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A NEW ECONOMICS FOR CREATIVE INDUSTRIES AND DEVELOPMENT

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A new economics for creative industries and development*

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* This paper is based on Stuart Cunningham, John Banks and Jason Potts, 'Cultural economy: the shape of the field', Helmut Anheier and Raj Isar eds, *Cultural Economy*, Sage, forthcoming 2008.

Argument

We need a different economic framework than those which dominate if we wish to bring closer together the diverse agendas of those who look to culture and creativity as supports for economic development, whether that is in advanced or developing regions. Through a consideration of different models of the relation of culture to the economy, this paper argues that the limits of both neo-Marxist critique and Keynesian subvention come into sharper relief. Our current effort in the ARC Centre of Excellence for Creative Industries and Innovation injects an economic 'third way' into debates about the emergent nature of the creative economy and contrasts Schumpeterian approaches, and their contemporary advances in evolutionary economics, with Keynesianism and neo-Marxist political economy. This approach gives us a better handle on what is happening at this present moment of 'creative destruction' of the time-honoured models of production, dissemination and consumption in the media and cultural fields offered by new, mobile and interactive digital media and Internet-based modes of communication and distribution.

Introduction

Raymond Williams (1976) famously remarked that culture was one of the most complex words in the English language. While not an economist, nor especially interested in the question of the relation between culture and economy, Williams made a powerful contribution to its understanding by offering a basic typology of culture - in his foundational text *Culture* (1981: 204) - as *residual*, *dominant* or *emergent*. This is quitesimple but emphasizes the dynamic, overlapping and contesting nature of culture and its role in economies globally.

Over the last decade or so a new, 'evolutionary' approach to economic analysis has become prominent. It focuses on the dynamics of the economic system under conditions of variety generation, enterprise competition and selection and self-organisation (see Metcalfe 1998; Loasby 1999; Potts 2000). Most of the empirical and theoretical work so far undertaken in modern evolutionary economics has focused on manufacturing and high technology sectors, as have most analyses of the sources of innovation in contemporary economies. There is little yet that seeks to apply this new framework to the economic analysis of the creative industries (CIs), although some of the most interesting is focused on the broader question of innovation in services (Metcalfe and Miles 2000; Boden and Miles 2000). The core advance that this approach might facilitate is to understand creative industries as an emergent, innovative part of the services sector of the economy, rather than presenting them as an exception to mainstream industries, as 'not just another business'. The professional interest group Focus on Creative Industries (FOCI) in the UK captured what this shift might imply well:

Whilst FOCI welcomes the recognition of the strong economic contribution made by the creative industries in terms of wealth creation and employment, we would also keenly stress that this sector is very different from traditional industries. They deal in value and values, signs and symbols; they are multi-skilled and fluid; they move between niches and create hybrids; they are multi-national and they thrive on the margins of economic activity; they mix up making money and making meaning. The challenge of the creative industries is

the challenge of a new form of economic understanding—they are not 'catching up' with serious, mainstream industries, they are setting the templates which these industries will follow. (<<http://www.mmu.ac.uk/h-ss/mipc/foci/mission.htm>> accessed 10 April 2006).

Evolutionary economics focuses on the ways economies *grow*, as complex open systems, rather than by optimising allocative efficiencies. It also offers a clearer understanding of the way in which new technologies are integrated into an economy and the restructuring of organisations, industries, markets, communities and lifestyles the evolutionary growth process of economies requires. The creative industries' complex contractual and organisational structures, inherent uncertainty, power-law revenue streams, and high rates of experimentation—like Caves' (2000) 'basic economic properties of creative activities'—suggest that they may be 'pure' cases of service-based competitive enterprise in a fundamentally uncertain environment. It is the purpose of this chapter to outline how this case might be developed in the light of possible models of the relation of the creative industries to the wider economy, and where new, mobile and Internet media might fit.

'Creative industries' is a relatively new analytic definition of the industrial components of the economy in which creativity is an input and content or intellectual property is the output. Policy attention has focused on the size and growth of this sector. The creative industries have thus come to be newly represented as a significant and rapidly growing set of industries; an important sector, in other words, for policy attention. Globally, mapping exercises have concurred that the creative industries are indeed 'economically significant' and legitimately comparable to other high profile sectors in terms of their contribution to income, employment and trade. The creative industries, by implication, are argued to deserve policy attention (and support) in proportion to that measured significance.

