Creative industries during economic recession: the case of Riga

Ieva Rozentale*

Amsterdam School of Economics, University of Amsterdam, Amsterdam, the Netherlands

Against the backdrop of research and policy advocating the growth potential of creative industries’ sectors in advanced economies, this article examines the performance of creative industries during economic crisis in a less advanced European city-region: Riga in Latvia. It discusses the data on entrepreneurial activity, employment, turnover and value-added of creative industries relative to the economy on average between 2007 and 2010. The results show that creative industries as a whole underperform compared with the economy on average during recession, however not all subsectors show the same patterns. Hence, it is suggested that a more sector- and place-specific approach would benefit both policy-making and research dealing with the role of creative industries in economic development.

Keywords: Creative industries; Creative economy; Crisis; Economic recession; Latvia; Economic development; Riga

Introduction

The post-industrial age and the long recession forces cities and regions of advanced economies to search for new sources of economic growth and competitive advantage. Although often contested, such potential has been attributed to creative industries (CI) since the beginning of the new millennium both in academia and European Union (EU) policy discourses (Bontje, Musterd, Kovács, & Murie, 2011). Many researchers have supported this by demonstrating above-average growth rates in these industries, both in terms of employment and value-added contributions in Western European countries including the UK (Work Foundation, 2007), the Netherlands (Stam, De Jong, & Marlet, 2008), and Germany (Söndermann, Backes, Arndt, & Brünink, 2009). These numbers in return have been used to advocate public investments in these sectors as means of boosting economies.

However the effects of the recent crisis on the growth in CI are underexplored. According to normative economic expectations creative sectors should be the worst off during crisis and the last to recover due to the arguably high income elasticity of demand of a great deal of cultural and creative goods. Some authors argue the opposite (e.g. De Propris, 2013; Grodach & Seman, 2013; Pratt, 2009; Pratt & Hutton, 2013) suggesting a more generative and underexploited role in the economy. Despite scarce and often contradictory evidence, particularly regarding CI development in less advanced EU regions, EU policy arguments regarding CI continue implying growth prospects and promote them as equally important for the economies of all EU countries (European Commission, 2012). Following these arguments, the EU’s new cultural policy
program ‘Creative Europe’ envisages investments in CI with the intention of increasing among others their economic contributions.

The Riga city-region (Latvia) presents a prime example of the outlined contradictions and, therefore, represents an intriguing case. As a result of the collapse of Soviet Union it has transformed from being an important node between the East and the West of the continent into the centre of a less developed peripheral EU region. Latvia, and the Riga city-region as the central location for most economic activity, is known for having been affected by the crisis particularly harshly (Åslund & Dombrovskis, 2011); the gross domestic product (GDP) in the country declined by 26.5% in 2008–10 (Tanning & Tanning, 2013). At the same time, Riga is currently trying to position itself as a cultural hub, and it is the European Capital of Culture of 2014. Aligned to the common EU cultural policy, the new Latvian cultural policy strategy (2014–20) is called ‘Creative Latvia’, emphasizing CI as one of its main pillars. CI are also included in urban and regional development strategies as contributors to economic growth and employment. Nevertheless, the empirical evidence to suggest such a relationship is outdated and remains scarce.

Against this backdrop, this article seeks to explore the development dynamics of CI during the last recession in Riga, the capital of Latvia, as a representative regional ‘leader’ of less advanced EU economies. This topic is particularly important at the present moment, with EU searching for new sources of economic growth. Investments in CI offer a promising tool for economic recovery; however, more research is needed for developing successful growth fostering policies aimed at CI.

Creative industries and economic growth in recession

The exact definition of CI is often context-dependent, but the core of this umbrella term remains the same – combining more traditional cultural industries (music, publishing and film) with new creative subsectors such as architecture, design, fashion and software.

There are three general assumptions behind considering these industries the drivers of economic growth: (1) their above average growth rates of employment and GDP contributions, (2) the idea of their end product being of higher added value than in other industries due to the symbolic values embraced, and (3) the secondary effects they bring to innovation (spillovers) throughout the economy (Grodach & Seman, 2013). Indeed, many studies from the early 2000s in the more advanced European economies have proved this right (Foord, 2008; Dubina, Carayannis, & Campbell, 2012).

