

# 'Creative industries' revisited: contestable narratives, the 'sector deal' and the Policy and Evidence Centre<sup>1</sup>

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**"The truth is that we are a very old country with a stellar arsenal of fine art, ancient artefacts, literary genius, civic institutions and curatorial skill, all now bolstered by world-class industries from music to fashion. And rather than be ashamed by this cultural inheritance, we now at last have the confidence and economic resources to celebrate it as a national asset."<sup>2</sup>**

These words are quoted from an editorial in *The Observer* newspaper published in July 2008, just two months before Lehman Brothers filed for bankruptcy in the USA and twelve weeks before the UK government was forced to rescue three major UK banks from imminent collapse. Celebrating the cultural power and economic heft of the UK's creative sector, broadly construed, this statement is a classic of the genre, exuberantly capturing the mood of the moment immediately before the financial crash.

More than a decade later, and with an apparently blind eye to swathes of cuts to public investment in arts, culture and cultural education, a note of triumphalism continues to characterise the speeches of government ministers and many industry leaders. In the case of the politicians it is not hard to understand why: so much other news is bad news. It is easier to wax lyrical about Adele and Ed Sheeran, *Sherlock* and James Bond, *Candy Crush Saga*, the RSC and Punchdrunk, or Tate Modern and the Angel of the North. It is 'basking in glory' time, as reflected in these remarks reportedly made to a specially invited group of stars and entertainers by former PM David Cameron in Downing Street in 2014:

We don't have the natural resources to rival other nations but we've got the cultural resources....So tonight let's resolve to keep on leading the world with our culture.<sup>3</sup>

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<sup>1</sup> The author wishes to thank Professor Andy Pratt (City, University of London) and Dr Chris Bilton (Warwick University) for their comments on an earlier draft of this lecture. He also wishes to acknowledge his intellectual debt to Patrick McKenna, founder of the Ingenious group of companies, chairman of the advisory board of ICCE at Goldsmiths and Goldsmiths Honorary Fellow. These colleagues, however, bear no responsibility for the views expressed here.

<sup>2</sup> *The Observer*, leading article, 19 July 2008.

<sup>3</sup> Dominic Sandbrook, *The Great British Dream Factory*, p. xxvi, Penguin Books, 2016.

This kind of “creative happy talk”, as it was recently described by Ian Leslie in the *New Statesman*,<sup>4</sup> is commonplace at industry receptions in Westminster. It also infuses conversations about what, since 1990, has been labelled ‘soft power’.<sup>5</sup>

Commenting on Danny Boyle’s quirky but spectacularly successful opening ceremony for the London Olympic Games in 2012, the state-run Chinese news agency Xinhua informed its readers that the ceremony had celebrated “British humour and fantasy literature” and, perhaps mindful of China’s own five-year plan, that it was “the product of Britain’s well-developed cultural and creative industries”.<sup>6</sup> Just so: in front of what was, at the time, the biggest audience in the history of global entertainment, the theatre director from Lancashire had exceeded all expectations in pulling out of the hat an even bigger rabbit than his celebrated films *Trainspotting* and *Slumdog Millionaire*.

Xinhua’s observation provides my point of departure. This lecture is not about culture but about cultural and creative industries (‘CCIs’ to use the language of the European Union), their place in the UK economy, public discourse and the research agenda. I take a more modulated view of their state of health than is commonly expressed: I believe that the evidence demands a finely nuanced account of a highly variegated and complex segment of the economy – one that is as fragile and diffuse as it is on many measures high-achieving. Yes, we should take pride in the fact that the UK can reasonably claim to be a world-leader in many spheres of creative activity and celebrate the success that comes with being a major exporter of cultural goods and services, but we should also more openly acknowledge, and vigorously interrogate, deep-seated weaknesses and pressing sector challenges. A rediscovered vogue for industrial strategy gives us an opportunity to rebalance the current, largely undifferentiated narrative if we are prepared to take it.

The intended audience for these remarks is, firstly, an unusually eclectic group of academics, business and trade association representatives, plus an actor/screenwriter, who comprise the Creative Industries Advisory Group (CIAG) established in 2017 by the Arts & Humanities Research Council (AHRC). This group, of which I too am a member, acts as a sounding board for the oversight of the AHRC’s Creative Industries’ Clusters and Audience of the Future programmes, alongside the Policy and Evidence Centre (PEC). Between them these programmes will account for some £120m of expenditure of public money 2018-2022 under the rubric of the government’s Industrial Strategy Challenge Fund (ISCF). This is a substantial pot of public money by any standards: it is administered by AHRC for UK Research and Innovation (UKRI) and is a sector first. Secondly, my target is a small but growing cohort within the wider public policy community – *aficionados* of the creative industries in Whitehall, business and the lobby. Finally the lecture will also, I hope, be of

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<sup>4</sup> Ian Leslie, ‘Left Field’, *New Statesman*, 8th- 14th November 2019

<sup>5</sup> The term was coined by Joseph Nye in his book *Bound to Lead: The Changing Nature of American Power*.

<sup>6</sup> Sandbrook *op.cit.*, p. xxii.

interdisciplinary interest to Goldsmiths colleagues and students, both within and beyond the Institute for Creative and Cultural Entrepreneurship (ICCE).

In attempting to engage such a diverse audience of industry and creative practitioners and non-practitioners, I need to provide a summary account of how we got here. The road to creative sector ‘industrial strategy’ has been circuitous. The lecture is therefore in three parts. I begin with some reflections on the history and language of the ‘creative industries’,<sup>7</sup> including the marketing of what is officially showcased as ‘Creative UK’. To some this is familiar, even tedious ground, but without acknowledging the fissures in the conceptual landscape we shall find ourselves at cross purposes.

Secondly, I want to offer a provisional critique of what is a wholly new building block of public policy in the form of the ‘sector deal’ with government launched in March of last year. As an exercise in strategic policymaking, which is its precise locus, this is symbolically significant as the first of its kind.

Finally, I want to address what is perhaps the biggest gain from the ‘sector deal’, the establishment alongside nine university-led, R&D focused ‘creative clusters’ of a dedicated research facility, the Policy and Evidence Centre, led by the innovation charity NESTA. Where will the PEC sit within the wider research universe and where should it focus its limited resources?

## **Marketing, public policy and the terminology of art and commerce**

The packaging of the creative industries by the former Culture Secretary Chris (now Lord) Smith, David Puttnam, John Newbigin and others in the late 1990s was, by any measure, a stunningly successful exercise in political marketing. It has also become a significant UK export: numerous non-European countries around the world have adopted versions of the industry classification, or ‘mapping’ methodology, first deployed by the Department for Culture Media and Sport (DCMS) in 1998. This methodology is still, in modified form, the foundation of the authorised version of the UK growth narrative, including the mantra that the creative industries are growing three times faster than the rest of the economy.<sup>8</sup> It also underpins the government’s overseas marketing of the sector under the banner of CREATIVITY IS GREAT.<sup>9</sup>

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<sup>7</sup> Increasingly I regard the term ‘creative industries’ as unsatisfactory for reasons made clear in this lecture, hence the inverted commas, but it would be irritatingly pedantic to apply this practice throughout.

<sup>8</sup> The number of jobs in the creative industries as defined by the DCMS increased by 30.6% from 2011 to 2018: the equivalent figure for overall UK employment was 10.1%. See *DCMS Sectors Economic Estimates 2018: Employment*, p.6, DCMS, 2019.

<sup>9</sup> [The Creative Industries website](#)

The argot of the creative industries is especially popular in the advertising and marketing services industry. The building and updating of the Create UK website, which serves both as a manifesto and as an international resource manual ('UK to the World' it boldly announces), is substantially the work of one remarkable woman, Janet Hull, Marketing Director at the Institute for Practitioners in Advertising (IPA). This website is the place to go for slick infographics (see fig.1 below), alluring case histories, a reduced version of the latest departmental statistics and a panoramic narrative embracing all the sub-sectors featured in the updated (2007) version of the DCMS's industry classification - from advertising and architecture through to publishing; crafts; design (including fashion design); film, TV and video; music and the performing and visual arts; and museums and galleries. It is also the home, alongside the government-funded Creative Industries Council, of 'Createch', a newly minted marketing initiative and category mash-up which integrates information and communications technology (ICT), an otherwise distinct industrial category familiar since the 1980s, with several creative disciplines including design and advertising.

