

## The Economic Impact of Cultural Spending

In the last decade, cultural professionals have tried to gather evidence and research to prove that cultural spending and policies pay off, make difference, and bring added value. It is acknowledged that culture allows people to build an identity and societies to develop active citizenship. Culture is an uncontested pillar of democracy and human rights. By building ties between people, promoting understanding and tolerance, culture is the glue that holds societies and alliances together. Culture is the connection between past, present and future - without the understanding and transformation of the past there cannot be development. It also contributes to conflict prevention as well as to reconciliation processes, being sometimes the only thing that makes a society stick.

But when it comes to recognizing the economic value of culture, the fact that culture pays off in terms of jobs and growth, misperceptions prevail.

As notes KEA study "Economy of culture in Europe"<sup>1</sup> (2006) the "cultural and creative sector suffers from **stereotypes** when it comes to assessing its economic performance. **Culture is often perceived as a non-economic activity**. Many believe that culture and the economy are two separate worlds and that they have (or that they should have) nothing in common. Those who recognise the economic value of culture tend to perceive the cultural sector as poor in relation to its economic importance."

A recent study by TERA Consultants "Analysing the economic impact of cultural spending on the GDP"<sup>2</sup> (2011) goes in the same direction suggesting that **culture bears the semantic stigma of spending its appropriated budgets**. This stigma insidiously ranks cultural activities in an unproductive category, presenting the spending as a superfluous, even ostentatious, nature.

These two studies, however, point out a powerful conclusion: **despite such preconceptions culture should be apprehended as a growth stream contributing to economic dynamics** and not as a sterile and useless expense. Unfortunately, there is a **lack of statistical tools to measure the contribution of the cultural sector to the economy** whether at national or international level, in particular compared to other industry sectors. For the time being there are **few studies** that bring concrete evidence and develop mathematical formula to **prove in a scientific way that investing in culture leads to economic growth**. The cause of this shortage lies probably partly in weak statistical tools.

### Cultural & Creative Industries' Contribution to European Economy

**In 2008 the cultural and creative sectors contributed an estimated 4.5% to EU GDP, and employed some 3.8% of Europe's workforce**<sup>3</sup>. Beyond this direct contribution to jobs and growth, these sectors trigger spill-overs in other areas such as tourism, and provide benefits for education, social inclusion and social innovation.

TERA Consultants study "Analysing the economic impact of cultural spending on the GDP" (2011)<sup>4</sup> takes an insight in the correlation of cultural expenditure and economic growth in 47 cities around the globe. The study outlines "**a rise in cultural spending per capita in a city has a positive leverage effect on GDP**". Moreover, after a calculation following a mathematical formula they suggest a concrete value of this positive correlation: **10% rise in cultural spending per city inhabitant is tied to a greater GDP value per capita of 1.7%**.

KEA study "Economy of Culture in Europe"<sup>5</sup> (2006) calculated "Contribution of the European cultural & creative sector to the European and national economies". The study takes note that **in 2003 "the value added of the cultural & creative sector to national GDP was at its highest in France, UK, Norway, Finland and Denmark**. In all of these countries the contribution of the cultural & creative sector to the respective national economies **is higher than 3%**". In the following national economies the

<sup>1</sup> KEA Economy of Culture in Europe 2006, <http://www.keanet.eu/ecoculture/studynew.pdf>

<sup>2</sup> TERA Consultants 2011 "Analysing the economic impact of cultural spending on the GDP", [http://www.forum-avignon.org/sites/default/files/editeur/Etude\\_Tera\\_Consultants\\_Forum\\_avignon\\_2011\\_GB.pdf](http://www.forum-avignon.org/sites/default/files/editeur/Etude_Tera_Consultants_Forum_avignon_2011_GB.pdf)

