

THE ECONOMIC IMPACT OF CULTURE: STUDIES AND EXPERIENCE IN LATVIA

Mg.art. **Kristine Freiberga**

Latvian Academy of Culture

Riga, Latvia

Abstract

The first economic impact studies in Latvia were done 10 years after the iconic research by John Myerscough [Myerscough 1988]; we lag behind not only in time, but also in the content of such researches. Cultural managers and cultural institutions still do not consider economic impact valuation relevant. The present paper analyses why it is so and whether there are any options for stimulating economic impact evaluation practices in Latvia.

The paper evaluates the motivation for performing economic impact research and arguments against such studies together with the general research trends and experiences of foreign researchers. The study shows that currently custom designed calculators with guidelines available in the form of web pages are a successful and useful tool for calculating the economic impact of cultural events.

The paper notes that the economic impact of various cultural phenomena, infrastructure buildings, and the whole field has been analysed by R. Karnīte, R. Ķīlis, I. Strode, I. Rozenberga, K. Goppers, the alumni of the Latvian Academy of Culture, and others. Mostly these studies are detached and accidental, moreover, each study uses a different methodology; consequently, the economic impact studies in the field of culture in Latvia are not regular and constant, and usually they are fuelled by the private interest of the event organizers or researchers. The author has created a template for a calculator, which is adapted to the economic situation of Latvia. It could promote popularity and regularity of the economic impact analysis studies in Latvia.

Keywords: *Economic impact studies, economic impact of culture, economic impact analysis, economic impact calculator.*

Introduction, description of the situation

The studies of economic impact analysis in the field of culture began in the 1980s, and John Myerscough's foundational book "The Economic Importance of the Arts in Britain" was published in 1988. The first Latvian economic impact analysis in the field of culture was published 10 years later, when Raita Karnīte with a group of her colleagues published the study "Economic Significance Analysis of the Field of Culture". In general it can be said that Latvia is behind with regard to such studies not only in time, but in content as well; the practice of economic impact evaluation of culture is still not considered as obviously necessary in the daily work of cultural managers and institutions. Why is it so, and is there any way to promote the research of the economic impact analysis of culture in Latvia?

To understand the significance of the studies within the European and world context, the author provides a description of the history of economic impact evaluation studies in culture.

History of research

Since the early 1980s, the arts and culture activities became a significant aspect of city development programmes in the United Kingdom. Cities were searching for solutions of economic restructuring and replacement of traditional manufacturing industries. By following the examples of American and European cities, the largest cities of the United Kingdom – Glasgow, Manchester, and Liverpool – described their ambitious culture development strategies. These strategies were analysed in John Myerscough's study "The Economic Importance of the Arts in Britain" (1988), commissioned by the Policy Research Institute. By using a methodology that combined questionnaires, interviews with culture field experts, quality and quantitative data, and multipliers, Myerscough showed that the field of culture is an economically important catalyst for renewal of the urban environment, which improves the image of the region and makes it a better place to live in [Labadi 2008: 14–15]. By use of multipliers Myerscough demonstrated that direct expenditure in the field of culture creates direct expenditure in other sectors of economy, which results in improved well-being and creation of jobs, while cities become more attractive both for residents and businesses. His research had a long-lasting effect on the cultural sector – it reinforced the argument of the economic impact of arts as an honest factor for receiving public financing on a regular basis. This report creates a good foundation for future impact studies and analysis, which were commissioned by local government and other public financing providers [Reeves 2002: 7–8].

During the last decades of the 20th century, the economic impact researches were often used by state and municipal institutions to acquire information to justify

the choice of policy and balance public expenditure for arts and cultural heritage. Some tried to evaluate the economic impact of the whole cultural sector; others were modest and researched the impact of a particular project. Researches that encompassed the whole sector were rejected by the economists as methodologically incorrect, and even when the research was carried out correctly, the policy makers tended to exaggerate results, ignored calculation restrictions and simply stated the desired number. Moreover, there was a tendency to assign benefits and profits to culture projects, which could have been created by a similar project in any other field. As a result, the economic impact studies gained bad publicity and a recent trend was to simply reject these studies as invalid [Towse 2010: 283].