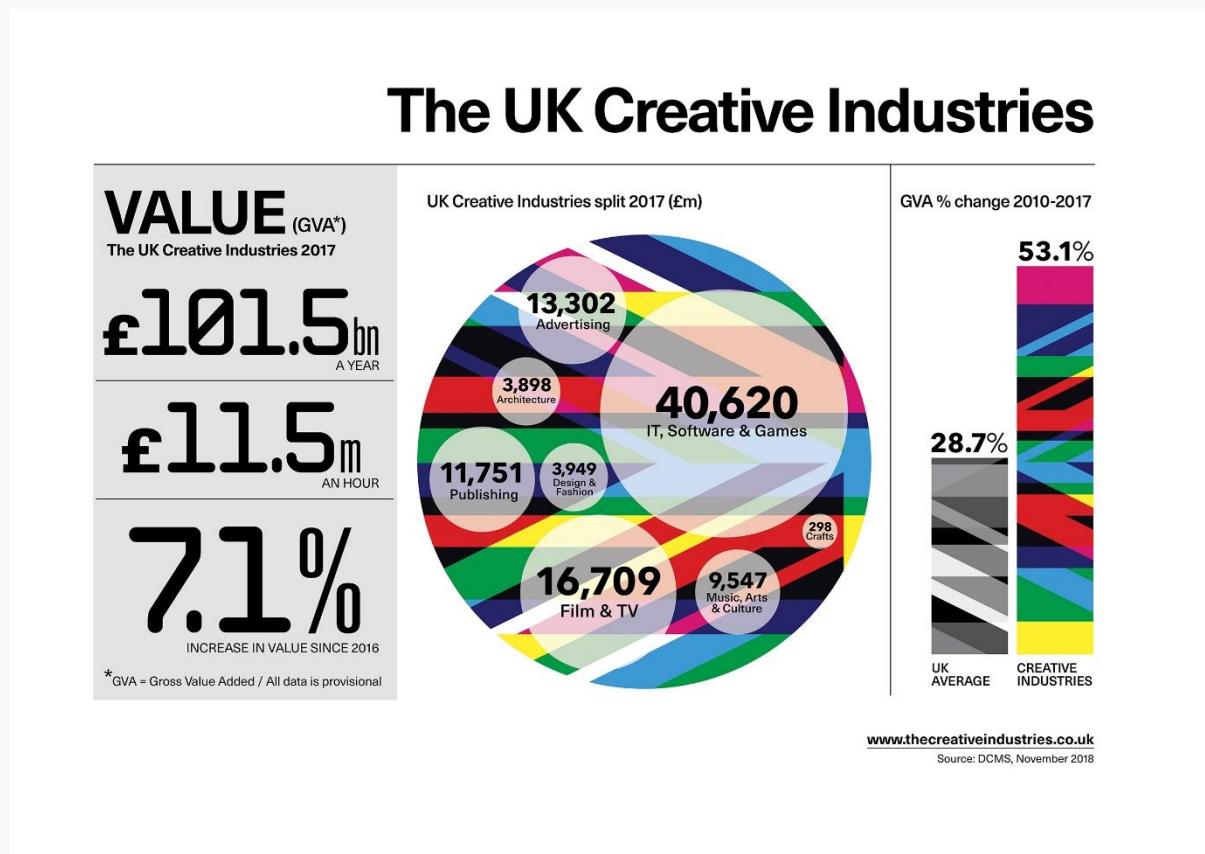


Fig.1: UK creative industries, GVA growth, 2010-17 (DCMS)

Puffery is what you would expect from the director of marketing strategy at an advertising trade body. It should be acknowledged too, that many practitioners are content with the sunny narrative dispensed by Create UK: and, after all, effective trade promotion is by its

nature relentlessly upbeat. Hubris however – never an attractive attribute - can also be dangerous if dominant voices within an industry's leadership cohort become too accustomed to trumpeting success, whilst dismissing any criticism of the methodology on which (as in this instance) much of the official success narrative depends. In such circumstances pressure not to 'rock the boat' can underpin a debilitating orthodoxy.

The currency of the creative industries may – this is a hypothesis on my part - be losing its appeal to many of its *cultural* constituencies, as well as its utility as a unifying concept, because the tensions within it are increasingly difficult to contain. Language is an important issue: according to the latest official figures, some two million people are employed within the 'creative industries', but the standing joke amongst those of us who work in them is that almost no-one self-identifies under this label. My own experience of working in the film, TV, theatre and music businesses is that this terminology is almost never used by the inhabitants of the occupational categories to which it relates.

When practitioners talk about their work they speak mainly in terms of craft, profession or genre - whether in the performing and visual arts, the fashion business, games development, digital marketing or architecture. Most artists, designers, producers and makers are, I suspect, instinctively more comfortable with the earlier terminology of 'cultural industries', also preferred by many scholars. This language is strongly associated with the policies of the Greater London Council (GLC) in the 1980s which promoted bottom-up planning in traditional cultural industries like music and publishing,<sup>10</sup> an approach to policy-making far removed from that subsequently pursued by the DCMS under the rubric of 'creative industries'. Many film and TV industry executives, schooled in the royalties-based business models and complex licensing arrangements which frame their markets, remain attached to yet another lexicon - that of audio-visual business, 'screen industries' and the still wider term 'entertainment industries'. Linguistic cross-dressing abounds, even amongst broadcasters. It was striking that the BBC adjusted the language of its pitch to government during the course (2015-16) of its licence fee defence and charter renewal campaigns: the Director-General took to arguing that public service broadcasters should be seen as "catalysts" for the "creative industries" in order to chime with approved DCMS language.<sup>11</sup>

This formulation would not have resonated widely in the UK before 1998, when the classification of the 'media and cultural sector' was reconfigured by means of a celebrated industry mapping exercise – one which contained within it a bold manoeuvre. As Secretary of State for Culture, Media and Sport Chris Smith was determined to change a broad political perception that the arts and culture appeared in the national balance-sheet only as

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<sup>10</sup> See especially Nicholas Garnham, *Concepts of culture: public policy and the cultural industries*, 'Cultural Studies', 1;1, pp.23-37, 1987.

<sup>11</sup> See for example Tony Hall, speech to the Creative Industries Federation, 23rd September 2015, BBC Media Centre, accessed 13th August 2019.

a line signifying ‘begging bowl’. The aim of his mapping project was to turn this reflex inside out and, in Smith’s own words, “to raise awareness of the industries, the contribution they made to the economy and the issues they faced.”<sup>12</sup> The strategy was to raise the sector’s profile, especially within the Exchequer, by highlighting the tax revenues contributed by the creative sector, broadly defined, and so strengthen the Culture Secretary’s hand in bidding for a bigger slice of the public spending pie. One audacious way to do this was to beef up the numbers by adding interactive software and computer services into the mix of what became known as the ‘DCMS 13’, henceforth the official ‘map’ of the UK’s creative industries.

By the time the second mapping document appeared in 2001, this reconfiguration had had the effect of adding one third to aggregate sector revenues and more than 40% to employment figures.<sup>13</sup> This statistical rearrangement of the chairs was controversial from the outset and has subsequently been subject to several user consultations and limited revision at the margins.<sup>14</sup> Has the end justified the means? Taking a twenty year view the project *has* undoubtedly succeeded in shifting perceptions in Whitehall, culminating in the ‘sector deal’ with government in March 2018, a status which had been rejected (if only privately) five years earlier. It has been less successful in translating greater recognition into transformational injections of public or private money or, at a more abstract level, in cementing a sense of shared, sector-wide identity amongst its uniquely broad phalanx of constituent artists, entrepreneurs, arts and trade bodies, public institutions and private companies.

All countries struggle with the challenges of creative sector data analysis because so many key occupational codes fail to reflect industrial reality in the internet age; this gives rise to different measurement approaches and considerable variation in economic reporting from one country to another.<sup>15</sup> France, for example, continues to adopt an approach which is closer to the older ‘cultural industries’ model, as does UNESCO. One of the analytical problems faced by the sector is its continued reliance on measurement tools which are forty years out of date: despite improvements made by government statisticians, most quantitative statements about the creative industries are challengeable.

With this qualification, it is clear that a principal driver of the growth and optimism that has characterised the creative industries over the last two decades has been the booming global market for cultural goods and services, a development highlighted by two UN agencies, UNCTAD and UNDP, in a landmark report called *Creative Economy Report 2010*. This

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<sup>12</sup> DCMS, *Creative industries mapping document*, 1998.

<sup>13</sup> DCMS, second mapping document, 2001, pp. 10 and 11.

