

**TOWARDS MORE ACCURATE MEASUREMENT OF THE  
VALUE OF THE ARTS TO SOCIETY : ECONOMIC IMPACT AND  
WILLINGNESS TO PAY STUDIES AT THE STANDARD BANK  
NATIONAL ARTS FESTIVAL.**

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**I acknowledge that all references are accurately recorded and that, unless otherwise stated, all work herein is my own. I certify that this thesis has not been submitted for a degree at any other university.**

**J. D. Snowball**

**October 2000**

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**ABSTRACT**

The accurate measurement of the value of the arts to society is becoming increasingly important in developing countries, like South Africa, where the arts must compete with housing, health, education and the like for public funds.

Motivation for the public funding of arts events, like the Standard Bank National Arts Festival in Grahamstown, is usually based on the economic impact, that is, the financial benefits to the region, of such events. The argument is problematic, however, because the primary recipients of such economic benefits are often middle to upper income groups who also attend more arts performances. Furthermore, the studies have not taken into account the positive externalities which, it is argued, are generated by the arts and are enjoyed by attenders and non attenders alike.

This thesis argues that it is the social benefits which the arts provide, those external to the market, which should be the basis of public funding. In order to quantify these positive externalities, a willingness to pay (WTP) study was conducted in the Grahamstown region. It is generally, but erroneously, believed that the Festival does not benefit the poorer, largely black, Grahamstown East residents. The study found that, in addition to the economic value (R23 - 25 million a year), the non-market benefits which the festival provides are worth between R2.3 and R3 million a year and form a very important part of its value, particularly to low income groups.

The study also found that there are methodological adjustments which can be made to WTP studies to successfully control for the many forms of bias it is prone to. By using a combination of closed and open ended and liable and non-labile questions, the motivation of respondents' answers to WTP questions was determined, making it possible to adjust for bias caused by, for example, "free rider" and "warm glow" responses. It is argued that by identifying and excluding such responses from WTP surveys, it is possible to reduce bias to an acceptable level.

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## Chapter One

### THE CONTEXT OF THE RESEARCH

#### 1.1 Introduction

Writers in cultural economics (Throsby 1994:26; Crompton 1995:15) agree that, as public spending on cultural resources comes under greater scrutiny, there is a growing need for more accurate studies of the economic and social impact of culture.

“Cultural economists will need to pay greater attention to the collection of new data in future if they wish their work to be taken seriously by other researchers or to be useful to policy makers, organisations or individuals working in the field” (Throsby 1994:26).

Accurate information about the results of spending on cultural resources (including festivals, museums, and sports facilities) is important to both private funders and governments. This is particularly true of South Africa at the moment, where the stated policy objective of the Department of Arts, Culture, Science and Technology regarding the arts is, “to set in place a policy framework that will ensure the development of arts, culture, heritage and film within a context of equity and transformation” (DACST, 1997:11). In the 1980's, government spending on the arts in developed countries had fallen by about 30% (Throsby 1994:21). In developing countries, like South Africa, cultural resources are even more in direct competition with other government funding requirements and a great deal of planning will be needed in order to allocate funds correctly in order to fulfill objectives.

The measuring of the economic impact of the arts has a well established, if problematic methodology (Crompton 1995; Johnson and Sack 1996; Seaman 1987). The attraction of this sort of study rests largely on the fact that it produces a quantifiable monetary measure of the value of a project as opposed to a less easily valued qualitative study. “Public officials, boosters and the media accept the ‘quantifiable’ which appears to represent reality in order to justify a desired project” (Johnson and Sack 1996:370).

Seaman (1987:744) however, suggested that it is futile to argue that the arts deserve public funding because they have pecuniary externalities (as measured by the multiplier effect). Since almost every industry can claim these effects, from shopping malls to schools, the fact that the arts provide pecuniary externalities of even quite a large magnitude, does not qualify them for public support. "Arts proponents should ask themselves why the case for public support for education is rarely tied to this array of pecuniary externalities" (Seaman 1987:744). This view is supported by Cwi (1980:56) who pointed out that if economic impact was the only or main reason for public subsidy of the arts, "it could lead to funding levels insufficient to support an institution's artistic aspirations".

As Throsby (1994:23) pointed out, "The arts exhibit public good characteristics alongside the private benefits conferred by individual consumption", which indicates that there is a non-market demand for the arts which could be filled by public finance. Some of the social externalities that it is suggested that the arts provide include: enhancing national identity and pride and international prestige, the ongoing education of children and adults, a critique of social policy, personal development and the integration of individuals into society (Cwi 1980). However, these are largely intangible benefits and thus very difficult to measure.

The measurement of the positive externalities of the arts, or even proving that these postulated spillovers exist, poses interesting methodological problems. Several studies however, have attempted to do this using the contingent valuation or willingness to pay method (Thompson, Throsby and Withers 1983; Thompson, Berger and Allen 1998 and Throsby and O'Shea 1980). This technique has been used extensively in the past to estimate "passive use values" in environmental economics and it is argued here that the same basic methodology can be applied to the arts (NOAA 1993:3).

The main thrust of this paper is to suggest that the externalities generated by the arts are important and should be taken into account when deciding on levels of government

support. In order to narrow the field sufficiently for research, the measurement of the social and economic impact of arts festivals will be used as examples. Arts festivals are unique opportunities for the development of new art forms and artists and as such may be regarded as an ideal cultural form in which to further the South African government's objectives regarding the "developmental and nation-building role" of arts and culture (DACST, 1997:11).

Chapters four and five describe a willingness to pay study conducted on the Standard Bank National Arts Festival in Grahamstown in May 2000 and discusses ways in which the externalities revealed by this study augment the economic impact studies done on the festival in 1996 and 1997 (Antrobus *et al* 1997a & 1997b).

## **1.2 Defining arts and culture**

Much of the following argument for the public support for the valuable, but financially struggling arts, rests on an understood definition of "the arts". As mentioned by Fullerton (1991:68), popular cultural forms, such as the Hollywood film industry and "pop" music, can generally support themselves and operate well in the market. It appears, therefore, that cultural economists are generally talking about forms of "high" culture, like opera and ballet. This largely unspoken bias is, perhaps, less important in countries with fairly homogenous, westernised populations. In the case of South Africa, however, a definition of the arts merits at least a brief discussion, since the financial troubles of a particular area of the arts could be ascribed, not to market failure (further discussed in chapter two), but to changing tastes and cultural preferences or bad management.

The term, "arts and culture", often grouped together, also needs to be clarified. The White Paper on arts, culture and heritage (White Paper 1996:6) defined culture as follows:

"Culture refers to the dynamic totality of distinctive spiritual, material, intellectual and emotional features which characterise a society or social group. It includes the arts and letters, but also

modes of life, the fundamental rights of human beings, value systems, traditions, heritage and belief developed over time and subject to change.”

Culture, therefore, refers to a whole way of life, including the arts, but also consisting of daily activities and modes of existence. For the purposes of this study, the field will be narrowed to that part of culture called “the arts”, the definition of which will now be further discussed.

In order to continue, therefore, one must first define the term, “the arts”. This, however, leads one into the murky waters of cultural studies, generally avoided by economists. However, as Peacock (1992:16) pointed out, “If economists are not going to apply their minds to some of the problems that I have revealed in this journey towards the meeting point of cultural values and economics, then they have only themselves to blame if the cognoscenti of the world of culture are tempted to invent the economics for themselves”.

Perhaps the most influential and ground-breaking work in cultural studies was done by Antonio Gramsci in the 1920's with his introduction of the theory of hegemony (Turner, 1990:198). The basic argument centred around “high” and “popular” culture and their relative values. Hegemony is generally defined as “control and leadership within a group” (Oxford Dictionary, 1997:555). Gramsci used this term to illustrate that “high” or dominant cultural forms were imposed on society and given greater perceived value by the economically powerful ruling class, often a minority in terms of numbers, but holding the majority of wealth in terms of both money and leisure time. Popular culture, therefore, was seen as “the battleground upon which dominant views secure hegemony, the parameters of which are partly defined by economic conditions, but that specialise in political struggle expressed at an ideological, representative level” (Turner 1990:211).

Seen in this light, the supposed superior value or merit of “high” culture can no longer be assumed. In fact, cultural theorists may argue that by subsidising “high” culture, one may simply be protecting the dominant view, to which, incidentally, most cultural economists (having been through a western form of education) probably belong! This is the point that

Peacock (1992:14) makes when he suggests that the refusal of economists to discuss possible definitions of “the arts” damages both our objectivity and credibility since, by passively accepting a particular definition, we may be unintentionally supporting a particular ideology: “The economist, so it is argued, might become a useful hired gun for the cultural establishment”. Cwi (1980:49) quotes Ernest Van den Haag in an attempt to address this issue:

“Popular culture, although it utilizes high culture elements, is simply a ‘reduction and misuse’ of these elements. High culture is ‘aesthetically superior’ in that it reveals and changes one’s experience of reality and possibility while popular culture provides entertainment which diverts the tired businessman or worker from reality.”

Cwi (1980:50) responds strongly to this, pointing out that the gratification clearly gained from popular cultural forms should surely count as merit, and that Van den Haag’s lack of appreciation of the “multidimensional nature of satisfactions” provided by any cultural form shows his biased and narrow view.

These points lead to arguments about consumer sovereignty (further discussed in chapter two) and who has the right to define “the arts”, except that the argument has become somewhat more complex: the theory of hegemony suggests that there is *already* a dominant cultural form, even where the market is left to operate by itself and consumer sovereignty is preserved. Subsidy to what is considered “high culture” may further entrench this position.

What can be drawn from this brief discussion, and what Frey and Pommerehne (1989:6) concluded, is that “The question ‘What is art?’ has been the subject of aesthetics over centuries, but no consensus has been arrived at”. They argued that what matters to the economist is not whether an area is multi-faceted and complex, but whether it is possible to observe behavioural regularities among the people concerned; “Whenever such regularities are apparent, the economic concepts of the demand for and the supply of art are appropriate.”

Throsby and Withers (1985:5) addressed this problem in a sensible, if not entirely satisfactory way by admitting that, "Given that one of the authors prefers bagpipes to opera, and that both believe that cricket and Australian football have considerable aesthetic charm, we found the task of limiting the domain of our enquiry a daunting one". They solved the problem however, at least for the purposes of the study, by taking as their core interests, arts types that corresponded to the domain of the Australia Council, noting that the difficulty of defining the arts did not stop policy-makers from taking decisions about them. As a practical way of dealing with the problem, this seems sufficient in most cases. However, while it allows the researcher to evaluate current public spending patterns on the arts, it does not leave much scope for the ever-changing "battleground" of Gramscian hegemony, in that the research may not reveal new areas of popular culture which are being overlooked by public funding policies.

As already mentioned, the multi-cultural nature of South Africa will necessarily complicate any study of public funding for the arts. Other factors which need to be briefly considered are the so-called "African Renaissance" and the fact that the present government has not been in power very long and, as such, has somewhat fluid ideas as to arts definitions and policies. In order to clarify the area of this research, the specific South African case now needs to be considered.

### **1.3 Arts and culture in South Africa**

There are two government bodies dealing with arts and culture in South Africa. The first and largest is the Department of Arts, Culture, Science and Technology (DACST) established in May 1994 mainly with officials from the former Department of Education.

The second, and much smaller body is the National Arts Council (NAC), its founding bill having been passed in October of 1997 (HAC, 1998:47). "Creative South Africa"(CSA), the report on the "Cultural Industries Growth Strategy" to DACST by the Cultural Strategy Group made in July 1998 highlights many of the problems with defining the arts in a country as

multi-cultural as South Africa. The report to the DACST separates the arts into two distinct sections: the “cultural industries” which are distinguished by their commercial activities which are their “prime motivating force”, and the “not-for-profit” sector which is dealt with by a separate body, the NAC (CSA, 1998b:4).

