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Paper presented at the 19th international conference on cultural economics international in 2016

Tax incentives for creative industries: Do they stimulate creativity and diversity?

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Key words

Tax incentive, Creative industry, International competition, Rationale of government intervention and tax incentives for creative industries,

1, Introduction

The use of tax incentives to promote cultural policy has been discussed in the field of cultural economics. Schuster (Schuster, 2006) pointed out that many of the most interesting innovations in public funding of arts and culture are taking place in the areas of tax policy and indirect aid. He focused more on tax provisions related to charitable donations to the NPOs and their effect. This is rational because museums, theaters, orchestras, and other cultural organizations are typically operated as NPOs, and cultural policy has aimed to stimulate their activities.

In contrast, various tax incentives were introduced for creative industries in the 2000s in Europe and other countries. Simultaneously, the scope of cultural policy became wider, newly including creative industries. Creative industries comprise individual artists, commercial companies, and NPOs. Various tax incentives have been introduced to stimulate the production of films and video games and the development of an art market, as well as other aims. Tax incentives have targeted creators, producers, art dealers, distributers, and investors. Some have even targeted copyright and royalties. However, these tax incentives have advantages and disadvantages. Who benefits from these tax incentives? Do they stimulate creativity and diversity?

In this paper, I will examine tax incentives for creative industries that have been introduced recently. I will discuss the rationales of government intervention and tax incentives for creative industries, taking into account the organizational structures of creative industries. This paper will contribute to an expanded perspective and understandings of tax incentives, particularly incentives targeted at creative industries.

Creative industries are defined as a combination of cultural content production/creativity and distribution of the result. The thing that makes creative industries different from other industries is creativity (Towse, 2011, p.127). Creative industries have cultural and economic aspects and are a

target of cultural policy and industrial/economic policy. While cultural policy aims to stimulate creativity, industrial policy tries to address market failures of creative goods and services. What kinds of market failures are observed in the creative industries? What are the rationales for government intervention and tax incentives to support the creative industries? Are cultural policy and industrial/economic policy aiming at the same goals? Do they compete or cooperate?

To answer these questions, first, I will look at cultural policies for creative industries and discuss the rationale of tax incentives from the cultural point of view. Second, I will introduce the market failures of creative industries. Then, the economic rationale for government intervention and tax incentives in the creative industries will be discussed.

2, Cultural policy perspective

2-1 The definition of cultural goods

Throsby (2010, p.16) defined cultural goods as follows:

- They require some input of human creativity in their production.
- They are vehicles for symbolic messages to those who consume them. That is, they are more than simply utilitarian, insofar as they serve some larger communicative purpose.
- They contain, at least potentially, some intellectual property that is attributable to the individual or group producing the good and service.

That creativity, symbolic meaning, and intellectual property are keys for the characteristics of cultural goods and services is now widely accepted. Creativity and intellectual property can be targets of cultural and industrial/economic policies, while symbolic meaning relating to identity can be a target of cultural policy.

2-2 Transformation of cultural policy

In addition, Throsby (2010, pp. 2–5) summarized the recent transformation of cultural policy as follows: “Firstly, there has been an expansion in the scope of the term ‘culture’ in its application to cultural policy from a concern solely with the arts and heritage to a broader interpretation of culture as a way of life.” He points out that coverage of cultural policy has extended from the arts and heritage to include policy towards film, broadcast, and print media, and to broader cultural industries such as fashion, design, architecture, tourism, urban and regional development, international trade, and more.

Then, Throsby points out a related economic transformation as follows. The economic environment in which cultural goods are produced, distributed, and consumed has been transformed. This transformation has been caused by globalization and digital revolution. Globalization brought a breakdown of barriers to the movement of capital and labor, the emergence of a global market for many commodities, and the internationalization of communications, leading to the free transmission

of cultural symbols and messages around the world.

