HOW CAN WE MEASURE THE REGIONAL ECONOMIC IMPACT OF A CULTURAL GOOD?

In regional economics, there is a traditional field of study concerning the regional economic impact of a certain economic activity, such as an investment or some other activity causing an income injection to a region. Dr.Sc. (Econ. and BA) Timo Tohmo’s doctoral thesis contains these kind of analyses. The thesis consists of nine empirical studies, which are divided between two topics: regional specialization and industrial concentration in Finland, and regional economic impact analysis. The latter part includes evaluations of a folk music festival and a museum. In this review, I concentrate on three studies within the thesis that contain economic impact analyses of cultural activities, including the Museum of Central Finland in Jyväskylä.

The interest in knowledge about a case of economic impact analysis may come from different directions. It is interesting to know, for example, how much income and employment tourism creates within a region. A cultural event or a well-known theatre, opera or museum is also a tourism attraction. These create monetary income flows and in many cases have a very important effect on the image and the economy of a region. Normally, these institutions are publicly supported. That is why it is also interesting to know how much a public sector or a nation benefits from a cultural institution, in economic terms. People working for cultural institutions can use this information in favour of their organisations.

Input-output analysis is a widely used method of evaluating regional economic impacts. The basic idea of the analysis is to find out all the consequences of a certain amount of money used in a region. In a case of a folk music festival or a museum, the visitors’ total spending means new demand for the products and services of firms within the region. This increased demand directly creates more output employment in the sectors concerned and also indirectly, in sectors that produce inputs for the originally expanding sectors. This in turn means more labour and capital income. When the increased income ends up as new consumption, there is an additional, induced effect, too.

Timo Tohmo has carried out an input-output analysis of the Kaustinen Folk Music Festival. Without going into the details of the study, it was possible to conclude that the festival increased local taxation income by a larger amount than the municipality of Kaustinen was subsidising the festival. In economic terms, the festival was a good investment from the local point of view. It was even better from the national point of view because the festival also created additional national income and taxes. This all was concluded from the economic point of view. There must also have been some non-measurable (cultural) value, which can give an additional guarantee that the cultural event was a good thing for the welfare of people.

In the case of the Museum of Central Finland, the approach was different. It not only involved calculating the observed monetary values linked with the museum. It also made an effort to find out the value of the museum by asking the people in Jyväskylä about valua-
tions on issues on which they had not spent any money. These people were asked how much they would be willing to pay for the cultural services that the presence of the museum implies.

The approach used in the two articles studying impact of the museum is a traditional method of economics applied outside the sphere of normal private goods that are sold in a market at a market price. Commodities may have external benefits for people or public goods may have been sold at a lower price than a buyer would have been willing to pay. A ticket for a museum is much cheaper than the costs of providing that opportunity to a visitor. There are certainly also public goods with no price at all. Examples of this are the traditional questions about the value of a good environment or nice historical buildings.

The willingness-to-pay method is a kind of artificial measurement for such purposes. People are asked how much they would have been willing to pay, even if they have paid nothing for those goods. There are different methods to calculate a demand curve based on the answers that people provide, even if there is no observable demand curve based on prices that have been really paid. Timo Tohma prepared two empirical research papers based on the data collected via a mail inquiry. A random sample consisted of 800 inhabitants of Jyväskylä (the population of the city about 80,000) whose age was at least 18 years. In order to get more information about the valuations that people made, it was important that both the museum visitors and people who never have visited the Museum of Central Finland were included into the sample. It is interesting to know which factors have influence on differences in willingness to pay.

The results were interesting in many respects. More than 90% of the respondents were of the opinion that the Museum of Central Finland also had value to people other than those who actually visit it. It means that many people who had never visited the museum agree that there are positive externalities of a cultural good. The median amount (93 FIM in 1997) the respondents were willing to pay for the existence of the museum was a bit higher than the amount of local taxes per person (over 18 years) that were directed to the maintenance of the museum (78 FIM). Tax revenues collected from the inhabitants were allocated to the museum to a smaller scale than tax payers were willing to allocate. In the terms of economics, there was a consumer’s surplus in respect of the museum. The museum meant a positive net contribution to the welfare of inhabitants.

The individual willingness to pay was lower among the respondents who had never visited the museum. Anyway, more than 50% of the inhabitants who have never visited the Museum of Central Finland gave a positive valuation to it. The people who had used services of the museum were certainly more willing to give higher valuations. It reflects the fact that the consumption of cultural goods is concentrated, but that people can be taught to use cultural services. From the point of view of a museum, the critical step is to get people visit a museum at least once. After that, the basic attitude is more positive and the probability of subsequent visits is higher than it was for the first visit.

The thesis is a good example of empirical research work in the field of regional economics. It also shows that economics possesses methods for expanding its sphere into many interesting issues outside the narrow monetary world in which economics normally operates.
At the same time, some criticism should be made. The hypothetical construction of valuations without a revealed propensity to pay in real terms is something suspicious from the point of view of economics. If the respondents were really required to give the amount they announced as a bid for the value of the museum, they might have had a different opinion. It would have been better to ask, about which uses the tax money could have been taken away from in order to give more to the museum.

Dr. Tohmo’s dissertation is nevertheless a good piece of research. In particular, it provides results from a broad selection of regional studies and has special merits in developing the input-output method. Impact analyses concerning the Kaustinen Folk Music Festival and the Museum of Central Finland give a good example of possibilities for applying economic methods to non-monetary values. People working in the cultural sector can learn much from these kinds of analyses. Even if the culture as such cannot be measured in money, cultural institutions are run by public and private money. Managers of museums are more capable of running their “business” if they know all the economic consequences of their organisations and if they can also point out the overall value of the institution to the politicians and to the general public. Referring to research results expressed in monetary terms can help them in convincing decision-makers, who quite often follow the basic principle known as “money talks”.

The relationship between the economy and the culture can be seen in many ways. Some practical, economy-minded people may think that all the cultural activities are something we can have if we are wealthy enough. The economy pays the costs of culture. But there is an opposite way to think, too. An example is a famous Finnish philosopher and a statesman J.V. Snellman (1806–1881), who thought that the economy itself is actually a product of the culture. In an information society, the latter approach is even more valid than in history. The competitiveness of a company or a nation requires capabilities for creating value based on human capital, and the human capital is a cultural good.

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