**A Future for the Creative Economy: Summary and conclusions of the CREATE panels**

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This summer (2016), Ruth Towse organized two panels as joint CREATe events, one with the Association for Cultural Economics International (ACEI) conference at the University of Valladolid, Spain and other with the Society for Economic Research on Copyright Issues (SERCI) at Loyola Law School, Chicago, USA in July.

The motivation for the panels was in reaction to discussions on the future of copyright law, which seem to take place in a vacuum about future shape of markets in the creative economy[[1]](#footnote-1) to which copyright applies. The aim of the panels was to discuss the implications of perceived market trends due to digitisation and the internet. The rise of digital platforms has transformed the possibilities for the supply, demand and finance of creative products (ranging from art, archives, broadcasts and books to live music, opera and theatrical performances). Products of the creative industries which embody copyright works (art, architecture, advertising, broadcasting, film, games, music, performing arts, publishing, museums/heritage, etc) are now are universally capable of being made available in digital form, while some also remain in ‘analogue’ form.

With discussions taking place on the future of copyright law and how to reform it to meet current circumstances, it is important to link the ‘new’ economic literature in industrial organisation (IO) to thinking about the future shape of markets for copyright works in the creative industries and the implications for law-making. Many of the topics studied in industrial organisation – platform pricing, network effects, long tail, price discrimination, customization – clearly apply to markets for creative goods and, indeed, authors writing on IO, including the panellists at these events, have done just that. The hope is that these theories could be more widely applied in cultural economics and in the economics of copyright in a sort of two-way dialogue. There is a perceived need for economists to ‘translate’ these theories for experts in other fields. Economics has become a closed door to many. Accordingly, the aim of this paper is to convey the conclusions to a wider audience.

There was considerable agreement on the part of the panellists about the changes to the creative economy wrought by digitization and the internet. There is undoubtedly a greater supply of creative goods and services which are cheap and easily accessible to consumers (fulfilling two of the aims of cultural policy, which seeks to promote diversity and accessibility). To economists this in itself is welfare enhancing. On the supply side, however, there are concerns about finance for the primary creation of cultural goods and the increasing concentration of their distribution in the hands of entities that have little investment in their production or even interest in them. While the former incumbent firms in the creative economy, such as record labels, have lost out to the providers of services using new technologies, new incumbent players are present, whose role (if any) in incentivising cultural creativity is different. The shift in control of distribution into the hands of ISPs – a new form of specialization – gives rise to concern over two features: one, the ever-increasing oligopoly, even monopoly, power of the ISPs due to network and scale effects inherent in the technology but also reflecting consumer behaviour; and second, the break of the link between creation and production and distribution, which affects revenues to creators and intermediaries. These features have implications for copyright as an incentive mechanism and for competition authorities.

The growth of cultural supply has increased due to two basic features of the digital creative economy: one is the considerable reduction on the cost of producing, promoting and distributing creative goods and services and the other is the access that digitization and the internet offer to creators to self-publish and promote their work. Intrinsic motivation of creators and performers has flourished in these conditions, raising questions on the one hand about the quality of unmediated output and on the other about how sustainable the model is. Again, this has implications for copyright. Some evidence suggests that those who achieve success online may turn to the traditional gate-keepers for finance and services of production and distribution; that suggests that the superstar/winner-takes-all tendencies of cultural markets may thereby even be strengthened. But it is also the case that new technologies and business models can be adapted by creators and performers for developing their careers for their own purposes rather than that of a commercial intermediary. Another aspect is the sharing of expertise in product development between different contributors with no commercial incentive in mind (another type of intrinsic motivation). What the role of copyright in this mode of supply is or should be is something that economists need to research.

The economic aspects of the effect of the switch to platforms on the production and consumption of creative content can be summed up as: the effects on costs and prices, including zero prices; the technological characteristics of networks and scale on markets and on the economic organization of production, including at the level of content creation; and the role of distributors, some of whom are self-publishing primary creators but more significantly, businesses that increasingly are not the incumbent intermediaries. The economics of platform pricing and non-price competition has become complex with implications for both creators and intermediaries as well as for regulators (competition authorities and copyright policy-makers).

