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New Tools for New Regional Policy in Central European Countries

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New Tools for New Regional Policy in Central European Countries*

ERSA Congress 2013

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ABSTRACT

Regional policies were strongly related to the support of industries as automotive, wood- processing or engineering. However new important sectors as information technologies or creative industries has started to play more important role in the development of countries. These sectors require different approach by the implementation of development policies. The changed circumstances bring also changes in the design of regional policies and creation and implementation of regional strategies. The paper deals with new tools of regional policy regarding to the changed environment in chosen Central European Country, in Slovakia. The first part includes a basic literature overview of changing requirements for regional policy in terms of creative economy. The next part investigates the current situation and conditions for supporting creative industries in Slovakia.

Keywords: Regional Policy, Creative Industries, Tools of Regional Policy

JEL Classification: R11, R58

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INTRODUCTION

The examination of the creative economy represents a substantial step in the field of regional development. A large number of studies and political documents pointed out, that the changing economy brings also changes in the design of regional policies and creation and implementation of regional strategies. Over the previous development, regional policies were strongly related to the support of industries as automotive, wood-processing or engineering. However new important sectors as information technologies or creative industries has started to play more important role in the development of countries. These sectors require different approach by the implementation of development policies. The present article provides a literature overview of supporting creative industries as well as the current state of the field in Slovakia. The differences in supporting creative industries and traditional sectors will be presented.

DIFFERENCES IN SUPPORTING CREATIVE AND TRADITIONAL INDUSTRIES

The issue of creative industries came to the fore recently; the first definition is dated only to the year 1998, when the Creative Industries Mapping Document was published by the Department of Culture, Media and Sport in the United Kingdom (DCMS, 1998). Despite of that there are already dozens of support programs in various countries, which reflect the importance of supporting this sector. Creative industries operate on different principles than some traditional industries. Their support must take into account the specifics of this sector. By supporting creative industries, national and regional assistance should be oriented also on the needs of the given regions. We cannot automatically understand any support of creative and cultural industries as a way to improve development. Also it is important to state that the support have to be focused on not only so called “creative industries”, but also other creative activities in other sectors. Creative industries have some specific characteristics that differ from traditionally supported industrial sectors and hence by the formation of support policies should take into account this dimension. In particular, the following characteristics:

Significant number of small businesses and self-employers

Unlike traditional sectors where significant role play big enterprises in determining trends as well as the total volume of production, creative industries dominate by small businesses and self-employed entrepreneurs. Their number is different according to different types of creative industries, for example according to Markusen (2010) in some sectors of art achieves self-employment to over 60%, in design

around 30%. Within the EU, the share of self-employed reach the double of self-employers in traditional sectors (HKU, 2010).

This has several implications for the proper functioning of the markets of mentioned sectors. Prices are derived from the market, providers determine the price - based on the market development and not according to the costs. On the other hand, there are also high costs for consumers to obtain market information (Fesel, 2007); it is very difficult to identify all those potential providers of the given service.

Relatively low initial capital need

Unlike manufacturing industries, most of the creative activities need relatively small amount of initial capital. The emphasis is shifting from capital to work, what is from the regions' point of view better and more stable element of development. In terms of policy, it points to the relatively low cost of newly created jobs and hence the possibility of more effective support. Creative industries are rather based on a knowledge-intensive work. On the other hand, the acquisition of capital is much more difficult, as applicants often fail to demonstrate a secure financial return. They also have a much greater resistance to bureaucratic procedures and lobbying, which often discourages them from trying to obtain start-up capital from foreign sources (HKU, 2010).

Significant cross-sectoral linkages

Creative industries are characterized by a high degree of cross-sectoral links. From the perspective of development as the key to doing so, creative industries often produce outcomes that are important inputs into other sectors in the innovation process (Potts, 2009). Cross-sectoral linkages are linked to a much greater openness and labor migration; when there is a significant proportion of people with multiple jobs (HKU, 2010).

High level of concentration

The creative industries tend to be highly concentrated in large cities. Studies show significantly increasing employment of these segments, which are likely to be in these locations substitute of traditional industries.

Great diversity of market segments and high level of risk

Due to the fact that in the creative sectors almost every product is original, there is a large diversity of market segments. That makes this segment very unpredictable and is also characterized by high risk

level for global and local players is this sector (Fesel, 2007). A large part of the products is intangible, and in particular their value is subjective. Their value is different for different people. It implicates difficulty of market value prediction (HKU, 2010). It also leads to the fact that in many cases - the work is irregular, income is unequally distributed, and any contracts tend to be short (Banks, 2009).

Specific mix of assumptions required

The uniqueness of the products and their makers put different requirements on the education system. With such a high segmentation of markets needs each individual a specific mix of skills, abilities and knowledge.

Innovations are mostly hidden and automatic

Innovations do not arise from support of research and development, they are natural part of business strategy and enterprises functioning (Potts, 2009). At the same time these innovations represent a mix of technological and non-technological innovation. On the one hand, innovations are often based on the most modern technologies, on the other hand are also often pilot laboratories for non-technological innovation (Fesel, 2007).

