



Investing in a renewable resource: culture

2012 Pre-budget submission by the Canadian Conference of the Arts to the
Standing Committee on Finance

Submitted to:

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August 11, 2011

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Introduction

The Canadian Conference of the Arts (CCA) is pleased to submit its brief for the 2012 pre-budget consultation undertaken by the Canadian Department of Finance. The CCA would welcome the opportunity to present its submission to the Parliamentary Committee on Finance in Ottawa, Montréal or Toronto.

The CCA is Canada's oldest and most broadly based cultural umbrella organization. The CCA provides the national forum for the entire arts, culture and heritage community, from all disciplines and regions. The CCA's mission is to provide research, analysis and consultations on federal public policies affecting the arts and Canadian cultural institutions and industries.

In this submission, the CCA will emphasize the wisdom for the federal government to maintain and, if possible, to increase its investments in the arts, culture and heritage sector. We will also argue that the government should take tax measures which recognize the large numbers of self-employed artists and creators as entrepreneurs running small and medium sized enterprises.

1. How to achieve a sustained economic recovery in Canada

Invest in the cultural sector

“To invest in arts and culture and to support the creative economy is to support the economy as a whole.” (The Hon. James Moore, Heritage Minister, on CBC's *Q*, Tuesday July 12, 2011)

“At a time of recession it is more important than ever to invest in the arts.” —Boris Johnson, Mayor of London (UK)

News from Washington and Europe create growing uncertainty on stock markets and there is increasing concern that the world economy is heading towards another recession. While Canada weathered the 2009/10 economic crisis better than most other nations in the G20, the Canadian economy remains greatly exposed to current international upheaval and is particularly sensitive to what happens in the US, its main trading partner. It is in this fragile and very fluid context that the Canadian government is preparing its 2012 budget and long-term fiscal approach. The CCA submits that in the current environment, making sound and prudent investments in areas of growth may be the proper strategy to adopt. Such an approach should guide the government's decisions the arts, culture and heritage sector. Given the evidence at hand, it is the CCA's position that in order to achieve a sustained economic recovery in Canada, or at least to attenuate the impact of another possible economic crisis, it would be wise to maintain, or better still, increase federal investments in arts and culture.

Arts and culture represent over \$46 billion in the Canadian economy and provide direct employment to over 640,000 jobs in the Canadian economy, which is three times the numbers in Canada's insurance industry and twice the numbers in Canada's forest industry. Collectively, with direct, indirect, and induced inputs, the cultural sector contributed \$84.6 billion to the Gross

Domestic Product in 2007.¹ The arts and culture sector is obviously an important actor within a competitive global market.

This is a sector that has given strong returns on government funds: it has the unique ability to put funds to work within a very short period of time, with remarkably low administrative costs. And relatively small investments in culture generally result in a rise in employment levels.

There is ample evidence that every dollar invested in the arts and culture sector provides a strong return. According to the Conference Board of Canada, for every \$1 of real value-added GDP produced by Canada's cultural industries, roughly \$1.84 is added to the overall real GDP. Hill Strategies notes that the performing arts generate \$2.70 in non-governmental revenues for every \$1 invested by the government.²

Finally, as is argued in the study: *Creative Capital Gains: An Action Plan for Toronto*, co-signed by former Industry Minister Jim Prentice, private sector support cannot entirely replace public investment:

“Generally, in Canada, private sector funding follows public sector investment. Through the arts granting system, artists and cultural organizations receive their crucial first investments as they build the foundations of their practices. Due to the emphasis on excellence, peer assessment, governance and accountability, public funding confers credibility on emerging artists and organizations, especially those seeking to create new and innovative work.”³

2. How to create quality sustainable jobs

A further reason supporting public investment in the arts rests on the characteristics of the cultural workforce. Those pursuing careers in the arts and culture sector are dynamic professionals within the Canadian labour market. Generally more educated, they boast a high level of self-employment and often work in multiple capacities, within a variety of fields. The Cultural Careers Council of Ontario claims that “artists may be models for the way we will be working in the future – independent, entrepreneurial, and more reliant on individual networks than conventional organizations.”⁴ The percentage of Canadians working in the culture sector who are self-employed (26%) is more than twice as high as the percentage of self-employed people in the overall economy (12%).⁵

In the new creative economic environment provided by digital technologies, artists are more than ever at the forefront of innovation and entrepreneurship. A large segment of the cultural sector is comprised of small and medium sized businesses that are continually adapting to a changing market and evolving business models. To make a living in the cultural economy, cultural workers must develop entrepreneurial skills. The cultural businesses that they start,

¹ *Valuing Culture: Measuring and Understanding Canada's Creative Economy*, Conference Board of Canada, August 2008.