In the 1980s, the economic dimension in culture evaluation studies dominated [Labadi 2008: 15]. However, concerns slowly grew about the fact that in culture field the debates around the value of culture projects and activities centred only on economic benefits, emphasizing the increase of employment and revenue. Many researchers argued that this limited view on influence of arts completely overlooked investments in such spheres as health, education and social inclusion [Reeves 2002: 14]. Thus, in the 1990s, the focus shifted to the social impact of the field, and researchers and policy makers were in conflict about the issue of economic impact being only a part of all benefits provided by culture projects [Labadi 2008: 15].

Nowadays it is more important to show that cultural events promote a cycle of money and interdisciplinary cooperation than to name a particular sum of the economic impact of the event (which is also interesting to know). The focus has shifted to social network researches that study these relationships and interconnections between disciplines. Promotion of cooperation is more important than calculation of a particular sum. Of course, there are plenty of exceptions, and the foreign practice shows that the evaluation of impact (economic, social, political, environmental, etc.) is routinely performed by the organizers of large scale events, and the study subjects are chosen in accordance with the available means and interests. Universal tools are developed, mostly in the form of an online calculator, to help cultural managers perform the economic impact analysis of their events faster and simpler. Usually two forms are used:

- guidelines that provide detailed instructions and advice on performance of such studies,
- online calculators that calculate values in accordance with the entered data [BOP consulting 2012: 29].

The best examples of calculators:

1. West Midlands Cultural Observatory toolkit www.eitoolkit.org.uk (United Kingdom)

2. eventIMPACTS toolkit <http://www.eventimpacts.com/> (United Kingdom)
3. CULture CALculator (*Kulturní kalkulačka*) www.culcal.cz (Czech Republic)

The basic data (multipliers) of each of these calculators have been tailored to the economy of each particular country or culture projects. The existence of such calculators simplifies work and makes economic impact research more convenient and accessible, which would be quite essential for cultural project management in Latvia.

Problems with economic impact studies

Over time economic impact researches have faced many critical judgements and even rejections. Those include:

- Lack of interest and a negative attitude towards evaluation among participants of art projects; research is often considered obtrusive and degrading. Data collection is considered an unpleasant homework and not a tool to improve the operation of the organization.
- The primary motivation of organizations for performing analysis is to achieve the goals of the financing provider not to evaluate the impact of the activity on a particular region.
- It is very easy to make mistakes in the calculation of multiplier effects [Reeves 2002: 34–42], and the choice of wrong multipliers significantly affects the results, creating non-objective and exaggerated results.
- Results of various economic impact studies are not comparable to the revenue of other potential projects. Such comparisons are not usually studied in economic impact studies; these studies only evaluate the possibility of art projects without comparison of these projects to, for example, building a new sports facility [Towse 2010: 178]. It is impossible to compare the economic impact of the events of the same type that take place in different cities or countries due to the fact that the multiplier, which is used for the calculation of the total economic impact is different for each economic system, and the event itself has no effect on the multiplier [The eventIMPACTS toolkit]. Thus the economic impact studies are separate, detached and incomparable.
- David Throsby writes: “... Well conducted, with due regard for economic and statistical rigour, such studies can be very useful. However the pitfalls are many. There have been a number of dubious applications of the technique over the years; it seems that poorly-executed studies are particularly likely to arise when the motive is advocacy rather than objective economic analysis” [Throsby 2004: 1].

- If available research exists, it, however, often has significant limitations. Helen Jermyn highlights “small sample surveys, reliance on self-report measures, presentation of case-studies in a generalist way, lack of analysis relating to processes and so on. Often the conclusions drawn from such studies require qualification” as aspects drawing criticism [cited after Reeves 2002: 32].
- “One danger of economic impact studies is that they are frequently undertaken by individual cultural organisations and then aggregated without taking into account the fact that, to some (unknown) extent, these organisations are in competition with each other for local and incoming visitors, though each one cannot expect to attract all “new” visitors. It is also the case that one city or region does not take into account the “substitution” effect of attracting visitors away from neighbouring cities. One city may well benefit at the expense of another but need not take that into account; it is then up to the central government to view the overall Picture within the country” [Towse 2010: 523].

Finally, the economic impact analysis of any cultural event sooner or later will reach a conclusion that it is impossible to restrict the research only to accounting data. “There are also those in the sector who are concerned that social and economic rationales for the arts, with their emphasis on the arts as a means to other ends will serve to devalue arts for its own sake” [Reeves 2002: 36]. To generalize and conclude the discussion of the criticism of economic impact studies “analyses show that the arts, like any other economic activity, have economic effects on the rest of the economy” [Bille, Schulze 2006: 1064]. Although economic impact studies are necessary, it is very important for these studies to be of high quality, otherwise they have no meaning. Latvian researchers have faced several of the above-mentioned problems as well. Further on the author will describe the cultural economic impact studies in Latvia.