Williams (1996:110) points out that by emphasising the economic and financial benefits of the arts as “cultural industries” the South African government may be unaware that this “commodification” of the arts may make them accessible “to only those who have the financial wherewithal to engage in and savour artistic and cultural events and experiences”. This argument is supported by Wright (2000) who argues that the preservation of the “surviving remnants of South Africa’s traditional cultures” needs to be undertaken with care if we want to avoid being dominated by “Central Civilization” (the homogenising world culture based on commodities and markets).

The most general trend is to draw aspects of traditional cultures into the tourist industry, as parts of economic development. There is also the attempt by cultural officials in provincial government to promote and sustain traditional art forms through holding cultural events ... Both these responses are routine, readily understandable and, in their own way, a good thing. It must nevertheless be recognised that they have the unintended consequence of turning culture as the symbolic dimension of a particular way of life into culture as product or commodity, or culture as heritage - a part of Central Civilization” (Wright 2000).

The objectives of the NAC are, among others, “to provide and encourage the provision of opportunities for persons to practice the arts; to promote the appreciation, understanding and enjoyment of the arts and to foster the expression of a national identity and consciousness by means of the arts” (HAC, 1998:47). Objectives also include giving extra help and resources to “historically disadvantaged” groups of artists and audiences and to “address historical imbalances in the provision of infrastructure for the promotion of the arts” (HAC, 1998:47).

Members of the council are not permitted to hold any official political office and must have knowledge of or experience in the arts. Besides subsidising artists directly, the NAC also

makes study bursaries and loans available and advises the Minister on matters concerning the arts. Its finances consist of a parliamentary grant, donations, payment for services and interest on investments. The act does not, however, address the question of what sort of art should be subsidised, simply stating that one of the functions of the non-political, gender, language and community representative council is to “determine which field of the arts should have preference for the purpose of support thereof” (HAC 1998:48). Given the objectives of the NAC, however, it seems unlikely that much support will be given to traditional western art forms, but that emerging new South African artists and art forms will be favoured.

The CSA report deals mainly with the “cultural industries” which are treated as any other infant industry : public funding and encouragement are expected to pay off in the future in terms of increased profit, job creation and growth and eventually, financial independence.

The report defines “cultural industries” very broadly as including:

- C music (classical, popular, folklore);
- C the visual arts (painting, sculpture, public arts and decorative arts);
- C the publishing sector based on writing and literature (books, magazines, newspapers);
- C the audio-visual and media sector (film, television, photography, video broadcasting);
- C the performing arts (theatre, dance, opera, live music);
- C the emerging multimedia sector (combining sound, text and image);
- C crafts (traditional art, designer goods, craft art, functional wares and souvenirs)
- C cultural tourism
- C the cultural heritage sector (museums, heritage sites and cultural events such as festivals and commemorations) (CSA, 1998a:3).

This highly eclectic definition (further expanded to include secondary industries, such as design and graphic art) was not, however, used to formulate policy. The report chose to

study only the craft, film and television, music and publishing sectors. The reasons that were advanced for the choice include: being identifiable and already somewhat organised South African industries, being potentially internationally competitive and having the potential to create wealth and employment (CSA, 1998a:2). While this definition undoubtedly goes some way towards formulating growth strategy, it is both too narrow to use as a general definition of arts and culture (the major omission being the performing arts) and too broad (what parts of television watching should be counted as the consumption of arts and culture?).

In defining the role and domain of the NAC, which receives its money from a parliamentary grant and operates on a transfer payment basis, the White Paper (1996:12) gives a more clearly defined definition of arts and culture. It is, however, just as broad as that of CSA :

“The principal task of the NAC will be to distribute funds to artists, cultural institutions, non-governmental and community based organisations. Criteria for this distribution, consistent with the goals of the RDP [“to affirm and promote the rich and diverse expression of South African culture”], will be developed to promote the creation, teaching and dissemination of literature, oral history and storytelling, music, dance theatre, musical theatre, opera, photography, design, visual art and craft which fully reflect our diversity”.

For the purposes of the White Paper (1996:6) on arts, culture and heritage itself, a briefer, but still highly inclusive, definition of the arts is used:

“Arts refer to, but are not restricted to all forms of traditional dance, drama, music, music theatre, visual arts, crafts, design, written and oral literature all of which serve as means for individual and collective creativity and expression through performance, execution, presentation, exhibition, transmission and study.”

Despite the concentration of the CSA report on monetary benefits of the “cultural industries”, it recognises a number of the externalities traditionally associated with the arts, as does the White Paper (1996:6) on arts, culture and heritage. These include such non-monetary, or intangible benefits as “enhancing the country’s identity and distinctiveness”, encouraging “nation building” and assisting in personal development by increasing self-

confidence and promoting self esteem. Other externalities are somewhat linked to economic growth, such as: making the “image” of a place more attractive to investors, the generation of cultural tourism and the development of human capital.

Sloan (1998:2) writing about the externalities of the arts in New England, points out that the tangible and intangible benefits can be closely linked. She suggests that the arts can help to address contemporary problems, and be a “catalyst for social change, for self expression, for empowering communities and improving children’s learning”.

Perhaps not surprisingly in South Africa, since arts and culture share a department with science and technology, heavy emphasis is placed on the innovative and creative nature of arts and culture:

“Because the cultural industries are “information rich” and a source of original content, they are increasingly becoming a site where convergence [of the information, communication and entertainment industries] occurs. In addition, they hold the potential to be a source of innovation and technological development” (CSA 1998a:2).

The White Paper (1996:7) goes even further, suggesting that the failure of technology transfer initiatives arises “precisely because insufficient care has been taken to understand the cultural dimensions of what seemed merely to be technical”. The Paper does not go into any further detail, but the idea is a profound one. Moreover, if it can be shown to be true, that is, the ability of less developed countries to “catch up” to the developed countries in the technological race depends on the mutual understanding of each other’s culture, then this may be one of the most compelling economic arguments for increased public spending on arts and culture in developing countries yet to surface.

While the White Paper (1996:7) appears highly liberal and open-minded in its definition of arts and culture, it recognises the power of the dominant Eurocentric cultures and plainly sets out to reduce this power, albeit in a non-aggressive way: “The collision of cultures does not necessarily lead to subjugation and hegemony. It may also lead to a subtle cross

pollination of ideas, words, customs, art forms, culinary and religious practices”.

The above view is shared by writers such as Nettleford (1994:153) who pointed to the indigenisation process in the Caribbean as an example: “When we speak about creolisation, we do not mean only *metisage*, cross-breeding, because creolisation adds something new to the components that participate in it”. He goes on to argue that it is this shared culture which holds societies together and can be used for “nation building”, but that black African culture cannot be seen to be merely changing places with Eurocentric ideas; to be accepted by all, a true blend must result.

As mentioned earlier, the White Paper (1996:10) also recognises this “nationbuilding” role: “Arts and culture may play a healing role through promoting reconciliation”, but points out that unless public funds for the development of arts and culture are more equitably distributed, the process of “creolisation” is unlikely to happen. This view also concurs with Peacock (1992:549) and Scitovsky’s (1972:63) argument that education plays an important role in taste formation. However, the White Paper (1996:8) takes the argument further: “The kinds of artistic and cultural forms and institutions supported by public funds determine the kinds of skills taught at the feeder educational institutions.” It argues that, since apartheid policies favoured white educational institutions and that, since these taught mainly Eurocentric art forms (because that was what was being funded), aspirant black artists were exposed to and trained in largely Eurocentric arts and culture.

Such a subtle form of hegemony resulted in a lack of development of African arts and culture and a perception that African art does not have a place amongst the “high cultural” forms. The problem of defining arts and culture in such a way that the definition can be practically used in research is thus compounded. The Throsby and Withers (1985:6) study was concerned largely with “high culture” or the “cultural core”, that is, the traditional European art forms, including live theatre, ballet, opera, classical music, painting, drawing and sculpture and crafts. This would not do at all for the South African case, where Eurocentric cultures can hardly be described as “core”, even if they are regarded as

dominant, or previously dominant. In fact, the funding to the four South African performing arts councils, which traditionally supported western art forms, was cut from 67,7% of the DACST budget in 1994 to 32,4% in 1999, freeing R39,2 million to fund other “vibrant arts” projects which are “more typically South African” (*Cape Argus* 1999).

In accordance with the views of Peacock (1969), the White Paper (1996:8) asserts that public funding for opera, ballet and the like, result in the government “subsidising expensive art forms and infrastructure for a small audience at an unaffordable level” and that their aim is now to spread the limited public resources for the arts more widely.

Also against the relevance of using the “high” European cultural forms as an exclusive definition of arts and culture in the South African case, is the emergence of the so-called African renaissance or the renewal of African pride and identity. In 1998, a nine member African renaissance committee, made up of prominent black South African personalities was appointed to advise the then Deputy President Thabo Mbeki “to pursue the African renaissance concept” and to draft an “African renaissance charter” (Business Day, 1998). (As president, he has continued to promote this.)

Another way of narrowing the field for research purposes is to keep the broadest possible definition of arts and culture, and restrict the area only by the level of professionalism involved as did Throsby and Withers (1985:6). However, even this is a far from perfect solution in that many artists throughout the world are not employed full-time in the cultural arena, but support themselves through other means as well. This is especially the case in South Africa, where new forms of culture are being encouraged to emerge. For example, the President’s Award Gumboot Dancers who live in the Grahamstown township, Rhini, usually have some other form of casual employment and perform as often as they are hired. If one only regarded those employed full-time in the cultural industry, many important emerging groups would be excluded.

For the purposes of this research, which aims to study only the Standard Bank National Arts Festival in Grahamstown, the definition of arts and culture will be restricted to those art forms available at the festival. This includes live theatre, dance, music fine art exhibitions,

films and the craft markets. The festival also includes a great many cultural forms, from “high” traditional European culture, to traditional black African culture, to the beginnings of a true meeting and melding of the two. The “Main” programme consists of professional artists, both local and foreign, and is thus more Eurocentric (and more highly priced) than the experimental fringe. However, in recent years, the two have begun to blend, for example, the William Kentridge production of *The Return of Ulysses*, the Monteverdi opera, performed using animation film and puppets and set in a Johannesburg hospital, performed at the 1999 Festival. (See Appendix 1 for 1999 Festival programme).

The Grahamstown Festival is also particularly interesting to study at the moment because its future existence hangs in the balance. According to Marais, (2000) the Festival officer, the Standard Bank has announced that the 2001 festival will be the last year in which it acts as title sponsor for the festival. Since it costs between R8 and R10 million per year to run the festival at its current size, Marais (2000) is not confident that a new private sponsor can be found. This makes the accurate measurement of the value of the Festival of great importance.

The Festival is administered by the Grahamstown Foundation and is essentially a non-profit enterprise. According to Marais (2000) the only performances which cover their costs through ticket sales are the smaller “Fringe” productions. All the rest, including the fine arts exhibitions which charge no entrance fee, must be heavily sponsored. The other area which makes some profit is, of course, the craft market. Although this is a most enjoyable and distinctive part of the Festival and is included in the CSA (1998a:3) definition of the “cultural industries” there was much doubt as to whether this highly various part of the Festival could be included meaningfully in the study (further discussed in chapter four).

The Standard Bank National Arts Festival receives almost no public funding at all. The Grahamstown Foundation, operating from the Settler’s Monument, which organises the festival, has had the small amount of government funding provided for building maintenance

frozen for the last two years. Marais (1999) pointed out that only about six “Fringe” productions a year receive any kind of funding from the NAC, the amount depending on their motivation, and that none of the highly subsidised “Main” events are publicly funded at all. This money comes mostly from the Standard Bank, with some small contributions made by companies such as Avis and the provision of facilities by the Grahamstown Municipality. Some funding for foreign performances and films comes from public and private organisations in the foreign country . For example, the world class *Nederlands Dance Theater I* , available for R60 a ticket, was funded by the Netherlands government and the Royal Netherlands Embassy.