² *Finances of Performing Arts Organizations*, Hill Strategies, November 2008.

³ *Creative Capital Gains: An Action Plan for Toronto*, (signed by James Prentice, Karen Kain, and Robert J. Foster), p. 11

⁴ *Enriching our Work in Culture: Professional Development in Ontario's Cultural Sector*, Cultural Careers Council Ontario, March 2008.

⁵ *The Effect of the Global Economic Recession on Canada's Creative Economy in 2009*, Conference Board of Canada/Cultural Human Resources Council, November 2009.

such as art galleries, craft shops, bookstores and entertainment venues, are essential to the unique character and quality of life in urban neighbourhoods.

Like other small and medium business entrepreneurs, they contribute to job creation just as much, if not more than larger enterprises. According to a study published by the Observatoire de la culture du Québec, the number of cultural workers in Québec has grown by 29.3% between 1996 and 2006 and by 26.8% in the rest of Canada.⁶ A recent study produced for the city of Toronto states that

“Creative industries are growing faster than financial services, the medical and biotechnology industries, and the food and beverage industry; creative occupations are growing more than twice as quickly as the overall labour force. The sector currently employs more than 130,000 people, or 5% of the Toronto Census Metropolitan Area’s workforce.”⁷

One finds the same proportion (5%) of cultural and communications workers in Québec as a whole, where their numbers reached 189,000 persons in 2006⁸. As the Toronto study shows, the impact of these workers resonates well beyond the sector itself.

The arts and culture sector continually evolves in order to stabilize its presence within Canada, but also to build robust audiences around the world. Given the fact that Canada is blessed with a disproportionate level of artistic creativity with regards to its modest population, it is essential that the federal government invest in the development of markets both internally and externally, through programs supporting touring of artists, works and cultural institutions. Rooted in its increasing cultural diversity, Canadian creativity is a non-polluting and inexhaustible natural resource helping to grow Canada’s economy.

3. How to ensure relatively low rates of taxation

A number of economists argue that to stimulate the economy, it is better to cut taxation to small and medium sized businesses⁹. Culture falls into this category.

Over the years, recommendations have been made by the CCA and its members concerning income averaging for artists and creators whose revenue may fluctuate greatly from one year to another. It remains our conviction that rather than taxing revenue from a single, extraordinary year at maximum bracket rates, taxing income averaged over a few years creates a more stable financial environment for artists and creators, and recognizes the multi-year investment that a single creation often requires. The CCA is not suggesting that cultural workers be totally exempt from any taxation but that the fiscal regime should take into consideration their realities.

⁶ *Les professions de la culture et des communications au Québec en 2006*, Observatoire de la culture du Québec, septembre 2010, http://www.stat.gouv.qc.ca/observatoire/publicat_obs/pdf/Stat_BrefNo66.pdf

⁷ *Creative Capital Gains: An Action Plan for Toronto*, (signed by James Prentice, Karen Kain, and Robert J. Foster), p. 8

⁸ *Idem*, p. 14

⁹ See David Halabisky, *The Growth Process in Firms: Job Creation by Firm Age*, Industry Canada, 2006 http://www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/h_rd02114.html; Eileen Fisher, Rebecca Reuber, et al., *The State of Entrepreneurship in Canada*, Industry Canada, 2010 http://www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/h_rd02468.html Public Works and Government Services Canada <http://www.tpsgc-pwgsc.gc.ca/app-acq/pme-sme/importance-eng.html>

Taking those realities into consideration suggests that revenue derived from copyright or from residual payments and that grants to individual artists and creators be exempt from taxation. For several years now, the province of Québec has exempted a certain level of copyright revenue from taxation. This regime, which applies to any artist who produces copyright material that generates income, not only corrects the tax penalty implicit in the *Income Tax Act* but also works to encourage, rather than penalize those who try to make a living from their creations. Setting a reasonable upper limit of income derived from the artistic activity would ensure that only those writers and artists with low incomes would benefit from the deduction. Such measures would not cost much to the government and would not be difficult to administer, but they would make a great difference to self-employed artists and creators and would constitute a significant investment in Canadian creativity.

