Economic Effects of European Capital of Culture Maribor 2012 –
An Ex-Post Verification Study

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Extended Abstract

The estimation of economic effects of cultural events is a topic that stirred a lot of debates in cultural economics. Economic impact studies, measuring the short-run spending impact are the tool still used the most, despite being subject to fierce critiques (e.g. Seaman 1987). The answer, most commonly provided for estimation of economic effects of cultural events in cultural economics, has been contingent valuation. To our opinion, the answer to the methodological dilemma is very simple, while not frequently discussed in cultural economics. Instead of performing economic impact studies, which are evidently misplaced and bring controversial results, and contingent valuation studies, which answer the inappropriate questions and suffer from numerous critiques of their own, one can perform ex-post econometric verification to get much more credible numbers about economic effects of a cultural event. In the article we therefore use as an example the project European Capital of Culture (ECoC) Maribor 2012 and perform all three types of methods to estimate the economic effects and «value» of the event. In the first part of the article we present results of economic impact study, deriving from the survey about spending among visitors to ECoC in Maribor and the multipliers calculated on the basis of input-output tables of Slovenia for 2009. In the second part we present results of ex-post econometric verification, to study the effects of ECoC in Maribor on revenues of local firms, new employment, average monthly wages of firms in the area, tourism visits and visitors to cultural venues. We also insert a novelty and another contribution of the article to the field of evaluation methods: inclusion of spatial effects into ex-post verification models which has so far to our knowledge not been done in the literature. The results of the analysis show that there exist significant differences between results from impact studies and ex-post verification analysis which is in line with the existing literature in the field (see e.g. Seaman 2012). Finally, we also perform a contingent valuation study following the approach in Hadker, Sharma, David & Muraleedharan (1997); Verbič & Slabe Erker (2005); and Srakar (2010). We conclude by reflection of the condition of the studies of economic effects of cultural events in cultural economics and of the studies of economic impacts of large scale events in general.

The so-called economic impact studies, which have been (and still are) the most common method for assessing the economic impact and value of cultural events over the past three and a half decades since
the pioneering study of Cwi and Lyall (1977), have raised a lot of talk, in both positive and negative sense. The economic impact studies arose and flourished especially in nineteen-seventies when the U.S. has struggled with tackling the effects of stagflation by using a so-called “monetarist experiment”, therefore, the usage of highly restrictive macroeconomic monetary policy. In order that funds for culture would not be reduced drastically, people in the cultural field resorted to economic arguments and business jargon that evaluated culture mostly through return on investment. The economic impact studies were convenient tool that has served this purpose: to show that culture is an important economic factor and therefore more than worth of public (or private) investments. In a positive sense, such studies have been primarily interested in "tangible" economic indicators (GDP, employment and tax revenue) bringing greater awareness of the economic importance of culture, therefore, the potential of the cultural events – what is their contribution to an increase in visitor spending, new jobs and revenues of the firms in the environment where the event takes place, and the prosperity of a city, region and country. In a negative sense, the authors (in particular, Seaman 1987; 2003; 2006; 2012) point to a number of problems that these studies bear almost inevitably: exaggerations in attributing all spending only to the impact of a cultural event, inappropriate use of multiplier analysis, ignoring of other values which are borne by cultural events (in particular non-use values and cultural values), and ignoring the opportunity costs. In recent years, it has become almost a hobby of cultural economists to “make an own critique” of the impact studies, which as stated by Bruno S. Frey (Frey 2005) are performed by the “arts people”, unlike the willingness-to-pay-studies (mostly of contingent valuation provenience) which are mostly made by the “arts economists” according to Frey.

However, there is no consensus in cultural economics on the suitability of the method of impact studies. Many authors are willing to completely give up the measurement of "tangible" economic categories (e.g. Frey 2005, 2012), but some nevertheless still believe that economic impact studies can yield meaningful numbers (Seaman 2003; 2012; Devesa et al. 2011; Saayman & Saayman 2006). Above all, the last two decades have brought an increasing attention being paid to the contingent valuation method as an alternative to impact studies. As stated by Bruce A. Seaman (2006), it is not clear as to which part of the “value” of culture is estimated by any of the two studies (both for example estimate the “use value” component of the value of culture, see e.g. Srakar 2010). Nevertheless, so far it has been accepted that the most credible estimation would be some combination of the two methods as a step towards assessing the value of a cultural event.

