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Role of the Creative Sector in the Metropolitan Economy: A Portland Case Study (DRAFT)

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ROLE OF THE CREATIVE SECTOR
IN THE METROPOLITAN ECONOMY
A Portland Case Study

DRAFT FOR COMMENT

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Institute of Portland Metropolitan Studies
College of Urban & Public Affairs
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Introduction

Economists and arts advocates have struggled to articulate and measure the economic significance of the creative industries sector. Not only is quantifying “creativity” counterintuitive for most, but the creative industries themselves represent a wide range of professions. In addition to the traditional visual and performing arts, industries considered “creative” include other professions such as media, advertising, graphic design, and culinary arts. Where these professions intersect and the role they play in the economic vitality of a region are the subjects of much scrutiny and debate.

Arts advocates commonly use economic impact studies to link the arts sector and the economy. Generally, this analysis involves quantifying the size of the sector in terms of income, revenue, or jobs and then applying a multiplier analysis to determine the sector’s financial impact on the rest of the economy.

A recent examination of the economic impacts of the non-profit arts sector in Oregon demonstrates this approach. In 2001, the Oregon Arts Commission, the Northwest Business for Culture and the Arts, and the Regional Arts and Culture Council commissioned WESTAF to conduct an economic impact study of Oregon’s nonprofit arts sector. The analysts compiled results from a survey sent to Oregon’s non-profit arts organizations. They measured the size of the sector in terms of income, jobs, wages, and expenditures and applied a pre-determined multiplier to account for the indirect and induced impacts of the sector—that is, the economic activity created as new income is circulated through the economy.

Although this study and studies of this type are generally well regarded and useful, they suffer from a number of limitations (Madden 2001). Simply stating the size or economic impact of spending in a particular sector does not evaluate the merits of public investment. Policy makers must evaluate these investments against many other potential investments, such as infrastructure and education. Furthermore, simple economic impact analysis cannot improve our understanding of an investment’s capacity for improving a region’s economic vitality by strengthening its traded sector.

Another relatively recent study of creative industries in the Portland region offers a rich and in-depth approach to the economic impact of the creative services sector. A 1999 report written for the Portland Development Commission and the Industry and Professional Organizations of the Creative Services Cluster combined quantitative and qualitative data in examining the impact and role of the creative services industries (Scruggs et al. 1999). This report defined “creative services” as companies and freelancers in design, advertising, public relations, film and video, multimedia, and software. The conclusion details a “creative services strategy” to complement the Creative Services Project initiated by the Katz administration.

To show how creative activity is an integral component of a healthy regional economy, we consider different components that contribute to economic vitality (Figure 1). First, the creative sector contributes to the sector of the economy that competes in national and global markets. This sector, defined as the traded sector, benefits from creative activity both directly, through exports of goods and services, and indirectly, as inputs to other traded sector industries. Second, the sector’s creative activity also attracts and employs a highly skilled and educated workforce, thus increasing the level of human capital in the region and strengthening the creativity of the labor pool available to other industries. Third, the presence of creativity adds to the entrepreneurial and innovative culture of a city—the “creative milieu” noted by Gunnar Törnqvist (1983).

This paper takes a much broader approach than do typical economic impact studies in order to describe and illustrate the mechanisms through which creative activity and creative industries contribute to the regional economy. We examine how these industries are linked to and supportive of other sectors of the economy. In addition, we broaden the definition of “creative services” to include the arts, culture, and entertainment industries, all of which comprise the “creative sector.”