Another approach, favoured by the CCA in this brief, allows professional artists and creators to use the current year of revenue to establish the level of tax-free contribution to a Registered Retirement Savings Plan. This regime exists in Québec at the provincial level and it could easily be extended to all Canadian professional artists and creators at the federal level. This would allow artists to save from unfair taxation a portion of their revenue earned in a windfall year.

4. How to achieve a balanced budget

The CCA submits that while it subscribes to this important goal, it may not be prudent to make balancing the budget the immediate absolute priority of the government of Canada. Given the current economic climate and the increasing possibility of another recession, there are strong considerations suggesting that making sound and prudent investments in areas of growth may be just as important if not more so. It is our conviction that the cultural sector is such an area for sustained investments on the part of the federal, provincial and municipal governments.

While the CCA understands the necessity to start eliminating the annual federal budget deficit, we submit that it would be very short-sighted to deeply diminish investments in the arts and culture sector. The cultural sector is an important component of the knowledge economy - where Canada's future lies.

In the digital age, it is of utmost importance for a nation not only to invest in digital infrastructure but also in content development and production. Canada has a duty to support the development of all forms of cultural content which reflect our identity as a nation, contribute to the country's standing abroad and support our commercial objectives on the international scene, while at the same time making a significant financial contribution to the domestic economy.

Conclusion

“What Canada still does better – better than anyone else in the world – is intellectual property, which is to say music, performing arts, theatre, television and film. We do those things better than anybody else. We need to make sure that the regime of policies that the government has, not just funding, but copyright legislation, investments, support, drawing in the private sector to make sure there's a steady base of support for culture that doesn't just come from taxpayers. All of these things have to be working together in concert to make sure that Canada leads the world.”

The Hon. James Moore, Heritage Minister, on CBC's *Q*, Tuesday July 12, 2011

Beyond monetary investments and fiscal measures, the government can resort to other modes of intervention to ensure the health of the cultural sector in the Canadian economy. At the forefront of these tools is the government's development of a national strategy for the digital economy. We must pay attention not only to investing in physical infrastructures but also in the production of Canadian content..

A key pillar of such a strategy must be to respect intellectual property, which means that we must modernize the *Copyright Act* in such a way that artists and creators, like other intellectual workers, receive fair payment for the innovation and creativity through which they create their art. The federal government will shortly present a new bill on intellectual property and the CCA urges all members of Parliament to make sure that artists are fairly compensated for the use of their work in the digital economy. This is how we will contribute to the Canadian economy but also contribute to Canada's identity and international reputation.

Finally, CCA strongly emphasizes once again that all sectors of the Canadian economy including the arts and culture sector, and the different levels of governments need accurate and timely statistics to identify needs and to plan and evaluate policies and programs. Over the past fifteen years, due to successive budget cuts, the once internationally renowned Canadian cultural statistics have suffered considerable deterioration. The regularity of labour market data, export activity, and new forms of cultural activity are essential instruments to cultivate what is certain to become a dominant post-industrial element of the Canadian economy. It is the CCA's hope that the government will continue to support Statistics Canada and the Department of Canadian Heritage in developing a satellite account for culture as has been done for tourism, transport and the voluntary sector.

Recommendations:

1. Maintain, and if possible, increase the budget of the Canada Council for the Arts so that it reaches \$300 million as soon as possible.
2. Invest \$40 million of new money into domestic touring and the development of foreign markets.
3. Introduce income averaging for self-employed artists **or** change the rules for Registered Retirement Saving Plans to allow for the year of revenue being taxed to be the reference year for establishing the level of RRSP contribution.