In addition, the Festival provides other benefits external to the market, funded either by the Standard Bank itself or provided by the performers who come to the Festival. For example, all fine art exhibitions are provided free, as are a number of street shows and the “Sundowner” shows at the Settler’s Monument (daily live previews of drama, dance and music events). The craft markets, while obviously commercial, provide free viewing and generate much of the atmosphere of the Festival in the town as a whole.

The Arts Encounter project of the Foundation provided R120 000 worth of free tickets to 1999 Festival shows which were given, on application, to disadvantaged members of the community and poorer schools. Dance workshops, live shows and films are provided free of charge to disadvantaged black schools in Grahamstown East. The Studio Project, also administered by the Foundation, subsidises the running cost and administration of new performers who lack the funds and experience to put on a show at the Festival. The Project is specifically targeted at helping new South African artists by providing both funds and training.

The lack of government funding can only seem highly ironic in the light of the White Paper’s (1996:8) recognition of the non-excludable externalities of the arts and the assertion that,

“Access to, participation in, and enjoyment of the arts, cultural expression and the preservation of one’s heritage are basic human rights; they are not luxuries, nor are they privileges as we have generally been led to believe”.

Also, in recognising that new audiences and tastes must be built through education, the White Paper (1996:7) asserts that it will especially support the “growth and sustainability of a range of arts festivals, which will both provide more work opportunities for artists and create greater audiences and markets for the arts”.

However, as Marais (1999) pointed out, the lack of public funds for the festival may not be due to an unwillingness to provide money, but simply that there is none . As in most other countries, only a tiny percentage of the government budget is actually spent on the arts. Throsby and Withers (1985:2) note that, “In a perverse way, so much fuss over so little money is at once a compliment to the stimulative role played by arts in our society and also evidence of the importance of even such small funding to the quality and liveliness of these activities”.

According to the National Expenditure Survey (1999:109), the budget for the DACST for 1998/99 was R834 million. This may sound impressive, but represents only 0,4% of the total national budget expenditure. Of that amount, only R311 million is spend on arts and culture, a mere 0,15% of the national budget. The predicted expenditure for the DACST for 1999 to 2002 shows a steady decline in the percentage of the DACST budget spent on the arts which also represents a monetary decline. (See Appendix 2 for National Expenditure Survey details).

The White Paper (1996:19) also mentions that the lack of tax incentives in South Africa to encourage the private sector to make contributions to the arts may be part of the problem. While the Paper makes no mention of the development of such incentives, it does suggest that some other provision could be made, for example, using the tax incentives for

donations to educational trust funds for arts and culture education. Another possible source of funding mentioned is the newly instated state lottery. However, the fact of the matter is that, "Cultural institutions which are currently publicly-funded would need to become more commercially driven and organised along business lines" (White Paper, 1996:20) and that private sector funding, rather than public funding must be sought.

As the Handbook on Arts and Culture (HAC, 1998:250) comments, "Private sector sponsorship of the arts is, at best, in a state of flux". Many companies which supported the arts a few years ago, have shifted their attention to other areas such as education, housing and job creation. However, there are two major post 1994 elections arts initiatives at present which combine DACST funding with private sponsorship. The first is the Arts and Culture Trust of the President launched in 1994 by Nedcor and Sun International who both made initial contributions of one million rand each. This was matched by the DACST who pledged one million rand spread over the following three years. Despite extensive restructuring in 1996, the DACST retained their commitment as a means of encouraging private support on the arts. Funds for the trust are generated through the fund's capital, various Nedbank client donation schemes, fund raising events and donations (HAC, 1998:250).

"The Arts and Culture Trust (ACT) funds creativity, education and distribution in all the art disciplines - film, music, theatre, dance, craft, literature, visual art - as well as arts administration and community art" (HAC, 1998:251). The trust is administered by a board of 27 people who allocate funds using a number of criteria. For example, "Does [the project] specifically seek to address intercultural, interdisciplinary dialogue and experimentation within the South African context? Will the project generate sufficient support to sustain itself beyond a grant from the ACT?" (HAC, 1998:252).

While the ACT sounds ideal, in reality it has very little money. Funds allocated from 1994

until 1998 were widely spread between bursaries, education and various other projects and totalled only just over six hundred thousand rand (HAC, 1998:257). Business and Arts South Africa (BASA), founded in 1997, “to promote and encourage sustainable partnerships between the private sector and the arts, to their mutual benefit and to that of the community at large” is doing somewhat better: funds allocated from 1997 to 1998 totalled just under four hundred and ninety thousand rand (HAC, 1998:260). There are also a number of other individual companies which support the arts, some of which, like PG Glass, Absa, and First National Bank, make quite considerable contributions - about one million rand each a year (HAC, 1998:260 - 270).

There is little doubt, however, that any substantial increase in arts funding for projects like the Standard Bank National Arts Festival and other experimental arts projects will have to come, at least initially, from the government. Sloan (1998:2) argues that, “Government support begets corporate support”, which eventually lowers the cost to the public. In order to encourage this, a very strong case for the public support for the arts, and a way of testing or proving these theories, will have to be provided. The following chapter provides a literature review of the theory to date.

## Chapter Two

### JUSTIFICATION FOR THE PUBLIC SUPPORT OF THE ARTS :

#### A REVIEW OF THE LITERATURE

In order to argue effectively for government intervention in any market, one must first prove that the market for that good is inefficient, that is, that there is market failure. Normative expenditure theory has dealt with three types of market failure: public goods, externalities and natural monopolies (Duncombe 1996:2). The case for the market failure of the arts, and thus, the case for public finance, rests on the former two, both of which are hotly debated. This chapter will consider various aspects of and variations on these arguments.

#### 2.1 The arts as a mixed good

Much of the case for the public support of the arts stems from the argument that the arts, while not a purely public good, do have some public good characteristics along the same lines as education and health. Public goods are defined by Samuelson as “those goods that a number of people can use simultaneously without diminishing their value (non-rivalry) and once these goods are provided it is infeasible to exclude people from their use (non-exclusion)” (Duncombe 1996:3).

Morrison and West (1986:58) concurred with the belief that theatre goers (and arts consumers in general) tend to represent the educated, prosperous minority of society. This is also evident to some extent in the South African case, for example, the Standard Bank National Arts Festival in Grahamstown, has attracted, to the highly subsidised mainstream events at least, a largely white, middle class audience who have developed Eurocentric cultural tastes (Antrobus *et al* 1997a:10). This view is also shared by the South African government, who argue that subsidies to “high” cultural events, like ballet and opera, represent a large amount of spending on a small sector of the population which can no longer be afforded (White Paper 1996:8).

The idea that it is not the poor who benefit directly from arts subsidies seems to be borne out by research. A study on theatre attendance in Atlanta (Dobson and West 1990:3) revealed that attendance increased as family income increased and that people who had lived in rural areas as children (and thus had little exposure to the arts) attended the theatre less frequently. One would assume that the racial/cultural and language differences in South Africa would compound the problem.

Using a huge survey conducted by the US Bureau of the Census in 1982 and 1989 on public participation in the arts, Hendon (1990:2) described the Americans who regularly attend art museums as being well educated, frequently having some post-school training, having a much higher than average income and attending other art forms such as musicals, classical music performances, plays, opera and ballet. Both surveys point out, however, that attenders and non-attenders are not radically demographically different, but differ markedly in educational levels and in participation in the arts as children.

The problem, then, lies in justifying the spending of public taxes on a good which appears to be largely consumed by the wealthy, especially in a developing country, like South Africa, in which there is a large indigent population. Much rests, therefore, on the degree of excludability, or public good characteristics, of cultural products and to what degree they provide positive externalities. It is to the former point which we refer first.

Optimal allocation of goods in a free market economy requires that everything can be bought and sold and that those who do not pay can be excluded from the use of the good (Fullerton, 1991:73). In this way, producers can at least cover their costs and try to make a profit. If, however, the good is not excludable - anyone can consume it regardless of whether they have paid or not - and the market mechanism will fail because of the "free rider" problem.

Arrow (1963:945) referred to the “free rider” problem in his seminal paper on health insurance as the “non-marketability” problem which he defined as, “the failure of the existing market to provide a means whereby the services can be both offered and demanded upon payment of a price”. If too many consumers try to consume a good for which they have not paid, the market will fail regardless of whether the good is generally demanded or not.

Another aspect which is important for the marketability of a good is its rival or non-rival nature. A rival good is one that is used up as it is consumed, while a non-rival good can be used without diminishing it. This characteristic is also found in the market for technological inventions which Romer (1990: 97) commented on: “A non-rival input has a high cost of producing the first unit and zero cost of producing subsequent units”.

As Throsby (1994: 23) pointed out, “The arts exhibit public good characteristics alongside the private benefits conferred by individual consumption”, which indicates that there is a non-market demand for the arts which could be filled by public finance. However, insofar as entrance fees and ticket prices can be charged, the arts can be considered a private good which is, at a primary level at least, excludable (Fullerton, 1991:566). Swindell and Rosentraub (1998:4) argued that concerts, like professional sports games, are “toll goods” that can be produced and consumed in a private market.

While it is true that a theatre seat may be regarded as both rival and excludable in that its consumption - the purchase of the ticket - prevents anyone else from being in it at the same time, the social benefits which arise from the culture which the arts generate can be regarded as neither rival nor excludable as argued by Abbing (1980:39). This distinction is also applied to goods like education which, while a place at university for example, is rival and excludable, is regarded as having public good characteristics because of the general social benefits which an educated population provide. If one understands the argument in the narrower sense (theatre seats or places in a museum) it is of course true to note that the good is excludable and only non-rival up to a certain maximum capacity. The

extent to which the arts show public good characteristics by providing positive externalities from which no one can be excluded is the hotly debated issue to which we now turn.

Externalities refer to the tangible or intangible “spillover” benefits from a particular activity. These unintended costs or benefits affect those who are not direct consumers of the product and cannot, therefore be efficiently marketed. Such benefits (or costs) are *external* to the market (Swindell and Rosentraub 1998:3).

Throsby and Withers (1985:1) commented on the fact that art subsidies seem to attract extreme views: “At one extreme are the critics of the arts who assert that theatre, opera, ballet and so on are minority interests, enjoyed only by the rich and well-educated; they argue that it is wrong for public money to be spent in subsidising such luxury tastes. At the other end of the spectrum are those ... who take the importance of arts to society as a self-evident truth, as if this justifies spending almost unlimited funds...”. At the centre of both these positions is the argument about the degree of excludability of the arts. If the arts are a mainly private good consumed largely by paying customers at market prices, market failure does not warrant public support unless there are large positive “spillovers” which can be consumed publicly and are therefore, not excludable.

Peacock (1969: 330) admitted that, “the author finds it difficult to trace the way in which spillovers from the ‘culture vultures’ attending live performances to others is supposed to take place.” He expressed considerable scepticism about the benefits to the public at large of the upper income members of society attending, for example, subsidised orchestra performances. Seaman (1981:335) agreed, “Arts services are not only fully excludable from non-payers, but rationing by price is actually used”.