<sup>3</sup> TERA consultants 2010, Building a Digital Economy : The Importance of Saving Jobs in the EU's Creative Industries, [http://www.teraconsultants.fr/assets/publications/PDF/2010-Mars-Etude\\_Piratage\\_TERA\\_full\\_report-En.pdf](http://www.teraconsultants.fr/assets/publications/PDF/2010-Mars-Etude_Piratage_TERA_full_report-En.pdf)

<sup>4</sup> TERA Consultants 2011 "Analysing the economic impact of cultural spending on the GDP", [http://www.forum-avignon.org/sites/default/files/editeur/Etude\\_Tera\\_Consultants\\_Forum\\_avignon\\_2011\\_GB.pdf](http://www.forum-avignon.org/sites/default/files/editeur/Etude_Tera_Consultants_Forum_avignon_2011_GB.pdf)

<sup>5</sup> KEA Economy of Culture in Europe 2006, <http://www.keanet.eu/ecoculture/studynew.pdf>, comparative table on page 65

contribution of the cultural & creative sector was in 2003 between 2% and 3%: Belgium, Czech Republic, Germany, Estonia, Spain, Italy, the Netherlands, Slovenia, Slovakia and Sweden.

The research also notes **“the economic output in the UK, Germany, France, Italy and Spain account for almost 3/4 of the economy of the cultural & creative sector in Europe**. This is in line with the general economic outlook of Europe, whereby the sum of the national GDPs of the five largest economies equals around 74% of the EU25<sup>6</sup> GDP”.

### **Positive characteristics of the cultural industries = strong arguments**

**Culture is a main driving force for tourism, one of Europe’s most successful industries representing more than 5% of the EU GDP**, with about 1.8 million enterprises employing around 5.2% of the total labour force (approximately 9.7 million jobs).<sup>7</sup> When related sectors are taken into account, the estimated contribution of tourism to GDP creation is twice that high. Therefore, it is in EU’s interest to maintain Europe as the world’s top tourist destination.

**Cultural and creative goods cater essentially for a local audience**, its languages and cultures make it **difficult to shift the production** of cultural goods and services **to other continents**. Consequently, off-shoring is less developed than in other sectors of the economy (even at manufacturing level). **Because of this characteristic (non-delocalisation), and given that Europe is a major producer of intellectual property assets in the world, it would be well advised to try and make the most out of this potential to boost its economy.**<sup>8</sup>

There is a **competitive race to attract talent and creators** (“the creative class”) to localised environments supporting the clustering of creativity and innovation skills. **Europe risks experiencing a talent drain in sectors such as video games and cinema attracted abroad by better conditions, essentially financial.**<sup>9</sup>

**Culture and innovation play a crucial role in helping regions attract investment, creative talents and tourism**. Paradoxically, whereas we are living at a time where information technologies have abolished distance and time constraints, “physical location” and the “socialisation” factor remain decisive for economic success. **Culture has become an important soft location factor and a key factor for boosting local and regional attractiveness.**<sup>10</sup>

In some cases, **at local and regional level, strategic investments in cultural and creative sectors have delivered spectacular results**. In particular, festivals and European Capitals of Culture produce important economic benefits, with sometimes more than ten times leverage for each euro invested.<sup>11</sup> For instance the **European Capitals of Culture**, which receive an EU title and funding (€1.5 million per Capital), **have in some cases had an eight-fold leverage effect on generated revenue**, triggered between €15 and 100 million worth of investment in their operational programmes and served as a catalyst for additional capital investment.<sup>12</sup>

### **Characteristics of cultural employment**

**Commission communication** “Promoting cultural and creative sectors for growth and jobs in the EU<sup>13</sup>” notes that **“the cultural and creative sectors<sup>14</sup> in the EU account for 3.3% of GDP and employ 6.7 million people (3% of total employment)<sup>15</sup>**. Figures

<sup>6</sup> Romania and Bulgaria excluded

<sup>7</sup> [http://ec.europa.eu/commission\\_2010-2014/tajani/hot-topics/tourism/index\\_en.htm](http://ec.europa.eu/commission_2010-2014/tajani/hot-topics/tourism/index_en.htm)