He also points out that digitalization affects ways in which cultural producers carry out their business. For example, museums and galleries are digitizing their collections, performing groups are adopting electronic ticketing, and newspapers are being made available online. These transformation also affect the introduction of tax incentives for creative industries.

2-3 Cultural policy for creative industries

2-3-1 Cultural policy goals

Cultural and economic aspects of the creative industries are strongly assimilated. However, to make clear the rationale for government support for them, it is meaningful to clarify cultural policy goals and economic policy goals on the basis of the economic characteristics of "creativity." Generally, cultural policy objectives are as follows (Throsby, 2010, pp. 42–45).

First, excellence, innovation, and access are policy objectives in producing and consuming the creative arts. Creativity and the arts are the core of creative industries. Therefore, excellence, innovation, and access can be the rationale for government intervention in the creative industries from a cultural point of view. Second, the recognition and celebration of national, regional, or local identity is an important objective of cultural policy. Stimulation of broadcasts in domestic languages and adoption of cultural heritage policy can be explained by the identity point of view.

Third, through the process of establishing the UNESCO convention on the protection and promotion of the diversity of cultural expression in 2007, diversity became a central issue of cultural policy objectives. Fourth, continuity is an explicit policy goal. Continuity is important for maintaining the cultural value of heritage. Education is believed to ensure continuity of knowledge and skills from one generation to the next. Besides, education in the arts for schoolchildren raises cultural awareness and assists taste formation, and lays the foundation for a more diversified cultural life in later years (Throsby, 2010, p. 45). If education is aimed at improving human capital and increasing productivity, arts education can be an economic objective.

2-3-2 Cultural policy plays an important role for the rationale of tax incentives

Conflict between free trade and cultural diversity is reflected in policy decision-making for creative industries at times. For example, France, South Korea, and other countries introduced screen quotas, legislated policy that enforces a minimum number of screening days of domestic films in theaters each year. The policy aim of a screen quota is to promote domestically produced films and to stimulate internal cultural diversity against the dominance of Hollywood movies. However, these policies result in different impacts from the original policy aim at times. Screen quotas are strongly criticized. For example, they have not succeeded in increasing number of admissions to domestic films in South Korea (Messerlin and Parc, 2014).

Various tax incentives have been introduced in the audiovisual sector, particularly in the film industry in Europe since the late 2000s. These incentives are introduced for cultural and economic reasons. The cultural reason is to prevent the dominance of one country, and particularly the USA, in the market for audiovisual products and to promote cultural diversity. Cultural reasons play an important role in the tax incentives for creative industries in Europe. Because of European state aid regulation, tax incentives cannot be designed for purely industrial incentives, but have to include a cultural test. The "European Community Law of State Aid" restricts state aid for corporations, aiming to ensure fair competition in the EU. Therefore, EU member states have to take into account this law when they design tax incentives. However, aid for culture and cultural heritage is excluded from the state aid restriction, aiming to promote cultural diversity. The film and audiovisual sectors are also assumed to be important for cultural diversity.

Another example of conflict between free trade and cultural diversity is when governments intervene in the art market by using tax incentives to prevent losing important artworks and cultural heritage. Important artworks and cultural heritages construct a national identity and improve domestic cultural diversity. These tax incentives are explained by cultural policy reasons, even though they contradict with free trade.

Cultural motivations and economic motivations for promoting creative industries do not always conflict. The UK Minister of Finance claimed that British films, video games, animation, and television enhance the UK's reputation and brand image, thereby attracting tourism from abroad. It seems that stimulating identity and reputation related to cultural policy results in an economic effect.

Summarizing the above, cultural policies generally aim at stimulating artistic excellence, innovation, access, identity, and diversity. Tax incentives for creative industries are justified not only by economic rationale but also by cultural reasons. Cultural policy plays a powerful role, for example, in the case of cultural aid in the "European Community Law of State Aid." Cultural policy and industrial/economic policy contradict on another at times, especially in the case of cultural diversity and free trade. However, their motivations do not always conflict.