But the value of these exercises can be limited because of the standard economic approach to industry analysis, which is based on the assumption of 'general equilibrium'. Measuring a static slice in time doesn't tell us why and how change is occurring. It is a matter of *political* expediency to afford an industrial sector policy attention and support in proportion to the share of income (or jobs, or foreign exchange) it generates, not a matter of economic logic.

Instead, we pose a different question: what is the dynamic relation between the creative industries and the rest of the economy, i.e. how does a change in one affect the other? There is an emerging suspicion that the dynamic significance of the creative industries may well be of greater analytic and policy significance than its static role with respect to the level of jobs, aggregate output, exports and cultural value. We can hypothesize four models of this relation, which are the four possible answers to this question: namely (1) negatively, (2) competitively, (3) positively or (4) in an emergent manner. We call these respectively the *welfare model*, the *competitive model*, the *growth model* and the *innovation model*. But it is not a simplistic linear set of relations: there are trends and potentials that see model 1 and model 4 recursively turning toward each other. Each of these four hypotheses suggest different possible economic policy responses: in the first case a welfare subsidy is required; in the second, standard industry policy; in the third, investment and growth policy; and in the fourth, innovation policy is best.

Our reason for emphasizing these different dynamical relations is that the study of the cultural economy has been dominated by models 1 and 2: either the ‘negative’ model in which the cultural economy produces cultural value but this is rarely economically viable in the market, and thus requires public transfer for support; or the ‘competitive’ model in which large, industrial-scale and often multinational businesses parlay culture as a commodity and behave just like the rest of the market-capitalist economy. This is consistent with Williams and reflects the fact that most supportive attention has been placed on the ‘residual’ (those most vulnerable, and often most valued, parts of the cultural continuum, arts, crafts and heritage), and most critical attention placed on the ‘dominant’ (those large, consolidated industrial-scale fields such as film, music, and broadcasting). For this reason, we shall spend some time ‘filling the gap’, as it were, with an emphasis on ‘emergent’ fields of culture and creativity.

Four models of culture and the economy

A detailed description of the four models of the dynamic relation between the cultural economy and the rest of the economy can be found in Potts and Cunningham (2007). While the rest of the economy is normally taken to mean the national economy, these models extend to consideration of a global economy in which cultural goods and services are traded globally and in which the new technologies and business models developed within the cultural economy can be adopted and used in a global economic context. These four models can be summarized thus:

Model 1 (the welfare model) is the argument that the arts, broadly considered, are economically successful to the extent that they can extract rents from the rest of the economy. (This may also be called the ‘subsidy model’, but we prefer the term welfare in the standard, politically neutral, sense that it is used in microeconomic theory.) This is typical of what are called ‘public’ or ‘merit’ goods, with the economic justification for resource transfers resting on a *market failure* argument. Policy is then calibrated to estimates of their non-market value. In model 1, cultural activities have a net negative impact on the economy, such that they consume more resources than they produce. To the extent that they exist, their value must lie fundamentally beyond market value. This model fits most accurately the (subsidized) arts end of the cultural spectrum, and the sub-discipline of cultural economics has largely been developed to address issues arising from these assumptions.

Model 2 (the competitive model) differs from model 1 in presuming that the cultural industries are not economic laggards, nor providers of special goods of higher significance, but are effectively ‘just another industry’. The term cultural industries has historically been used for this part of the cultural spectrum. This model might be seen to fit best the established media industry sectors that are mature, experiencing static growth or are in relative decline, and which are being impacted by emergent distribution/ aggregation models as for example in some parts of publishing and print, broadcasting and mainstream music copyright firms, and perhaps the commercial end of film.

The distinctive features of this large-scale sector - extreme levels of demand uncertainty, power-law revenue models, tendencies toward monopoly, complex labour markets and property rights, endemic hold-up problems, information asymmetries, highly

strategic factor markets, and so on (*e.g.* Caves 2000, De Vany 2004) – are held to be addressable under competitive conditions. This is where the neo-Marxist critique concentrates its energies, analyzing how large, powerful, industrial-scale and often multinational businesses parlay culture as commodity and behave just like the rest of the market-capitalist economy. Policy responses under Model 2 are not about targeted resource re-allocation, but rather about consistent industrial treatment, or, as in the case of multinational and oligopolistic business, for regulation and control of excess market power.