<sup>8</sup> KEA Economy of Culture in Europe 2006, <http://www.keanet.eu/ecoculture/studynew.pdf>

<sup>9</sup> Idem

<sup>10</sup> Idem

<sup>11</sup> European Commission Communication Promoting cultural and creative sectors for growth and jobs in the EU, COM(2012) 537 final, [http://ec.europa.eu/culture/our-policy-development/documents/com537\\_en.pdf](http://ec.europa.eu/culture/our-policy-development/documents/com537_en.pdf)

<sup>12</sup> Commission Communication, COM(2011) 786/2, Creative Europe - A new framework programme for the cultural and creative sectors (2014-2020), [http://ec.europa.eu/culture/creative-europe/documents/communication\\_en.pdf](http://ec.europa.eu/culture/creative-europe/documents/communication_en.pdf)

<sup>13</sup> [http://ec.europa.eu/culture/our-policy-development/documents/com537\\_en.pdf](http://ec.europa.eu/culture/our-policy-development/documents/com537_en.pdf)

<sup>14</sup> Covering in particular architecture, archives and libraries, artistic crafts, audio-visual (including film, television, video games and multimedia), cultural heritage, design (including fashion design), festivals, music, performing and visual arts, publishing and radio

<sup>15</sup> These figures come from 2010 European Competitiveness Report. As referred to above TERA Consultants, 2010, have estimated it higher at 4.5% of GDP and 8.5 million people employed.

are also important if one considers the fashion<sup>16</sup> and high-end<sup>17</sup> industries, which rely on a strong cultural and creative input. They account for 3% of the EU GDP each and employ respectively 5 and 1 million people, with employment in the high-end industries expected to reach 2 million by 2020<sup>18</sup>.

Between 2008 and 2011, **employment in the cultural and creative sectors proved more resilient than in the EU economy as a whole**<sup>19</sup> with growth rates varying however between subsectors. This tendency is all the more interesting because some sectors have a higher percentage of youth employment than the rest of the economy.”<sup>20</sup>

### **Cultural employment is growing faster than total employment.**<sup>21</sup>

Cultural employment is of an “atypical” nature. Some will say it is somehow a foreshadowing of tomorrow’s job market: more flexible, project-led, requiring mobility and high qualifications.<sup>22</sup>

Cultural sector counts and important share of self-employed and free-lancers<sup>23</sup>.

The level of qualification on average is higher in the cultural sector than in most of the other sectors of the economy. Cultural and creative occupations require a high level of qualification, not only “artistic” skills, but management and technical skills too.<sup>24</sup>

Underlying **challenges** connected with the specifics of culture<sup>25</sup>:

As demand for evidence-based policies is on the rise, European governments should intensify and co-ordinate their efforts in order to bring empirical evidence, measurement tools and accepted proofs.

- **The effects of culture take time**, i.e. years and often decades, and **longitudinal research** over such periods is **extremely complicated and expensive**. In the intervening long intervals both individuals and the social environment change significantly, which makes it nearly impossible to identify the impact of culture itself.
- **Comparison is also an issue**. For this, **the effects measured need to be checked not only in one setting: think of comparing the impact of a certain cultural phenomenon or policy measure on various cities**. Or countries. When groups of individuals (e.g., a local community) are observed, the task of identifying proper “control groups” is not much simpler.
- **Owing to the singular nature of any cultural phenomenon, and in the absence of direct parallels, it is virtually impossible to prove that a cultural intervention is the most direct and cost-effective way of achieving a particular social aim**, even if the intervention works.

### **The case of Iceland:**

Iceland is a unique example of a cultural miracle. The Eurostat<sup>26</sup> data shows that if **in 2010 the average EU government expenditure on 'recreation, culture and religion' was 1.2 % of EU-27 GDP**, while **Iceland spent 3.7 % of its GDP on 'recreation, culture and religion'**. Within the EU, only Slovenia and Estonia spent over 2%.