The extant theoretical and empirical knowledge on the relationship between separate industry innovation performance and economic fluctuations is inconsistent and contradictory (e.g. Cefis & Orsenigo, 2001), and is even scarcer when it comes to assessing cross-industry spillovers. Therefore, in view of the complexity of the subject, the third assumption is excluded from further discussion in this study. Nevertheless, there is enough knowledge to predict that the other two assumptions might be expected not to hold true during economic recession. Firstly, the higher added value nature of these services and goods might mean that they can be considered as luxury goods and therefore have a high income-elasticity of demand (Pratt, 2009), making CI highly consumer dependent. Moreover, as many CI firms are business-facing, reduced economic activity in other sectors significantly decreases demand for their outputs (De Propris, 2013; Dubina et al., 2012). Likewise, the industries demonstrate a high concentration of small and micro firms, which in combination with a particular lack of entrepreneurial skills
(Trip, 2011) might serve to make them more vulnerable to the negative consequences of economic shocks.

But at the same time there is no reason to believe that all of the CI subsectors will perform similarly whether or not during a period of economic downturn. With each subsector having its own particular business practices and challenges (Chapain & Comunian, 2011), they can be expected to react differently to changes in economy.

Finally, not all cities and regions manifest the same capacity to have a strong CI sector. Within the EU there are grounds to believe that Central and Eastern European cities and regions have a weaker position to develop creative and knowledge-based industries, especially as far as the traditional ‘hard factors’ are concerned, by which we refer to their institutional framework, tax regimes, infrastructure, availability of capital and qualified labour (Bontje et al., 2011). Even though not all these factors are necessary for the CI firm development, they nevertheless remain important for resilience of the economy within which these firms are embedded. Resilience in this context refers to ‘the ability of a region to anticipate, prepare for, respond to, and recover from a disturbance’ (Foster, 2007, p. 14) and importantly may account for some aspects of CI performance during a period of economic crisis.

Based on the discussed aspects, three questions are proposed:

- How do CI perform in recession in a less advanced EU region?
- How can their performance be explained?
- Are there significant differences between subsectors?

Methods

This article answers these questions with a case study of the Riga (statistical) city region. Even though NUTS-1 and -2 define the whole country as a region, the Riga city region was chosen as the setting because it is the local and national centre. It accounts for almost 60% of Latvia’s GDP, and has a more urbanized economy than the rest of the country.

Since no data specifically on CI were publicly available, they were requested from the Latvian Central Bureau of Statistics (LCBS). Based on an extensive literature review and a similar selection process carried out and documented by Hogeschool voor de Kunsten (HKU) (2010), I first constructed a list of economic activities each corresponding to a NACE classifier that would constitute the definition of the CI. I then requested the data on the general economic indicators by each classifier enlisted and by firm size classes from the LCBS. The economic indicators included employment, enterprise numbers, turnover and value-added.

To analyse the data I first used consumer price index to account for inflation (available at LCBS’s webpage). I then analysed changes in the data between 2007 and 2010 using cross-tabs and various figures related to variables found important in the literature. I considered both CI as a whole as well as their separate subsectors (for the division, see Figure 2) to explore these indicators against city-region and national average economic performance. The data represent the whole population and the analysis is descriptive, not dealing with causal relationships.
The case of Riga

The dominance of the capital city in hosting economic activity is even bigger for CI than for all economic activities. In 2006 Riga’s city region accounted for approximately 70% of country’s CI employment (Mikelsone, 2008). These economic branches in Riga are more important as employers (9.3% of the city’s total in 2010) than contributors to value-added (4.3% in 2010). Similar to more developed EU regions, during the pre-crisis period CI in Riga were indeed fast growing (e.g. 31% turnover increase in 2005–06; Mikelsone, 2008). However, the available data demonstrate that Riga’s CI were notably underperforming the rest of city-region’s economy during the crisis (Figure 1), hence supporting the normative expectations outlined earlier. Even though employment followed the general trends (around 25% decrease between 2007 and 2010), the economic performance in terms of value added and net turnover declined significantly further than the city’s and country’s average, showing a higher responsiveness to economic shocks. The harsh decline in economic performance also resulted in CI occupying a less significant proportion of the city-region’s economy (e.g. share of employment went from 12.1% to 9.3% in 2007–10).

The data further suggest that the economic crisis impacted the CI structure quite considerably. In this period, the number of large, medium and small enterprises decreased while the number of micro companies (0–9 employed) increased by 8%. The shares of employed by firm size categories saw the ‘largest employer’ category switch from large companies to smaller ones. These figures coincide with the increase in the number of enterprises. While this might suggest increasing creative entrepreneurship, the decrease in employment rates was substantial suggesting that this restructuring might be more a necessity in times of economic downturn.