Model 3 (the growth model) explicitly proposes a positive economic relation between growth in the creative industries and growth in the aggregate economy. It is for this model we deliberately use the term ‘creative industries’. This is not because cultural forms, such as the established arts and media, cannot be regarded as part of the creative industries – they can and are – but because the term creative industries is more an idea or proposition than a neutral descriptor of an industry sector. The creative industries are a dynamic force and not just another static sector.

The creative industries, in this view, are a growth driver by their new creation of value, which is consistent with the rise of a global market economy. In this model culture become increasingly important because as economies evolve, a larger fraction of income and attention is devoted to it. In model 3, policy should properly treat the creative industries as a ‘special sector’. This is not only because it is economically significant in itself, but because it influences the growth of other sectors. This may plausibly lead to intervention, but unlike model 1, the purpose is to *invest* in economic growth and the development of capacity to meet growth in demand. This model thus accommodates design as an input factor into the economy, industrial digital content and applications like games, and also mobile and Internet media. These exemplify input impact, such as games providing models for next generation education and learning paradigms, or for simulation and virtual reality training in aerospace. It is evidenced by the positive correlation between design intensity in firms and their stockmarket performance (Design Taskforce 2003, Design Council 2004). It also is suggested by the growing proportion of creative occupations ‘embedded’ in the broader economy. But it is perhaps best exemplified by the huge growth of mobile and Internet media use and content creation and the unexpected (on the supply side) uses to which such activity and inventiveness has been put. The creative industries seem to be a driver of economic growth.

Yet rather than thinking of the creative industries as an economic subset ‘driving’ growth in the economy, as in model 3, the creative industries may not be well characterized as a sector *per se*, but rather as an element of the *innovation system* of the economy. This is model 4 (the innovation model or creative economy model). The economic value of the creative industries, in this view, does not stem from their relative contribution to economic value (as in models 1–3), but from their contribution to the coordination of new ideas or technologies and thus to the process of economic and cultural change. In this view, the creative industries are mistakenly classified as an industry in the first place; they would be better modeled as a complex system that derives its ‘economic value’ from the facilitation of economic evolution – a system that manufactures attention, complexity, identity and adaptation through the primary resource of creativity.

According to model 4, the CIs do not drive economic growth directly, as might a boom in the primary resource sector or the housing market, but rather indirectly via the facilitation of change in the economic order. For example, it might be possible to define the CIs, not as an

industry sector but as a space of economic activity in which actors, markets and organizations are predominantly shaped by social networks and thus are the kind of ‘switching yard’ (to use a transport metaphor) between social and commercial activity (see Potts *et al* 2007).

If model 4 is true, this renders innovation policy a superior instrument to competition or industry policy. This justifies an ‘elitist’ aspect to creative industries policy in the same way that traditional versions of cultural policy justified the development of culture as a public good. But unlike a heritage approach to cultural value, creative industries value lies in the development and adoption of new knowledge, and so is focused on experimentation and difference, rather than conservation and equality. Evidence for model 4 would accrue from the emergence of new industries in consequence of creative industries activity as a facilitator of ongoing structural change and adaptation.

Plainly, these four models have at different times and places have been more or less appropriate. An abstract model, such as the four possible dynamic relations between the cultural economy and the rest of the economy, helps us to see more clearly the nature of our economic characterizations of the cultural economy, and to point toward appropriate policy frameworks. This framework serves to highlight the difference between dominant Keynesian and neo-Marxist analyses, which are based in a static view of the economy that tend to presume no positive connection between the creative economy and the process of economic growth and development, and emergent Schumpeterian conceptions, which do recognise such a dynamic (evolutionary) connection.[†] The fact is that much can be elucidated by these dominant neo-Marxian and Keynesian approaches, but little of the emergent dimensions of creative economy are captured in these approaches.

Relevance of the four models to creative industries and development

I have recently acted as guest editor on a major volume titled *Cultural Economy* in the Cultures and Globalization series published by Sage, under the general editorship of Helmut Anheier and Raj Isar, which brought together a wide range of insights into the theory, practice and potential of the Cultural Economy worldwide. Much of the work addressed core-periphery issues and a very diverse range of developing regions as well as metropolitan ones. I was struck, in this exercise, notwithstanding the willing rehearsal of the dominant paradigms, by the degree to which considerable analysis and activism are dissatisfied with the dominant paradigms - without there being a consensus around alternative paradigms and pathways.