Economic impact studies in Latvia

Several economic impact studies have been performed in Latvia to study the impact of various phenomena and economic events such as tourism, immigration and emigration, the introduction of euro, etc. Economic impact studies in the field of culture are less popular, but it cannot be said that they do not exist.

One of the first to study the impact of cultural sector on economy was **Raita Karnīte** and her colleagues (1998, 1999, and 2003). These researches are fundamental and thorough both morally and methodologically, however, over 16 years they have become obsolete.

One of the basic researches to evaluate the economic impact of cultural economy and cultural politics in Latvia was carried out by **Roberts Ķīlis** and his

working group in 2007. This is one of the most cited researches, which for the first time includes the translated descriptions from the most significant European economic impact studies of culture, thus formalizing the terminology in the Latvian language and providing a short and general review of various economic impact study methods. In their research R. Ķīlis and his colleagues used *input–output analysis*, a model for the analysis of the whole industry, – based on an input–output table from year 1998 which was already obsolete at that time –, thus casting doubt on the study results. Also, after study of the primary sources used by R. Ķīlis, it must be said that sometimes translations lack precision, require review and critical analysis. However, this is one of the most fundamental studies about economic impact of culture in Latvia to date.

In the autumn of 2013 “Marketing practitioners ACADEMIA” supervised by Ilze Rozenberga performed a study on the economic impact of mass events, in particular – **a study of the economic impact of the Latvian Song and Dance Festival**. The summary of this study, available on the homepage of the Latvian National Culture Centre web page, provides a very broad general theoretical base in the Latvian language for performing economic impact studies. Unfortunately, the final conclusions indicate that the study has yielded no real results, “Taking into account that several studies about the economic impact of mass cultural events have resulted in ambiguous conclusions, and it is complicated to induce their impact, it is impossible to quantify the economic impact of the Latvian Song and Dance Festival on the economy and tourism of Latvia without a large scale study. The analysis leads to the conclusion that, in order to gain more objective information about the real contribution of the event to the economy, it is advisable to perform analysis both before and after the event” [Rozenberga 2013: 22].

Despite the fact that Juris Žagars is not a researcher and the fact that his position is related to political interests and fundraising, he still is an opinion leader, who speaks publicly about the economic impact of art and culture and the **need for such studies**. The most recent public speech of J. Žagars on this subject took place on 20 February 2015 at the creativity conference “*Subject: Creativity*” in Liepāja, during which **Juris Žagars spoke about the economic impact of Cēsis Art Festival**. In 2014 Cēsis Art Festival was visited by 20,000 people, only 20% of which were residents of Cēsis, and the total economic impact (on the budget of Cēsis municipality) of the art festival in 2014 was 213,000 euros. The municipality investment in the organization of the event was tiny (only 4% of the total 170,000 euro budget). The following additional benefits of the festival were underlined: promoting the image of the town, educating society, stabilizing the prices of real estate [Žagars 2015]. However, the method for the evaluation of the economic impact used by J. Žagars’s group is unclear; using his data in any of the

online calculator tools provides a very different result, which leads to scepticism and caution.

The study “**Economic Value and Impact of Latvian Public Libraries**” performed by Ieva Strode and her colleagues in 2012 is a very successful economic impact study in the field of culture. The study is fundamental and massive, encompassing more than 800 Latvian public libraries. Contingent valuation method, which is one of the most complex and scrupulous methods, was used in this study. A large scale poll of public library users was organized to determine their readiness and willingness to pay particular sums for library services (copying, scanning, etc.). No studies of similar scope using this method have been performed in Latvia.