Global and local aspect

In an effort to define appropriate support policies we have to deal with some other aspects - at once the global and local aspect creative industries. Regarding the global creative industries (e.g. film industry) may be also the national level of support insufficient (Fleming, 2007) and should be considered as joint support within V4. An important factor speaking in favor of support for creative industries its character as input for innovations in other sectors (HKU, 2010).

SUPPORTING CREATIVE INDUSTRIES

Along with the rising number of studies promoting the importance of creative economy for development, is increasing the number of support tools that are applied within individual countries and regions. It should be noted that these tools are used for a very short period of time and therefore the amount of studies that can evaluate their benefits is limited, especially in long terms. Although such studies are limited due to the different types of local support (Markusen, 2010), which complicates the comparison of the suitability of tools for development.

For now, the research of creative industries was focused mainly on the effort to quantify them (such as employment), but there is very little number of analyses on the qualitative aspects of these industries such as the institutional context of production (Pratt, 2009).

Moreover, there is no single model for supporting development and innovation, while individual countries have different forms and types of assistance. While developed regions are more likely to support the development of human capital and creativity as the basis of innovation, less developed countries turn more to measures to encourage technology (HKU, 2010). We also should not forget that the support should in principle be applied only in the case of market failure or positive externalities (Pratt, 2009). Distinctive programs designed specifically for the creative industries exist mainly in the UK, Finland, the Netherlands, Spain and Austria (HKU, 2010).

A common problem is simply the implementation of policies such as "copy paste" strategies, especially in creative industries sector, leads to failure. It leads very often to duplication of pilot initiatives and the lack of exchange of experience. Support policy is often poorly coordinated and weakly linked with other policy sectors. Within it is carried out a number of activities and directions that are too elementary and very general (Fleming, 2007).

The final aspect is the need to distinguish individual sectors within the creative industries themselves. The most crucial dividing line is primarily the commercial and non-commercial character of these sectors. Non-commercial sectors are often heavily public subsidized institutions and their business activities are thus more in the background (HKU, 2010).

Various studies suggest different types of instruments suitable for supporting creative industries, which would more reflect the needs of the creative sector that could be divided into several categories:

- ***Institutional Support***

One of the basic forms of supporting is the creation of institutions whose mission is to develop creativity and creative industries directly. Examples can be creative incubators (Cunningham, 2002), the creation and supporting of clusters and cluster initiatives (UN, 2008).

- ***Venture Capital***

Funding for the development of creative industries has some peculiarities. The first is their riskiness. Creative industries are unable to clearly demonstrate the business plan with price calculation as would be in a traditional production. Because of the subjective value of output, there is still not a clear way to estimate predictable assets and future income. It reduces the incentives of traditional forms of funding and decreases the support for these sectors (HKU, 2010). On the other hand, a relatively small amount of capital contributes to the achievement of a much larger effect than in traditional sectors, therefore, support schemes in this area are very often.

- ***Tax Benefits***

Tax reliefs are also one of the most common forms of support (HKU, 2010). Their advantage is that they do not burden the budgets directly of state or cities. This can include a lower tax burden on the selected creative activities such as lower VAT on books and education.

- ***Developing Export Markets***

Appropriate support can be the development of export markets (UN, 2008). Export markets in the creative industries are often very specific segments, often abroad even more different than is possible with traditional goods, therefore the penetration of new markets is often difficult and therefore risky. At the same time businesses often have trouble with identifying appropriate new markets (HKU, 2010).

- ***Education***

Supporting human capital development particularly through education is one of the traditional instruments of regional policy. Education systems are often not organized for supporting the creative class, because of three main reasons. The first is the lack of definition of actually required skills or characteristics of creative class. While there is a clear idea of what should know an accountant or operator of CNC machines, in order to find practical applications for many industries of creative economy is not so clear. In addition, the following requirements are

changing more frequently than in traditional sectors. Thirdly, there is not clear demand from the side of employers. In the conditions of creative economy, the most of employees work as self-employers, it is therefore very difficult to define their needs. (Gunnel - Bright, 2010).

Another aspect necessary to take into account in promoting education is the necessity of linking entrepreneurial skills and creativity. Given that main part of the sector represent small businesses and self-employers, many good ideas may be not implemented because of the lack of entrepreneurial skills and experience of these individuals (Fleming, 2007). Education policy should thus ensure that this education should be given to all levels of schools (Banks, 2009). According to research of HKU (2010) up to 69% of respondents believe that the quality of such training is currently at inadequate level.

Education support should also focus on improving the skills of networking and social interaction (Oxford Economics, 2008). In addition to business skills, for development of creative industries seems to be effective also learning to use ICT, communication skills and the ability of network creation (HKU, 2010, UN, 2008).