Analyses that cohere around the first model of culture-economy relations occupy substantial space in this volume. This is as it should be; it is where most debate about culture is played out. It is *because* the model is clear that the relation is one of transfers *from* the economy *to* culture that focuses and sharpens the debate. Many contributors to the volume accept that this relation needs to be repositioned to become a more dynamic one – thus the

[†] In modern economics, the Schumpeterian endogenous growth model has challenged the Keynesian model as an explanation of how economic systems change through time and in turn this has led to a shift in economic policy focus from industry policy and demand management to innovation policy and the facilitation of entrepreneurship and enterprise.

stress on a form of Schumpeterian entrepreneurial spirit, on using the forces of globalization 'against itself', of approaching culture of this type as a form of small business activity, as much as a sector that simply seeks transfers. This balances the traditional focus on a form of Keynesian response to market failure which may require (and perhaps deserve - for its sublime, meta-market value) indefinite state transfers for its survival. So much of the developing world lacks the capacity to operate on this model in support of the creative economy.

There are also contributions which advance a broad critique of the *industrialization of culture*, thus embracing a Model 2 understanding of culture-economy relations. David Throsby's 'Globalization and the Cultural Economy: A Crisis of Value?' lays out the core normative issue of globalization and related technological change as increasing the tension between economic and cultural value. The tension is presented in an unambiguous and rigorous way. But it begs the question of whether previous eras, pre-globalization, had enjoyed stable and mutually supportive relations between such values. One doesn't have to agree with the full thrust of Tyler Cowan's *In Praise of Commercial Culture* (1998) to admit of no automatic golden age against which the present globalizing era will appear definitively a poor relation; or that the commercial domain is always already opposed to the cultural. We might pose, as a counterpoint to Throsby's notion of Western commercial power, the ways in which contemporary technologies of potentially near-global reach and near-global popularity have thrown down the gauntlet to business-as-usual models of globalizing capital. To operate globally in capitalist cultural industries today one must engage in a post-imperialist fashion with non-Western economic and strategic power. The challenges of cross-culturalism in a globalizing world are non-negotiable, and will consolidate with the rising power of China (the fourth largest economy in the world, and about to become the third largest) and India. The challenge to US and Japan-led intellectual property regimes posed by cultural production and consumption in east and south Asia requires serious engagement with legal and regulatory reform and encouragement of sustainable local production capacity rather than just megaphone diplomacy and threats of sanctions.

Of course, it is imperative for Throsby (and several other contributors, including most strongly Francis B. Nyamnjoh on Africa) to point to the sometimes extreme disparities of access to and involvement in global cultural affordances and opportunities for wealth creation. For these and other writers, the situation is getting worse, not better. In Nyamnjoh's case for African cultural prospects, this may well be the case, in part because, relative to economic development in other global regions outside the West (such as east and south Asia), Africa is increasingly relatively marginalized. This allows, perhaps authorizes, the deeply value-laden dismissal of African cultural and human capital as 'socially inferior and (because?) economically uncompetitive'. But even in strong statements of global asymmetry, such as that of Drache and Froese, there is a dialectical acknowledgement of immanent developmental potential as [t]he global cultural economy is driven by technological change towards a global, integrated and interactive sphere of communication in which political power is inexorably moving downwards and towards the margins of international civil society because it gives a voice to those who previously did not have one.

Other contributions around the industrialization of culture strike interesting revisionist positions. Andy Pratt's well-known, rigorous work on the geospatial dimension of the cultural economy is represented. Significantly for our perspective, he acknowledges the fading force of market failure arguments as the sheer dynamism of the cultural economy becomes undeniable, and the blurred divide between the formal and informal, and the commercial and not-for-profit sectors, throws up opportunities which equilibrium economics cannot elucidate.