<sup>14</sup> The last major consultation took place in 2016. [Creative Industries Economic Estimates: Consultation on Proposed Developments PDF](#), Department for Culture Media & Sport, accessed 8<sup>th</sup> October 2019

<sup>15</sup> See Oliver & Ohlbaum Associates and Analysys Mason, ‘Defining and measuring the creative sector’, Appendix 2, in *The impact of the internet and digitalisation on the European creative sector*, for Google, April 2017.

analysis showed that world demand had continued to grow throughout the financial crash of 2008, albeit at a slower pace, even as the global economy was shrinking by some twelve per cent.<sup>16</sup> UNCTAD/UNDP claimed an annual growth rate of 14% for such goods and services between 2002-08, an astonishing increase which reflects the rapid growth of the middle classes throughout Asia.

During these years the creative industries agenda in the UK was consonant with the New Labour narratives of prime ministers Blair and Brown. The Work Foundation, together with what was then the National Endowment for Science, Technology and the Arts (NESTA), another Chris Smith initiative, examined the economic performance of the UK's CCIs critically but enthusiastically and pitched for increased government recognition and support so that the UK would be able, in the title words of the report, to "stay ahead" of the global competition.<sup>17</sup> Public investment in what the authors of *Staying Ahead* called "core creative fields", essentially the performing and visual arts, peaked not long after in 2008-09. Subsequently the funding climate deteriorated sharply: following the general election of 2010 and Jeremy Hunt's appointment as Culture Secretary, the new government's 'austerity' campaign forced the sector onto the defensive, attempting unsuccessfully to fend off substantial cuts (in aggregate more than 30%) to Arts Council England (ACE), the British Film Institute (BFI) and other culture-related public bodies, including public sector broadcasters Cuts to local government expenditure on culture forced (although indirectly) by Whitehall greatly exacerbated the struggles of scores of previously supported arts organisations.

These cuts were leavened to some degree by the post-Olympics redistribution of Lottery resources and the introduction of a rolling programme of creative sector tax reliefs after 2014, for animation, high-end TV, children's TV, video games, theatre, orchestras and museums and galleries, modelled on the Labour government's 2007 Film Production Tax Credit. The net financial impact on publicly funded arts bodies (and especially on museums) has nonetheless on most accounts been serious. Emerging leadership and resilience programmes, like the former Cultural Leadership Programme and current Clore programme, mostly funded by ACE, have promoted the benefits of *intrapreneurial* thinking, also championed here at ICCE. These have greatly helped to deliver higher standards of cultural management and thus mitigate some of the pain, but in much of the public realm under-resourcing and low wages have nonetheless become the norm.

Meanwhile in the commercial sector the UK's animation industry was rescued from near extinction by the new Animation Tax Relief (introduced by the Finance Act 2013), a rescue

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<sup>16</sup> *Creative Economy Report 2010*, UNCTAD and UNDP, p. xx, Geneva, 2010.

<sup>17</sup> The Work Foundation (with NESTA), *Staying Ahead: the economic performance of the UK's creative industries*, 2007. This report was also known as the Hutton Report, the research team having been led by Will Hutton, then CEO of The Work Foundation.

act in which Oli Hyatt of the Blue Zoo Animation Studio played the starring role with a little help from me on the economics and lobbying. Just to underline a crucial point about the continuing disjunction between the worlds of commercial and non-commercial culture, inward investment into film and high-end TV is presently booming, boosted both by tax credits and a weak pound.

The condition of the CCIs in the round is therefore one of shockingly stark contrasts, although this is never acknowledged in the ‘official’ narrative. Part of the explanation is that for the last two decades it has been expedient for a shifting coalition of forces in the arts, culture, media, entertainment and education worlds to coalesce under the ‘creative industries’ flag, although effective co-ordinated cross-sector lobbying is a relatively new phenomenon. For much of this time coalition-building was led by Arts Council England, largely *ad hoc* and often defensive. Trade bodies in the commercial sector had traditionally fought amongst themselves for a seat at the table of HM Treasury and had rarely ever spoken with a single voice, even within their own sub-sectors. A comparable lack of co-ordinated messaging had also long been a feature of cultural sector trade promotion. This was the rationale for the establishment in 2014 of a new umbrella organisation, the Creative Industries Federation (CIF) which together with the Creative Industries Council (CIC) and Creative England, established three years earlier, have changed the representative landscape and sharpened total sector lobbying capability, a development noted approvingly by successive ministers in BEIS and the DCMS.<sup>18</sup>

The notion of the ‘creative industries’ as a unifying concept has thus always been opportunistic. It has tended to disguise reluctance amongst given cohorts of ‘creatives’ to identify with their nominal counterparts in other, remote and perhaps more overtly commercial activities (classical musicians with digital advertising executives for example). It also conceals an aversion amongst many cultural producers - those impresarios, serial risk-takers and fixers who form the backbone of project-based producing networks – and artists to the jargon that characterises so much official reporting, especially the fixation on gross value added (GVA) as the single most foregrounded measure of ‘success’.

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<sup>18</sup> The Creative Industries Council (CIC) and Creative England are both government funded. The CIC is a consultative body co-chaired by ministers from BEIS and DCMS with an industry representative, currently Tim Davie (BBC Studios). It commands widespread support from the private sector and plays the leading role in sector policymaking. The Creative Industries Federation (CIF), the brainchild of the designer and philanthropist Sir John Sorrell, is independent and financed by its members. The Federation has worked with the CIC on broad policy agendas (supporting creative education, opposing Brexit) and has drawn in a large public sector membership from within the arts and higher education, but has generally neglected private sector perspectives and largely failed to demonstrate its value to larger commercial enterprises and trade bodies, with whom it is to a degree in conflict for subscriptions. By the middle of 2018 the CIF was widely rumoured to be in financial difficulties. On 25<sup>th</sup> September 2019 it was announced that it would “come together” with Creative England in March 2020, although on what constitutional or financial basis remains unclear.

A deeper reason for the absence of practitioner identification with the ‘creative industries’ narrative is not hard to discern. Storytelling, composing and curating are activities that do not easily lend themselves to quantitative measurement. Few creatives see themselves reflected in the desiccated realms of SIC and SOC codes, nor do they think in terms of contrasting measures of what the classification-wallahs call ‘creative intensity’.<sup>19</sup> For the wider public on the other hand, the issue is simpler: whereas it is clear what we mean by the defence industries or, say, the automotive sector, the ‘creative industries’ are, to use Matthew Taylor’s phrase, somewhat “fuzzy around the edges”.<sup>20</sup>

Some degree of cognitive dissonance is to be expected given that these industries are the progeny of the eternally fractious intermingling of art and commerce and the often-fraught contracts between their offspring.<sup>21</sup> It is not surprising that the descriptive landscape has become so slippery. By lumping together a basket of distinct creative, commercial and professional activities and bundling them up as ‘the culture industries’, ‘the cultural/industries’, ‘the creative industries’ or ‘the creative economy’, commentators, marketeers and politicians have all in their different ways elided concepts that sit uneasily one with another. One thinks of the divergent (and disputed) notions of cultural and economic value, private markets and public infrastructure, personal identity and mass media, and collaboration and entrepreneurship. Everyday collisions - beauty jostling with price in the auction room, the artistic director grappling with ‘quality metrics’ – tend to pass without notice in the daily traffic of business. By contrast, in the rarer air of literature and the arts, a commercial manner and an over-enthusiastic adoption of the language of the marketing world can get you into serious trouble, and not only with poets, as Creative Scotland discovered to its cost in 2012 when it imploded as a result of bitter internal warfare.

More significant to a university audience, perhaps, is resistance to the language of the ‘creative industries’ within the academy. It is possible to make too much of this point – some scholars rally round one flag, some another – but equally, a tendency towards critical distancing is observable amongst economic geographers, political economists and sociologists alike.<sup>22</sup> The perspective from political economy is especially illuminating. The main planks of a critique from this vantage point were laid down by Professor Nicholas Garnham in a celebrated article for the *International Journal of Cultural Policy*, “From

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<sup>19</sup> ‘Creative’ industries are identified by DCMS based on a 4-digit SIC code as those with at least 30% ‘creative intensity’, defined as the proportion of people doing creative jobs within each industry. Under this definition 79% of the jobs in the performing arts, for example, are deemed creative, by comparison with just 38% of the jobs in the operation of arts facilities.

<sup>20</sup> Taylor used this phrase at an RSA seminar on the creative industries on 7<sup>th</sup> May 2013, [State of the Arts Shaping the Future of Culture PDF](#)

<sup>21</sup> Note the full title of Richard Caves’ classic American study: *Creative Industries: Contracts between Art and Commerce*, Harvard University Press, 2002.

<sup>22</sup> For a fuller treatment of this topic see Kate Oakley and Justin O’Connor (ed), *The Routledge Companion to the Cultural Industries*, Routledge, 2015, Introduction and *passim*.