2-4 Short summary of the cultural point of view

Cultural policy has expanded its scope from arts and cultural heritage to creative industries. Globalization and digitalization have changed the way in which cultural activities are taking place. Usually, attention goes to economic rationales for government intervention in the creative industries. However, cultural policy objectives play a strong and important role in the rationale for government intervention and tax incentives. The cultural test in the EU is a good example. The government intervenes in the global market for creative goods and service and introduces tax incentives for cultural reasons, even though they contradict with economic efficiency at times.

3, Economic rationale of government intervention in the creative industries

3-1 An example of tax incentives for films

Before discussing the economic rationale for support of the creative industries, let us look at a recent phenomenon. The "Economic Contribution of the UK's film, High-End TV, Video Games, and Animation Programming Sectors" report was published in 2015 (Barnes, 2015). It stresses how these industries have been growing significantly after the introduction of the Film Tax Relief (FTR) in 2007 and how they greatly contribute to improved GDP, employment, and international trade. It estimates the economic impact of screen-based industries (film, high-end TV, video games, and animation programming) in terms of direct, indirect, induced, and spillover effects.

The report gives a definition of these impacts as follows (Barnes, 2015, pp. 14–15). Direct impact includes employment and gross value added within the screen-based sector. Indirect impact includes income and employment resulting from the screen-based sector. For example, if the screen-based sector purchases accounting and legal services, it generates an indirect economic impact for these businesses. The employment generated at both the direct and indirect impact stages raises employees' household income. Households spend a part of this on goods and services in the UK. This spending and re-spending within the UK economy is called induced impact. Indirect impact with induced impact is called the multiplier effect.

Direct, indirect, and induced impacts are all within the supply chain of the screen-based sector. Spillover has effects beyond the supply chain. For the screen sector, most notable spillover effects are in the form of tourism and merchandise sales. Broader effects are generated by enhanced reputation of UK brands. The report summarizes the estimation of economic contribution by the UK film sector in 2013 as shown in the table below (Barnes, 2015, p. 40).

	Employment (FTEs)[1]	GVA £ (millions)	Tax revenue £ (millions)
Direct impact	39,800	1,437.0	431.1
Multiplier effects	40,500	1,478.2	443.5
Spillover effects	17,000	751.0	224.0
Overall economic contribution	97,300	3,666.3	1,098.6

This estimate refers to a 2005 report (Cambridge Econometrics, 2005) and a 2012 report (Oxford Economics, 2012). A report by Barnes (2015) also describes the economic impact of high-end TV, video games, and animation programs.

The report also estimates the impact of tax incentives. The assumption is that the additionality

[1]Full-time equivalent

rate induced by film tax relief is 71% of total expenditure, total gross-value added (GVA), and tax revenue. For example, the report (Barnes, 2015, p. 35) shows the amounts in the following table.

Film tax relief	Production expenditure	Total GVA	Tax revenue
£164 million	£1136 million	£2,884 million	£865 million
		Additionality	
0	807(1136×0.71)	2048（2884×0.71）	614(865×0.71)

The above means that £164 million of tax relief induces £807 million of production expenditure, which is 71% of the total production expenditure, induces £2048 million in GVA, which is 71% of the total GVA, and induces £614 million in tax revenue, which is 71% of total tax revenue. In other words, £164 million in tax relief induces an additional £807 million in expenditures for filmmaking, £2048 million in additional GVA, and £614 million in tax revenue. This means that £1 of tax relief generated £12.49 of additional GVA and £3.74 of additional tax revenue.

This additionality rate of 71%, which comes from the 2012 report (Oxford Economics, 2012, p. 56) is quite high. The report says "We have assumed, based on our discussion with UK production companies, that a loss of competitiveness of this nature could reduce the UK's share of global film production by around 6 percentage points by 2015, from 8% in 2012 to 2% in 2015. That would be equivalent to an average loss of total UK production of £700 million a year over 2012–2015, of which at least £560 million would be inward investment. Overall UK film production might be reduced by at least 71% by 2015, were the film tax relief to be abolished."