<sup>16</sup> Including design, manufacturing of fashion materials and goods, and their distribution

<sup>17</sup> Covering in particular high-end fashion, jewellery and watches, accessories, leather goods, perfumes and cosmetics, furniture and household appliances, cars, boats, as well as gastronomy, hotels and leisure

<sup>18</sup> Competitiveness of the EU fashion industries, Idea Consult, 2012; The value of the cultural and creative industries to the European economy, Frontier Economics, 2012

<sup>19</sup> Eurostat

<sup>20</sup> European Commission Communication Promoting cultural and creative sectors for growth and jobs in the EU, COM(2012) 537 final, [http://ec.europa.eu/culture/our-policy-development/documents/com537\\_en.pdf](http://ec.europa.eu/culture/our-policy-development/documents/com537_en.pdf)

<sup>21</sup> KEA Economy of Culture in Europe 2006, <http://www.keanet.eu/ecoculture/studynew.pdf>

<sup>22</sup> Idem

<sup>23</sup> Idem.

<sup>24</sup> Idem.

<sup>25</sup> [http://www.coe.int/t/dg4/cultureheritage/culture/Moscow/MinConfCult\\_3-Summaries\\_en.pdf](http://www.coe.int/t/dg4/cultureheritage/culture/Moscow/MinConfCult_3-Summaries_en.pdf)

<sup>26</sup> [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php/General\\_government\\_expenditure\\_statistics](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/General_government_expenditure_statistics)

**Iceland has turned Icelandic culture into the country's second largest contributor to GDP** (ranks just under the island's top industry, fishing), with an impact of around €1bn per year. **Unemployment is at 5.7%, growth at 3%.**<sup>27</sup> The comparative table based on OECD data presented in the paper "Public expenditure on culture as % of GDP" shows clearly that **Iceland has continuously increased its public expenditure on culture since year 2000.**

Over the financial crisis in 2008 that hit Iceland severely the government continued to boost contributions to independent cultural projects. It was a highly adept and flexible blend of public-private involvement, but without the state ever stepping back from its managing role in culture and education.

The former Minister of Culture Katrin Jakobsdóttir (in the office 2009 – 5/2013) states: "We see culture as the basis of creative industries, as an increasingly important part of our economy. When I became minister, I took it on as a matter of survival. And that's what I try to get into the heads of the people: that culture is a very important economic factor. The money it generates matches what we get from our entire aluminum industry."<sup>28</sup>

On the other hand, **Iceland is probably the country with the highest cultural consumption in the world.** An Icelandic study<sup>29</sup> compares the extraordinary cultural consumption in Iceland with the corresponding consumption in other countries, especially the other Nordic countries. The results are eloquent: not only is the **number of books published annually per 1000 inhabitants (5,2!)** twice as high as in other Nordic countries (figures are above the European average in all Nordic countries), the **Icelanders are also far most active to visit museums, theaters, cinema (global comparison!),** it also shares with the Netherlands the **highest position of cultural employment among European countries – 3,8%.**<sup>30</sup>

In terms of central government expenditure on culture as a % of GDP, Iceland had in 2008 the leading role in comparison with other Nordic countries. The expenditures in Iceland were 3.8% of Gross Domestic Product (GDP). Denmark had 1.6% and other Nordic countries had 1.1%. Iceland spent three times more than the other Nordic countries, even though all of these countries are very active in culture and cultural matters.

### **Where does the money come?**

Although spending is always a matter of priorities and Iceland's government action is highly relevant in this sense, it is however noteworthy that Iceland spends much less on social protection than the OECD in general - 11,5% compared to 33,5% of the budget. Moreover, Iceland's defense spending is at around 0.0% of the GDP. Although being a member of NATO, Iceland has no standing regular military force. The defense was provided by the US military until 2006. Starting from 2007, Iceland is under Norway's aerial surveillance.