Cultural to Creative Industries”, published in 2005.<sup>23</sup> Garnham’s key insight was that this defining shift in language could only be understood and assessed

...in the context of a wider debate about the impact of information and communication technologies (ICTs) and digitalisation and the relationship between the deployment of new communications networks and the products and services carried over them.<sup>24</sup>

This was at a time when the promised benefits of what was routinely called the ‘information society’ often went unchallenged. Facebook was still in its infancy, Twitter was unheard of and, amongst other futurist fantasies, the Internet still held out the hope that writers, composers and other creators might get a better financial deal from the digital world than they had enjoyed in the analogue world. In 2005 the transformational possibilities of digital technology were still mesmerising the *Wired* crowd into imagining that incipient ‘disruption’ would translate into radically more democratic forms of power relationship in cultural production and distribution.

During the years since the publication of Garnham’s article we have been progressively disabused about the promise of such naïve technological determinism: the positive projected transformational effects of ‘disintermediation’ on the business economics of cultural enterprise, to be achieved by enabling direct communication between artist-makers and their customers and audiences, have not generally materialized outside the games industry, which is a special case. Although the latest digital tools have indeed made it easier for anyone to become an entrepreneurial creator-producer-publisher-distributor, and the marginal cost of distributing content is now effectively zero, the big entertainment corporations have suffered only minimal disruption to their dominant market positions in spite of mounting challenges to their business models from OTT (‘over the top’) media services providers and internet platforms. The Silicon Valley technology giants – the FAANGs as they have been labelled collectively<sup>25</sup> – are fundamentally *re-intermediating* the chain of value in media business, but a handful of old and new gate-keepers continue, in changing configurations, to dominate the UK’s capital intensive, royalties-dependent cultural industries, especially in music, games and film, to the extent that a former BBC Director General and now editor of the *New York Times*, Mark Thompson, has warned that British “cultural sovereignty” is under threat.<sup>26</sup>

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<sup>23</sup> Nicholas Garnham, “From Cultural to Creative Industries: An analysis of the implications of the ‘creative industries’ approach to arts and media policy making in the United Kingdom”, *International Journal of Cultural Policy*, vol.11, no.1, 2005.

<sup>24</sup> *Ibid.*, p.20.

<sup>25</sup> FAANG: Facebook, Apple, Amazon, Netflix and Google.

<sup>26</sup> Ex-BBC boss warns of threat to UK’s ‘cultural sovereignty’, BBC website, accessed 24th September 2019. Thompson was giving the Steve Hewlett memorial lecture.

Continuity co-exists with disruption and change. A diminished BBC nonetheless remains by far the biggest single investor in home-produced UK content; publishing and marketing services conglomerates, like Pearson and WPP, have adapted painfully and largely held their positions, for now at least; giant multinational music businesses, like the Universal and Warner Music groups, are again generating healthy profits; whilst the great platoons of micro-producers, freelancers and the self-employed continue, as always, to keep the creative wheels of big Studio inward investors turning in the audio-visual sector. Surveying the scene as a whole however, it is difficult not to acknowledge that the deepening effects of the digital shift have served to weaken the market power of many cultural actors *vis a vis* ICT providers and to entrench the power of internet platforms in emerging cultural markets.

One critically important but underestimated characteristic of the creative industries is their dependence on ‘hits’, a commercial characteristic that applies as much to book publishing and the fashion industry as it does to film, TV drama, musicals and the pop business. In her book *Blockbusters*, Professor Anita Elberse of Harvard Business School argues from US evidence that the intertwined dynamics of social media, celebrity culture and the effects of the Internet on the demand curve tend to have the consequence that the ‘hits’ become bigger and the ‘misses’ more numerous, and that this logic ensures that an increasing proportion of content investment goes into attempts to recreate ‘blockbusters’ – in sport as well as in the entertainment industries.<sup>27</sup> If this analysis is correct, other things being equal it will become progressively more difficult for new voices to find and build audiences large enough to sustain viable businesses in a Youtube world of infinite choice, ‘freemium’ business models and micro-payments. Note however that this dynamic will be far more pronounced in markets for creative and media content than markets for professional and cultural services (for example design, advertising, architecture and museums) by virtue of their radically different financial risk profiles.<sup>28</sup>

Against this background, Garnham’s insights remain compelling. Cultural production and policymaking have if anything become more heavily circumscribed by ICT interests and agendas than in 2005. Technology platform businesses spearheaded by Google and Facebook, which between them scoop up the lion’s share of digital advertising revenues, are now formally embedded within the creative industries and play corresponding roles in influencing policy. A senior Facebook executive was co-chair of the government-backed Creative Industries Council (CIC) for several years.<sup>29</sup> These companies have built their

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<sup>27</sup> Anita Elberse, *Blockbusters: why Big Hits – and Big Risks – are the Future of the Entertainment Business*, Faber & Faber, 2014.

<sup>28</sup> Creative content businesses generally require large up-front financial bets to be made on creative ideas (the book, film or song) for which there is little or no possibility of market validation before release to the public. This is not generally true of creative services businesses, for example in design or architecture, where clients pay for most of the work undertaken and the level of financial risk to the owner or investor is thus much lower.

<sup>29</sup> Nicola Mendelsohn was executive chairman of advertising agency Karmarama at the time of her appointment to the CIC role in 2013: she did not stand down from the CIC following her move to Facebook.

empires by taking business from incumbents in the advertising industry and by trading personal data for free content via digital exchanges of impenetrable opacity (and doubtful legality). That they have done so in the name of ‘innovation’, a term which Garnham specifically contextualises by reference to the evolving economics of the ICT sector, whilst until very recently investing nothing in the production of content, only serves to underline his point. The platforms sit in the driving seat: even the Hollywood majors are being forced to combine to defend their positions. This was the significance of Disney’s acquisition of Rupert Murdoch’s 21st Century Fox earlier this year. Meanwhile content makers and cultural producers are struggling to hang on to their intellectual property rights – unsuccessfully (on current terms and conditions) for those seeking to do business with Netflix, which is currently outspending all the Hollywood majors put together.

It is not surprising, then, that so many scholars seek to reassert the discourse of ‘cultural industries’, focusing on issues of cultural production and consumption rather than technology and economic imperatives. Yet in the world of Whitehall reporting the elephant in the room has hardly moved. Computer programming and computer consultancy activities (SIC codes 62.01 and 62.02), which are heavily populated by large IT outsourcing companies, are still included by DCMS statisticians in their updates on the ‘creative industries’ unlike, for example, in Germany.<sup>30</sup> In 2018 the IT, software and computer services sub-sector employed 733,000 people, accounting for 35.9% of all jobs in the overall sector, an increase of 2.9% from 2017 (and of 51.7% from 2011).<sup>31</sup> In tune with this embrace of everything to do with ICT, the use of the word ‘digital’ in policy debate has become (to use Garnham’s word) almost “incantatory”.<sup>32</sup> It is no surprise that the lead government department has, since 2017, rebranded itself to reflect this shift in focus and that the word Digital now precedes the word Culture in its title.<sup>33</sup>

As regards overarching narrative an inconvenient but critical tension lies unresolved. The creative industries are thriving if you accept the DCMS’s classification and numbers – booming even, if you focus on software, computing and audio-visual business. Equally to focus on workers in the more traditional ‘cultural industries’, where work is precarious and often badly paid, is to encounter a very different reality. This helps to explain why the elasticated concept of the ‘creative industries’ embedded in those first industry mapping exercises of 1998 and 2001 has, for sceptics, failed to carry the combined weight of economic, commercial and sociological scrutiny. The very ‘success’ of the wider construct, reflected in each succeeding edition of the DCMS’s *Economic Estimates*, only attracts more

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<sup>30</sup> See *Europe’s Creative Hubs, Update 2018*, Enders Analysis, Appendix 1, July 2018, for a short summary of the differences between the French, German and UK definitions of the creative industries.

<sup>31</sup> DCMS, *DCMS Sectors Economic Estimates 2018: Employment*, 2019, p.6.

<sup>32</sup> Garnham 2005, *op.cit.*, p. 24.

