrants in the developed world affects the international marketplace for culture goods and services.**

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Canada is a relatively small market dispersed across a large geography. Therefore, the success of many culture products and services depends significantly on international trade. Additionally, Statistics Canada notes that "domestic production is fragmented by the need for two parallel infrastructures in most culture industries to accommodate two distinct language markets—French and English."<sup>1</sup> As immigration increases, demands for multilingual culture products and services are also increasing, further fragmenting the Canadian market.

### THE GLOBAL COMPETITIVENESS OF CANADA'S CULTURE INDUSTRIES: KEY ISSUES

This chapter focuses on the performance of Canada's culture sector in the global culture economy. Like other developed nations around the world, Canada participates in a global market in which economic interconnectivity and interdependencies are

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<sup>1</sup> Statistics Canada, *Canadian Culture in Perspective*, p. 99.

Developed nations are particularly desirable markets for cultural trade and investment activity. Trade activity has increased substantially in recent decades and has the potential to grow further. Potential capacity to absorb cultural products and services is growing, but there are challenges in penetrating international markets due to intensifying competition and the rising Canadian dollar.

Developed nations are important sources of foreign direct investment in Canada's culture sector. Foreign direct investment (FDI) has increased in recent decades among advanced nations; today it is critical for continued business growth and international competitiveness. A current example of FDI being attracted into Canada relates to investments in the video gaming industry. The culture sector also helps to attract talent and investment in other sectors of the economy by contributing to the attractiveness of Canadian cities and communities.

Central to the discussion of international trade and investment relating to culture goods and services is the issue of national cultural identity. International trade and investment, and more broadly economic globalization, are sometimes perceived as potential risks to the survival of cultural diversity. As a result, concerns arise with respect to ownership of cultural enterprises and the protection of cultural diversity.

Such concerns centre on the capacity of large multinational corporations to exert control over markets and, in effect, create a relatively homogeneous mass culture, thereby eroding indigenous cultural values and threatening the viability of locally produced products and the livelihoods of those who make them.

Others argue that international trade of culture goods and services contributes to multiculturalism and broader consumer choices. It serves to enhance understanding of diverse cultures and builds greater awareness of Canada's cultural milieu. Further, it provides an opportunity to promote Canada's distinctive cultural brand. The good news story for Canada's creative economy in the global market is that distinctiveness sells. For example, Canada produces distinctively Anglo-Canadian film and television productions, distinctively Franco-Canadian film

and television productions, and third-language productions. Each of them can reach out to markets that share one or more of the languages in which the productions are created, while conveying a uniquely Canadian experience that transcends the common language.

International agreements are also an important element affecting global competitiveness. The North American Free Trade Agreement (NAFTA), for example, sets out rules governing trade, investment, and intellectual property rights between Canada, the United States, and Mexico. Culture industries are exempted from the provisions of NAFTA. After NAFTA, and in all bilateral trade agreements, Canada's approach in the World Trade Organization has been to maintain domestic policy flexibility by not taking on new obligations that affect the culture sector.

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### **The good news story for Canada's creative economy in the global market is that distinctiveness sells.**

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In addition to these trade agreements, the UNESCO *Convention on the Protection and Promotion of the Diversity of Cultural Expressions* (ratified by Canada in November 2005) officially entered into force on March 18, 2007.<sup>2</sup> The Convention is considered an important international legal instrument as it "reaffirms the right of countries to adopt cultural policies to promote the diversity of cultural expressions. The Convention also recognizes the dual economic and social nature of cultural goods and services." To date, it has been adopted by over 75 UNESCO member states.

Digital technologies and the Internet enable people around the world to access diverse content such as video productions in any language with ease. They have the potential to increase the ability of Canadian cultural content to circulate globally and ensure that distinctively national brands can freely cross borders. Peter Van den Bossche, professor of international economic law at Maastricht University in the Netherlands, suggests that

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<sup>2</sup> UNESCO, *A Convention on the Protection and Promotion of the Diversity of Cultural Expression*.

today, “cultures exist within and across borders.”<sup>3</sup> Consumer trends such as prosumerism and the co-creation of products significantly affect business models, including international business activity.

While there is clearly an opportunity for major media such as Canwest to market Canadian-made television series such as “Da Vinci’s Inquest,” an English-Canadian police drama or “Fortier,” a Franco-Canadian police drama, to foreign television networks, there is also increasing opportunity for small culture enterprises and individuals to participate in the production, promotion, distribution, and consumption of creative Canadian content globally through e-commerce.

## HOW CANADA PERFORMS IN THE GLOBAL CREATIVE ECONOMY: INTERNATIONAL TRADE IN CANADA’S CULTURE GOODS AND SERVICES

Trade in culture goods and services is measured according to the *Canadian Framework for Culture Statistics*. Estimates of culture goods and services trade are based on different data sources, and therefore Statistics Canada suggests caution in measuring them together.