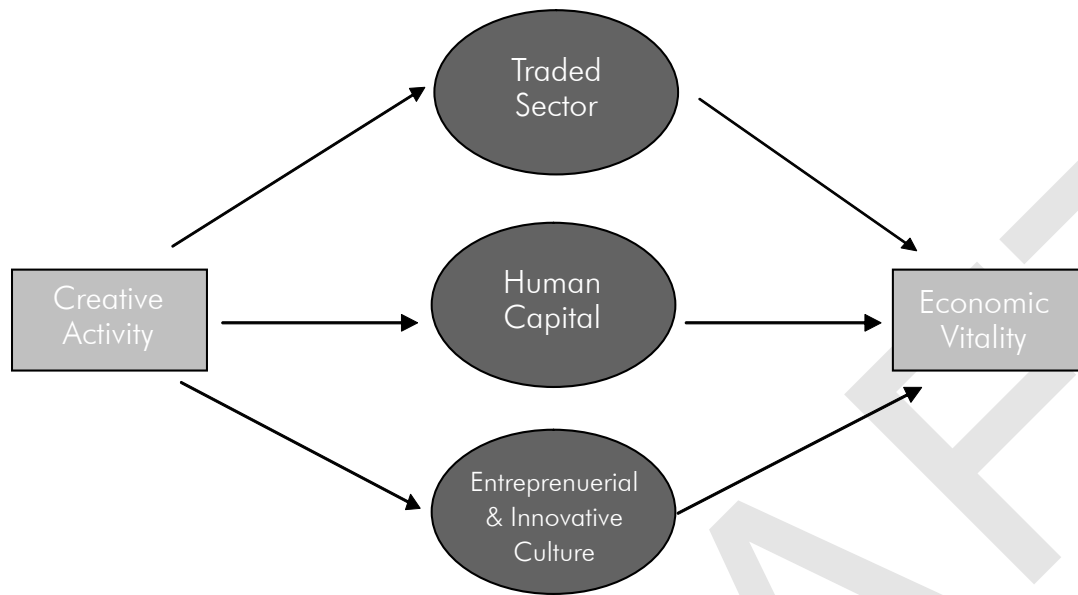


Figure 1. Contribution of the creative activity to a region’s economic vitality.

What is the Creative Sector?

The extent of the creative community, as shown in Figure 2, is expansive and includes both the arts and culture and the creative services industries. As pictured here, the creative community includes institutions, products, and people that are connected to both art and design.

Appendix A lists the occupations that comprise the creative sector and employment in each occupation in the six-county Portland-Vancouver metropolitan region. We choose to focus on occupations to define the creative sector because this approach has a number of advantages over a traditional industry sector focus. First, as Markusen (2003) argues, industry data may omit creative activity taking place within industries not normally considered creative. Second, data on self-employed artists are not available at an industry level. Finally, an industrial definition encompasses all workers within the establishments deemed part of creative industries, regardless of the creative content of their work.

The occupations we have chosen for our analysis comprise two interrelated sectors that add to the creative stock in the region. The arts, culture, and entertainment industries are at the core of the arts and cultural creative activity. The creative services comprise architecture, design, advertising, public relations and marketing and are an important component of the region’s traded sector.

These two sub-sectors are closely linked. They share many of the same public policy concerns, and the arts and culture industries provide key inputs to the creative service industries. As described by participants in a focus group conducted by Scruggs et al. (1999), the loss of the arts in the community and schools is of concern to those in creative services. For example, closing down the Portland Repertory Theatre sent a labor pool of actors elsewhere who were needed for the film, video, and advertising industries. According to the same focus group, all

creative industries need to be supported and connected in order to build a strong creative sector.

The Influence of Creative Industries and Occupations on the Traded Sector

Widely accepted models of regional growth demonstrate the power of the traded sector in generating growth in a region. A region simply cannot grow if it does not trade its goods and services with the rest of the world. The traded sector also influences the wage levels of local industries (Porter 2003). Furthermore, recognition of this basic principle has driven a number of economic development strategies around the region, including the Oregon Business Plan. As the Metropolitan Business Plan emerges from its current process, it, too, will focus on the traded sector.

Companies gain advantages by locating in proximity to other organizations that share specific characteristics. These other organizations may function as competitors, suppliers, or customers, and may even act as competitors in some instances and partners in others. Clustering provides advantages to members of a cluster who share a common labor pool, create critical mass for important supporting institutions, attract suppliers, exchange ideas, and challenge each other's performance through local competition.

As documented by Michael Porter and Paul Krugman, these advantages are so strong that clustering of industries within specific metropolitan areas is a common phenomenon and, in many industries, is critical to developing and maintaining competitive advantage. The Portland region's traditional and emerging clusters (Table 1) are well-documented and discussed in a number of reports and studies.

Portland's Traded Industry Clusters
Metals/Machinery
Forest Products
Food Processing
Apparel/Sporting Goods
Nursery Products
Creative Services
Professional and Business Services
Food Services and Accommodation

Table 1. Traded industry clusters located in Portland. Source: ECONorthwest, 2005.

The creative sector is an important element of the traded sector and plays many roles in boosting the traded sector's output and competitiveness:

1. **The creative sector exports its output directly.** Creative services firms in Portland are gaining a national market share in the sector. Although comprehensive estimates of the revenue generated from this sector's sales outside the region are unavailable, results from a

1999 survey mirror these trends. According to Scruggs et al. (1999), creative service firms exported 28% of their product within Oregon but outside the region, and an additional 15% to other national or international customers. In addition, freelancers and self-employed persons in the creative sector exported 8% outside the Portland region but within Oregon and an additional 25% of their work outside Oregon.