The film tax reliefs are designed as follows. The relief can take the form of a deduction of 100% of the so-called enhanced expenditure, which is defined as the lesser of UK expenditure or 80% of total core expenditure. For example, if the core expenditure for the film is £4 million, of which £2.5 million is spent in the UK (2.5 million < 4 × 0.8 = 3.2 million), the film production company can deduct £2.5 million from its taxable income.

If a loss occurs, the tax credit amounts to 25% of the enhanced loss. The loss can be enhanced up to the amount of the enhanced expenditure. For example, if the core expenditure is £10 million (100% UK expenditure) and the income is £9 million, the loss is £1 million. The tax credit would be £2 million (because the loss is £1 million and it can be claimed up to £8 million; 10 million × 0.8 = 8 million, and 8 × 0.25 = 2). The maximum amount which can be claimed is the lower of the enhanced expenditure in the accounting period or the amount of the loss. In this case, even though the film company had a loss of £1 million, the company could get £1 million from the government through the tax credit. The film tax relief thus greatly reduces the loss of investment in film production and thus reduces the risk of investment.

The Oxford Economics report stresses the importance of tax relief for two main reasons: the film tax relief attracts investment, and it stimulates competitiveness by reducing the cost of

filmmaking. For example, UK film costs in 2012 were 38% lower than those in the US, and 15% lower than those in South Africa (Oxford Economics, 2012, p. 55).

The report says that the treasury considered carefully the rationale for particular support of the film industry. It noted two main reasons. One is the cultural benefits of UK films, and the other is the economic benefits generated by the film industry. The economic benefit is attained via direct effects, multiplier effects, and spillover effects. The report also mentions the relative cost competitiveness of the UK for film production against other locations around the world.

In Europe, 26 fiscal incentive schemes could be identified in 17 European countries as of December 31, 2014 (Olsberg SPI, 2015). Most of them have been introduced since the 2000s, and particularly during the 2010s. It can be said that tax incentives for creative industries, especially for film and other audiovisual industries, are rapidly developing. In the following section, we look at the role of creative industries from the theoretical point of view. Then, I introduce more theories based on industrial organization and discuss the rationale for government intervention, including tax incentives for creative industries.

3-2 The role of creative industries in the economy

As mentioned above, the reports stress the economic impact of the film, high-end TV, video games, and animation programming sectors. In general, Throsby points out that there are various ways to estimate the economic contributions of cultural industries (Throsby, 2010, pp. 93–95). One is to use macro statistics to estimate the gross value of production, value added, fixed capital formation, employment, exports, and so on. However, Throsby also mentions that these can be misused if the aim is simply to promote the economic “impact” of cultural industries in order to provide a special case for policy interventions.

The second way is to use the standard methods of industrial organization theory. The traditional approach is to evaluate the structure, conduct, and performance characteristics of the industries (Throsby, 2010, p. 94). Caves (2000) applied this approach to draw a comprehensive picture of the creative industries. The third is input–output analysis to analyze inter-industry relationships. Input–output analysis can depict the ways in which output is produced and distributed in the economy, and can capture the direct, indirect, and induced effects of external stimuli. However, empirical application of input–output analysis to the cultural sector is constrained by the availability of data.

Throsby (Throsby, 2010, p.93-95) points out the importance of inter-industrial relationships. Various goods and services are bought and sold between industries. Such interactions occur among the cultural industries, and between creative industries and other industries. It is in this context that input–output analysis and related methods are useful.

Throsby adds two kinds of relationships between creative industries and the rest of the economy.