Abbing (1980:39) is of a completely different opinion. He argued that the arts are a far more public good than we realise and that excludability is minimal. In other words, the arts are largely a public good which, if they have positive externalities, should be publicly

subsidised. His eloquent argument is worth quoting at some length:

At this very moment, I am sitting in the room of a third-rate hotel. The table cloth is made up of alternating squares, naturalistic and abstract. The former are borrowed from the Japanese art of flower painting; the latter remind one of Braque, however vaguely. The design of the plastic curtain in front of the washbasin is an exact copy of a painting by Vasarely. In front of me are two notepads. The cover of one has a pattern borrowed from Mondrian, but filled in with the present day fashionable colours of green and pink .... The background music is from a synthesizer, and it has an undertone reminding one of the recent German musical formation, *Kraftwerk*. I could go on and on...

Abbing (1980:37) argued that art cannot be treated as any other mixed good because it shapes the very way in which society makes sense of and understands events. Even those who have never seen or heard the original work may be affected by it on some level - either through the adaption of the idea by other artists or through the vaguer channel of the development of social convention. "Matters of consciousness - and that is what it is all about - can be re-expressed and transmitted in every possible way" (Abbing 1980:39).

Seaman (1981:338) argued the point from a slightly different angle, stating that even if a good is basically private in the sense of crowding in consumption, it is not uncommon to treat it as public if it has sufficient externalities.

The following section examines some of the positive externalities that it is suggested are provided by the arts and which give it its public good qualities.

## **2.2 The arts as a merit good**

Merit goods are defined by Cwi (1980:39) as "goods which some persons believe ought to be available and whose consumption and allocation are felt by them to be too important to be left to the private market". As other writers (eg. Throsby and Withers 1985; Peacock 1969 & 1992; Frey & Pommerehne, 1989) have pointed out, the notion of a merit good will inevitably involve some value judgement being imposed on society. This raises problems

of its own, even in fairly homogenous societies, but in a society as culturally diverse as South Africa, trying to decide what part of “art”, if any, constitutes merit goods would probably prove impossible.

Musgrave (1959:13) defined “merit wants” as public goods which are subject to the exclusion principle and are somewhat satisfied by the market within the limits of effective demand, but which “become public wants if considered so meritorious that their satisfaction is provided for through the public budget over and above what is provided through the market”.

However, as both Musgrave (1959:13) and Throsby 1994:20) recognised, the arguments supporting such merit goods are largely normative and involve some value judgement and, thus, an interference with consumer preferences. This can be seen in some of the arguments put forward for regarding the arts as a merit good: the arts enhance national identity and pride and international prestige, they provide ongoing education for children and adults, they critique social policy, they foster personal development and integrate individuals into society (Cwi1980:41). What makes this argument even more problematic is that these benefits are largely intangible and thus difficult to measure.

Peacock (1969:323) argued that any attempt at justifying public support of the arts “on the grounds that the community does not know what is good for it” smacks of “cultural paternalism” and represents what someone thinks the community ought to have, rather than what they want. The market allows consumers to “vote” with their spending, avoiding any sort of “big brother” approach. Peacock (1992: 553) reiterated this by appealing to the doctrine of consumer sovereignty, in which public funding allows consumers greater access to culture, without choosing the “correct” form of culture for them. This is done by channeling subsidies largely through consumers, rather than through suppliers of art and so preserving the consumer’s right to choose. Once the market is deemed inefficient, some dominant voice or perspective inevitably appears.

Throsby (1994:22), however, felt that there may be a case for subsidy of the arts as a merit good on several grounds. Firstly, consumers may lack the necessary information needed to make informed market choices. In the sense that tastes determine the demand for arts and that, as Peacock (1992:549) pointed out, the demand for “high” culture is largely dependent on the education which allows one to access it, this point is valid. Musgrave (1959:14) agrees with this point, stating that, “While consumer sovereignty is the general rule, situations may arise, within the context of a democratic community, where an informed group is justified in imposing its decision upon others”.

Peacock (1992:549) then argued, however, that it is the cultural part of education that should be subsidised, not the art itself. This point of view is strongly supported by Scitovsky (1972:63) who argued that, “If the arts get insufficient attention and insufficient funds, then consumers’ preferences are mainly to blame and changing them the best remedy”. He suggested that it is our lack of motivation to learn how to enjoy “high” culture and so expand our leisure activities beyond the popular, rather than a general lack of education, that has caused the problem. This view, however, still involves a significant amount of the “cultural paternalism” which Peacock (1969 & 1992) is so against, suggesting that one type of culture is somehow better and worth more than another.

These arguments are strongly supported by the two studies already mentioned: the study on live theatre attendance in Atlanta (Dobson and West 1990:4) discovered that child participation or activity in theatre, “was found to be a significant predictor of present theater attendance”. The study on American art museum attendance (Hendon 1990:5) had similar findings, noting that museum visitors were far more likely than non-visitors to have had art lessons as children. These findings both have obvious implications for subsidy policy formation.

Throsby (1994:23 - 4) argued that the notion of consumer sovereignty needed to be expanded to take into account cases where consumers behave inconsistently with their underlying values because of such things as “misperception, weakness of will or the

fluctuation of preferences over time". Seen in this light, the guiding hand of the government in selecting cultural products for subsidy in order to prevent them from dying out, could be seen as expanding, rather than limiting, consumer choices in the long run.

Throsby's (1994: 23 - 4) view ties in well with the argument that the arts should be protected by subsidy for the benefit of future generations, particularly if it is channelled into child participation in the arts. As Cwi (1980:42) put it:

Those concerned about future generations believe that we have a responsibility to assure continuity and access in future years to the produce of current artistic endeavor. It is felt that without subsidy some of that activity will either disappear or be available in only limited quantity, quality and variety.

As he pointed out, however, this assumes that future generations will share our ideas of what is culturally valuable and that once a particular art form is gone, it is irretrievable. The former argument once again involves (a particularly arrogant) value judgement, and the latter is highly debatable, especially since modern technology can provide near-perfect copies or records of almost anything.

Peacock (1969:331) also pointed out that, considering levels of economic growth, an increase in public investment which redistributes income to future generations from the present one may represent a transfer of wealth from a poorer generation to a richer one. This argument becomes particularly important in developing countries like South Africa, in which *per capita* income is expected to rise significantly as development proceeds.

Throsby's (1994:24) third argument is that a social welfare function which admits only individual utilities may be too limited in the case of a "socially meritorious" good, such as the arts, and that public financing of social goods which are "irreducible", that is, goods whose utility cannot be ascribed to any one person, should not be constrained by a limited theory. Fullerton (1991:75) quoted Scitovsky's original view in support of this argument,

noting that humans crave excitement as in “literature and gambling, art and violence, sports and crime. It is not just that art may have external benefits, but that alternative forms of excitement have external costs”. Scitovsky acknowledges, however, that this plan may take generations and that in the short term it may be better to provide sports facilities. In any event, in a country with high unemployment and a large indigent population, like South Africa, the reasons for crime, violence and even gambling, may not be closely related to a desire for excitement.

Taking Abbing’s (1980:39) view, that the arts have mainly public good characteristics and are central in the formation of social consciousness, even for those people who have never experienced the original work, a governing body of some sort still has to choose which art forms to preserve and which not to fund.

In a study conducted in America in 1973 on public perception and attitudes towards art and culture, it emerged that the public in general had more respect for bus drivers and baseball players than for art critics, ballet dancers and actors. Traditional “high” culture, like opera and dance, scored lower in importance than natural history museums and historic sites (Cwi 1980:45). In order to proceed, the very un-economic question “What is art?” must be answered, at least to the point where some policy can be formulated.

(See chapter one for a discussion of this point in the South African context.)

However, as Fullerton (1991:68) pointed out, the fact that the arts may be regarded as a merit good is not enough to justify public funding; “Subsidies are not justified for thousands of profit-making movie theaters ... just because they provide a product which is “good”. The argument was supported by Rosen (1995) who, in quoting Baumol and Baulmol (1981) agreed that “the merit good approach is not really a justification for support - it merely invents a bit of terminology to designate the desire to do so”.

This raises two interesting points: firstly, popular cultural forms are generally able to support

themselves in the market, which seems to indicate that, for whatever reason, public demand for these forms of culture is quite sufficient. By protecting certain forms of “high” culture from market forces by subsidising them, to what extent are we perpetuating a form of culture which is no longer demanded? In order to defend public subsidies for non-popular art forms, one would have to prove that they represented some valuable good which could not be gained through any other means. Secondly, it is not enough to prove that the arts are a merit good, one must also show why the market is not efficient in providing them, that is, one needs to postulate market failure.

### **2.3 Baumol’s cost disease**

Baumol’s cost disease theory (1965) simply states that, generally, the production costs of the arts will tend to rise more rapidly than those in other industries. While technological advances may significantly and continuously bring down production costs in other sectors of the economy, Baumol and Bowen’s (1965) landmark article published more than three decades ago, argued that productivity in some sectors is stable - the arts being one of them. A much quoted example is that of the performance of a particular piece of music which takes the same amount of time and number of people as it did a hundred years ago, while the time and labour required to produce, for example, a car or a watch, has decreased significantly in the last century (Brooks 1997:1)

The cost disease has resulted in both the apparent soaring of ticket prices for the performing arts and the relative decline of the wages of artists. Baumol (1995:2) argued that this is true of all the “handicraft” services, such as visits to the doctor and police services, which are labour rather than capital intensive: “As wages go up, there is no productivity offset to rising costs. So the costs and the prices of these things go up far, far faster than the average good or service in any industrialised country” (Baumol 1995:2). Baumol (1995:3) has estimated that the rise in the costs of the arts in the United Kingdom is about two percent higher per year than the rate of inflation.

Baumol (1987:288) himself pointed out, however, that the fact that the arts have cost problems does not automatically qualify them for public support. However, if tax payers decide that the arts are worth supporting, as a merit good, because of positive spillovers, for future generations etc., then the cost disease can be used as a strong supporting argument. In a published interview (1995:4) Baumol reasserted his original point that, without sufficient public support, the arts will decline in both quantity and quality. He also warned against “fiscal illusion” in arts financing (1987:289). The cost disease implies that, if government funding to the arts is increasing only slightly faster than the general price level, the quality and quantity of arts provided will still decline. “Mismanagement and waste are likely to be blamed and budgets may be trimmed, on those grounds, below the level that is called for by the public’s actual preferences” (1987:289).

Other writers (amongst others, Fullerton 1991; Cwi 1980; and Peacock 1969), however have expressed some doubt about the cost disease hypothesis, pointing out that, despite Baumol’s logical and neat theory, there has not been a significant decline in the quantity and quality of the arts provided: “While the basic logic of the cost disease is, in its own terms, unarguable, the causal chain linking certain characteristics of production of the live arts to the widening income gap for performing companies is by no means as inexorable as many have supposed” (Throsby 1994:15). Several reasons for this have been put forward.

The first and perhaps most compelling argument against the cost disease theory has to do with the new reproductive technologies. As far back as 1969, Peacock (1969: 326) pointed out that access to the arts was greatly expanded by the development of the “new media” such as “radio, television and gramophone”. This access has vastly increased with the “new media” of today: satellite television, the Internet, Web-casting, video recording and compact discs. Even if one argues that there is no real substitute for live performance, there is no doubt that access to arts products can be greatly increased through new technology. Fullerton (1991:69) argued that this applies to visual as well as performance arts: “Just as

we gain from new technologies that allow sharper musical reproductions ... we can gain from high quality reproductions of art, inexpensive prints, or the safe travel of exhibitions”.

Cowen and Grier (1996:5) agreed with this view, even arguing that the cost disease does not exist. Their argument is that the arts are not especially labour intensive when compared to other sectors of the economy, and that arts production can involve significant amounts of capital. They also suggested that the arts and industry are far more closely linked than Baumol's theory suggests; for example, the innovations of the 19<sup>th</sup> century French Impressionists relied heavily on the invention of the tin paint tube which allowed work outside in sunlight, as did their use of new, brighter colours, based on synthetic materials. If one adds to this the costs of the training and travelling of any artist, the production of art may turn out to have a similar capital-labour ratio to other industries: “The relevant definition of capital-intensity should account for the entire array of costs over time, and not merely the capital-labour ratio at any particular moment in time” (Cowen and Grier 1996:6).