2. **The creative sector provides inputs to other traded sectors.** For example, Nike hires design firms, Intel hires advertising firms, and the microbrewery industry hires the photographers that make their product look appealing. The 1999 survey shows that freelancers and self-employed professionals deliver their products to a diverse clientele that falls outside the realm of creative services. Twenty-five percent of their business went to high tech and manufacturing firms, industries with a strong presence in the traded sector. In addition, 31% went to film, video, and broadcasting firms and 20% to multimedia and software firms.

3. **The creative sector adds to the stock of creative human capital available to the traded sector.** The creative sector attracts a talented labor pool to the region both to work in the industry and to enjoy the creative sector's benefits to the community. We discuss the sector's human capital impacts below.

Creative Activity and Human Capital

Edward Glaeser (2003) documents that cities with more educated and skilled residents have grown faster—in terms of both population and productivity—than comparable cities with less human capital. He has developed and tested several theories of why skills and education drive growth. First, he contends that skills and education predict growth because cities are increasingly oriented around consumption amenities. An educated and skilled population is an attractive consumer amenity and drives demand for other amenities. Second, cities function primarily to facilitate the flow of

ideas. Educated people specialize in ideas. Finally, an educated and skilled population helps cities survive by adapting their economies to new technologies.

Glaeser (2003) finds the strongest evidence to support the Information City view—that skills drive the growth of cities because cities facilitate the exchange of ideas. This exchange leads to higher levels of productivity in cities as ideas spread more quickly than they would in the absence of a critical mass of skilled people. He also finds weaker evidence that skills create amenity value. His results to date also suggest that the ability of skilled people to reinvent their economy is very important in urban areas suffering from structural economic change.

The creative industries add to the human capital of the Portland region in two ways:

1. **By employing them.** The Bureau of Labor Statistics reports that within the six-county Portland-Vancouver metropolitan area, 21,120 people work in the occupations listed in Appendix A. The average salary is approximately \$48,719, which is above the regional average of \$39,460. Furthermore, roughly half of these occupations require at least a bachelor's degree. However, these requirements do not speak to the actual educational attainment level of people in these occupations. While many artists are not required to have a higher degree or post secondary schooling, they often do. Furthermore, according to the 1999 survey, 81% of employees in the creative service professions, a subset of the creative sector, had a bachelor's degree or higher.
2. **By creating an attractive “consumer city.”** Skilled people are looking for the products and environment that the creative sector provides. As Cortright and Coletta (2002) demonstrate, young, educated people want to live in the Portland region. Between 1990 and 2000, the region's share of young people with a four-year degree grew by 50%—significantly out-performing the rest of the nation. This change has occurred, in part, because of the influence of arts, culture, and other aspects of the creative sector. To quote one of the

participants from their report, Portland is “a great place to create and play.”

Innovation, Entrepreneurship, and the Creative Industries

Innovation and entrepreneurship are both important characteristics of high-performance economic regions. Economists agree that productivity growth is the key to raising the standard of living, and new growth theory has established the tie between economic growth and technological progress (Borras and Stowsky 1995). Recent research on differences among metropolitan regions shows a correlation between innovation (as measured by patenting activity) and measures of economic performance such as per capita income and employment growth (DeVol 1999). Innovation improves our productivity, enhances our quality of life, and creates opportunity for small and large companies.

Similarly, entrepreneurship is a key component of a healthy economy. Entrepreneurs transform their dreams, ideas, and knowledge into new enterprises that employ a region's citizens and add diversity to its economy. Acs and Armington (2005) establishes that higher rates of entrepreneurial activity are strongly associated with faster growth of local economies. Entrepreneurs provide the know-how and energy and take the risks required to turn technical and market knowledge into economic benefit for the entrepreneur, its employees, its investors, and its customers. Porter (1998) shows that as industries concentrate in a city, new business formation becomes more likely through startups and spin-offs. Barriers to entry are lower than elsewhere because needed assets, financial support, skills, inputs and employees are often available locally.

How does the creative sector contribute to innovativeness in the Portland region? As Madden (2004) points out, creativity and invention or innovation have become very nearly interchangeable in discussions of strategies for building an innovative economy. Although they are linked, they are not one and the same. Furthermore, Richard Florida (2002) distinguishes between “technological and economic” creativity and “artistic and cultural” creativity but emphasizes the role of both in the generation of new economic and technical ideas.