In addition to contents of policies, several studies point to problems associated with the implementation, which is often equally decided on the final positive or negative effect of the policy. Markusen and Gadwa (2010) identified the following key elements:

- talent and vision of the initiators
- strong ties to a specific location
- ability to mobilize the public for a given vision
- support of local cultural community
- use of resources of other areas such as urban regeneration, transport, support for small business

METHODOLOGY

This paper is the part of an extensive research project in Slovak republic exploring the creative economy, called "Creative economy - national and regional conditions and incentives". This project is examining several aspects of the creative economy, such as the creative industries support policy in Slovakia. This part of the above mentioned research includes a theoretical overview about the current

issue, qualitative research including interviews and surveys conducted on selected policy agents and elaboration of political implications for the Slovak republic.

This paper represents an initial output of the research about the creative industries support policy. It is containing basic literature overview comparing support policies for traditional sectors and the creative industries. According to the current state of the field in Slovakia, were analyzed conceptual documents at the national level, and basic strategic documents in regions and selected cities of the country. Starting investigation was conducted with chosen stakeholders of the political scene.

THE CURRENT STATE OF THE FIELD IN SLOVAKIA

In Slovakia there is no systematized support of creative economy, yet. The first document in Slovakia was submitted to the government for approval in year 2011 under the title „Initial Concepts for Supporting Cultural And Creative Industries In the Slovak Republic“ by the Ministry of Culture of Slovak Republic (MCSR, 2011). It was the first conceptual political document in this country, which contains an introduction to the given issue, provides statistics about the country regarding to the creative economy. This document also includes a large amount of possible types of measures for supporting this sector in Slovakia that can be divided to five categories (MCSR, 2011):

1. Improve political awareness and sensitivity to issues of creative industries
2. Factors and measures leading to the emergence of creative industries segments
3. Creating conditions for the development of creative industries
4. Supporting new business models and clusters
5. Promoting links between creativity and innovation

These five groups of policy arrangements include mapping, funding opportunities, networking, promoting education and entrepreneurship, encouraging specific infrastructure e.g. creative incubators, promoting the emergence of creative clusters and many other measures for the development of creative economy. Specific sections in the document are devoted to the two most important cities in Slovakia; to Bratislava as the capital city and Košice as the European Capital City of Culture in year 2013.

Regarding to the above mentioned, several research focusing on creative industries was conducted already in Slovakia that confirmed the spatial concentration of creative industries in large cities such as Bratislava and Košice (Chovanec - Rehak, 2012). The employment in creative industries was also

analyzed in Slovakia, which verified that the metropolitan Bratislava region plays a substantial role in the development of the creative economy in the country (Blahovec - Hudec, 2012).

Here is important to state that further steps and research are needed for supporting the creative economy in Slovakia that can be connected also with the European Union future policy. Many creative activities are supported by the European Union structural funds in foreign countries e.g. in Estonia, Ireland, France, Germany, Denmark and others.

Based on NUTS classification we distinguish in Slovakia eight NUTS 3 regions. These regions represent the regional level of development, declared in so called "Plan of economic and social development of the region". We have analyzed these strategic documents in each NUTS3 region regarding to the creative industries support policy. According to the above mentioned national document called "Initial Concepts for Supporting Cultural And Creative Industries In the Slovak Republic", we firstly focused on the measure category "political awareness". When comparing the strategic documents in the last decade, we can conclude, that generally were the culture, arts and business sector supported, but we cannot notice a specific focus on support in terms of creative industries.

At the local level, we have surveyed selected cities in Slovakia. The survey was focused on analyzing the general political awareness in terms of creative economy. The Slovak cities generally promote creativity, culture, arts and also support businesses. The preliminary results show, that the "creative economy" in our understanding is not specifically supported in Slovakia. According to the answers of cities, we can say, that the "creative industries" is not a used term at the local level. There are also some exceptions, the large municipalities. These cities have declared their interest and strategic activities related to support of the development of the creative economy.

CONCLUSION

According to the wide range of literature and empirical analyses at the academic and political scene, the creative economy is an emerging sector that requires substantial attention. While in some countries the current state of this field is already developed, in other countries less expanded.

The present article investigates new tools of regional policy in changing circumstances. Particularly we focused on the changing requirements for regional policy in conditions of the emerging creative economy. Several studies show, that there are many differences in supporting traditional and creative industries. The first part of the work is focused on comparing supporting measures of regional policy in

terms of traditional vs. creative economy. The second part provides a basic overview to the current situation in a chosen country of Central Europe, Slovakia. The preliminary results of research in Slovakia show that the support of creative economy is in an initial phase. To foster development, several incentives have to come from the national level, such as the above mentioned governmental concept about supporting creative and cultural industries. There is also the need of involvement of other stakeholders at regional and local levels. To support development of creative economy it is necessary to engage a number of other relevant agents as research institutions, universities, supporting agencies to define the specific needs of individual regions and to elaborate an effective system of measures for the development in Slovakia.

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