The capital-intense arts argument becomes even stronger in the age of digital painting, electronic music composition and graphic design: both the training of the artist and the equipment required have significant capital costs. Cowen and Grier (1996:5) have also pointed out that it is in the wealthy states and cities that the arts have tended to flourish, which suggests a positive correlation between capital and the arts.

Baumol, Blackman and Wolff (1985) recognised the increases in productivity that the new technologies can provide to the arts, but see this as a mere postponement of the inevitable emergence of the cost disease, rather than a cure: “As the cost of recording falls with technological progress, the cost of human labour again forms an especially high percentage of industry cost, setting the cost disease in motion again” (Cowen and Grier 1996:6) . Cowen and Grier (1996:6) react strongly, pointing out that this argument would mean that all industries would suffer from the cost disease as technology reduces the cost of capital: “Either the industry is already labour-intensive, or an industry is capital-intensive and thus doomed to become labour-intensive eventually”. It does appear that, as

reproduction and recording become ever cheaper and easier, and technology generates new medium art forms, the Baumol argument, which was, after all, first postulated in 1965, has become somewhat outdated.

The new technologies also affect the argument that, as relative wages for artists decline (which they must do in the face of rising costs), would-be artists are more likely to choose other, better paid careers, thus possibly depleting the quality and quantity of the arts (Baumol and Bowen 1965:501). Cowen and Grier (1996:4) argued that this view is far too simplistic. Firstly, as economic growth increases wages generally, more people will be able to work in those areas, like the arts, in which monetary benefits can be exchanged for personal enjoyment: "Higher levels of wealth increase the willingness of individuals to make pecuniary sacrifices to become artists". Secondly, increasing wealth is able to support a growing number of "profitable artistic niches", further increasing non-pecuniary returns as artists are able to specialise in areas which they find particularly interesting.

Throsby (1994:16) draws attention to the demand-side effects of rising disposable income and increases in education levels and leisure time: "Although an inexorable rightward movement in the demand curve cannot be hailed as the unequivocal savior of the performing arts, at least the shifts in expenditures and tastes induced by secularly rising incomes and educational levels within the community are in the right direction".

Whether this applies very much to the South African case, where a large percentage of the population is unemployed and school education, particularly for the poor, is in turmoil, is doubtful.

Other commentators, accepting Baumol's argument, suggested ways of combating the disease. Brooks (1997:2) accepted that the cost disease exists and may be particularly virulent in the arts and other fixed productivity sectors. He argued that a demand side cure is what is necessary, which would increase revenue to match or exceed increased costs. Brooks approached the problem in two ways, either of which exclude the other, that is, the

“Veblenian” or the “Marshallian” way.

What Brooks (1997:2) called the “Veblenian” approach, adapted from Veblen’s *Theory of the Leisure Class* (1899), suggests that the arts should be sold as a high status, luxury good, consumed only by the upper crust: “Specifically, the [arts] industry should find some way to portray its product as an attractive, desirable luxury for those who might not currently see it as such”. This would not only increase consumers, but also increase the income elasticity of demand for the arts. This conspicuous consumption would be seen as a mark of membership to the upper classes, the social elite.

In a newly democratic society like South Africa, which is fighting to remove the huge income and opportunity inequalities perpetrated by Apartheid, this approach may be seen by many to be repellant. However, as Brooks (1997:3) pointed out, “The “Veblenian” approach is not exclusively or even primarily directed at upper income groups. Rather, it is directed at all who emulate those above them in pecuniary status ... this would include practically everyone”. In this way, more disposable income could be directed towards arts consumption. It would be even more effective if close substitutes (such as recording and reproductions) could be debased: “The missed notes and less than top-notch interpretation [of the live performance] provide a ‘human element’, while the performances being an induplicable event adds to the singularity of the experience” (Brooks 1997:4).

While few people will admit to the “snob value” of attending a live artistic performance, there can be little doubt that it exists. When a lower class character in a Terry Pratchett (1995:268) novel (a keen and merciless observer of upper middle class delusions) is given complimentary tickets to the opera and complains that “Seems daft to me havin’ to wear a special suit just to listen to music”, her exasperated (and hopefully upwardly mobile) son answers that, “It enhances the experience”.

In contrast, the “Marshallian” approach “strives for maximum popularity in a class-free way, the point being simply to achieve the greatest possible exposure” (Brooks 1997:4). Marshall (1938) argued that the successful popularising of the arts would have a self-multiplying effect: “The more good music a man hears, the stronger his taste for it is likely to become: as avarice and ambition are often insatiable or as the virtue of cleanliness and the vice of drunkenness alike grow on what they feed upon” (Brooks 1997:4). The basic idea is that, once exposed to the arts on a regular basis, people will become “hooked” on it and thus shift the demand curve to the right over time.

The “Marshallian” approach certainly seems to fit in better with the aims of the South African government, and most other democratic governments as Brooks (1997:5) pointed out. However, he also noted that many of the private firms involved in the performing arts seem to advertise themselves using the “Veblenian” approach. Brooks (1997) suggested that this is because, at a competitive firm level, the benefits from the “Marshallian approach are difficult, if not impossible, to appropriate.

Brooks (1997:6) concluded that, even when some measures are taken to solve the cost disease problem, the “Marshallian” approach of the public sector will require some public funding because of the non-appropriability of some of the benefits provided by the arts by private arts firms - another variation on the public and merit good arguments.

Other suggestions about how to overcome the cost disease have been made by Throsby (1994:15). For example, cutting costs by “reducing inputs of some factors, such as performing plays that have similar sets or smaller casts and by other quality changes, such as performance of fewer contemporary works for which copyright fees have to be paid”. While it may be argued by purists that these measures will detract from the quality of the arts, public support to a wider variety of small and relatively cheaper art forms may be beneficial in areas of newly emergent and experimental arts - the case in South Africa.

Throsby (1994:15) and Tiongson (1997:3) also mentioned the possibilities of “merchandising” activities as a substantial way to increase the income of arts organisations, giving as an example the “tremendous income from Broadway shirts, posters and other souvenirs”. Tiongson (1997:3) also argued fiercely that Baumol’s theory greatly underestimates the importance of the link between the performing arts and the manufacturing technologies and argues that much of the nonrival consumption qualities of the arts depend on the state of technology: “The capacity of technology to extend the consumption of a single performance millions of times needs to be reassessed”. Tiongson (1997:3) also cited the ongoing work of Brooks (1997:2) (mentioned earlier), suggesting that, while non-live arts performances are probably always inferior to live ones, broadcastings and recordings of, for example, an orchestral performance, may promote the orchestra and make attending its performances more prestigious (the “Veblian” approach).

Tiongson (1997), like Cowen and Grier (1996), feels that Baumol’s methodology in arguing the cost disease theory leaves something to be desired. Tiongson (1997:3) pointed out that Baumol’s use of concert attendance as a measure of the output of the performing arts may be quite inaccurate, suggesting that performing arts producers be seen as “multiproduct nonprofit enterprises” and that the usual cost - benefit accounting methods are not appropriate. While recognising the difficulty of measuring input and output, he pointed out that Baumol’s simple method may be missing important information since, “the same single performance may at once be performed live, broadcasted, and recorded, and fulfill an advertising function in the process. It is also the same performance that boosts the sale of merchandise, thus creating tremendous rates of return” (Tiongson 1997:4).

Tiongson (1997:3) also argued that Baumol’s comparison of the performing arts with the manufacturing sector is misleading and inappropriate because of the non-rival nature of the arts. Manufactured goods, like a car, may take an increasingly smaller amount of time and labour to produce, but only a few people can benefit from its use. An arts performance may

benefit many more people - either directly, through broadcasts (the magnitude of which depend heavily on the state of technology) or through tangible and intangible spillovers. Tiongson (1997:2) argued that these benefits go unmeasured and cast doubt on Baumol's conclusions.

Cowen and Grier (1996:7) argued that the statistical evidence for the cost disease is doubtful. Like Tiongson (1997:2) they pointed out that it is not accurate to measure a performance as a private good, "when in fact performance has become an (excludable) private good through electronic reproduction". They suggested that cost disease studies tended to focus on the segment of the performing arts that is already in decline, like opera, theatre and classical music symphonies, while choosing not to study those areas that have grown, like movies and jazz. This argument again focuses attention on the importance of one's definition of "the arts". Baumol's study tends to focus on "high" art forms, while Cowen and Grier (1996: 3) suggested that the definition should include "popular" art forms.

In addition, Cowen and Grier (1996:4) argued that Baumol's methodology does not take account of such things as increases in overall product quality and diversity: "if a symphonic season of all classical works is replaced by a smaller symphonic season and a larger number of rock and roll concerts, concert-goers have a greater ability to pick and choose the music they wish to hear". This greater diversity may represent an increase in welfare, even though productivity may remain constant.

In conclusion, there are a great variety and number of reasons why the arts may be considered worthy of public support. The nature of the arts as a "mixed" good - having some non-excludable and non-rival properties - is not, in itself, a good enough reason to warrant public support. It also needs to be shown that such spillovers are positive - the arts as a merit good - and can benefit society at present and in the future to the extent that, even in developing countries with a large indigent population, they deserve public finance. Baumol's cost disease theory is highly debated and seems to be losing ground in the age

of information technology. However, the basic idea may still be applicable to some art forms and a useful argument in motivating for public funds.

In order to motivate for public funds effectively, however, some evidence of the postulated social and economic benefits of the arts must be provided. The following chapter addresses the various ways in which the value of the arts to society can be measured.

## **Chapter Three**

### **ECONOMIC IMPACT STUDIES OF THE ARTS**

Two major ways of measuring the value of the arts to society have been developed: the first, and most commonly used format, is that of the economic impact study which attempts to provide a monetary estimate of the market value of the arts. The second is the contingent valuation or willingness to pay method, which attempts to measure the monetary value of the positive externalities or non-market benefits which the arts, as a partly public good, are assumed to provide. The relative benefits and methodological problems associated with these methods will be discussed in this and the following two chapters, beginning with economic impact studies. The methodologies used in four arts festival impact studies will be examined, considering possibly sources of bias and the usefulness of the results obtained.

#### **Economic impact studies and the arts**

Economic impact studies have been used to measure the value of a variety of public and mixed goods, such as arts festivals, sports facilities and educational institutions, and so to motivate for public funds. The attraction of this sort of study rests largely on the fact that it produces a quantifiable monetary measure of the value of a project as opposed to a less easily valued qualitative study. “Public officials, boosters and the media accept the ‘quantifiable’ which appears to represent reality in order to justify a desired project” (Johnson and Sack 1996:370).

Seaman (1987:724) pointed out that arts impact studies have been useful in “clarifying industry and sectoral interaction in local economies and improving predictions about income and output changes”. It has been argued (Crompton 1995; Johnson and Sack 1996; Seaman 1997) however, that economic impact studies, while appearing to provide useful monetary estimates, are in fact plagued by a number of methodological problems.

“Those who produce impact studies have been criticized primarily for confusing the unit of analysis; failing to calculate costs associated with the project, especially the opportunity costs of not using the land and other resources for another beneficial project; assuming that all spending is new and would not have occurred in the absence of the project; ignoring leakage from the local economy; and applying an inflated multiplier to estimate indirect spending” (Johnson and Sack 1996:374).

These problems, among others, and their application to examples of economic impact studies conducted on arts festivals, will be discussed in the following section.

