

Nova Scotia and the New Economy

A Strategy for Developing the Creative Economy
as a Key Element in Nova Scotia's Economic Recovery

Prepared by the Research and Strategy Group
of the
Nova Scotia Cultural Action Network



March 2010

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BACKGROUND

The global financial crisis of 2008-09 creates both the need and the opportunity for new thinking about what makes an economy healthy, stable, and prosperous. Like other jurisdictions, Nova Scotia faces the challenge of finding new strategies to create long-term, sustainable wealth for Nova Scotians.

The creative sector, which includes the arts, cultural, and design industries, is increasingly recognized for its potential to contribute to a healthy, vibrant economy. Cities and countries around the world are becoming more aware of the value of the creative economy and its critical importance for future development. Strong evidence for this is outlined in *Building the Creative Economy in Nova Scotia*, a recent report commissioned by the Nova Scotia Cultural Action Network (available online at www.novascotiacan.ca/pdfs/report.pdf).

Because of our history, our skilled people, our climate of public support, and our organizational and institutional infrastructure, the creative sector offers a particularly promising opportunity for Nova Scotia. **The creative industries can play a pivotal role in generating new economic activity that is authentic, green, sustainable, and capable of attracting and holding young people in the early stages of their careers.**

A carefully developed strategy can focus on opportunities within the creative sector that involve relatively modest investments from provincial sources. These, in turn, can leverage investment from private and federal sources, thus generating an early net contribution to the province's economy and to provincial government revenues.

Compared with other economic development opportunities, the creative sector offers **(1) new, sustainable, long-term, stable jobs; (2) a high measure of local ownership and control; and (3) a source of income for educated young Nova Scotians** who might otherwise leave the province or settle for work unsuited to their backgrounds and qualifications.

The creative sector is an area of potential strength for Nova Scotia – the challenge is to develop a strategy that takes effective advantage of this opportunity. This requires clearly stated objectives against which results can be measured. It also requires the long-term combined commitment of government, key private sector players, non-governmental organizations, and individuals in the creative sector itself.

OBJECTIVES

An effective strategy to expand the creative economy will have four key objectives:

1. **Make a net contribution to economic prosperity** – This is a key objective at a time when economic recovery is high on all agendas. **Arts and cultural activities can make a significant contribution to the economic wealth of the province.** Works produced here can find audiences and markets outside the province, and they can attract visitors to enjoy them here. Moreover, **a culture of creativity stimulates the entire economy.**
2. **Create sustainable, environmentally responsible economic activity** – Arts, culture, and the creative economy offer highly sustainable, environmentally responsible spheres of economic activity. **These sectors have a miniscule carbon footprint, and many of the services and commodities created have global markets and simple, cost-effective mechanisms for marketing and distribution** which are ideally suited to Nova Scotia's society, geography, and economy.
3. **Generate high-quality work that provides sustainable incomes** – In Nova Scotia, as elsewhere, **the creative sector offers appealing job prospects for educated people.** The objective should be to focus on creating jobs that provide competitive levels of compensation, particularly for recent graduates in their 20s and 30s who are entering the work force. Encouraging independent artists and creators to live and work in Nova Scotia through a welcoming, supportive cultural climate also brings many significant benefits to the larger community.
4. **Initiate activities appropriate to our culture and our society** – There are promising opportunities in the increasingly diverse cultures, heritages, and activities of present-day Nova Scotia. This is true for individuals, organizations, and firms operating in the province now, as well as those inclined to the lifestyle, communities, and work possibilities of tomorrow. **Building a dynamic creative economy does not depend on massive investments or dramatic changes to the socio-economic profile of Nova Scotia.** Its human, resource, and technological base exists today. All that is required is the vision, commitment, support, and strategic investment to bring it to fruition.

RESOURCES

Taking advantage of the potential of the creative sector in Nova Scotia involves bringing together the collective resources of the sector, as well as those of the broader business community, private investors, and government. It requires a comprehensive understanding of the fundamentals of the creative economy, how it functions internally amongst the various players, and how it intersects with the larger economy. **Ultimately, success will depend on a strategic approach, with well defined goals, specific criteria, and an aggressive action plan with clear priorities.**

Building a creative economy requires fostering and responding to entrepreneurial activity within the sector, and identifying and taking advantage of new opportunities. These activities are sometimes risky, and can require substantial resources. Investors, both private and public, need to understand the risk and have a long-term perspective. The rewards the sector generates are not always those of conventional investment opportunities; success is measured by multiple criteria, as noted above.