International trade consists of exports and imports of culture goods and services, including intellectual property. This paper relies on the following definitions of these concepts relating to trade and investment activity.

Goods are defined as “physical objects for which a demand exists, over which ownership rights can be established and whose ownership can be transferred from one institutional unit to another by engaging in transactions on markets.”<sup>4</sup> Culture goods are tangible, physical goods such as books, magazines, newspapers, videos, paintings, and sculptures. Exports and imports of such goods physically cross borders.<sup>5</sup>

A culture service is an “action that can be bought or sold.”<sup>6</sup> The *Canadian Framework for Culture Statistics* includes the following categories in the definition of culture services: creative services (such as live performances, and intellectual property rights for culture products, including trademarks and copyrights); artistic expression (such as broadcasting services); content services (such as film production and distribution); and preservation services.

Trade in intellectual property includes “the payment or receipt of royalties, licensing fees and subsidiary rights derived from the sale of culture goods.”<sup>7</sup>

Canada’s culture goods trade deficit grew from \$1.7 billion in 2005 to \$1.8 billion in 2006 (in current dollars). Canada imported \$3.9 billion worth of culture goods, representing a 3.2 per cent decline from 2005, and exports fell to \$2.1 billion, representing a 12.7 per cent decline from 2005.<sup>8</sup> The decline is due, at least in part, to the rise of the Canadian dollar relative to the U.S. dollar.

The United States accounts for over 90 per cent of Canada’s culture goods exports. Exports of culture goods to the United States totalled \$1.9 billion in 2006, down from \$2.2 billion in 2005. Imports of culture goods from the U.S. totalled \$3 billion in 2006.<sup>9</sup>

China ranks second in terms of culture goods imports. Canada imported \$295 million worth of culture goods from China, while exports from Canada to China totalled \$13.8 million in 2006.

France is Canada’s third largest trading partner in terms of culture goods. Imports from France totalled \$168 million, while exports of culture goods to France totalled \$30.5 million in 2006. Imports from the United Kingdom, Canada’s fourth largest trading partner for culture goods, totalled \$138 million, while exports totalled \$36 million in 2006.<sup>10</sup>

3 Van den Bossche, *Free Trade and Culture*, p. 18.

4 United Nations Statistics Division cited in Robles, *Culture Goods Trade Data User Guide*, p. 7.

5 Robles, *Culture Goods Trade Data User Guide*, p. 7.

6 Statistics Canada, *Trade in Culture Services*.

7 Statistics Canada, *Canadian Culture in Perspective*, p. 28.

8 Statistics Canada, “International Trade in Culture Goods.”

9 Statistics Canada, *Culture Goods Trade: Data Tables 2006*, p. 3.

10 *Ibid.*, pp. 4–6.

Written and published works represented 73 per cent of all culture goods imports in 2006. Imports of books, newspapers and periodicals, and other printed matter were worth \$2.8 billion in 2006. Films and videos was the second largest culture import, accounting for 7.3 per cent of all culture goods imports.

Books, film, and advertising material represented over half of Canada's culture goods exports. Books accounted for 19 per cent, films made up 18 per cent, and advertising materials accounted for 16 per cent.<sup>11</sup>

Data on Canada's international trade in culture services are available up to 2004.<sup>12</sup> Canada has experienced significant growth in trade activity for culture services in recent years. In 2004, Canada imported \$3.5 billion worth of culture services, compared with \$2.6 billion in 2003, representing an increase of 35 per cent. By far the largest component in the growth of imports of services was film and video services, comprising close to half of all imports in 2004. The other large component in services imports was broadcasting, amounting to \$976 million, or 28 per cent of the total.

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**Canada has experienced significant growth in trade in culture services in recent years. In 2004, Canada imported \$3.5 billion worth of culture services.**

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Exports of culture services totalled more than \$3 billion in 2004, compared with less than \$2.2 billion in 2003, an increase of 41 per cent. By far the largest component of these exported culture services was film and video services.

The United States is Canada's largest trading partner for culture services, accounting for almost \$3 billion (85 per cent) of imports in 2004. Imports of culture services from the European Union totalled \$348 million (10 per cent) in 2004, of which \$156 million came from the United Kingdom. The rest of the world provides only about 5 per cent of imports of culture services.

The United States is the primary destination for Canada's culture services exports, accounting for an estimated \$2.4 billion (78 per cent) in 2004. Exports of Canada's culture services to the European Union totalled \$411 million, of which \$112 million was exported to the United Kingdom.<sup>13</sup>

The Conference Board estimates that real exports of culture services were worth over \$3.3 billion in 2007. Adding in exports of culture goods brings the total value of real culture exports to about \$5 billion in 2007, about 1 per cent of Canada's total exports.