One is that artists and other creators who are trained may gain experience in the core industries of the cultural sector and then go on to work in other non-cultural industries. These workers are called the embedded workforce and cannot be neglected. The other is knowledge transfer. Throsby mentions that the creative industries, especially those built around new digital technologies, are a significant source of innovation-intensive information services. Creative ideas and knowledge are transferred from creative businesses to firms in other industries through supply chains. This knowledge spillover occurs in the creative clusters. Such spillover is called a "network externality" or "agglomeration externality" and helps to explain the growth of cultural production, such as Hollywood movies and the fashion industry in Milan (Throsby, 2010, pp.95- 97).

Governments decide industrial/economic policy, including tax incentives, taking into account the role of creative industries in the whole economy, and in the regional economy. Creative industries are rapidly growing in the economy. For example, creative industries are 5.2% of Gloss value added in the UK in 2012 (see Chapter 2). When additional demand occurs in the creative industries, it induces additional supply in creative industries and other industries. Through the movement of the creative workforce and knowledge transfer, firms in other industries can develop new ideas and may improve productivity. The governments notice the roles of creative industries in the whole economy and then stimulate the growth of creative industries.

3-3 Public goods nature, and high fixed-cost problems

3-3-1 Public goods and externalities

Creative goods and services have public goods features. Nonprofit organizations are one way to deal with cost disease and public goods problems. The considerable public-goods nature of heritage would justify government intervention via public finance on the standard grounds of market failure. This is a particular problem for heritage buildings of world cultural importance in poor countries (Towse, 2010, p. 261). Museums and theaters can exclude people who do not pay the ticket price for an exhibition. However, these creative activities also have externalities. These externalities also represent market failures. Museums and theaters cannot collect the cost of externalities through the market.

Information technology also causes a public goods problem in the reproduction market, where the marginal cost of reproduction or the marginal cost of copying creative goods is almost zero. In economic theory, the efficient price is the marginal cost. Therefore, the price of copying goods becomes zero. To solve this problem, copyright is introduced to create a private-goods domain to prevent free riders. The public goods nature can thus be a rationale for government intervention.

3-3-2 High fixed costs and nonprofit organizations

Creative activities suffer high fixed-cost problems. Many of the costs incurred in creative activities are both fixed and sunk. The cost of film negatives is the same (Caves, 2000, p. 223). Caves points out the two-part charge by which customers pay a fixed or membership fee plus a unit charge for each ticket. The per-use fee can be set equal to marginal costs. The fixed charge is collected from consumer surplus to cover the organization's fixed costs.

A two-part charge is equally attractive to profit-seeking enterprises and nonprofit organizations facing high fixed costs. However, Caves points out that nonprofit organization enjoy advantages (Caves, 2010, pp. 226–227). Because no one can predict the success of a performance or creative product, the contract between the producer and the organization is not complete. However, the motivations are different. A manager hired by a profit-seeking enterprise may minimize costs, whereas a manager hired by a nonprofit organization may maximize the quality of creative goods. Which is preferable for potential audiences? Audiences might prefer the NPOs in which the manager care about the quality than the costs. Thus, the existence of NPOs is explained by high fixed costs and contract failures.

High fixed costs and contract failures can also be a good explanation for government support of the creative industries, especially for nonprofit organizations. Tax incentives were introduced for nonprofit organizations. Tax incentives also encourage donors who donate to NPOs to cover the fixed costs of NPOs. Tax incentives also encourage donors who donate to NPOs to cover the fixed costs of NPOs. Do tax incentives increase donations to the arts and culture? This question is usually examined by analyzing price elasticity and income elasticity. However, "as Mark Schuster has noted, even after some forty years of research on this question a clear consensus has yet to emerge."(Throsby, 2010, p.80). Tax incentives cannot provide a full explanation (Goto and Hemels, 2007). Instead, Caves points out the importance of the social context in which donors are living. He mentions the social context of donations in the nineteenth century in Boston. The problem of forming and sustaining the clubs of donors is solved through reciprocity and impetus working through a network of social obligations and competition (Caves, 2010, pp. 248–251). Caves also mentions the motivation of corporate charitable contributions.