The four arts festival impact studies under discussion will be: the Standard Bank National Arts Festival, Grahamstown (Antrobus *et al* 1997a and 1997b); the Edinburgh Festivals (1996); the Adelaide Festival (1990) and the Melbourne International Festival of the Arts (1996). Except in the case of the Standard Bank National Arts Festival (hereafter referred to as the Grahamstown festival) interviews with researchers were not conducted and it is thus likely that some methodological details were omitted from the reports provided. This is taken into account in the following critique.

### **3.1 Impartiality and assumptions**

Crompton (1995:15) begins his article on sources of misapplication in the economic impact studies of sports events, but also applicable to arts festivals, by pointing out that the rationale behind many economic impact studies is to justify the position that administrators and officials have already taken. “Too often, the motives of those commissioning an economic impact analysis appear to lead to adoption of procedures and underlying assumptions that bias the resultant analysis so that the numbers support their advocacy position” (Crompton 1995:15).

This argument is supported by Earls (1998:20) in a statement in his study of the impact of higher education institutions in New England: “Statistics (tagged by Disraeli as the worst

form of a lie) are too often employed to support predetermined conclusion, which, in turn, have a political objective. Cotton notes that most economic impact studies make the convenient assumptions that 'your economic impact is where you want it to be' rather than where the money is actually spent".

It is difficult to comment on any pressure that the research teams of the four festivals under consideration may have felt from organisers or sponsors without conducting face-to-face interviews, which, except in the case of the Grahamstown festival studies (Antrobus *et al* 1997a and 1997b) was not possible. In the case of these festival studies, therefore, it is only possible to comment on the not very remarkable fact that they were all conducted, or at least, sponsored by parties that may have been interested in obtaining results which were positive and large.

The 1995 Melbourne festival study, for instance, was jointly commissioned by the City of Melbourne and MIFA (Melbourne International Festival of the Arts). The 1990 - 1991 Edinburgh festivals study was a "Scottish tourist board publication" while the 1996 Edinburgh festival study was sponsored by numerous parties such as the City of Edinburgh Council, the Edinburgh Festivals Group and the Edinburgh Chamber of Commerce and Enterprise. The 1990 Adelaide festival study, however, appears to have been run by the Centre for South Australian Economics attached to the University of Adelaide, with help from the Australian Bureau of Statistics. The large number of volunteers thanked and the lack of any conspicuous sponsor's name, seems to indicate that this was largely an academic publication and perhaps thus less likely to be biased by expectations. Any upward methodological bias in these festivals will be discussed below.

A much closer examination of the Grahamstown festival studies (Antrobus *et al* 1997a and 1997b) was possible. Firstly, the official funders of the work were the Grahamstown Foundation (who administer and run festival), the Grahamstown City Council, the Village Green (the festival craft market) and Rhodes University. Note the conspicuous absence of

the Standard Bank, the largest sponsor of the festival which carries its name. A Standard Bank representative was, however, present at some of the meetings held (Antrobus 2000). The research team was lead by Professor G. Antrobus of the Rhodes University Department of Economics and consisted mainly of other members of the department. The largest and most important funder, and the people with whom the research team interacted most, was the Grahamstown Foundation.

The project was to be run over four years: the first two years, 1996 and 1997, being major studies and 1998 and 1999 being smaller, follow-up studies (Antrobus 2000). One of the stated undertakings by the funders was to, "Develop any ... activities ... that are of mutual benefit to both parties and the promotion of the arts festival, the citizens of Grahamstown and cultural economics in general in the spirit of a long-term partnership" (Agreement of Partnership 1996). Despite the fact that publication rights were joint, some members of the research team felt disquieted by this undertaking, suggesting that it sounded as if they were being "co-opted" into working too closely with the Foundation and sharing their hopes for the outcome, possibly leading to bias (Antrobus 2000).

At the presentation of the results, however, the funders, and particularly the Grahamstown Foundation, expressed "total disbelief" in the results, particularly regarding visitor numbers, which, they argued, were vast underestimates (Antrobus, 2000). The final 1996 report contained only the following comment, "The two methods [of visitor number estimates] produce results within the same order of magnitude, but since most Festival administrators regard both figures as underestimates the latter figure is used" (Antrobus *et al* 1997).

Antrobus (2000) felt that the disbelief in the 1996 and 1997 survey results occurred partly because of expectations which had been set up by a previous study, "Fest Quest" conducted in 1987 and 1989 on the Grahamstown festival (Davies 1987 and 1989). This study stated that there were between 10 000 and 14 000 festival visitors in 1987, catering for "a total of between 63 00 and 88 000 participant-days over its duration" (Davies

1987:26). By 1989, this had increased to between 12 500 and 16 500 visitors, resulting in between 77 500 and 102 300 participant days (Davies 1989:40). This indicated an approximate 25% increase in visitor numbers between 1987 and 1989.

In the Antrobus *et al* studies (1997a and 1997b), done a decade later, sponsors were perhaps hoping or expecting to see a greater increase in numbers than actually occurred. They suggested that the rising trend in visitor numbers was beginning to be checked by 1996 by the advent of other South African festivals, like the Klein Karoo and Knysna festivals. It should also be noted that the “Fest Quest” studies (Davies 1987 and 1989) did not clearly define “visitors” to the Festival and that it is thus very likely that local spectators (not included in the Antrobus *et al* studies) were included, thus inflating these initial attendance figures (further discussed later on).

The 1997 Grahamstown festival report (Antrobus *et al* 1997b:ii) made matters worse by recording a decline in visitor number from 25 000 in 1996 to 20 000 in 1997. In 1998, no follow-up study was requested by the Foundation, who ran their own questionnaire-based investigation. No explanation was offered to the research team and the “long-term partnership” was never established. This seems to be a very good example of the kind of pressure that Crompton (1995:15) mentions. The fact that, in this case, the research team was attached to a university, rather than to a profit motivated research organisation, may have helped somewhat to prevent bias despite the pressure of some of the sponsors.

### **3.2 The multiplier**

“The multiplier recognises that changes in the level of economic activity created by visitors to a sports facility or event bring changes in the level of economic activity in other sectors and, therefore, create a *multiple* effect throughout the economy” (Crompton 1995:18). An arts festival would have a similar effect and is measured in a comparable way. However, as Crompton (1995:18) pointed out, calculating the size of the multiplier accurately can be

a problem.

The size of the multiplier depends on the extent of the “leakages” from the economy being considered. “Leakages” represent the amount of money that is taken out of the host economy in the form of profits taken by non-local artists and traders who leave at the end of the festival and spend in other economies, money earned at the festival by locals, but spent outside the local economy and savings. “Only those dollars remaining within the host community after leakage has taken place constitute the net economic gain to that city” (Crompton 1995:18 - 20).

### **C Defining the area of study**

Crompton (1995:25) argued that a failure to accurately define the area of the impact study could lead to widely differing results. As would be expected, the larger the area under consideration, the less would be the leakages and thus the greater the multiplier and the reported economic impact. “Conventional wisdom posits that the larger is the defined area’s economic base, then the larger is likely to be the value added from the original expenditures and the smaller is the leakage that is likely to occur” (Crompton 1995:25). Crompton (1995:25) pointed out that, in impact studies done on sports facilities, there has been a tendency to expand the traditional market area of an economy in order to report a greater impact.

In general, the four arts impact studies under discussion seem to have taken great care over defining their areas of study. The Edinburgh (1996:5) study seems to have taken particular care to define the impact area carefully, providing impact assessments for several areas: Edinburgh, Lothian and Scotland and combinations thereof. The Adelaide study (1990:1) also defined the impact area precisely: “the metropolitan area of Adelaide” (defined as the area within an 80km radius of the city centre), with the regional impact area separately defined. The Melbourne (1996:20) study defined their areas of analysis as “the

City [of Melbourne] and Suburbs” and “greater Melbourne”. The Grahamstown study was somewhat less precise in their report. On being interviewed however, Professor Antrobus, the chief researcher, indicated that part of the research brief was to establish the number of visitors from outside the Albany district. This includes small farming villages like Salem, Alicedale and Riebeek East, but falls short of including any larger towns and thus enlarging the traditional Grahamstown area.

### **C Including local spectators**

Once the area of study has been defined, Crompton (1995:26) pointed out that only attenders outside this area should be included in the study, since their spending does not represent injections of new money, but merely the “recycling” of money already in the area. However, “The widespread admonition from economists to disregard local expenditures ... is frequently ignored because when expenditures by local residents are omitted, the impact numbers become unacceptably small to those commissioning the assessments” (Crompton 1995:26).

Again, this problem does not seem to have occurred in the four festivals under consideration. The Grahamstown festival studies (Antrobus *et al* 1996 and 1997) used two methods to calculate visitor numbers, the ticket sale method and the accommodation method. The former method clearly showed the proportion of tickets bought by Grahamstonians and excluded them when using these numbers to calculate impact. Grahamstonians made up approximately 21% of visitors in the 1997 survey (Antrobus *et al* 1997:25) - a considerable number which, if included, could introduce significant distortion. It is particularly interesting to note that, in both surveys (Antrobus *et al* 1997a:i and 1997b:ii), 40% of visitors were from the Eastern Cape (the region which includes Grahamstown). While a regional impact study may have produced higher numbers (as suggested above) it would have been offset, in this case, by the exclusion of a large number of visitors who would have fallen inside the region.

A good example of the importance of local spectators can be found in the Melbourne (1996:13) study, which showed that 219 000 of the 300 000 visitors were “Melburnians” (73% of attenders) of which 27 000 resided in the city of Melbourne. The expenditure of “Melburnians” was excluded from impact estimates regardless of their reason for visiting the city: “The direct expenditure of Melburnians who purchased tickets was estimated to be \$3.14 million, but it was assumed that this money would have been spent in Melbourne even if MIFA had not been held” (Melbourne 1995 festival study : 1996:15).

The Adelaide festival study (1990:13) excluded the spending of most locals, with an added degree of sophistication: “Adelaide residents remaining at home to attend the festival rather than holidaying elsewhere is equivalent, in economic impact terms, to the festival attracting visitors to Adelaide. Therefore, there were nearly as many Adelaide residents ‘holidaying’ at the festival as there were visitors”. This is an interesting point and may be valid, since, if the festival had not taken place, this spending may not have occurred. The study also made a point of mentioning that when the area under consideration was enlarged (for regional impact) spending by visitors in this region now represented “intra-state transfers, and therefore must be excluded from an assessment of the impact on the state economy as a whole” (Adelaide festival study, 1990:15).

The 1990 - 1991 Edinburgh festival study (1991:9) included the one million pounds spent by residents of the region “which is additional to normal economic activity”. Exactly how the parts of local expenditure “additional” to what would normally have been spent was calculated is not specified, however. It is assumed that this additional expenditure resulted from the choice of local residents to remain and spend at the festival rather than at some event or on some holiday outside the region.

Seaman (1987:732) pointed out that it is important to ask how local spending is being funded. “If it is from savings at a local bank, the secondary effect would be a reduction in the available pool of loanable funds for, perhaps, local investment or consumption projects far removed from the arts”. Before one can simply add the expenditure of locals, one must

first determine the degree to which the money would have been spent anyway on other local goods, and the opportunity cost of the alternative spending on the arts.

Crompton (1995:27) argued that spending by local residents who had stayed in town specifically to attend the festival could legitimately be regarded as new money entering the region. "However, these types of estimates are very tenuous and economists invariably recommend that all expenditure by local residents should be disregarded" (Crompton 1995:27).

### **C Including "time switchers" and "casuals"**

Crompton (1995:27) argued that the expenditure from visitors who would have come to the area regardless of the event being measured, should not be counted as contributing to the economic impact of the event. He defines "time switchers" as people who may have been planning to visit the area for some time (to visit family and friends or to experience some other feature of the area, like museums and game parks), but have switched the time of their visit to co-inside with the festival or event. "Casuals" are visitors who may already have been in the area for whatever reason, and decide to attend the festival rather than do something else. In both cases, these visitors would have spent money in the area regardless of whether there was a festival (or other event) or not (Crompton 1995:27).