Because the creative economy tends to be labour intensive rather than capital intensive, strategic investment can be considerably more effective at generating new jobs. This is a key consideration when public resources are scarce, and when the need for public investment to generate early and sustainable benefits is more urgent than ever before. **Investment levels in most sectors of the creative economy can be much more modest than those in many manufacturing and even retail sectors – and yield higher social and economic dividends.**

The impact of the worldwide recession has been felt in Nova Scotia since mid-2008, and it can be expected to shape government decisions over the next 5 to 10 years. Faced with serious revenue declines and unusual fiscal challenges, Nova Scotia's government, like all others, has to make decisions regarding support for economic development by giving close consideration to the net *short-term* fiscal impact of each decision. Any project proposal to invest public funds in the creative economy will have to be evaluated for its ability to:

1. generate incremental investment from private sector investors, donors to cultural organizations, and other government sources, and
2. generate short-term incremental revenues for the provincial government, as well as medium and/or long-term revenues.

Evaluated on the basis of these criteria, the creative sector offers very appealing opportunities when compared with other sectors more commonly targeted for development assistance. **At a time of recession, deficits, and severe budget restraints, the creative economy offers an effective strategic alternative with significant growth potential.**

KEY MEASURES

The creative sector is multi-layered, with each stratum requiring specialized measures to optimize the value generated. There are many precedents and best practices from around the world that have proven effective in developing each level of the sector. A careful review of these precedents indicates that there are five key measures that, taken together, can generate strong, sustainable growth in the province's creative economy.

These key measures are tools that have been developed and successfully used in other jurisdictions. For Nova Scotia, **the goal is to promote activities that contribute to the province's economic health and sustainability while ensuring that the specific needs of the creative sector are met.**

1. Creator support

Core creation by artists is where the R&D of the creative sector takes place – the work of gifted and talented people is the ultimate source of material for the economically important creative industries (film, television, music, publishing, design, etc.) and other cultural activities.

Arm's-length agencies are the preferred mechanism by which democratic governments throughout the world support the creative work of artists and cultural workers. These agencies are usually statutory arts councils, created by enabling legislation. They provide direct assistance to creators and their nonprofit organizations through various support and funding

programs for writers, performers, composers, choreographers, visual artists, craftspeople, filmmakers, etc. Artistic and creative excellence are core criteria within a competitive evaluation model based on expert assessment through peer review, resulting in direct grants to support the most innovative and exciting creative work.

Arm's-length arts councils and generous support for creators are fundamental elements in a comprehensive package of measures necessary for building a creative economy.

Creator support plays a key role in attracting, retaining, and sustaining both emerging artists who are starting their careers, and established artists who have regional, national, or international reputations.

2. Creative industries investment funds

Creative industries investment funds support the expansion and growth of private sector firms in the creative industries. They are similar to venture capital funds, but the objectives are multiple – earning returns, supporting cultural production, growing exports of cultural products, and generating employment in the sector. Investments can take a variety of forms, on a variety of terms. They should operate within an arm's-length structure, targeting the creative sector. Such funds could focus entirely on investments to sustain business operations, or they could combine this with investment in physical facilities (e.g., buildings or other necessary infrastructure). There are many operating models, including those in Quebec, Ontario, Manitoba, and abroad.

3. Creative industries tax credits

Creative industry tax credits support targeted activities, such as development, production, and marketing, by refunding a portion of the tax paid on those activities.

They are intended for private, tax-paying enterprises (not for nonprofits) and are similar to the R&D tax credits used in other sectors.

Eligibility for tax credits can be based simply on carrying out specific activities in particular industries, but they can also require local ownership and a local establishment (i.e. a fixed place of business such as a production office, a branch office, etc.). These latter requirements magnify the impact of investments in the sector, thus increasing the total benefits created by the sector and by public investments in the sector.

Tax credits are delivered through industry-specific organizations capable of certifying the eligibility of particular businesses and activities, with administration done through Revenue Canada's corporate tax structure. There are many models for such tax credits in Canada and elsewhere.

4. Infrastructure development funds

With effective planning, infrastructure funds can address the needs of both large and small nonprofits (museums, theatres, symphonies, dance companies, galleries, etc.) as well as those of the broader community.

