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# Creativity Economics

Adam Leipzig · Wednesday, May 18th, 2011

When I took art class in junior high, I didn't know it was preparing me for a theory of economics. But it turns out that taking art class is one of the best predictors for staying in school, getting a job, and understanding math and science.

These are some of the more powerful conclusions of the President's Commission on the Arts and Humanities, in a report released last week. Although promptly ignored by the mainstream media, the report also reveals that low income kids who participated in arts education, in comparison with those who didn't, are four times more likely to have high academic achievement, three times more likely to have high school attendance, have better attention skills, and develop to higher intelligence.

Creativity is powerful driver of personal and economic success. It is being overlooked in our schools and in our country in general – an especially dangerous oversight when most of America is still mired in economic distress.

Creativity is the only way America can compete on the global stage. We can't compete for labor. We've already cut workers' wages to the bone, and we shouldn't be trying to cut them further. Plus, labor is always outsourced to the cheapest labor market.  But creativity cannot be outsourced.

In traditional economics, "the real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it." Adam Smith wrote that in *Wealth of Nations* (1776), and Karl Marx, writing 75 years later, generally agreed. This is called the Labor Theory of Value.

But the Labor Theory of Value doesn't take creativity into account. When you buy a pair of Nikes that have cost $5 to produce in a factory in Vietnam, why do you pay $100? For their creativity, design, and innovation, and the marketing involved in selling you all of these attributes.

Therefore, I am proposing a **Creativity Theory of Value.**

The Creativity Theory of Value holds that the value of anything is the product of the Creativity involved in creating it multiplied by the Labor required to produce it. In mathematical terms, we could express it as:

$C * L = V$

where C is Creativity, L is Labor and V is Value. This will allow us to find the **Creativity Index** for anything.

Let's look at some examples. The film *Black Swan* cost $13 million to make and has grossed over $300 million worldwide. Putting aside for the moment the fact that some of the $13 million was paid for creative services, let's assume that most of the creative people worked for minimum fees, and that most of the production budget was the actual labor cost of making the movie.

Using the formula C*L=V, we can say that C=V/L, and in the case of Black Swan to date, C=$300 million /$13 million. The Creativity Index of *Black Swan* is 23. This is to say, the Creativity in *Black Swan* multiplied the cost of its labor twenty-three-fold.

When the Creativity Index is the number 1 or more, Creativity has had a significant positive effect on something's value. But if the Creativity Index is less than 1, then we could say that the Creativity was a negative influence on the Labor; in other words, it wasn't worth it.

Here's another example. *Mars Needs Moms* cost $150 million to produce and has grossed $37 million worldwide to date. Its Creativity Index isn't pretty. Using the formula, C*L=V, and solving for C, C*$150 million = $37 million, or C = $37 million/$150 million. This Creativity Index is less that 1 – it is only 0.25! – and it shows how creativity (or perhaps the *lack* of creativity) actually devalued the cost of *Mars Needs Mom's* labor. As *The Guardian* wrote in one of the film's kinder reviews, "Children are unlikely to enjoy it, and parents will be aching for a few stiff drinks in a Mars bar long before it's over."

I hope the Creativity Theory of Value is useful, and that others may improve on it. Supporting artists and the arts should move front and center in our social agenda. Creativity is the path and also the destination.

*Image: Elspeth Diederix*

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