Other than asking foreigners whether the festival was their main reason for coming to South Africa, the Grahamstown festival studies (Antrobus *et al* 1997a and 1997b) did not check for the presence of "time switchers" or "casuals". In an interview Antrobus (2000) cited anecdotal evidence as to why the research team did not regard "time switchers" or "casuals" as significant. Firstly, it was argued that, unlike larger cities, Grahamstown does not have many other attractions which may account for the presence of a significant number of tourists at other times or for other reasons. Secondly, when conferences or council meetings were organised specifically to co-inside with the festival, few of the attenders stayed on for the festival and, after some complaints were received, the practice was

discontinued.

The Melbourne festival study (1996:7) did test for the presence of “time switchers” and “casuals”. The results showed that a significant number of incidental tourists attended: “Of the 81 000 (27% of total) non-Melburnian attendees, 24% gave the Melbourne International Festival as the only reason or main reason for visiting Melbourne” (1996:7). In calculating the economic impact of the festival, these “time switchers” and “casuals” were first included and then excluded (1996:16 - 17). As Crompton (1995:27) predicted, a considerable difference in total impact was noted: the impact of non-Melburnians who purchased a festival ticket was \$20.11 million, while the impact of non-Melburnians whose main or only reason for visiting Melbourne was to attend the festival was only \$14.2 million.

The Adelaide festival study (1990:7) also tested for the main reasons that visitors to the festival were in Adelaide. It was found that only 51.4% of visitors were there primarily to attend festival related activities, but that a further 900 people (8.6% of visitors) had extended their stay in Adelaide primarily to attend the festival. Expenditure during this extended part of the trip was included in the economic impact. “The remaining visitors attending the festival were in Adelaide for reasons unrelated to the festival, and therefore, their expenditure was not included in the economic impact” (1990:11).

The Edinburgh festivals studies examined (1991 and 1996) showed no evidence of having checked for “time switchers” or “casuals”. However, the nature of these festivals, a number of which run concurrently, seems to have made other problems, like the attendance of some visitors at more than one festival, more important (1996:8).

### **C Determining the size of the multiplier**

Once visitor numbers and expenditure have been determined and the direct impact worked out, a multiplier size must be determined in order to calculate indirect impact. Regarding

the multiplier, Crompton (1995:29) stated that, "It is not desirable to take the results of an economic impact assessment from similar studies in other communities and apply it, because the combinations of business interrelationships in communities are structured differently so linkages and leakages will be different". Since it is time consuming and expensive, however, the tendency in the festival studies examined seems to be exactly that, i.e. to use multipliers which have been derived for the region, or for other events, or simply to use an estimate (see table 3.1). In most cases, no detailed discussion of how the multiplier was calculated or whether it is appropriate was included in the report.

The Grahamstown festival multiplier of 0.18 (Antrobus *et al* 1997a and 1997b) seems to have been based on an educated guesstimate and is not supported in the report by any additional evidence. "Given that Grahamstown has a small manufacturing base, importing a large percentage of locally consumed goods and services, and exporting little to other regions, the indirect expenditure generated is relatively modest" (1997a:22)

Of a total visitor expenditure of R 25 900 000, only R 4 201 232 in indirect expenditure is claimed (1996:23). However, it should be noted that, before the multiplier was applied, the earnings of fringe and main performers was subtracted to give a value for direct expenditure retained in Grahamstown - R 23 340 177 million (Antrobus *et al* 1997a:23). Unfortunately the researcher in charge of this area was not available for questioning.

The 1990 - 1991 Edinburgh festivals study made no mention of how the multiplier of 0.22 was calculated - only stating that the analysis was carried out by Leisure Research Services (Edinburgh festivals study, 1991:8) and that direct expenditure of 43.9 million pounds generated an additional 9.2 million pounds in "local income" (Edinburgh festivals study, 1991:10). More information was possibly contained in a fuller version of the report. The 1996 Edinburgh festivals study seems to have used more reliable multiplier values taken from the 1992 Scottish Tourism multiplier study (Edinburgh festivals study, 1996:6). However, this study did not provide a multiplier for the Lothians as a whole (only for Scotland and Edinburgh separately). Following an independent study on the Hogmanay festival, the Lothians multiplier was simply assumed to be 10% higher than that of Edinburgh (1996:6), presumably because it covered a larger area and thus decreased the size of the leakages.

**\*Table 3.1 : Determining the Multiplier Value for Four Arts Festivals**

| <b>Festival</b>                      | <b>Year</b>  | <b>Multiplier Determination</b>  | <b>Direct Impact</b>                      | <b>Indirect Impact</b>                   | <b>Multiplier Value</b> |
|--------------------------------------|--------------|--|---|--|-------------------------|
| Standard Bank National Arts Festival | 1996         | “using a factor of 0,6 for leakages” (1997a:15)  | R25.9 million                             | R4million                                | 0.18                    |
|                                      | 1997         | as above   | R23.5 million                             | not calculated                           | not calculated          |
| Edinburgh Festivals                  | 1990<br>1991 | Carried out by Leisure Research Services<br>No discussion of how the “multiplier” is calculated.   | 43.9m Pounds (Edinburgh and the Lothians) | 9.2m Pounds (Edinburgh and the Lothians) | 0.22                    |
|                                      | 1996         | Scottish Tourism multiplier study (1996:6)   | 122m Pounds (Edinburgh)                   | 30m Pounds                               | 0.24                    |
| Adelaide Festival                    | 1990         | input-output multipliers generated by Centre for South Australian Studies (1998)   | \$8.8 million (S. Australia)              | \$10 million (S. Australia)              | 1.15                    |
| Melbourne Festival                   | 1995         | “The derived multipliers for the 1992 Adelaide Formula One Grand Prix have been used to undertake a formal economic evaluation of the 1995 MIFA” (1996:25) | \$18.37 million                           | \$20.11 million                          | 1.1                     |

\*Source: Except for the Standard Bank National Arts Festival, no actual multiplier values were given in any of the festival reports. The above values are thus obtained by inference (comparing direct and indirect income) and may thus be subject to error or over-simplification.

The Melbourne festival multiplier of 1.1 was derived from the 1992 Adelaide Formula One Grand Prix study undertaken by Price Waterhouse who used value added multipliers from the input-output tables for South Australia which had been developed by the Centre for Economic Research (Melbourne festival study 1996:25). These multipliers, while not directly applicable, could at least trace their lineage back to a reputable economic research institution. One of the recommendations of this report was that “a suite of appropriate multipliers be developed” (Melbourne festival study, 1996:26).

The multiplier of 1.15 used in the Adelaide festival study (1990:21) seems to come from a credible source, although no information as to how applicable it was considered to be to Adelaide was provided. The multipliers for this study were taken from a 1998 report to the South Australia Government by the Centre for South Australian Economic Studies.

In order to further compare the multiplier values for the four festivals discussed it would be necessary to consider, not only visitor numbers and make up and the size of the impact area, but also the level of import into and exports out of the area, which determines the size of the leakages. However, it does appear that the larger festivals taking place in major cities, as would be expected, have larger multipliers. In light of the Adelaide and Melbourne multipliers, however, the Edinburgh figure seems rather small, considering the size of the area. Whether this was as a result of error or some individual feature of the Edinburgh economy was not determinable from the information available.

### **C The employment multiplier**

The employment multiplier shows how many full-time jobs are created as a result of the event or festival. However, as Crompton (1995:22) pointed out, the employment multiplier is most unreliable because it assumes that, “all existing employees are fully utilized so an increase in external visitor spending will inevitably lead to an increase in the level of employment”. Crompton (1995:22) argued that, especially for a once-off event, like a festival, it is unlikely that many new jobs would be created. Rather, existing employees

would work overtime or “casual” short term help would be hired for the period of the event.

The large number of unemployed people in South Africa makes the “job creation” potential of any event very important. However, the Grahamstown festival studies (Antrobus *et al* 1997a and 1997b) did not fall into the trap outlined by Crompton (1995:22) above. The 1996 study did not claim that any permanent jobs were created by the festival other than those already in existence regarding year-round Festival organisation and planning which are funded directly by the Festival title sponsors, Standard Bank. The study also reported the varying wage rates. For example, an additional 1 160 jobs for street traders were created during the festival, but only paying R385 each. The study also calculated that 1 200 workers earned overtime payment (1997a:ii). An interesting point, which Crompton (1995) does not seem to take into account, is that not all the jobs created will necessarily be filled by people from the impact area. For example the 1996 Grahamstown festival study found that, of the 387 temporary jobs created by visiting traders, only 36% were taken by Grahamstonians (1997a:15).

The 1995 Melbourne festival study (1996:24) did not give a figure for employment created by the festival, possibly because the study points out that a short term event like the festival does not create much “long term sustainable employment”. “The major increase in employment for the duration of these events is through the use of part time jobs, or utilising existing employees through overtime and extra shifts”.

The 1990 - 1991 Edinburgh festivals study (1991:9) however, seemed to indulge in the kind of misrepresentation which Crompton (1995:22) described: “In Edinburgh and the Lothians, 44 million pounds of direct expenditure means 9 million pounds local income and 1,300 full-time equivalent jobs”. The report contained no further discussion of the wage rate or temporary nature of the jobs created.

### 3.3 Including opportunity costs and non-market costs and benefits

Crompton (1995:30) argued that economic impact analysis should take into account the opportunity costs of public or private spending on the event as well as any negative impact that the event may have. Positive aspects which were not recorded in any market transaction should also be included. These aspects will now be examined with regard to the festival studies under consideration.

Firstly, Crompton (1995:32) pointed out that local government spending on the event could not be counted as an injection of new funds into the area because the money had come from local residents in the form of taxes. He also pointed out that public funding from outside the region could only be counted as “new money” (and thus included in the economic impact) if it would not otherwise have been spent in the impact area.

In discussing the economic impact of sports facilities, Johnson and Sack (1986:376) agreed that one needs to ask, “Would a similar or larger amount of state support now be available for a project with more direct economic impact if the tennis complex had not been built?”. While they conceded that this question may be unanswerable, respondents in their study agreed that some of the city’s “political capital” had been spent in lobbying for state funds for the project, which, the authors argued, should be acknowledged as a cost (Johnson and Sack 1996:376).

The Grahamstown festival studies (Antrobus *et al* 1997a and 1997b) showed no evidence of having considered this area. It should be noted however, that local and national governments provided very little in the way of monetary support for the festival - the national government funding only about six Fringe productions on average per festival. When interviewed Antrobus (2000) expressed the view that spending by Standard Bank (the private title sponsor) in the Grahamstown area would be most unlikely were it not for the festival. Contributions by local government in the form of increased police presence, refuse removal etc were not subtracted from the total.

Especially in an area with such a large indigent population, the opportunity cost of spending on the festival should be carefully examined. The small amount of local sponsorship and spending by local government suggests that the money spent on housing or other poverty relief programs would not confer the economic benefits on Grahamstown East (the township) that earnings from the festival do. However, because of a lack of such a comparison, arguments that the festival costs the town money and confers few or no benefits on the poorer population (who do not attend shows and so do not gain from subsidised tickets) abound. The Johnson and Sack (1996:378) study on the provision of a new tennis stadium in New Haven, found that, rather than uniting the town, the project, “exacerbated deep-seated political tensions among social classes”, which they argued should be counted as a cost to the area.

Likewise, the Melbourne festival study (1996:5) recorded the sources of sponsorship for the festival, including \$ 0.50 million contributed by the City of Melbourne, but showed no evidence of having subtracted it from the total impact.

