

‘Creative Industries Economic Estimates: Consultation on Proposed Developments’ – Response by BOP Consulting to Department of Culture, Media and Sport (DCMS)

BOP Consulting is an international consultancy specialising in culture and the creative economy. BOP has conducted impact research for some of the largest and best known organisations in the UK, including the Edinburgh Festivals, Glyndebourne, The Barbican and WOMAD Festival.

Given BOP’s wide ranging economic research into the cultural and creative industries, we welcome the efforts by DCMS to improve measurement of the economic contribution of these industries.

These efforts are, however, limited by the existing SIC code framework. In the latest iteration of the *Creative Industries Economic Estimates*, DCMS acknowledges in Annex E that this framework limits the extent to which the economic contribution of crafts, music, museums, galleries, libraries, and computer games can be accurately measured. In a whole host of senses – not just economic but also cultural and social – this constitutes a vast swath of industries absolutely at the heart of the creative and cultural sector.

While the SIC code framework is largely determined internationally, with UK public bodies having constrained capacity to amend it, there is a compelling case for the UK to agitate for reform to this framework. In the absence of this reform, much of what DCMS is now consulting upon will be less effective than it otherwise would be.

BOP would welcome relevant parts of the public, private and third sectors in the UK working together to achieve this SIC code reform. We believe that a building appetite for this reform also exists beyond the UK. For example, our Chief Economist, Jonathan Todd, was recently asked to present on *Measuring Music* – the annual study on the economic contribution of music that is motivated by a desire to have more accurate measurement of music’s economic contribution than the SIC framework allows – at a roundtable on data issues organised at the European Commission (DG Education and Culture). There was a recognition at this roundtable that SIC code reform is a precondition of better answering many of the questions that are asked about the economic performance of the creative and cultural sector.

Notwithstanding the importance of this reform, and further efforts by DCMS and other partners to secure it, we now provide specific comments on the groups of questions raised by DCMS in its consultation.

Creative Economy Estimates

Do you have any views on the Creative Economy GVA estimates and the methodology used to calculate them?

Do you have any evidence to support or contradict the view that productivity in Creative and non-Creative jobs outside the Creative Industries is the same, and therefore GVA should be allocated on a per head basis?

Do you support the future publication of Official Statistics on the Creative Economy?

The development of the concept of the Creative Economy and methodologies for measuring it have been a step forward in understanding creativity in the UK. Many creative workers work outside the SIC codes that form the Creative Industries on the DCMS definition of these industries. The purpose of the concept and methodology of the Creative Economy is to capture the economic impact of this subset of creative workers. This is a welcome research effort.

BOP is not aware of any robust evidence, however, on productivity differences between creative workers inside and outside the Creative Industries. We note that there are concerns about productivity statistics more generally. The so-called “productivity puzzle” has been a feature of the UK economy in recent years. In spite of falls in unemployment, meaning that we are collectively working more, labour productivity has flat-lined in the UK and not risen as fast as its historical trend. The crux of the puzzle is that we seem to be working more for less output. There are a range of explanations for this puzzle but the questions that it asks of official statistics are most relevant here.

Hal Varian, a microeconomics professor who taught at Berkeley and is now chief economist for Google, argues that conventional economics – as well as the official statistics that feed in to measures of labour productivity - only counts as economic activity things that are paid for. Since a lot of the services generated by the hi-tech industries are free to the user, they are not counted in GDP. It follows that GDP is higher than measured and accordingly productivity is higher too.

This raises fundamental questions about GDP and productivity statistics. In the context of this uncertainty, we would caution against seeking to over interpret seeming productivity differences between the same kinds of workers in different sectors. At the same time, we would encourage DCMS and related agencies to grapple with the questions raised of official statistics by the “productivity puzzle”, not least as the explanation for this puzzle proposed by Varian is involved with the workings of industries that are central to the remit of DCMS.

Accounting for under coverage of microbusinesses

Do you have any views on the methodology used to account for under coverage in the ABS?

Are you aware of any sources of information which would enable us to apply this approach at the 4-digit SIC level?

Do you support use of this additional adjustment in future publication of Official Statistics on the Creative Industries and Creative Economy?

Many creative industry businesses are microbusinesses. BOP, therefore, welcomes this research strand and encourages DCMS and ONS to prioritise it.

Given that Annual Business Survey (ABS) is thought to cover 98% of activity in the UK economy, the application of a 10% uplift, as described in the consultation and associated methodological note, seems potentially high. That said, given the proclivity of microbusinesses that BOP notes in the creative industries, it may be that a relatively

high uplift is necessary to fully take account of current underrepresentation of economic activity within the creative industries.

BOP encourages DCMS and ONS to both continue to refine this research to test the appropriateness of a 10% uplift and more generally, better understand the economic function and impact of microbusinesses within the creative industries.

Productivity

Do you have a view on the best approach and data sources to measure productivity for the Creative Industries?