## FOREIGN DIRECT INVESTMENT, MERGERS, AND ACQUISITIONS

In recent years, Canada has experienced significant new injections of foreign direct investment in our culture industries. For example, France-based Ubisoft's new operations in Montréal involve an investment of \$454 million and the creation of up to 1,000 new jobs by 2013. Ubisoft plans to transform its facilities in Quebec into one of the largest digital entertainment centres in the world.<sup>14</sup> As well, California-based Electronic Arts, which has operations in Vancouver, expanded in 2003 to Montréal, in a studio that is expected to employ between 300 and 500 people by the end of the decade.<sup>15</sup> Electronic Arts employs over 2,000 game developers at its three studios in Burnaby, Vancouver, and Montréal, and is the largest game developer in the world.<sup>16</sup>

Canada has also recently experienced a rise in mergers and acquisitions in the culture sector. Canada's telecommunications, broadcasting, and new media sectors are actively contributing to the mergers and acquisition growth trend. Such mergers and acquisitions are subject to the approval of the Canadian Radio-television and

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11 Statistics Canada, "International Trade in Culture Goods."

12 Statistics Canada, *Culture Services Trade: Data Tables*, Table 5.

13 Statistics Canada, *Culture Services Trade: Data Tables*, tables 2, 3, and 8.

14 Government of Quebec, "Québec attracts large investment from Ubisoft Entertainment Inc."

15 CBC News, "Electronic Arts to Set Up Montréal Game Development Studio."

16 Electronic Arts, "EA Helps Digital Media Masters Students."

Telecommunications Commission (CRTC), which has the primary authority to regulate the cable, television, radio, telecommunications, and related industries in Canada. *The Broadcasting Act* serves as the main legislative tool for regulating communications content in Canada.<sup>17</sup>

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**In effect, these mergers and acquisitions could actually increase the capacity of these media giants to finance, create, promote, and distribute significant volumes of distinctive Canadian cultural content.**

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For example, in July 2006, Bell Globemedia (BMG), now renamed CTVglobemedia, acquired CHUM Ltd. in a \$1.7-billion deal. CHUM owned 33 radio stations and 12 television stations across Canada.<sup>18</sup> As a condition of the purchase, the CRTC required CTVglobemedia to sell five Citytv stations, which Rogers Media acquired.<sup>19</sup> In December 2007 the CRTC approved an acquisition by CanWest MediaWorks Inc. and Goldman Sachs (an investment bank) of Alliance Atlantis Communications for \$2.3 billion.<sup>20</sup> Alliance Atlantis is part owner of the popular “CSI: Crime Scene Investigation” franchise and holds the worldwide distribution rights to the hit television franchise outside the United States.<sup>21</sup>

In effect, these mergers and acquisitions could actually increase the capacity of these media giants to finance, create, promote, and distribute significant volumes of distinctive Canadian cultural content, and help to ensure the viability and growth of the businesses. On the other hand, there is some concern that production and distribution of Canadian cultural content on a mass scale could crowd out smaller productions and decrease variety in the marketplace.

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17 Canadian Cultural Policy, Ownership Restrictions, and Evolving International Trade Rules, *Annex 1: Canadian Ownership Requirements Relating to the Cultural Industries*.

18 CRTC, *Broadcasting Decision CRTC 2007-165*.

19 CBC News, “CRTC approves acquisitions by Rogers Media, Astral Media.”

20 CRTC, *Broadcasting Decision CRTC 2007-429*.

21 Agence France-Presse, “‘CSI’ Co-owner Alliance Atlantis Sold for Two Billion Dollars.”

## COMPARISON OF THE ECONOMIC PERFORMANCE OF CANADA’S CULTURE INDUSTRIES WITH THAT OF OTHER OECD NATIONS

In an effort to develop an international comparison of economic measures of the culture sector, the OECD brought together measures for five countries in a study released in 2006. The countries participating in the study were Australia, Canada, France, the United Kingdom, and the United States.

Data were derived from official national sources—for example, Statistics Canada’s Culture Statistics Program (CSP) and Australia’s National Centre for Culture and Recreation Statistics (NCCRS). Table 8 shows the estimates of the contribution of the culture sector to the national economies of these five countries. Based on this comparison, the United Kingdom’s culture sector makes the largest direct contribution to national GDP with 5.8 per cent, while France’s culture sector contributes the least, 2.8 per cent, among these five countries. Australia, Canada, and the United States were relatively similar in terms of their culture sector contribution to GDP, with 3.1 per cent, 3.5 per cent, and 3.3 per cent respectively.