3-4 Economic features of creative goods and the sunk cost problem

3-4-1 Uncertainty and imperfect contracts

Caves (2010) gives a more specific explanation of creative goods and services from the point of view of industrial organizations and contract theory. Towse (2010, p. 392) summarizes the economic properties of the creative industries as follows.

- Nobody knows: There is uncertainty surrounding the production and consumption of creative products.
- Art for art's sake: Artists derive utility from their work.

- Motley crew: Diverse skills are required for producing the goods or services.
- A list/B list: Skills of creative workers are vertically differentiated.
- Infinite variety: A wealth of differentiated products is produced.
- Arts longa: Creative products are durable.
- Time flies: The production of co-ordination of the "motley crew" allows delivering the goods on time.

Caves has applied contract theory to see the creative industry as a nexus of contracts between art and commerce. Caves uses the idea of transaction cost economics, principal–agent theory, and the property rights approach. However, it is impossible to anticipate all future events and conditions, which are uncertainty problems, and contracts are never complete (Towse, 2010, pp. 390–391).

Towse also points out the variety of sizes of the creative industries. Creative industries vary widely in size, from small—even one-person—enterprises to large international conglomerates. Large private companies are financed via stock and share issues and therefore have to compete with firms in other industries for finance in the stock market. Small-sized firms rely on their own profit to stay in business. Very small enterprises, such as crafts, visual arts, and writers, may survive on a combination of fees and revenues from sales, royalties, grants, and family finances, at least until they are successful in the market (Towse, 2010, p. 383).

As mentioned in Section 3-3-2, many of the costs incurred in creative activities are both fixed and sunk. Research and development costs and advertisement costs are sunk costs because they cannot be collected when firms would withdraw from the market. Sunk costs can be a barrier to new enterprises to enter the market. Markets are contestable if there are no barriers to entry. Competitive market is favorable for efficiency and it also incentivizes innovation. In the next section, let us see an example sunk cost and how it works in the film industry.

3-4-2 Sunk cost and the film industry

The film industry is often analyzed as a good case study of the creative industries. Vogel (2011) analyzes the film industry in the US, using a long-term data set. The analysis focuses on the revenue sources of the film industry during 1948–2007. The market of the film industry can be divided into a primary market and secondary markets. The primary market is theaters and secondary market is TV, video, and DVDs. Since the 1980s, the secondary market has been growing. In 2007, the revenue from the primary market was 20.5%. The rest of the revenue of the film industry came from the secondary market.

Therefore, it seems that the secondary market grew rapidly and earned enough revenue to make films. However, Vogel points out that the average cost of making films increased from $9,400,000 in

1980 to $79,300,000 in 2009. The average marketing cost also increased from $4,300,000 in 1980 to $36,000,000 in 2009. The average profit rate of investment in the film industry is one third the profit rate in the late 1970s. The increased cost of filmmaking and film screening is larger than the increased revenue of the secondary market.

Vogel also mentions that 5% of films earn 80% of the total revenue of the film industry. The top 100 films earn 50% of their revenue from screenings abroad. The market share and the revenue from films are quite unequal. A majority of filmmaking productions face financing difficulties. The demand for a film is uncertain. Nobody knows which films will be successful. The producers have to take a risk in transitory markets. Sunk costs are notable in the film industry.

Towse points out that, in general, the larger the enterprise the greater its investment in physical and human capital assets. This makes it more difficult for a competitor to enter the market (Towse, 2010, p. 386). To promote competition that leads to innovation, governments regulate monopolies or oligopolies by law. Tax incentives may also encourage producers to enter the market by reducing risk and sunk costs.