It is usually assumed that developing and transitional societies have less purpose and priority for the creative industries as they struggle to feed, cloth and house their citizens and develop more robust economic and political governance. (The presumption is that only advanced economies are likely to benefit from the creative industries as they are goods and services at the upper end of the Maslowian hierarchy of needs. A correlative presumption is that the developing world's cultural resources are deeply residual and not easily amenable to exploitation in a digitised, networked, world.) This has been fed by a certain metropolitanism in much debate which tends to think of the creative industries as associated with the vanguard of the most advanced civilizations (and therefore able to 'indulge' their Maslowian upper hierarchy of needs), and in particular with the powerhouses of New York, Tokyo, London, and Paris (Hall 1998). But there is growing evidence that the large developing and transitional economies (pre-eminently the BRIC bloc - Brazil, Russia, India and China) are well aware of the significance of the creative sector's links to economic advancement and have the urban conglomeration to make the co-location in production and the aggregation processes central to industrial-scale activity work. Thus, Beijing and Shanghai increasingly compete to shoulder Hong Kong out of the way of creative and cultural pre-eminence; Bollywood is diasporized and globalized for both hard economic and soft diplomatic purposes; and Brazil is looking to exercise Global South leadership in this field through close links to UNCTAD, as it has done by taking on Western Big Pharma around the issue of generic drugs. If we add the K to the BRIC, we admit the most intensely networked and one of the most innovative - in terms of social and cultural embedding of technology - nation in the world, Korea.

Many of the other regions of the world seek to deal with the challenges and opportunities raised by the creative economy without the scale-and-growth economies of BRICK or the traditional advantages enjoyed by the 'advanced' West. In most instances, the underdeveloped nature of open markets, and the lack of scale and coordination of cultural activity, means that state sector agency remains critical. Where appeals to the state to do more are made, however, it is with an awareness that this often comes with the caveat that the endogenous institutional and governance frameworks are as much to blame for loss of opportunity and marginalization as the western hegemons. The appeal of a NGO and SME approach to cultural advancement returns regularly, taking into account that globalisation, the internet and associated networked processes (horizontal cooperation), favour flexible entities such as SMEs rather than top down, administratively regulated and heavily subsidized bodies.

Eminent cultural geographer Allen Scott's suggestion in the final essay in *Cultural Economy* is in accord with this perspective: the digital foundations of this modern cultural economy may well see a 'proliferation of small-and micro-enterprises with the capacity to contest diverse markets' existing along side the large multi-national corporate players in the cultural economy.

A key feature of creative industries discourse is an 'enterprise' approach to business development. This seeks to take account of the vast preponderance of small business or small business-like entities that populate the sector in most countries, and addresses what we might call the 'economic subalterns' in our midst. This is a sector running on tight margins and facing high rates of failure, in need of flexible and in many cases experimental forms of state facilitation, and which rarely figures on governments' cultural policy radar. The point is that much of the independent creative enterprises sector (games, design, web development, fashion, music, audiovisual) is organised in this way and spans the commercial and the subvented, complicating the binary thinking that seeks to exclude the commercial from anything other than critique. A significant sub-set of this phenomenon is the whole area of small commercial firms underpinning minority populations' cultural economy in multiethnic Western societies – and the distance these economies maintain from official state cultural policy. Small business enterprise or entrepreneurship, and policies to support it, often has to run the gauntlet against much more powerful vested interests which I have nominated previously as Big Culture, Big Business and Big Government (Cunningham 2002).

One of the most intriguing treatments of the West is the chapter by Xavier Greffe on Europe. Greffe goes to the heart of tensions in (Western) European approaches to cultural economy, a region 'long regarded as the world's principal location of artistic creation and consumption'. However, it (or, more particularly, the EU) is caught between macroeconomic policies which strive to position the EU as a coherent single economic unit – the largest in the world – with progressive innovation, R&D, educational and social contract frameworks, while on the other hand its cultural policies are still characterised by a certain protectionism. There is increasing strain between normative free market thought driving much else within the Union while cultural leaders champion exceptionalism. In the context of a global economy, Europe's cultural centrality may be decreasing and its traditional interventionist and protectionist policy stances (its cultural exceptionalism) may prevent it from fully benefiting from the globalisation of cultural exchanges. Greffe suggests that suspicion of the market by European artists and a tradition in which culture is viewed as autonomous from markets, and where a distinctive European culture is essentially carried on the back of the state, can make adaptation to a global market difficult. However, increasing recognition of the importance of the creative industries suggests a change in this understanding of the relationship between culture and markets. In this context the understanding of cultural production is shifting towards small, flexible enterprises linked to global networks of exchange and export.