The OECD notes that due to the amount of estimation involved, the comparisons between countries should be used with “extreme caution.”<sup>22</sup> No existing operational framework is in place for international comparisons of the culture sector. Although the UNESCO Framework for Culture Statistics has been developed, the OECD found that, “from an international-comparison point of view, one of the problems with the UNESCO framework was the lack of precise definitions of the proposed measures.”<sup>23</sup> Data standards also presented challenges: “in examining existing data on the culture sector in five OECD countries — Australia, Canada, France, the United Kingdom and the United States — the authors highlight not only the lack of detail in the standards but also the different classifications used by each country.”<sup>24</sup>

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22 Gordon and Beilby-Orrin, *International Measurement*, p. 55.

23 Ibid., p. 5.

24 Ibid., p. 1.

**Table 8**  
OECD Estimates of Culture Industries' Contribution to National GDP/GVA

Country	Reference Year	Currency	Value (\$ millions)	Per Cent of Total Economy
Australia	1998–99	Australian dollars	17,053	3.1
Canada*	2002	Canadian dollars	37,465	3.5
France	2003	Euros	39,899	2.8
United Kingdom	2003	Pounds sterling	42,180	5.8
United States	2002	United States dollars	341,139	3.3

\*GDP data for Canada in 2003, the most recent year available, were noted earlier in this report.

Source: OECD, *International Measurement of the Economic and Social Importance of Culture*. See p. 6 for summary table and Section X of the OECD report for detailed explanatory notes and warnings, especially p. 55.

The OECD notes several other difficulties associated with comparing measures of culture internationally. Standard statistical techniques do not directly value volunteer labour in measures of economic contribution. Inconsistencies exist in data collection techniques. Another significant issue is that cultural activity by

firms whose principal activity is other than cultural is not reflected in the standard statistical tabulations.<sup>25</sup> It should also be noted that the reference years for data in Table 8 were not consistent for all five countries.

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<sup>25</sup> Ibid., p. 19.

## CHAPTER 6

# Conclusion

### Chapter Summary

- ◆ Arts and culture industries are widely recognized for their multi-faceted role in contributing to personal and community development, enhancing social cohesion, and improving quality of life.
- ◆ In recent decades, there has been growing understanding of the important economic contributions that culture industries make and of the central role that the culture sector plays in the creative economy.
- ◆ Technology invites participation in creative activity on a mass scale. That has profound social and economic implications. The Internet and Web 2.0 applications already help bring people together virtually in communities of interest that are increasingly focused on activities of a creative nature, and their potential impact is even greater.
- ◆ Creative communities are important drivers in Canada's economy. They project unique identities that act as magnets for skilled, creative people and for business investment. An important challenge for governments is to ensure communities have the means necessary to support creativity and diversity, and to build a thriving culture sector.

**T**he culture sector is a significant contributor to Canada's economy and helps strengthen the fabric of Canadian society. The arts and culture industries are widely recognized for their multi-faceted role in contributing to personal and community development, enhancing social cohesion, and improving quality of life. Creative activities provide positive learning experiences and mechanisms for individual expression that build personal awareness and insight, and make it possible for people to connect better with each other, as individuals and in groups or communities. Culture springs from the creativity of individuals and from people working collaboratively. For this reason, creative activities based on culture help to promote national identity at the same time as they sustain the cultural diversity that is important to Canadians.

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**Over a million people are employed directly or indirectly as a result of cultural economic activity in Canada.**

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In recent decades, there has been growing understanding of the important economic contributions that culture industries make and of the central role that the culture sector plays in the creative economy as a whole. The economic contribution of the culture sector to Canada in 2007 was \$84.6 billion, or 7.4 per cent of total real GDP, taking into account direct, indirect, and induced contributions. Over a million people are employed directly or indirectly as a result of cultural economic activity in Canada.

Technology invites participation in creative activity on a mass scale. That has profound social and economic implications. The Internet and Web 2.0 applications already help bring people together virtually in communities of interest that are increasingly focused on activities of a creative nature, and their potential is even greater. Technology enables collaboration and mass participation, two great engines of diversity that allow people to express their uniqueness and associate on the basis of what they have in common. People are now collaborating online to create diverse cultural content such as movies, music, and video games. Technology also opens the door to commoditizing the creative experience and creating new forms of economic value and business relationships that can underpin significant growth in the scale and importance of the culture sector within the economy as a whole.

Creative communities are important drivers in Canada's economy. They project unique identities that act as magnets for skilled and creative people and for business investment. An important challenge for all levels of government is to ensure that communities have the means necessary to support creativity and diversity, and to build a thriving culture sector.

While the culture sector constitutes a distinct sphere of economic activity in its own right, generating substantial wealth domestically and through international trade and investment, it also plays a much more expansive role in Canada's social, cultural, and economic well-being. Increasingly, Canada and other countries around the world are recognizing the importance of valuing culture in its multiple dimensions, as well as the capacity of arts and culture industries to fuel other sectors in unique ways.

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