However, also contingent valuation itself suffers from number of criticisms (the most well know is perhaps the study by Diamond and Hausman (1994)), which are particularly addressed towards its hypothetical nature. There are also a number of other biases (as summarized by e.g. Venkatachalum 2004) that, if ignored, almost completely undermine the results obtained with this methodology. But what is perhaps even more essential: these studies estimate only the microeconomic aspect of an event, i.e. preferences of individuals, and are therefore not able to provide answers to the very simple questions that economists (in classical sense) are usually most interested: what were the economic effects of
a cultural event on the new employment, revenues of the firms, value added, and taxes raised; whether these effects were greater than the input in the project; and what are the factors that have the greatest impact on the economic success of a cultural event.

In order to resolve this kind of methodological dilemma that on our opinion cultural economics is currently not able to resolve, we will use a third method, which relatively simply eliminates all the shortcomings of the two methods. The method is commonly named as ex-post econometric verification in sports economics, where it has been used since the article by Baade and Dye (1988), but for some reason has not found a way and usage in cultural economics (which has been already pointed out by some authors, see e.g. Seaman 2012). In this method, the verification of economic effects (proclaimed by the economic impact studies) is made after the event takes place. The method builds on general statistical data (in our case, we used data from the Statistical Office of the Republic of Slovenia (SORS) and the Agency for Public Legal Records and Related Services (AJPES)) for a variety of Slovenian municipalities - both those who were involved in the project (the six partner cities: Maribor, Murska Sobota, Novo mesto, Ptuj, Slovenj Gradec and Velenje), as well as those (among the 213 existing ones) who did not participate in it. Based on the data collected we can use a simple "treatment and response" analysis, where the six municipalities belong to the treatment group and all the rest to the control group that did not receive treatment. With a panel data analysis methods (difference-in-differences, dynamic panel models and generalized method of moments) one can thus check on the measurable effects of the treatment on different economic factors (incomes of the firms, new employment, average monthly wages, the new tourist arrivals and overnight stays and visits to cultural events) in all six cities and in each individual partner city.

In the article, we will therefore present the results of all three main components of our economic analysis. In the second section we will present some existing economic indicators on the project European Capital of Culture (ECoC) Maribor 2012 using data from Public Institute Maribor 2012. In the third section we will present the results of questionnaire about the structure of visitors of ECoC Maribor 2012, which was conducted during the second half of year 2012, and the results of the multiplier analysis (based on a own calculation of the production, value added and employment multipliers for Slovenian economy using the most recent existing data). We will also present a brief regression analysis of factors affecting the size of the spending of visitors and discount the results of the project, taking into account basic criticisms addressed to this method, therefore taking into account only the spending that has occurred solely as a result of the event itself.

In the fourth section we present the results of ex-post econometric verification, through which we were able to assess the increase in visits and overnight stays in 2012 only as a result of the event ECoC 2012, increase in visitors to cultural events (using the data of visits to public theatres in Slovenia), the effects on the average monthly salaries in organizations in partner cities of the ECoC 2012, and finally the
effects on employment in the partner municipalities and the incomes and profits of companies in the partner cities.

In the fifth section, we present the results of contingent valuation study, which helped us to evaluate the annual value of the project in the eyes of the inhabitants of Maribor and partner cities and Slovenian residents in general. We will show the results that have been evaluated as an average "stated" as well as the "true" willingness to pay. We were able to address and take into account one of the main reasons for bias in contingent valuation studies using dichotomous choice questions, namely the effect of anchoring. We were also able to estimate the aggregated value of the project for the people of Slovenia in the following three years (2013-2015).

In the final part, we will present a brief reflection on the results and summarize the main findings and conclusions based on the results of the methodological part of the article.