<sup>33</sup> The DCMS now handles the question of statistical overlaps between the sectors it oversees by cheerfully acknowledging them, especially the overlaps between the creative industries, the cultural sector and the digital sector. Thus the film, TV and music sub-sectors appear within multiple departmental categories.

attention to the anomaly on which it rests, to the point at which the CEO of Cisco, a US multinational technology conglomerate, was once constrained to enquire in writing why, in the UK, his business had been classified in a category labelled ‘creative’.<sup>34</sup>

In summary there are two primary objections to the official narrative. First, all generic commentary on the state of the ‘creative industries’ misleads to some degree because of the extraordinary diversity of the activities subsumed within it (including business models, genres and ethos). One needs to drill down to the component parts of the whole to grasp the full extent of this lack of homogeneity. In many markets for cultural goods and services there is abundant evidence of growth and high performance, variable depending on the measures selected but consonant with the official narrative, but again the overall picture is mixed. As we have seen employment in the IT, software and computer services sub-sector grew by 2.9% from 2017 to 2018, whereas employment actually *fell* in three sub-sectors, including museums, galleries and libraries and, more surprisingly, film, TV, video, radio and photography, during the same period. Employment in those sub-sectors separately classified by DCMS under the rubric of the “Cultural Sector” also fell in every case except one over the same time period.

These variations reflect contrasting underlying economic drivers and dynamics: some sub-sectors (for example architecture and marketing services) are strongly pro-cyclical in relation to the rest of the economy: others, like film and TV, are not. Some, including the performing and visual arts, are heavily dependent on public expenditure, others hardly at all. Some (film and now high-end TV especially) are heavily dependent on inward investment; others, like the performing and visual arts, by contrast depend largely on domestic investment. In short, this is a heterogeneous scene.

The problem lies in the aggregation of the parts and the narrative wrapped around it, which is typically over-inflated. These things go in cycles: there was a lot of ‘boosterism’, as it was then dubbed (I think initially by Professor Kate Oakley), towards the end of the Blair era, leading two caustic financial journalists, one from the right (Dan Atkinson) and one from the centre left (Larry Elliott), to write about what together they mischievously called *Fantasy Island*.<sup>35</sup> The danger highlighted twelve years ago by Elliott and Atkinson, reprised more recently by Ian Leslie in the *New Statesman* (“the creativity myth”),<sup>36</sup> is that we are seduced by the self-congratulatory story that we tell each other ('Britain leads the world'), whilst glossing over structural weaknesses and wide variations in performance.

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<sup>34</sup> Private communication shared with the author.

<sup>35</sup> Larry Elliott and Dan Atkinson, *Fantasy Island*, Constable, 2007. See especially chapter four: *Bullshit Britain: Multiple Hallucinations of a ‘Creative Economy’*.

<sup>36</sup> Ian Leslie, *op. cit.*

A second objection to the undifferentiated ruling narrative is the mounting conflation of tech and creative agendas, emblematically represented by the launch in 2018 of 'Createch' as part of London Tech Week, featuring presentations by Land Rover, advertising giant Dentsu Aegis and Chinese entertainment conglomerate Ten Cent. This marketing-driven project, which can be construed in part as an attempt to finesse the classification anomaly, poses significant challenges for the cultural industries as traditionally understood. These challenges go to the heart of the business models of the companies and sub-sectors concerned. As the Director of the new PEC, Hasan Bakhshi, has rightly noted (and with his emphasis), "in some markets, the creative industries are becoming a subset of data-intensive industries, where the incentives are not so much for the production of content but for the control of data."<sup>37</sup> This will be an increasingly crucial issue for policy-makers because control of data will in turn shape the even bigger issue of revenue distribution in tech-driven cultural markets.

The framing of these issues to date has been unsatisfactory. The nexus of relationships between artists, producers, platform owners, big data providers, advertisers, coders, data traders and investors is multi-dimensional, complex and dynamic, and is also intrinsically unequal in terms of bargaining power, contractual relationships and revenue flows. As in earlier technology-induced shifts in cultural consumption, 'creative destruction' in the classic Schumpeterian sense is being wrought on an epic scale, producing both winners and losers. New opportunities and new business models are emerging daily and, to be clear, there is a positive story to tell about the benefits that new technology can potentially bring both to the creative process and creative enterprise: this upside is variously reflected in the work of Mark D'Inverno, Nicola Searle, Michael Franklin and Jonny Freeman, amongst others, here at Goldsmiths. The problem is that few policy-makers, faced with the lobbying power of the FAANGs and overwhelming evidence of consumer satisfaction, have any appetite for focusing on the question of *cui bono*, or on the detrimental consequences for *some* creators, *some* performers, *some* producers and *some* enterprises of the hoovering up of creatively-enabled advertising revenues by 'big tech' interests.

The impact of the digital shift on entrepreneurs and cultural labour ranges from liberating and enriching at one end of the scale, with new digitally enabled art forms and commercial propositions being developed with dazzling effect and at dazzling speed, to impoverishing and artistically diminishing at the other. How one experiences this shift depends on many factors but especially the differing characteristics of each chain of value, relative bargaining power and commercial skills. From the perspective of business economics, no two sub-sectors exhibit the same characteristics; some, like the advertising and games industries, are being more radically re-intermediated than others.

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<sup>37</sup> Hasan Bakhshi, *A policy and research agenda for the creative industries*, Creative Industries Policy and Evidence Centre blogpost, 25th March 2019.

Andrew Haldane, the chief economist of the Bank of England, in a speech given at the Glasgow School of Art in November 2018 on what he calls ‘The Creative Economy’, commenting on the disruptive effects of ‘creative disruption’ on the economy as a whole notes, first, that “creativity and innovation can come at a cost”; and, secondly, that “disruptive side-effects” do not “self-heal”.<sup>38</sup> Haldane’s speech was not directly about the CCIs but might well have been. In sharp contrast, the rhetoric underpinning ‘Createch’ is silent on the redistributive effects of the digital shift on relationships between creative and tech entities, shows no interest in shifting power dynamics and exhibits no sensitivity towards casualties. It promotes a narrative that, like its ‘parent’ storyboard ‘Creative UK’, is one-dimensional and simplistic.

Wildly different fortunes and personal experiences are part of everyday life at enterprise level in the creative industries, especially for content-makers. For example, the UK film industry is on most accounts booming, with inward investment at record levels and sound stages in chronically short supply, whilst at the same time the corporate finances of British producers and distributors remain in a parlous state.<sup>39</sup> Thus the UK video market is growing exponentially and fees paid by the streamers in the high-end box-set TV production market have risen sharply with top talent being rewarded accordingly, whilst the generality of actors’ incomes from TV drama production are falling. Thus full-time performing careers for musicians of all stripes are increasingly precarious, and even well-established labels have largely given up investing in upcoming artists, whilst global music revenues have been back on an upwards path since 2015 and Apple Music and Spotify enjoy gross profit margins in the range of 15-20%.<sup>40</sup> Thus Google Arts and Culture opens up vast terrains of knowledge and new experiences to citizens everywhere, but a modified Google algorithm can destroy a start-up or an on-line enterprise overnight. Such contradictions have always defined life in the cultural industries but are amplified in an internet-enabled ‘Createch’ environment which sees the world predominantly through the lens of marketing services and is apparently oblivious to Haldane’s “disruptive side-effects”.

In 2008, a senior Nokia executive taking part in an EU Roundtable on the creative industries in Brussels said to me that he only cared about music “if it helps to shift more units”. ‘Nokia Comes with Music’ was the product he was touting at the time: it did not go well, but the symbolic significance of that casual remark stuck in my mind. Being indifferent to the value of the content they distribute and addicted to the advertising revenues that flow to them, the platforms would seem to be on a collision course with significant parts of the *cultural* industries as we have understood them. This hypothesis gives rise to two questions: first,

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<sup>38</sup> Andrew G Haldane, *The Creative Economy*, speech given at the Glasgow School of Art on 22nd November 2018, p.2.

<sup>39</sup> The authority on this unglamorous but crucially important topic is Mike Kelly, of Northern Alliance, who has produced two reports on indie film sector corporate finances, respectively for the former UK Film Council (2009) and (an updated version) the BFI (2016).

<sup>40</sup> Spotify IPO registration document, form F-1, p.2, Securities and Exchange Commission, USA, February 28th 2018.

what role, if any, could industrial strategy play in addressing these challenges? Second, what are the prospects of it doing so on the evidence of the 'sector deal' of March 2018?

## Industrial strategy and the creative sector

Industrial strategy has been back in vogue since January 2017 when Theresa May's government published a wide-ranging Green Paper on the subject with an explicit focus on boosting productivity.<sup>41</sup> Two weeks before publication the then Business Secretary, Rt. Hon. Greg Clark MP, had told a Creative Industries Federation event that:

We're developing an industrial strategy for the UK and any good strategy of course has to build on its strengths. You couldn't fail to have the creative industries as absolutely foundational to that industrial strategy. You will see that you have a big part to play.<sup>42</sup>

As part of a far-reaching consultation process the government duly announced an independent review by Sir Peter Bazalgette, a senior TV industry executive and highly regarded former chairman of the Arts Council, into the obstacles to sector growth with a view to bidding, alongside other sectors, for an early 'sector deal'.