For economists one of the most significant changes has been to business models as licensing takes over from sales, resulting in the development of two-sided, even multi-sided, markets. So far the main action has been competition between freemium and subscription models, with several types of the latter, such as ‘a la carte’ and ‘all you can eat’. In both, content is bundled, increasing consumer choice while at the same time blunting the incentives to the creators, who are paid a uniform (low) royalty. Two-sided markets in which advertisers play a significant role in financing distribution, in which ‘poorer’ consumers tolerate the ‘bad’ of advertising to obtain the goods they wish to access, are becoming vulnerable to developments such as adblockers that reduce the incentive to this form of finance. For some goods and services, that might suggest government intervention to ensure supply to achieve cultural policy objectives.

Overall, the implication for copyright of the economic analysis of digitization and the internet in the creative economy is that, on balance, there is no case for increasing the copyright standard and, if anything, it makes the case for weaker rather than stronger copyright enforcement. The main reason is the reduction in costs of producing and distributing content and the increased benefits to both consumers and producers of network effects. On welfare grounds that undermines claims for greater protection.

The role of intermediaries as gate-keepers and financiers has changed; online quality evaluation is now provided by aggregators and as costs of production and marketing via internet have fallen, self-publishing has become feasible and even profitable for some. It remains to be seen if this trend continues and whether markets for content become more or less dominated by superstar/winner-takes-all effects. Cultural economists tend to believe they will, based on the analysis of markets in the creative industries and consumers’ switching costs. This has welfare implications for cultural diversity and policies for protecting national cultures. On the other hand, new entrants and multi-homing can counteract the effects of concentration.

Overall, there was a high degree of consensus among the panellists about the effects of digitization and the internet on the creative economy. Some have greater faith than others in market incentives and innovation to overcome perceived negative effects of digitization and the internet but those who incline more to intervention through competition, copyright and cultural policies also recognize that the dynamic effects of technological and business model innovation make intervention difficult to gauge.

So what can we say about the future of the creative economy? Judging by economic criteria of overall dynamic welfare, it is ‘rosy’. Consumers are better off due to lower prices and vastly increased supply of creative content and there is innovation and change; creativity by non-professional, non-commercially-minded individuals is available to all with access to a computer and broadband. Producers are under pressure from market forces to innovate in all sorts of ways, whether through prices or non-price services, including quality evaluation. Non-profit cultural organisations also benefit from the changes discussed by being able to reach much wider audiences.

In the process, what society regards as creative cultural content may have changed but to economists what matters is the wide choice that is easily and cheaply available to consumers with various preferences and the opportunity to develop their own tastes. The issue of quality and cultural diversity) is a minefield touched on by cultural economists, though avoided in copyright law for which ‘originality’ rather than quality is the criterion. Information economics is concerned with the question of ‘attention’ in terms of the waste of resources used up in search costs and accordingly, the provision of information about information goods is regarded as welfare improving. Excess supply of content may also be said to be inefficient but radical uncertainty of the success of experience goods counters that claim and justifies many ‘draws from the urn’. Commercially unsuccessful investment in innovation and creativity is, after all, inherent in capitalism. In the digital creative economy a question is who is doing that investment – creators or distributors?

What is clear from the many issues discussed is that there is scope for research on a wide range of topics that relate to the role of copyright in the digital creative economy: motivation of creativity, the role of self-publishing, payment mechanisms to creators, business models and pricing policies, consumer behaviour, industrial organisation of creative industries and platforms, competition and regulation of markets, interaction with cultural and wider policies, such as data and privacy.

1. The 2008 UNDP *Creative Economy Report* defined the creative economy as follows: ‘an evolving concept based on creative assets potentially generating economic growth and development that can foster income-generation, job creation and export earnings while promoting social inclusion, cultural diversity and human development. It embraces economic, cultural and social aspects interacting with technology, intellectual property and tourism objectives. It is a set of knowledge-based economic activities with a development dimension and cross-cutting linkages at macro and micro levels to the overall economy.’ (p. 15). [↑](#footnote-ref-1)