Despite the intuitive logic that creativity contributes to innovation, actually measuring the relationship is far from simple. Although patents can be used to measure scientific innovation and track their influence on the economy, artistic innovation and creativity is much more difficult to track. Copyrights, trademarks, and design registrations may provide an additional, but certainly not universal, accounting of creative output.

Although measuring innovation in the creative sector presents challenges, better measurement methods might clarify the mechanisms by which creative innovation contributes to economic vitality. For example, do innovations in one component of the sector create opportunities or stimulate creativity in others? To what extent does the commercial component of the sector benefit from innovation in the non-profit component? How, for example, might innovations in dance influence the graphic arts? A detailed accounting of how workers move among the creative occupations might contribute a great deal to our understanding of this dynamic.

How has the creative industry contributed to the Portland-Vancouver region's entrepreneurial climate? Ann Markusen (2004) notes the lack of data that quantify the entrepreneurship potential for individual occupations. However, there are strong indications that the creative sectors are very entrepreneurial:

- From 2004 to 2005, growth in the number of arts businesses was 5.5%, outpacing the rate of business growth overall (3.8 %) (Americans for the Arts, 2005).
- Entrepreneurs in the creative sector often face much lower barriers to entry (required capital, for example) compared to other industries. Their creative talent is their main source of competitive advantage.
- Many artists are self-employed, accepting the financial risk that self-employment entails. This risk-accepting attitude contributes to the entrepreneurial environment. As one Portland artist put it, "Almost anyone can find some level of support for their work" (Cortright and Coletta, 2002).

Conclusions and Challenges

It is important to move beyond typical economic impact analysis to understand the mechanisms by which the creative sector contributes to the economic vitality of the Portland-Vancouver metropolitan region. Although we have described the mechanisms and interactions between the creative sector and the regional economy, we have not adequately expressed the strength of these relationships.

A number of challenges face us as we attempt to improve our understanding of these mechanisms. First, defining the creative sector in a way that facilitates understanding of these relationships is certainly a challenge. As Tepper (2002) expresses, defining the sector as broadly as we have done in this paper may obscure important trends occurring within the sector, thwarting our understanding of its component parts. A definition this broad also may impede our ability to find common policy objectives or to agree on policy priorities.

As stated earlier, we need to do a better job of measuring the extent and value of innovation in the creative sector and tracking the influence of innovation within and across the components of the sector. Finally, we need better methods of understanding the context for creativity (Tepper 2002). Countless studies examine the factors that influence invention and innovation, yet we only vaguely understand the role of incentives, local conditions, and networks in creative output.

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APPENDIX A: The Creative Sector

Employment May 2004

OCCUPATION TITLE	Employment May 2004
Management	
Advertising and Promotions Managers	600
Marketing Managers	1,970
Public Relations Managers	450
Business and Financial Operations	
Agents and Business managers of artists, performers and athletes	50
Architecture and Engineering	
Architects	1,130
Landscape architects	200
Education, Training and Library	
Art, Drama, and Music Teachers, postsecondary	470
English language and literature teachers, postsecondary	180
Arts, Design, Entertainment, Sports, and Media Occupations	
Art Directors	270
Fine Artists, including painters, sculptors, and illustrators	140
Multi Media artists and Animators	170
Artists and Related Workers, all other	30
Commercial and Industrial Designers	210
Floral Designers	440
Graphic Designers	1,310
Interior Designers	480
Merchandise Displayers and Window trimmers	770
Set and Exhibit Designers	20
Designers, all other	210
Actors	110
Dancers	
Choreographers	70
Music Directors and Composers	420
Musicians	400
Entertainers and Performers, Sports, and Related workers, other	80
Radio and Television Announcers	170
Public Relations Specialists	1,420
Editors	520
Technical Writers	540
Writers and Authors	310
Broadcast Technicians	230
Sound Engineering Technicians	40
Camera Operators, Television, Video, and Motion Picture	170
Film and Video Editors	50
Media and Communication workers, all other	180
Healthcare Practitioner and Technical Occupations	
Recreational Therapists	110
Food Preparation and Serving Related Occupations	
Chefs and head cooks	760
First-Line Supervisors Managers of Food preparation	6,440
TOTAL	21,120

Source: Bureau of Labor Statistics, http://www.bls.gov/oes/current/oes_6440.htm

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