For a broadly neo-liberal Conservative government to embark on a programme of consultation about industrial strategy was counter-intuitive, but this was to be a more indicative, less 'corporatist' approach than that associated with governments of the 1960s and 1970s. The Green Paper was skewed by drawing almost exclusively on 'STEM' frames of reference: the sub-section on the Bazalgette review under the banner of "Cultivating world-leading sectors" occupies less than two pages of the document. Nonetheless this announcement generated great excitement within the creative industries lobby, a response that might be thought surprising given that the argument in favour of a root-and-branch (as distinct from a merely nominal) industrial strategy for the CCIs has never been self-evident.

The 'creative economy' is a diffuse organism of business to business (B2B) and business to consumer (B2C) markets generating complex flows of funds around quite different commercial networks, some highly data-driven (digital advertising, mobile games and esports) and some predominantly traditional (crafts and museums). B2C creative markets are taste-driven and are of their essence largely unpredictable. Equally, the most exciting creative outputs tend to emerge serendipitously from the semi-concealed nooks and crannies of random experimentation (or what is sometimes called 'creative R&D') in micro-enterprises. This is a world of brilliant corporate minnows: the average firm size in the creative industries in 2014 was 3.3 FTE (full time equivalent), 15% smaller than in 2007.<sup>43</sup>

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<sup>41</sup> HM Government, *Building our Industrial Strategy*, Green Paper, January 2017.

<sup>42</sup> Rt Hon Greg Clark MP, Creative Industries Federation annual reception, Design Museum, 9 January 2017.

<sup>43</sup> Sir Peter Bazalgette, *Independent Review of the Creative Industries*, September 2017, p.15.

95% of creative businesses employ fewer than ten people.<sup>44</sup> Most employ three people or less. A third of those working in the creative industries are self-employed. One can make a cogent argument that any industrial strategy formally linked to the goal of boosting productivity is poorly suited to such markets.

These economic characteristics help to explain why a comprehensive ‘sector deal’ (or partnership) with government was so long in coming. Expectations had run high a decade earlier under a Labour government when James Purnell’s Creative Economy Programme, initiated in his junior ministerial days at the DCMS, was in process; and again following the publication of *Staying Ahead: the Economic Performance of the UK’s Creative Industries*, the so-called Hutton report referred to earlier. What followed after repeated delays (and the preparation, reportedly, of more than twenty drafts) was a Green Paper called *Creative Britain: New Talents for the New Economy*, whose twenty-six commitments ignored the demand side of the creative economy and the world of commercial entertainment.<sup>45</sup> This in turn was followed in 2009 by Stephen Carter’s two *Digital Britain* reports now remembered, if at all, only for their association with the ill-fated Digital Economy Act on copyright infringement, rushed through Parliament immediately prior to the 2010 general election and subsequently largely repealed.<sup>46</sup>

Like the Labour government before it, the Coalition failed to build on important initiatives, including the establishment of the Creative Industries Council (CIC) and the roll-out of *ad hoc* creative sector tax reliefs by Chancellor Osborne. Although these tax credits provide important cash benefits to a wide range of cultural producers – they effectively constitute free money at the point of project delivery – and have rapidly become a vital part of the funding landscape, they are largely rootless in terms of the theory and practice of sustainable business development.<sup>47</sup> Arguably they have deflected attention away from one of the sector’s most pressing challenges - the failure to grow medium-sized businesses of potentially global scale capable of filling the shoes of fallen giants like The Rank Organisation and EMI.<sup>48</sup>

In 2013 I was told privately by senior officials at the then Department for Business, Innovation and Skills (BIS) that, notwithstanding the efforts of the CIC and others, including

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<sup>44</sup> Frontier Economics, *Absorptive Capacity: Boosting Productivity in the Creative Industries* (for Channel 4), July 2016, p. 16.

<sup>45</sup> DCMS/DIUS/BERR, *Creative Britain: New Talents for the New Economy*, February 2018.

<sup>46</sup> See especially Department for Business, Innovation & Skills, *Digital Britain: Final Report*, 16 June 2009.

<sup>47</sup> Collectively these credits were worth £1.1 billion in the most recent year for which figures are available. They signify an important but contested shift in Treasury policy away from direct subsidy and are only accessible to organisations which pay corporation tax.

<sup>48</sup> The Rank Organisation under J Arthur Rank was as big as any of the Hollywood studios in the late 1940s, owning 25% of Universal. Before its forced break-up in 2012 EMI was the fourth largest record label conglomerate in the world.

the CBI,<sup>49</sup> the creative industries still lacked clear leadership and a single voice and had failed to articulate an investment case: they were therefore ineligible for a strategic partnership with government. At this point BIS and the sector's leading figures were clearly out of step. The majority leadership view was that such a partnership was imperative because, firstly, without one there could never be a credible case for sustained levels of public investment; and, secondly, because without it we would lose ground to our main international competitors. The argument went that the Chinese have their five year plans; South Korea, Malaysia and other Asian countries have prioritised creative industries; France vigorously supports its policy of *l'exception culturelle* with high levels of public subsidy; and even the USA pursues a *de facto* industrial strategy, based on the State Department, which aggressively promotes US commercial interests in global entertainment markets. In short, sector leaders craved formal recognition because with recognition comes funding and, they argued, enhanced competitiveness. This argument failed under the Coalition.

The CIC therefore decided to forge ahead with its own strategy development process. In 2014 it published the first iteration of what was then the most ambitious and coherent plan of its kind, complete with what it deemed the eight "drivers for growth", these being, in alphabetical order: digital infrastructure; diversity; education and skills; finance for growth; intellectual property; international; regions and clusters; and regulation. Some sections were better developed than others, but crucially it was this rolling document that laid the groundwork for Peter Bazalgette's report three years later.

Sir Peter's brief in early 2017 was carefully circumscribed: in the words of the Green Paper he was to examine "how the UK's creative industries, like our world-leading music and video games industries, can help underpin our future prosperity by utilising and developing new technology, capitalising on intellectual property rights, and growing talent pipelines."<sup>50</sup> The limited time allotted for the review, including only five months of evidence gathering and consultation, did not allow for investigation of more deep-rooted questions - for example about the role of public money in leveraging private investment in entertainment markets, or the historic rationale for economic intervention. Sir Peter made it clear that he was looking for relatively easy wins, "shiny new ideas" in his words, not articulations of grand strategy.

It was no surprise therefore that his report, published in September 2017, although laced with eye-catching statistics and fascinating case-histories and scoring high on presentational flair, turned out to be light on critical analysis. It made nineteen recommendations under seven headings: Creative Clusters, Innovation, IP, Access to Finance, Talent Pipeline, Screen Industries and International. However, his one genuinely big idea, that of stimulating the growth of city-based creative clusters through open

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<sup>49</sup> The CBI had launched a major push for the creative industries in 2010 under the presidency of Dame Helen Alexander, but it was not sustained. See *Creating Growth: a blueprint for the creative industries*, CBI, July 2010.

<sup>50</sup> HM Government, Green Paper *op. cit*, p.103.

competition and a £500 million Creative Clusters Fund, introduced with characteristic panache by ‘Baz’ at the launch of his report in front of two Secretaries of State, fell on stony ground. The Bazalgette Review nonetheless served its purpose in putting the creative industries firmly in line for a ‘sector deal’, a draft outline of which duly appeared two months later in a White Paper called *Industrial Strategy: Building a Britain fit for the future*.<sup>51</sup>

The deal-making negotiation process required the CIC to provide evidence of need, including justification for sector-specific intervention; quantification of expected impact; description of the specifics of government and industry contributions sought, with associated costs; and plans to secure firm sign-up from industry, alongside agreement from Government. Negotiations were reportedly difficult. When it was finally unveiled in March 2018, the deal undoubtedly came as a disappointment to many observers, declining to address the more difficult questions on “obstacles to sector growth”, especially in relation to private investment.<sup>52</sup> The total investment specified in the deal added up to some £150m – a tiny sum set alongside the £20 billion made available for the industrial strategy programme as a whole. Very little even of this small purse was genuinely new and the associated government commitments were widely regarded as weak, apart from the funding of the university-led Creative Clusters Programme (which had already been announced).