The points that we make above regarding the “productivity puzzle” and its relationship to official statistics is also relevant here. Notwithstanding this point, BOP recognises that output per hour worked, rather than output per worker, tends to be a stronger productivity metric.

BOP, therefore, welcomes efforts by DCMS and ONS to develop output per hour worked metrics for the creative industries. Nonetheless, measuring the number of hours worked by creatives is no straight-forward task. The lines between work and leisure can become blurred for such people, creating ambiguity about exactly how many hours are worked. As a result, it may be necessary for standard ONS surveying techniques to be adapted to better understand the lives of creatives and overcome this ambiguity.

Exports of goods

Do you agree with the proposed source for export of goods (Trade in goods by CPA)?

Do you have any views on the proposed categories of Creative Goods?

DCMS has previously reported on the export of creative services and it is welcome that DCMS is seeking to extend this reporting to the export of creative goods.

But it is not obvious that the list of goods proposed is comprehensive (i.e. captures all categories of creative goods that are being exported by the UK). Does it, for example, capture all the goods exported by the UK design industry? Does it reflect ‘end to end’ distribution of digital products, such as downloads of computer games?

BOP would encourage DCMS to continue efforts to engage with the creative and cultural industries to ensure that any future reporting on the export of creative goods is comprehensive. It would be unfortunate to understate the UK’s export of creative goods.

These issues might be most efficiently resolved if the export of goods much more neatly attached to particular industries within the ONS systems. This would mean that the export of creative goods would correspond to the total exports in goods of these industries.

This might imply a wide ranging reform of ONS working but if we are serious about reporting on the export of creative goods, we should be prepared to take the steps necessary to do so as accurately as possible.

Creative Industries Intensities

Do you have a view on the proposal to review the Creative Intensities?

Do you support the inclusion and exclusion of industries as their Creative Intensity changes over time?

Do you have a view on the level of change that would warrant revisions to the data?

Do you have a view on whether historic data should be revised to reflect a new definition or should retain the definition of the Creative Industries associated with the period when it was published?

Do you agree with the frequency of the review (every three years, or five years)?

As the economy evolves, periodic review of creative intensities makes analytical sense but there may be some need for caution around the public policy implications of this approach.

The creative intensities methodology has resulted in activities being considered part of the creative industries that were not previously. Some of these activities are quite different from those that initially defined the creative industries. This initial definition was closer to the UNESCO definition of culture.

Bringing new activities into the creative industries, therefore, risks having the focus of public policy move away from culture and more on to activities that are more peripheral to core cultural activities. As many of these activities are in the high-growth IT sector, their inclusion within the definition of the creative industries potentially risks overstating the economic contribution of the creative and cultural sector – and inducing complacency about the economic position of the sector.

Creativity is, to some extent, a feature of all parts of the economy. In its own way, all of these different forms of creativity are important. But, by definition, DCMS cannot celebrate and focus upon all these activities. It must choose how to allocate its scarce resources and focus. It is important to the cultural vitality of the UK that focus upon those activities within the UNESCO definition of culture is not foregone.

Sub-national GVA estimates

Would you find sub-national estimates for Creative Industries GVA useful?

Would Region or city level estimates be more valuable?

In November last year, BOP launched a major report in association with Core Cities UK on the future of culture in UK cities.

Three things jump out among our findings.

First, there is a growing confidence across all cities. Cities are excited about creating their own localised solutions. They remain committed to using culture to meet economic and social goals, despite tight budgets.

Second, cultural organisations are prepared to experiment and take risks. They are finding new funding sources and collaborating to share costs. A future goal is to raise more private funds.

Finally, cities are less focused on bricks and mortar than before. Their priorities are developing skills and leadership, engaging new people and bringing in new ideas and talent.

However, when undertaking this research, we found it surprisingly hard to find data on culture in cities. The adage about you can't change what you can't measure probably holds true here. We asked whether it would make sense to improve national data collection, to assist local benchmarking and decisions.

We would encourage DCMS, therefore, to seek to publish more localised data. We have no strong preference, though, between publication at the city or regional level. Both are strongly relevant in different contexts. BOP suggests, notwithstanding resource constraints, publication at both levels.

Now-casting

Would modelled “now-cast” estimates be helpful?

Do you have any views on the best approach to take this forward?

It is imperative to the business activities of many creative industry businesses to have real-time data. It is less clear that real-time data is necessary to generate optimal public policy. Some time lag between activity and reporting is inevitable in relation to public data.

We'd suggest that it is more important – particularly through improvements to the SIC codes – to improve public data than to get it published more quickly than it presently is.

Nonetheless, in relation to data on music streaming, which seems relevant here, we note that this now feeds into the Official UK Charts. Therefore, the music industry already has in place mechanisms for collecting data that is likely to be relevant to any attempts to “now-cast”. This and other industry-led data collection mechanisms may assist ONS and DCMS to go further with “now-casting”, to the extent that this is felt a priority.