Emergent culture: interactive digital media and Internet-based distribution

As I signalled earlier, I will focus briefly on the role that emergent media culture is playing in the contemporary adoption, absorption and retention of new technologies, in challenging and changing the business models of many industries (not just the media industries) and in creating the conditions for what could be broadly called 'social innovation'.

We are already very aware of the potential, and current reality, of the Internet as a platform for next generation cultural production and communication, and the major opportunities it may present for cultural diversity. One of the key emergent factors is that China has in 2007 become the second largest user of the Internet globally and is expected to overtake the US in usage volume relatively soon. As the benefits of economic growth in China become more widely spread, there is potentially an expressive future for young people

unthinkable less than a generation ago. China's versions of YouTube (Tudou and Yoqoo) and social networking sites (Douban and QQ), in addition to the exponential growth of blogs (to mid 2007: 34 million in PRC), are driving an extraordinary bottom-up culture of communication.

Another major emergent platform is mobile infrastructure. The rapid uptake and near ubiquity of mobile infrastructure is a given in most OECD countries. As one mid-range country indicator, the latest data from Australia (2004-05, see Access Economics and AMTA 2007) show that the combined industry gross product (IGP) of mobile network carriers and resellers was higher than that for either free-to-air television services, the newspaper, printing and publishing industry or the computer consultancy services sector. It was almost three times as large as that of the automotive, vehicle and component manufacturing sector. In addition to its direct contributions, it drives productivity gains throughout the economy. In this it is not dissimilar to the role of ICT as a driver of industry change in past decades, and should be contrasted with such headline industry sectors in the Australian economy as mining, which makes a significant direct contribution to the economy but much smaller indirect contributions.

But what from a global equity perspective is more remarkable is the way mobile has 'leapfrogged' fixed line telecommunications in many developing countries. 3G and further developments in mobile carriage of rich content make this a platform with yet-to-be-tapped potential for cultural exchange at a local, regional and global level and from sites of traditional disadvantage in the global communications system. Again using the same analysis from Australia, a forward estimate of the economy-wide benefits arising from mobile data use made possible by the increasing uptake of 3G technology and increase in mobile data traffic could add an additional \$1 billion to GDP by 2010.

The emergent possibilities of mobile content embracing innovative cultural exchange and communication are clear. In China, it is possible to load whole novellas onto mobiles – an affordance unavailable to Western language speakers at present due to the particularity of ideographic Chinese language – and the centrality of mobiles to the culture. In Malaysia, the UAE and Saudi Arabia, you can subscribe to an Islamic religious service and 'take your mobile beliefs with you' – 160 million units were sold in its first year of operation. Maori in Aotearoa are seeking to finalise protracted negotiations over control over the spectrum which they assert are part of their air, land and water rights conferred under the Treaty of Waitangi in 1840 (Bell 2007).

What, though, are the specific affordances for the cultural economy offered by new, mobile and interactive digital media? There is now a veritable wave of proposal, analysis and prognostication addressing this question. Chris Anderson's *The Long Tail* (2006) and Mark Pesce[‡] expost the limitations of the mass market, model 2 mentality that can be addressed by Internet-based harvesting of the 'long tail' and exploitation of 'hyperdistribution'. Charles Leadbeater's (2007) *We-Think: the power of mass creativity*[§] explores diverse domains where the power of socially networked collective creation and communication are at work. Recent studies by Henry Jenkins (2006) and Yochai Benkler (2006) suggest that consumers'

[‡] (<http://www.mindjack.com/feature/piracy051305.html>)

[§] (<http://www.wethinkthebook.net/home.aspx>)

participation in new media production practice now generates significant economic and cultural value. Media production may be shifting from a closed industrial model towards a more open network in which consumers are now participatory co-creators of media culture product. Henry Jenkins is careful to remind us that this is not simply a direct outcome of technology but a significant cultural phenomenon in which we're seeing what happens when the means of cultural production and distribution are co-evolving between producer, aggregator and user. He is aware that this 'bottom-up' process plays out in the context of 'an alarming concentration of the ownership of mainstream commercial media, with a small handful of multinational media conglomerates dominating all sectors of the entertainment industry' (2006: 18); the economic value of user co-creation and social media poses a significant challenge to business-as-usual for the dominant media.