The ‘sector deal’ has placed two large bets, one on universities as drivers of ‘creative R&D’ (£39m) and another on immersive technologies (£33m), both funded from the government’s Industrial Strategy Challenge Fund (ISCF) administered for a five year period by AHRC on behalf of the UKRI. A further £20m was allocated to a Cultural Development Fund for the benefit of towns and cities outside London<sup>53</sup> and smaller sums to investment readiness and creative careers programmes, plus a modest increment to the UK Games Fund established in 2015. The deal was (and remains) a welcome symbolic affirmation of government support but does not measure up to the narrative of a sector that is growing ‘three times faster than the rest of the economy’. It has clearly signalled that any research activity that has roots in artificial intelligence (AI) and ‘creativity’ may be eligible for funding, to a degree pulling the public funders of culture (the Arts Council, the British Film Institute and others) along in its slipstream; that HEIs have a big opportunity to play a leading role as catalysts of creative clusters in partnership *with*, and working *for* industry; but that cultural investment *per se* is not currently a priority for government. There has been no indication that the cuts to arts and culture funding bodies, local authorities, public sector broadcasters and providers of creative education wrought by the Coalition government, will be reversed, although the impromptu (and clearly rushed) announcement in October 2019 by a new (and fleeting) Culture Secretary of a five year ‘£250 million Culture Investment Fund’ to be administered

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<sup>51</sup> HM Government, *Industrial Strategy: Building a Britain fit for the future*, CM 9528, November 2017, pp. 203-04.

<sup>52</sup> HM Government, *Industrial Strategy: Creative Industries Sector Deal*, March 2018.

<sup>53</sup> The Cultural Development Fund is administered by ACE. The five successful bidders in the first round were Worcester, Grimsby, Thames Estuary, Plymouth and Wakefield. DCMS press release, 18th January 2019.

by ACE and others, does hold out the hope of restorative funding for a few selected museums and libraries, including the National Railway Museum in York.<sup>54</sup>

The ‘sector deal’, like the Bazalgette report before it, does not attempt a thoroughgoing strategy appraisal in the manner of a business school SWOT analysis: ‘weaknesses’ and ‘threats’ are mostly ignored. From a SWOT perspective, the most far-reaching of the challenges facing the UK is a dangerous political reflex that “the process of growth in creative industries is a natural force that can take root in any soil, irrespective of its distance from the knowledge base, talent pool, investment capital and markets from which it draws its nourishment”, as commentator Iain Bennett has expressed it.<sup>55</sup> This observation goes to the heart of policy-making for the creative industries, including the emotive issue of regional imbalances.<sup>56</sup>

The investment challenge has repeatedly been side-stepped by industry leaders, although not always by the press. In 2015, welcoming an announcement by the Pinewood group of a new tranche of private investment in the eponymous film studios, *The Times* observed that

Britain’s film industry will still be an oddly shaped beast. It has the big head and hands of great talent, with the stunted legs of minimal finance and distribution. Memo to closet luvvies in the City: we need to raise our game in those departments too.<sup>57</sup>

This sardonic comment points to a set of questions about media business economics and the capital markets that demands greater scrutiny. Why are the UK markets so apparently disengaged from the UK’s cultural and entertainment industries? Have UK institutional investors spontaneously concluded that the risk profile of the entertainment sector as an asset class is too challenging, and if so why do US, Korean and Chinese investors apparently take a different view? How exceptional are the risk characteristics of the creative industries? No statement of ‘industrial strategy’ that fails to address these questions can be regarded as fully digested or complete.

For the creative industries investment is the key challenge in both the public and the private realms. Chronic short-termism is the characteristic UK disease. As regards many civic cultural institutions, including art schools and the BBC, the UK is living off the accumulated investment of previous generations following a decade of ‘austerity’. One plausible

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<sup>54</sup> This money relates to a five-year DCMS funding promise that at the time of writing could not be guaranteed. In earlier times most such funding would have gone directly to local government. Local authority funding for arts and culture has fallen by £236 million since 2010 according to Liz Hill, editorial consultant at *ArtsProfessional*, “A sticking plaster policy”, 14th October 2019.

<sup>55</sup> Iain Bennett, BOP Consulting, 2015 debate on ‘ecosystems’ [Why there is no such thing as a creative industries ecosystem](#) [Linkedin link](#)

<sup>56</sup> These imbalances are documented in Bruce Tether’s paper *Mind the Gap: Regional Inequalities in the UK’s Creative Industries*, Discussion Paper 1, Policy and Evidence Centre, (forthcoming).

<sup>57</sup> *The Times*, 20 June 2014.

hypothesis is that as cultural assets and cultural capital are depreciated the consequences for those industries which, directly and indirectly, have traditionally been nourished by them, become progressively more erosive. As regards the private sector, and especially the music and screen industries, the UK is heavily dependent on inward investment: policymakers are nonetheless apparently unconcerned about the destination of associated tax revenues. Inward investment is essential to have but can also be an indicator of domestic weakness: the total level of *domestic* investment in UK creative content is declining. This has possible implications for the future of distinctively British storytelling: the streamers are mainly interested in stories that ‘travel’. To acknowledge such structural concerns publicly is, sadly, to offend against the official narrative of ‘Creative UK’. This is evidence of a mindset that pays too much heed to marketing nostrums and too little to critical and strategic thinking. It also reflects gaping holes in the knowledge base, which brings us to the research agenda and the new Policy and Evidence Centre.

## The research agenda and the Policy and Evidence Centre (PEC)

Taken together with the Creative Industries’ Clusters (CICP) and Audience of the Future (AoF) programmes, the PEC constitutes the single largest commitment of taxpayer investment in the ‘sector deal’. The commitment to the PEC is for five years ending in March 2023, with a maximum funding allocation of £8m. This is relatively small beer for the Industrial Strategy Challenge Fund (ISCF), which is funded at £20 billion, but is nonetheless a significant sum measured against existing HEI creative industries’ research budgets. The rubric of this activity is also novel: this is the first-time funding has been allocated to facilitate research *with* and *for* industry, rather than *about* it, and it is already clear that significant industry engagement is being secured.

The challenge is nonetheless considerable. In introducing the work of the PEC its Director, Hasan Bakhshi, has acknowledged that:

There is next to no academic research on the creative industries in essential areas like industrial organisation, productivity, R&D, international competitiveness, spill-overs, content regulation, business models or risk finance.<sup>58</sup>

This observation is extraordinary given the ‘boosterish’ and rarely qualified official narrative foregrounded in the first part of the lecture: it signifies that we cannot answer some of the most critical questions that arise in discussing industrial strategy or performance, or satisfactorily interrogate the idea, referred to earlier, that the creative industries can prosper just anywhere. The work of the CICP should cast light on some of these questions, but it is

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<sup>58</sup> Bakhshi, *op.cit.*, p.2.

to the PEC that many will wish to look for better evidence and more systematic analysis. Is this realistic?

The research context is troubling. Too much of what passes as ‘research’ in the creative industries is self-seeking and superficial: the policy scene is replete with second-rate ‘impact assessments’, some commissioned by big companies or trade associations and others by public sector funders. The line between ‘research’ and advocacy has all but disappeared in some quarters. Lobbying reports produced by professional research companies based on proprietary (and usually non-transparent) economic models - for example of ‘multiplier effects’ and ‘spill overs’ - are legion. Public funders are petrified that their research projects might not deliver the hoped-for findings and thus the soundbites required by ministers. Think tanks are financially compelled to prioritise research they are paid to carry out by sponsors, with predictable consequences. Solid empirical evidence is more difficult and significantly more expensive to generate than perceptions studies based on five-minute, tick box membership trawls carried out via SurveyMonkey. Commercial experience within project teams is typically in short supply: insufficient understanding of key business concepts such as ‘financial risk’ can, on occasion, lead commentators into serious error.<sup>59</sup>

Against this background, it is welcome that the AHRC has emphasised that “The Centre will offer independent analysis on the creative industries for businesses and policy makers, conduct and stimulate research, identify research gaps and co-ordinate data and evidence on the key challenges for the sector.”<sup>60</sup> Also welcome is the injunction to produce work *for* and *with* industry: this, after all, is BEIS industrial strategy money, not AHRC funding of a more traditional kind. However, this agenda is enormously, possibly disproportionately ambitious; and, given the limits of its resources, it is certain that the PEC will have to be highly selective about which ‘gaps’ it attempts to fill. It will also have to be robust in resisting the temptation to pursue every faddish request for policy-driven ‘quick wins’ that comes around the corner.