Figure 1. Changes in economic performance indicators between 2007 and 2010.
**Turnover change compared with countries total due to non-availability of data.
Figure 2 shows that the normative predictions discussed are equally supported by the dramatic decrease in the turnover of creative retail enterprises (~77.6%). They were also the first to react to the crisis with the most severe decline in 2008, while companies in other subsectors hardest hit in 2009, implying a consequent reaction due to decreased purchasing power. These data allows it to be deduced that the demand for creative sectors’ output is highly income-elastic, therefore CI cannot be regarded as drivers of less advanced economies.

Further looking into the data on subsectors (Figure 2), evidence can be found supporting the argument that CI subsectors are heterogeneous (Chapain & Comunian, 2011). Our data suggest that growth dynamics differ so notably between them that it is difficult to discuss their growth potential as a whole. Employment declined more than the economy’s average in half the CI sectors, while not in others. Moreover, the changes in gross values added (GVA) did not follow the same trends as employment. To illustrate, Film Industry and Cultural Education experienced increase in economic activity in terms of number of firms and turnover, while the decline of value added in these sectors suggests that increased competition might have affected the return on capital. Software & Games – in general the least creative and more technology-based subsector – also demonstrated the highest resistance in recession (both the smallest decline in economic activity and the high rates of new entrants).

Some evidence of shared characteristics could be found when distinguishing between creating firms (mostly providers of services or product service systems) and producing firms (almost entirely manufacturers). For instance, design and fashion manufacturing subsectors were the only ones experiencing a significant decrease in both the number of employed (39% and 36%) and the number of enterprises (9% and 13%). Similar employment change patterns, but with almost no change in entrepreneurial activity, are found in Music Publishing and Publishing and Printing. This indicates that

Figure 2. Changes in economic performance indicators between 2007 and 2010 by subsectors.
subsectors of reproducible creative goods might have higher entry barriers for new entrants or for those transitioning to freelance. However, the fact that the Film Industry does not manifest similar patterns and that Music Publishing showed a great increase in value added unlike other sectors does not allow such general conclusions.

Conclusions

Much extant research and policy discourse surrounding CI paints a promising picture, where public investments and generic policies for all discussed sectors may help boost economies and improve competitiveness across all EU regions at all times. This is so far one of the few studies looking at how CI perform during crisis in a less economically advanced EU region. This short discussion has highlighted that in Riga the available data (1) support the overall normative predictions – as a whole CI branches are more responsive to economic shocks than the economy on average and hence cannot be easily considered potential drivers of growth, but (2) disprove the holistic homogeneity-implying assumptions on CI’s performance in crisis, with no clear performance patterns across sectors sharing similar characteristics (e.g. reproducible cultural goods, service sectors or technology-dependent sectors). This last (and also most important) conclusion signals that the current holistic approaches aimed at all CI might fail to address these differences.

In view of the scarcity of research on CI subsector performance in recession and the limitations of the data, it is difficult to advance any explanations for these differences. However, it is possible to accentuate this as a promising avenue for further research and outline some points for strategy formulation in Riga based on the data at hand, including the following:

- The Music Publishing industry shows high economic contribution potential, which can be capitalized upon, for instance, by creating export support instruments (a debate currently ongoing).
- Public investment in more knowledge-based than creativity-based sectors like Software and Games has high potential for sustainable contributions to economic growth in the long-run, as it seems most resilient to economic shocks.
- Cultural Economic branches and Cultural Education show prospects of being employment providers.
- The high increase in entrepreneurship in service sectors might indicate the need of developing support mechanisms for micro and small enterprises.

Moreover, currently most of the CI policy-making both nationally and locally is the responsibility of the Ministry of Culture. In this respect, properly carrying out support and incentives for fostering economic development should be better done in cooperation with bodies responsible for economic and regional development.

That being said, it is generally agreed that industries cannot be separated from the geopolitical and economic systems within which they are embedded. Consequently, while the individual sectors have some default characteristics, their development patterns and potential are likely to differ across regions, which is why these findings and suggestions have limited generalizability. I therefore argue for an overall need for a more pragmatic, place- and industry-specific and evidence-based approach in CI research and policy-making.
Acknowledgement
Comments made by Julie Porter, Paul Benneworth and the anonymous reviewers are gratefully acknowledged. The contributions of Mariangela Lavanga and Pauwke Berkers are equally appreciated.

Note
1. The list of the NACE classifiers used for this study can be obtained by contacting the author.

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