Major new investments in cultural and creative industry infrastructure – “signature” projects such as a public art gallery or concert hall – can have high visibility, generate substantial economic impact, and signal important commitments to the sector. All too often, however, large infrastructure initiatives are undertaken with no linkages to the objectives of an overall cultural development strategy.

The infrastructure needs of the creative sector must be viewed holistically, on a sector-wide basis, to ensure that they proceed in accordance with predetermined priorities towards desired outcomes. Thus, an effective infrastructure development fund should provide an orderly and coherent pathway for charting such developments, with clearly stated objectives, processes, requirements, and measurables.

It should be emphasized that “major” is a scalable concept, and the criteria for what constitutes “major” can vary substantially depending on which segment of the sector is under consideration. Smaller infrastructure projects that are part of a larger strategy can add real value to the sector by providing space to create, collaborate, experiment, and reach new audiences.

5. Stabilization and development funds for nonprofit cultural enterprises

Stabilization funds make investments in nonprofit cultural organizations to sustain their operations and support their expansion and growth. Candidate organizations develop a business plan, set out objectives to be achieved through fund investments, and determine how progress towards those objectives will be measured. These funds are most often used to address the accumulated deficits of nonprofit organizations or to build capital reserves that can cover unexpected revenue shortfalls.

Development funds support the expansion and growth of nonprofit cultural organizations that cannot access traditional private sector financing for expansion. The focus here is on projects that meet specific criteria for investment in the creative sector. Program officers maintain ongoing relations with nonprofit clients, help them to improve their business operations, and give their managers access to new skills and resources. The officers also monitor the proper use of funds and assess the benefits resulting from investments.

Several models exist for such stabilization and development funds, which generally have a tiny core staff to administer investments and oversee ongoing organizational relationships.

PROGRAM INTEGRATION AND DELIVERY

The groundbreaking work of cultural economist David Throsby demonstrates that **the creative sector is an interdependent economic entity that demands a holistic overview, integrated policies, and comprehensive programs.**

Due in part to the rise of digital technology, the boundaries between art and commerce and among the various artistic disciplines are breaking down. In this rapidly shifting landscape, maintaining current firewalls makes little sense, and a more integrated approach is required.

In order to realize the full potential of the key measures outlined above, **all programs in support of the sector should be the responsibility of a single agency, delivered at arm's length from government. What is needed is a Creative Economy Development Agency that is responsible for promoting the growth of all aspects of the creative sector.**

Such an agency could address the creative sector in a holistic way, dealing with everything from creator support to business and infrastructure development across all creative disciplines. It should also have the means to assess its own progress in support of the sector. In other words, it must be capable of intervening, in a knowledgeable and intelligent way, at every stage of the creative cycle, from creation and production to distribution and conservation.

This is precisely the approach currently being taken in Scotland through a merger of Scottish Screen and the Scottish Arts Council. According to the government website:

The Scottish Government is committed to the establishment of a single dedicated body for Scotland's arts and culture sector. It is intended to establish Creative Scotland as a Statutory Non Departmental Public Body (NDPB) through the Public Services Reform Bill.

Operating at arm's-length from government, one of the new agency's key functions will be "to work closely with partners to support our creative industries, ensuring they thrive in Scotland". They are also devising a Creative Industries Partnership agreement which will specify "how key public sector bodies will work together to support creative industries, putting practitioners at the centre of the process". This latter priority is entirely in keeping with Throsby's concentric model of the creative economy, wherein creators/practitioners are seen as the central source which drives the creative industries.

FISCAL BENCHMARKS

Nova Scotia's per capita investment in the arts and creative industries is amongst the lowest of any province, and this has been so for the past 30 years. If Nova Scotia wants to build a vibrant creative economy, this must change.

The most obvious benchmark is the per capita investment of other provinces, as provided by Statistics Canada's annual survey of government expenditures on culture. For fiscal 2006-07, the most recent year for which data is available, Nova Scotia's per capita expenditure was \$80.31. In comparison, the average for all provinces was \$90.45 per capita, and Saskatchewan, the top ranking province, spent \$117.18 per capita.

If Nova Scotia spent at the same rate as Saskatchewan, it would be investing an additional \$34 million into the creative economy, a 46% increase. If Nova Scotia wants to lead the country and become a creative economy powerhouse, this is the level of annual investment that will be required.

FINDING NEW RESOURCES

Finding \$34 million in difficult economic times will not be an easy task. However, there are a number of ways in which this amount, equivalent to less than one half of one percent of the current provincial budget, could be found.