In 2006, when the construction of the new Latvian National Library was doubted, a research about the economic impact of the library building was commissioned. The former Minister of Culture, Helēna Demakova, in her speech during the conference “Economic Contribution of Culture”, on 14 December 2005, said, “(..) providing financing to culture is not a subsidy, but an investment. The investment means that there will be return of the investment – if not a direct financial return over an average or long-term period, then definitely a positive, measurable economic effect. During “The First Culture Employees Forum” economist Kārlis Goppers said that studies on the economic return of culture objects, events, or processes are a relatively new sub-field of economics, which is based on modern economic theories. **Currently Goppers is working on the economic impact analysis of the National Library project** (..). It must be said that there are few examples in Latvia that would allow us to evaluate the economic impact of the investments in the field of culture. There are not many such examples since there are not many investments” [Demakova 2005]. The results of the study showed that “Taking into account that the construction of the Latvian National Library, the Riga Concert Hall and the Museum of Contemporary Art are projects of national importance, in which significant amounts of funding from the state budget will be invested, the state agency “*Jaunie “Trīs brāļi”*” (“The New Three Brothers”) has commissioned a study and analysis of the economic justification and return of the investment in these objects. The author of the research, an authoritative economist working in Sweden, Kārlis Goppers, came to a conclusion that the implementation of all the three projects, including their construction and successful operation, will generate a significant economic activity and in the next 30 years could return 144 million lats to the economy of Latvia, but in 50 years the profits could reach 220 million lats” [State agency “*Jaunie “Trīs brāļi”*” 2007]. Due to the fact that the state agency “*Jaunie “Trīs brāļi”*” was liquidated in 2009, currently the study by K. Goppers is unavailable to public (previously it was

available on the web page of the agency), thus it is impossible to determine what research method he used for his analysis and what the economic impact of each separate object of the infrastructure is. In any case, the fact of the existence of such a study is positive by itself.

Several alumni of Latvian Academy of Culture have written Bachelor's and Master's Theses on subjects related to the economic impact of culture. In 2008 Ieva Zemīte wrote the Master's Thesis "Economic Impact Study of Event Centre Activity in Latvia". She used economic impact assessment approach to analyse the economic impact of "Dzintari" concert hall in detail. In 2014 Līga Grīnberga wrote the Bachelor's Thesis "Use of Social Network Analysis Capabilities to Study Economic Impact of Culture. Example of "Riga 2014"", in which she analysed the economic impact, social impact and cooperation networks between culture and economic fields promoted by the project "Riga 2014". In her work she used social network analysis method. The Master's Thesis of the author of the present paper, "Economic Impact of Cultural Events. Example of the World Choir Games", was written in 2015. Using economic impact assessment approach, the author calculated that the total economic impact of the World Choir Games 2014 in Riga amounted to 21.6 million €. From every euro invested in the organization of the World Choir Games in 2014 30% or 0.30 cents were received by companies in other fields.

The most recent event impact analysis in Latvia was performed by Anda Laķe and a group of her colleagues – **a report on the evaluation of the impact of the European Capital of Culture "Riga 2014" programme**, which was presented during the international forum "Riga 2014" on 13 May 2015. The report analyses the social and economic impact of "Riga 2014". From the economic point of view, this study is an extended and deeper version of the previously mentioned Bachelor's Paper by Līga Grīnberga, and the main conclusion is that 33% of the financing for the European Capital of Culture events¹ was directly received by other economic sectors [Grīnberga 2015].

Conclusions and future development of research

In conclusion, it can be said that only separate, detached and mostly one-time studies about some events or phenomena in the field of culture are available in Latvia, and undertaking these studies is not a common and constant practice. These single studies are mostly promoted by the private interest of the event organizers or researchers. A large number of studies fail to clearly indicate the methodology used, thus the number of qualitative and thorough researches are very small.

¹ 3 out of 6 thematic lines were studied.

In attracting financing for cultural events the project managers need to constantly argue and justify the need for financing, especially if the financing is public. Most often emotional or social benefits are named. It is not popular to say that the investment of funds in cultural events is not beneficial, since the events will have economic impact and state or municipality budget will indirectly gain more funds than the project managers are asking for initially. Commentaries and perplexed questions about the necessity to invest in culture (meaning the entertainment function) at a time when the state lacks funding for healthcare, salaries for teachers or the currently popular defence issues are often voiced in public space. In the context of Latvia the economic impact studies of cultural sector would promote the increase of understanding not only among the providers of financing, but within the society as a whole, and the statements of some enthusiasts about the fact that culture has an economic impact would be finally justified by real numbers and facts. The world context shows that this approach has become somewhat obsolete; however, we have missed this phase in Latvia. The author's Master's Thesis resulted in a template for an economic impact calculator tailored particularly for the economic situation of Latvia. Availability of such a calculator online would benefit the popularity and regular performance of economic impact studies in Latvia.

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