### **Eloquent hypothesis**

An Icelandic research proposes an interesting hypothesis<sup>31</sup> backed by international statistics collected in 49 countries worldwide. It suggests that less populated countries participate more vigorously in cultural matters than more populated countries. According to their analyses, the reasoning behind this theory is that authorities in less populated countries are more concerned about their domestic culture, which they perceive as more vulnerable, and are afraid that the cultural diversity represented by their smaller communities will fall victim to increased globalization.

### **The example of Sibiu<sup>32</sup>**

<sup>27</sup> Journey to Iceland's cultural miracle, by Daniel Verdú, March 22, 2013, EL PAÍS, <http://www.presseurop.eu/en/content/article/3576351-journey-iceland-s-cultural-miracle>

<sup>28</sup> Idem

<sup>29</sup> The Extraordinary Extent of Cultural Consumption in Iceland: [http://rsm.bifrost.is/Files/Skra\\_0047393.pdf](http://rsm.bifrost.is/Files/Skra_0047393.pdf)

<sup>30</sup> Idem

<sup>31</sup> Idem

<sup>32</sup> The information on Sibiu is mainly collected from two studies: "Ten years of cultural development in Sibiu: The European cultural capital and beyond", Greg Richards and Ilie Rotariu, [http://mpr.aub.uni-muenchen.de/31167/1/MPRA\\_paper\\_31167.pdf](http://mpr.aub.uni-muenchen.de/31167/1/MPRA_paper_31167.pdf); "The Impact of the 2007 European Cultural Capital in Sibiu: A long term perspective", published in 2010, [http://mpr.aub.uni-muenchen.de/31167/1/MPRA\\_paper\\_31167.pdf](http://mpr.aub.uni-muenchen.de/31167/1/MPRA_paper_31167.pdf)

The city of Sibiu in Romania offers an interesting case study of culture led regeneration. The ten years of research conducted in Sibiu have highlighted the variety of long-term effects the European Capital of Culture 2007 project entailed, including tourism growth, changes in tourist profile, image improvement and increased social cohesion.

For the ECOC itself, it is clear that the event **transformed the cultural and economic landscape of the city**. The ECOC had the effect of broadening the local, regional, national and international audiences attracted to cultural events in Sibiu (as stated in several papers – Sibiu was put on the map). This was mainly due to the brand value of the ECOC, the opening towards Europe represented by the event, and the extensive cultural programme that was constructed.

Researches indicate that the Sibiu ECOC in 2007 and the programme of cultural development leading up to it had substantial impacts on the city both in the short and longer term. In the **short term** there was a **significant economic boost from tourism and an improvement in the external image of the city**. Levels of social cohesion rose and feelings of local pride increased and cultural activity in the city reached record levels. Over the **longer term** there has been increased cultural, hotel and infrastructure investment and a qualitative change in tourism flows towards cultural visitors with higher spending power.

**The broadening of the cultural audience and attraction of relatively up market cultural tourists had an important economic impact on the city**. There was considerable investment in hotel accommodation in Sibiu, most significantly from foreign hotel chains. This provided an upgrading of the tourism product and higher accommodation and tax revenues. In addition the quality and turnover of retail operations in Sibiu increased.

Due to the **economic boom in Sibiu**, the **unemployment rate in Sibiu is one of the lowest in Romania**, well below the country average. (According to the tourist information website the proportion of unemployment in the case of the inhabitants of Sibiu aged between 18 and 62 is of 0.8 %.) Due to the opportunities offered by Sibiu, the city transformed into a genuine magnet for qualified manpower from its surroundings.<sup>33</sup>

*This research was carried out for the European House for Culture, the Brussels office of "A Soul for Europe," by Riia Salsa.*

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<sup>33</sup> Sibiu tourist information website, <http://www.turism.sibiu.ro/en/prezentare.htm>