1. Targeted tax increases

Consumers should have full access to every aspect of the cultural marketplace, regardless of country of origin. In the global village of the Internet, that could be anywhere, and it is essentially impossible to restrict access. However, it is possible to tax it.

Every day in Nova Scotia, a large amount of non-Nova Scotian cultural content is accessed via television, the Internet, movie theatres, periodicals, etc. **Adding a small, targeted “creative economy development fee” to monthly bills and ticket prices could provide significant additional revenue for creative sector support.** Such a fee could easily be justified to Nova Scotians as an investment in our own creators that will boost our economy and help our creative sector gain prominence on the provincial, national, and world stage.

2. General tax increases

The Nova Scotia Economic Advisory Panel has recommended a 2% increase in the provincial portion of the HST. Such an increase would generate additional revenue from a wide range of cultural goods and services.

According to Statistics Canada’s *Survey of Household Spending*, Nova Scotians spent almost \$700 million on cultural goods and services in 2005 (the most recent year for which data is available). **A 2% increase in the HST on these expenditures would net the province an additional \$14 million.**

3. Strategic reallocation of resources

A systematic review of provincial economic development programs and priorities could reveal funds that would be better spent in support of the creative economy. A careful analysis of economic trends could identify sectors that are in decline and no longer merit assistance. Funding could then be shifted to areas which show better potential for future growth.

Similarly, a review of the province’s cultural programs and priorities might also expose funds that could be more effectively utilized. For example, the provincial film classification system is an anachronism with a budget that could surely be put to more effective use.

There also needs to be a shift in the economic development paradigm so that the creative economy becomes a provincial priority. Such a shift would, for example, allow the province to use federal economic stimulus money to fund “camera-ready” as well as “shovel-ready” projects.

4. Leveraging other resources

Increased provincial investment brings with it the opportunity for leveraging significant additional funding from federal, municipal, corporate, foundation, and other private sources. Initiatives such as stabilization funds help to strengthen cultural infrastructure and can attract additional funding on that basis. This is also true of major infrastructure development projects, which inevitably entail contributions from several levels of government, corporations, foundations, philanthropists, etc.

This kind of leveraging is common in the culture sector, where constitutional responsibility is shared among all levels of government. Here in Nova Scotia, the Ross Creek Centre for the Arts, established in Canning in 2001, has successfully accessed financial and in-kind support from a wide variety of public and private sources, from local to federal, where funding from one is often contingent upon investment by others. The result has been the establishment of a vibrant hub of creative economy activity in a small rural community, with substantial spinoff benefits for the surrounding area.

In Alberta, the Alberta Foundation for the Arts invested \$1 million per year for three years in the Alberta Creative Development Initiative to support the advancement of professional artists and arts organizations. This investment leveraged a total of \$12 million in additional revenues from federal and municipal sources.

In Ontario, the Ontario Media Development Corporation's Film Fund invested \$3.43 million in their provincial film industry. Each dollar from this fund leveraged an additional \$26.11 in production financing and generated more than 7,000 weeks of work in the industry.

Thus, targeted seed money and an orderly structure for the development of such projects can be a magnet for other investment, substantially multiplying the impact of initial provincial commitments.

TRACKING PERFORMANCE

The creative economy is demonstrably less well tracked than most other economic sectors. This is sometimes excused by the difficulties in measuring certain forms of cultural activity. However, **a sectoral development strategy requires careful attention to data collection and measurement**, ensuring that baseline information is gathered and the impact of sectoral initiatives can be tracked, compared, and evaluated.

First and foremost, the objectives of this proposed strategy must be carefully articulated. Then there must be ongoing data collection to track the creative sector's performance and measure the success of specific initiatives. Successes should be built on and emulated; failures should be identified and remediated as early as possible.

Maintaining public confidence in such a strategy is also vitally important. This can be done by (1) devising a transparent mechanism for reporting on its implementation; (2) making public its ongoing monitoring; and (3) comparing actual with projected results. Individual failures can be dealt with much more expeditiously when they are quickly and openly identified and acknowledged – and appropriately juxtaposed with successes.

Because they rely on various forms of public support, many participants in the creative economy are already accustomed to a high level of public accountability that would be unusual for private sector businesses. This culture of openness and accountability can be valuable in ensuring that there is public tracking and measurement of the impact of a creative economy strategy.