As an example of model 3&4 thinking about the cultural economy, Potts *et al* (2007) have recently proposed a new definition for the creative industries as the economic space of 'social network markets'. They are the set of activities and industries that facilitate choice when dealing with novelty in a social context. These are not just the information and communication industries, as that just addresses the technology, but more fundamentally are the industries that build networks of people to facilitate the social action and structure, across which new ideas can flow. The social network market idea gains traction by positing that these networks have characteristic properties associated with complexity and evolutionary theory. The implication is that this helps us explain why many cultural economic phenomena we observe are properties of model 3 & 4 worlds, not of model 1.

Here we depart from Benkler's analysis to suggest that rather than being a non-market phenomenon, consumer co-creation practice may be understood as emergent market relationships. Here, we aren't proposing that these practices are simply seamlessly appropriated into existing stable market institutions that support a globally rampant industrial media economy. For this is not a static or closed situation in which we can clearly and definitely identify what are market or non-market motivations, incentives or behaviours. Instead, these emerging practices potentially redefine our understanding of what markets are and how they operate in relation to social and cultural networks.

Complex social networks play at least as significant a coordination role as price signals in cultural economy markets. Markets for novelty as social networks are thus moved closer to the centre of the economic analysis of innovation and growth. New, mobile and interactive digital media are the principal means by which such social network markets operate. The very act of consumer choice in creative industries is thus governed not just by the set of incentives described by conventional consumer demand theory, but by the choices and participations of others. An individual's payoff is an explicit function of the actions of others. There is overwhelming evidence that this applies generally to the creative industries. The social network definition of the creative industries proceeds not in terms of individual 'artistic' or creative novelty in a social context, but rather in terms of individual choice in a complex social system of other individual choice. In turn, these social networks function as markets. Thus recognized, it becomes equally apparent that the creative industries are also a crucible of new or emergent markets that, typically, arise from non-market dynamics and that often then stay at the complex borderland between social networks and established markets. This is evident in the intriguing in-between statuses of global social networking platforms such as YouTube, MySpace and Second Life (where, in this case, commercial interests are not 'buying' the property, but buying into the social space (Castronova 2006)).

The analytic distinctiveness of the creative industries is not their cultural value or sublime nature (*i.e.* their non-market value, as in model 1), but the fact that the environment of both their production and consumption is essentially constituted by complex social networks (as in model 4). The creative industries rely, to a greater extent than other socio-economic activity, on word of mouth, taste cultures, and popularity, such that individual choices are dominated by information feedback over social networks rather than innate preferences and price signals. User co-creation relations, then, do not so much statically reallocate resources across markets and non-markets, but rather the cultural economics at work concern dynamic, open, self-organising networks that generate opportunities for growth, change and innovation.

Consumer co-creation in all its uncertainty is perhaps an agent of change that unsettles existent industrial knowledge and cultural production regimes. This may well result in the introduction of novelty and diversity that will also change our understanding of what markets for the exchange of cultural products and experiences are.

Conclusion

Our underlying argument has been that the dominant explanatory schema, which seeks to address the place of the arts and media in cultural economy, are increasingly incapacitated in understanding the shape of emerging global trends and advancing both theoretically and practically engaging responses. There is increasing evidence that many analysts and activists in the field share that view – without, of course, necessarily agreeing with what we have proposed in their place. We think that model 3 and 4 approaches indicate that ‘creative disruption’ to established business practice at even, and perhaps especially, the highest levels of media capitalism while also drawing on human (*i.e.* social) technology, via the creation and maintenance of social networks and the markets that evolve from them, shows that these processes can be potentially progressive in a social and possibly a political sense.

These are actually trends and potentials that see model 4 approaches recursively turning toward approaches to model 1 content and value. This recursive potential is apparent if we ask the simple question: where are the untapped cultural sources of future economic potential and gain? If the potential affordances of globalisation can be harnessed, the future sources of value creation and the nature and structure of future markets may come from surprisingly diverse sources.

Finally, the policy implications of this framework are also not without significance. Welfare arguments have delivered much in the way of public support for a range of cultural activity, and will continue to do so. But new rationale for public investment, together with a preparedness to maximize the potential affordances provided by globalization, and technological and social change, offer a wide range of new opportunity for policy makers to consolidate the value of the cultural economy at a local, regional, national and supranational level. Culture is part of the process of economic change that in turn changes the conditions of culture. Cultural dynamics come first, economic dynamics come second, but then cultural dynamics come third, starting this process again.

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