Towse (2010, p. 387) also points out that one of the most common barriers to entry to the market of creative industries is ownership of copyright. The only way a competing firm can obtain existing copyrights is by buying them from their owners or acquiring a license to use them. The tax incentives for copyright is also introduced.

3-5 Tax incentives for Artists

Tax incentives are applied to artists as well as to nonprofit and for-profit organizations. Why do governments support individual artists? Throsby (2010, pp. 80–83) describes the features of artistic labor as follows. Artistic labor is characterized by three features that combine to set artists apart from other workers in their labor market behavior. First, the financial rewards for professional artistic practice are generally lower than the rewards in other occupations. Second, the level of variability of artistic earnings is generally higher than in comparable occupations. An individual artist's attitude toward risk is an important determinant of his or her labor market participation. Third, artists in general do not regard work as a chore whose only purpose is to produce an income. Typically, artists allocate their working time between three types of jobs: creative work, other arts-related work, and non-arts labor. A wage increase in the non-arts occupation may induce less work in that occupation because it allows more time to be devoted to the arts.

Artists are unique to the production of art. Without them, no original work would emerge and the central element of the creative industries would be lost. Throsby points out that if the justification of public assistance to the arts relies on the generation of public benefit from artistic activity, support for the work of artists as the primary source of that activity is warranted. Cowen (2006, p. 23) points out that one estimation suggests that creators receive no more than 5% of the value of their

innovations because of its externality.

Governments support artists in various ways, including direct grants, commissions for the production of a specific work, assistance for research, support for companies to employ artists, support for work to be performed, income support through welfare systems, and support for education and training. Tax incentives for artists provide support for the artists in different ways.

4, Tax incentives differ from subsidies from an economic point of view

Tax incentives are examined on the same basis as subsidies, because tax incentives result in government costs, as do subsidies. The question is why tax incentives are preferable to subsidies. In what cases are tax incentives preferable? From an economic point of view, the possible answers are as follows. First, tax incentives can induce private support from individuals and corporations. Second, the decisions are made by a large number of individuals instead of by bureaucrats and politicians.

Cowen (Cowen, 2006) describes the advantages of art policy in the US and points out the importance of decentralized support, namely, that it encourages entrepreneurial investment and diversity. Entrepreneurs can try their new vision by using the assistance of tax incentives. In other words, tax incentives work through market mechanism instead of through political or bureaucratic decision making.

5, Conclusion

Since the 2000s, various tax incentives for the creative industries, especially in the audiovisual sector, have been introduced. Governments see the role of creative industries in the whole economy and support them. To rationalize government support, direct, indirect, and induced economic impacts are stressed. However, economic impacts would still occur if the government supported other fields instead of the creative industries. Besides, economic impact is often estimated without comparing its cost. Therefore, economic impacts should be treated more carefully. As mentioned in Section 3-2, the economic impact studies are misused if its aim is simply to promote the economic impact in order to provide a special case for policy interventions. More empirical studies are required.

The rationale for government support of the creative industries is given in terms of various types of market failure. The characteristics of public goods and externalities, high fixed costs, can justify government support of the creative industries. High fixed costs can explain the organization of creative industries, such as NPOs, too. Sunk costs among the creative industries prevent new entry into the market and competition. Governments usually regulate monopolies and oligopolies to ensure competitive conditions to encourage new entry and innovation. Tax incentives may reduce barriers to

entering the market and the sunk costs of the creative industries and thereby stimulate innovation and diversity of products. However, if tax incentives are introduced in many countries, such as the case of tax incentives for film industry in Europe, the effectiveness of the tax incentives may offset each other. More empirical research is required.

In general, policies for the creative industries aim at small businesses development; provide regulatory infrastructure including contract law, copyright law, and competition law; stimulate innovations and market development; and provide education and training. Cultural aspects are important because the core of the creative industries is the creative arts (Throsby, 2010, pp. 100–102). Tax incentives are a part of these policy instruments and should agree with the policy purposes.

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