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<sup>59</sup> In *Risky Business*, a tract published by Demos in October 2011 which has been widely cited in the academic literature, the authors Helen Burrows and Kitty Ussher claim (on the cover of the publication indeed) that “the lazy assumption that the creative industries are inherently risky is harming Britain’s path to growth”. However it is Burrows and Ussher who make a fundamental analytical error, partly by failing to distinguish between demand-led and non demand-led business models with their critical consequences for access to finance, and partly by failing to acknowledge or locate the huge amounts of capital at risk in the creative ecosystem. On their very limited analysis many creative businesses do not appear to be especially “risky”, but this is true only if you ignore the projects with which they are associated and which they exist to manage. The risk lies in connected entities – in the off-balance sheet financing of specific creative projects, most of which are both inherently risky and very costly. This associated risk capital is principally to be found on the balance sheets of large international entertainment companies (most of them not headquartered in the UK), groups of angels and limited partnerships. The point is that this associated capital, which is always at risk, is not captured anywhere in the Burrows/Ussher analysis. Their conclusions are comprehensively misleading.

<sup>60</sup> [Creative Industries Policy and Evidence Centre Call AHRC UKRI website](#), accessed 4 November 2019

The main themes of the PEC's research programme were announced in 2018 following a process which delivered a single bid from a consortium of HEIs led by NESTA.<sup>61</sup> These research themes follow the familiar pattern of dividing up the policy world into segments of recognisable, mainly supply-side denominated territory, as in 'skills, talent and diversity' and 'arts, culture and public sector broadcasting'. The framing of these themes is policy-oriented rather than business-oriented, although this conventional emphasis may (and should) change during the programme.

My preference is for an approach to research that covers much of the same ground but conceptualises the agenda through a different lens – *for* and *with* industry – by addressing questions set by business in the form of hypotheses to be tested. This is surely what is required by the spirit of the programme and the source of its financing. In this final part of the lecture I therefore want to suggest a supplementary or parallel framework of research based on four selected working hypotheses. Each hypothesis is linked to an under-researched question about how the creative industries work, in general and in particular; how they are financed; what conditions are necessary to drive success; and who benefits from innovation. None of these questions are posed in the 'sector deal'; equally, no enquiry into the performance of the creative industries can satisfactorily be answered without addressing them.

**Hypothesis one: the success of the UK's creative industries is related to, and dependent on, risks taken by and spill-overs generated by public investment in arts and culture.**

This claim has frequently been advanced in defence of public subsidy but has been insufficiently examined from the perspective of business economics. Worse, it has helped to generate scores of tendentious 'impact studies', many of them commissioned from big league consulting firms, some reaching highly improbable conclusions.

Two academic studies published in 2015, each drawing on interviews with practitioners, are helpful: *The Ecology of Culture*, by Professor John Holden, commissioned by the AHRC's Cultural Value Project led by Professor Geoffrey Crossick;<sup>62</sup> and *How public investment in arts contributes to growth in the creative industries London*, by Professor Jonothan Neelands and others for the Creative Industries Federation and ACE.<sup>63</sup> The key is to break this complex subject down into manageable chunks and to 'follow the money'. From the perspective of industrial strategy, we need to know more about how public money leverages

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<sup>61</sup> The five main PEC areas of work, each led by a different HEI in consultation with NESTA, are: creative clusters and innovation; skills, talent and diversity; intellectual property, business models, access to finance and content regulation; arts, culture and public sector broadcasting; and international competitiveness.

<sup>62</sup> John Holden, *The Ecology of Culture*, Arts & Humanities Research Council, 2015.

<sup>63</sup> Neelands, Jonothan, Easton, Eliza and Robles, Te-Anne, *How public investment in arts contributes to growth in the creative industries*, Creative Industries Federation and Arts Council England, 2015.

private money, for example by investigating the life cycle of a commercial ‘hit’ like *Warhorse*, or by documenting the flow of funds around particular clusters.

Attitudes to financial risk lie at the heart of this set of issues: as regards content investment the private sector often only comes in when the public sector has taken early stage and development risk, but services are a different matter. Comparative research should be carried out across the full spectrum of creative business activity – from architecture to film and fashion – to enable more genuinely informed scrutiny of arguments for public subsidy in a variety of commercial settings.

**Hypothesis two: the creative industries are held back by the paucity of top-level business skills attracted into the sector. This distinguishing characteristic is linked to well documented difficulties in attracting private investment into the CCIs.**

Investment and skills issues are closely intertwined. Is the skills agenda as understood by delivery agencies and within the CCIs more generally appropriately configured to address the business/commercial skills deficit as well as other acknowledged and more clearly defined deficits, for example in coding? Why do so few accountants appear to be attracted into the creative business sector? What pedagogical models, for example here in ICCE, at Warwick University, the National Film & Television School (NFTS), the Judge Business School, Cambridge (the MBA model) and elsewhere, have been tested, what are their strengths and weaknesses, and can they be scaled? What alternative models might be developed? From the point of view of future competitiveness, these questions are urgent.

**Hypothesis three: the unregulated roll-out of ‘Createch’ agendas poses a potential threat to the future of some of our cultural industries, cultural labour and many cultural enterprises because the revenues generated by ‘creatives’ in digital cultural markets flow disproportionately to tech entities.**

The revenue distribution consequences of ‘big tech’ concentration for the future of the CCIs are a vital issue, especially (but not only) as mediated through data-driven exchanges being developed within the marketing services industry. Most ‘research’ in this area is financed by ‘big tech’ companies themselves, with predictable results (“nothing to see here officer!”) or is conducted by techno-reductivist pressure groups for whom a ceaseless capacity to ‘innovate’ is its own justification. This is problematic.

In the spirit of Andrew Haldane’s 2018 Glasgow speech, there is a need to carry out independent research into the continuing impact of the digital shift on legacy businesses, cultural producers and cultural labour and what Haldane calls the “disruptive side-effects” that do not “self-heal”. What are the distinguishing characteristics of the legal contracts that typically govern this kind of emerging ‘Createch’ business? What are the consequences for the core performing and visual arts of the accelerating shift towards digital business models,

and how can we prepare the rising generation of artists, producers and entrepreneurs to thrive in such a landscape? What happens to the ‘losers’ in this process of value creation and destruction? Again, the key is to break the subject down into manageable chunks, but also to bring in commercial expertise to help ensure the right questions are asked.

To answer, although only provisionally, the questions posed earlier in relation to the ‘sector deal’, the deal in its current form does not attempt to answer the challenges posed by the ‘Createch’ agenda and on present evidence is unlikely to do so in any immediately foreseeable iteration. This is concerning.

**Hypothesis four: the financial markets do not understand the CCIs. The mirror image of this challenge is the long pipeline of ‘uninvestable’ businesses, some claiming that no-one will fund their growth and development.**

The oldest chestnut in creative industries’ discourse is the ‘access to finance’ problem, otherwise known to investors as the ‘access to investable propositions’ problem. There is a systemic gap of understanding between the creative and financial sectors: this was implicitly reflected in 2013 when the Business Department concluded that the sector had failed to make an ‘investment case’ (and therefore did not merit a partnership with government). Has this really changed in the context of the ‘sector deal’? (I don’t think it has). What are the obstacles to conducting research about perceptions of the creative industries in the capital markets? Too little is known about how the CCIs are financed, how this differs from one sub-sector to another and how money flows through these different ecologies attracting new sources of revenue. It is unrealistic to expect that anyone, in or outside Whitehall, is likely to be able to take an informed view of the effectiveness of existing economic interventions (like the creative sector tax credits) without having the benefit of detailed answers to these questions.

## Conclusion

The creative industries are a success on many measures. This is justly celebrated. Equally, the ‘official’ narrative in which the CCIs are wrapped is contestable, depending where one is located on the ‘map’ and where one sits in the many distinctive chains of value that make up the ‘creative economy’ as a whole. The official narrative is difficult for many creative practitioners to identify with by virtue of lack of differentiation and failure adequately to reflect the full range of *cultural* industry experience.

Secondly, although disappointing in its relative lack of depth, limited attached funding and weakness of its government commitments, the ‘sector deal’ is nonetheless extraordinary and welcome: it potentially opens the way to a more substantial compact.

Third, the new PEC faces an enormous challenge in meeting what may well be unrealistic expectations (about filling in research ‘gaps’) and, I suspect, in fending off vexatious re-

quests from vested interests. It should maintain a strict focus on questions which bear directly on sector challenges and performance. Less is likely to be more.

The people, businesses and asset classes that comprise the ‘creative industries’ have enjoyed twenty years of largely positive commentary. During the *next* twenty years we have much to do to maintain the enviable position that many of these industries now occupy within the global creative economy. This competitive advantage is ours to lose.

## Document history

Version	Date	Details	Author	Approved
1.0	29/11/2019	Research paper	Martin Smith	Approved