The 1996 Edinburgh and 1990 Adelaide festival studies did make provision for funding provided from inside the region. “Only those funds received from outside the state can be validly included in an economic impact study. Hence state (and local) government funding represents a transfer and is excluded from this study” (Adelaide 1990:14). Only the 1996 Edinburgh study however, attempted to determine how much of the funding from outside the region would have been spent in the area if the festivals had not taken place.

The 1996 Edinburgh festivals study was careful to note that the part of sponsorship spending which would have occurred in the area anyway was not added to the final impact. “Like visitors’ expenditure, net direct impacts have been measured on the basis of where the money would have been spent if not on the festivals. It has been agreed that expenditure by public sector agencies with an Edinburgh remit would have been spent entirely in Edinburgh, and that their net impacts are therefore nil” (1996:9). In order to establish to what extent NGO and government funding would have taken place in the region, had they

not supported the festivals, the study conducted a telephone survey of these organisations (1996:9). These estimates could also have been used to establish the opportunity cost of what the money could have been spent on other than the festival. This highly speculative aspect was not, however, discussed in the report.

Other than the Grahamstown festival studies (Antrobus *et al* 1997a and 1997b) none of the studies considered any of the negative effects of the festivals. Crompton (1995:33) noted that, "Too often, only positive economic benefits associated with visitors are reported, and costs or negative impacts inflicted on a community are not considered".

Johnson and Sack (1996:376) agreed that one of the most important failings of economic impact studies is that, where "intangibles" are identified, costs are ignored and only the positive externalities reported on.

The 1996 Grahamstown festival study considered a wide variety of costs, or negative impacts, such as the pressure on infrastructure, traffic flow problems, overcrowding of the town centre, increased crime, increased competition to local stores and a feeling of antagonism by local store holders to visiting traders. The study also mentioned inconvenience to local residents (mainly caused by the crowds and lack of sufficient parking), noise and litter (1997:22).

Seaman (1987:732) argued strongly that, to the extent to which visiting traders provide competition to local stores (areas such as food and clothing) the receipts from these activities should be accepted as a substitution for the earnings of those in the local community and thus subtracted from the "first round spending" in economic impact calculations.

When interviewed Antrobus (2000) also commented on the possible opportunity costs of "festival refugees" - those local residents who deliberately leave town when the festival is in progress to avoid the inconvenience. It was decided however, that since many of these residents then let their houses at a profit to festival visitors, the cost imposed by the loss to the town of the spending of this group during festival was probably not significant. Although

a variety of such costs were recorded, no attempt was made to give them a monetary value and then to subtract them from the final impact.

Except for the Edinburgh festivals studies (1991 and 1996), at least a brief mention of the non-market or intangible benefits provided by the festival was made in each report. In most cases, the benefits mentioned were directly related to future economic development. The 1996 Grahamstown festival study (Antrobus *et al* 1997a:22) made the point that, "Ascribing a numerical value to the annual economic impact of the festival on Grahamstown inevitably underestimates the true worth of the festival to the city". Benefits not included in an economic impact analysis included the generated media interest which "does much to place Grahamstown on the map" (1997:22), the attraction of out-of-season tourists and the promotion of local schools and Rhodes University. Likewise, the 1990 - 1991 Edinburgh festivals study (1991:10) pointed out that "other economic benefits which are harder to measure" include the possibility that the festival may attract tourists and industries to the region.

Seaman (1987:740) however, argued that the optimistic idea that the presence of the arts in an area may induce workers to accept a lower wage in that region, and that firms may thus be willing to relocate to that area so as to make use of workers who will accept a lower real wage *and* who may be more educated, has not become a reality. In fact, "regional growth and decline have been found, contrary to popular opinion, to be almost totally unrelated to such inter-regional firm mobility" (Seaman 1987:740). This view is supported by Swindell and Rosentraub's (1998:2) research on the impact of sports facilities. They argued that, while such facilities may attract many visitors, "there is no evidence that these facilities have significantly changed employment or residential location patterns".

In direct contrast to this view, Dziembowska-Kowalska and Funck (1999:2) in their study on the role played by cultural initiatives in the development of the economic region of Karlsruhe, Germany, argued that it has been shown that the arts have considerable

potential to influence the economic development of an area. They saw culture as another economic sector, providing inputs, either sold in the market or as public goods, for other sectors. They argued that, as traditional local factors, such as transport and material costs, begin to lose their dominant influence on the locational decision making of firms, “soft” and “quasi-soft” factors, like “the presence of a creative and stimulating socioeconomic environment”, become more important.

“Recognising the importance of the cultural sector for the economic performance and development of urban regions and the understanding of its sources, let us come to the conclusion that the arts should not be seen by the urban authorities only as a cost factor for achieving “higher” non-economic goals in society, but should be seen in the context of the economic prosperity of the region as a whole” (Dziembowska-Kowalska and Funck 1999:2).

The intangible benefits which the Melbourne festival study (1996:5) reported as not being included in an economic impact study were, “the benefits of raising Melbourne’s national and international profile, cultural development and long term promotional benefits for the city”. This is a much broader idea of what the festival could offer in terms of externalities and suggested that this might be a significant omission from the study.

### **3.4 Other problems with economic impact studies of the arts**

Other than the methodological problems discussed above, Seaman (1987:738) argued that the value of even the most accurate arts impact studies is debatable. “Even if the arts could be shown to be the major export industry in a city, a true candidate for ‘basic’ industry status, there would not necessarily be a strong reason for local public officials to view that industry as a critical lever with which to influence growth” (Seaman 1987:738).

Seaman (1987:744) suggested that it is futile to argue that the arts deserve public funding because they have pecuniary externalities (as measured by the multiplier effect). Since almost every industry can claim these effects, from shopping malls to schools, the fact that

the arts provide pecuniary externalities of even quite a large magnitude, does not qualify them for public support. "Arts proponents should ask themselves why the case for public support for education is rarely tied to this array of pecuniary externalities" (Seaman 1987:744). This view is supported by Cwi (1980:56) who pointed out that if economic impact was the only or main reason for public subsidy to the arts, "it could lead to funding levels insufficient to support an institution's artistic aspirations".

Seaman (1987:744) argued that it is the "real" externalities which should be taken into account, that is, those externalities which have the potential to create market failure, "where prices do not reflect the marginal benefits of goods consumed or the marginal costs of goods produced".

Johnson and Sack (1996:379) agreed that, because economic impact studies commonly produce "flawed" numbers, "due to the inherent difficulty of the task, faulty methodology and unrealistic assumptions" and do not include "intangibles", they are of limited value. "Any study must calculate a facility's contribution to the success of the overall plan, not merely the facility's apparent independent impact" (Johnson and Sack 1996:380). They further argued that, even if the event or facility failed to cover its costs, it may still be "worth it" if it fulfilled a larger developmental role in the community as measured by "intangible" externalities (Johnson and Sack 1996:380).

A further argument against the importance of the arts as providing purely economic benefits comes from Hendon and Starvaggi (1992:157) who argued that the non-profit arts are not likely to become "economic growth engines" because of the nature of demand and supply side barriers. "There are many barriers to using the arts as growth mechanisms. It is the structure of the profitable arts industries and the nature of local non-profit institutions that may create some of the greatest barriers to arts access and participation and consequent economic growth" (Hendon and Starvaggi 1992:173).

Seaman (1987:746) concluded that "Arts proponents, therefore, are involved in a dangerous game when they resort to impact studies. In a sense, they are choosing to play

one of their weakest cards, while holding back their aces". In other words, it is the positive spillovers provided by the arts to society, the primary cause of market failure, that should be used to motivate for public support to the arts and not the more frequently cited economic benefits. In the following chapter, the measurement of the "real" externalities provided by the arts using willingness to pay studies is discussed with illustrative case studies.

## Chapter Four

### MEASURING POSITIVE EXTERNALITIES USING WILLINGNESS TO PAY STUDIES

While it is easy to argue that it is the value of the positive externalities provided by the arts that should be used to justify public support, measuring the magnitude of these spillovers poses many problems. The acceptance of the contingent valuation (CV) or willingness to pay (WTP) methodology has been fairly recent and offers a way of quantifying the value of the public good characteristics of the arts. Using illustrative case studies, this chapter will consider possible sources of bias associated with this methodology and ways to control for them. The final section suggests the possibility of the combination of economic impact and willingness to pay studies in providing an accurate idea of the value of the arts to society and, thus, the determination of the most socially efficient level of public funding.

#### 4.1 The format and value of externality studies

There are a number of ways in which the value of externalities provided by public goods may be measured. The travel cost method measures the access costs of users to a specific site or event, i.e. what consumers are willing to pay in travel costs in order to attend, for example, an arts festival (Mundy and McLean 1998:292). The hedonic price method assumes that households “migrate into or out of geographic regions based on tradeoffs between quality of life in those regions and differences in housing prices” (Ready *et al* 1997:439) i.e. what consumers are willing to pay in increased housing prices (or decreased wages) in order to live in an area that had certain amenities, e.g. an arts festival. The contingent valuation (CV) method asks respondents directly what they would be willing to pay, or willing to accept (WTA), in a hypothetical market situation to conserve or expand some public good (Ready *et al* 1997:439).

The National Oceanic and Atmospheric Administration review on the use of CV studies

published in the Federal Register in 1994, states that,

“This [CV] approach allows the valuation of a wider variety of nonmarket goods and services than is possible with any of the aforementioned techniques (site-specific valuation methods such as travel cost, factor income approach, or hedonic pricing models) and is the only method currently available for the express purpose of estimating passive use values” (Mundy and McLean 1998:294).

Besides this recommendation, it has been found (Ready *et al* 1997:453) that where the use of both the CV and hedonic pricing methods were used to measure the passive use value (also called public good externalities) to Kentucky residents of horse farm land, the methods generated estimates that were within 20% of each other. For the purposes of this study, therefore, the contingent valuation method for estimating the externality value of public goods will be used and discussed.

Before continuing however, it may be necessary to mention briefly the reasons for using the WTP form of contingent valuation studies as opposed to the willingness to accept (WTA) form. Theory suggests that the minimum amount of compensation that a respondent would be WTA to give something up should be similar to the maximum amount they would be WTP to obtain the same thing (Boyce and Brown 1992:1367). In this case, it should make little difference which form the researcher chooses to use. However, as several authors have noted (Boyce and Brown 1992; Morrison 1997; Hanemann 1991; Shogren and Shin 1994) this has not proved to be the case - WTA usually exceeding WTP by a factor of anything from two to ten.

A number of theories explaining the difference between WTP and WTA have been suggested. Morrison (1997) postulated that the difference may be because people place a higher value on goods after they have acquired them, that is, losses are valued more highly than gains (a form of loss aversion). Questions asking what the respondent would be WTA for the loss of a good (or part thereof) would thus naturally receive higher bids than questions asking what the respondent would be WTP to gain the same amount of the good. This is known as the “endowment effect”.

Other possibilities are income and substitution effects which may be operating at the same time, "One's WTA compensation for a decrease in the level of a unique good, either private or public, need not equal one's WTP for a good where one is constrained by income" (Shogren and Shin 1994:226). Morrison (1997:237), however, pointed out that the possibility that both the income and substitution effects are present, and their possible joint effect on differences between the two contingent valuation methods, has not yet been adequately addressed.

Hanemann (1991: 634) argued that, even when holding the income effect constant, the fewer substitutes the good has, the wider will be the difference between WTP and WTA, "In the limit, WTP could equal the individual's entire (finite) income, while WTA could be infinite". In the case of the arts, other things may produce similar externalities, for example, sports may produce a feeling of national pride, but there are certainly no close substitutes. This suggests that differences between WTP and WTA studies for this public good would be large.

Boyce and Brown (1992:13667) suggested that "intrinsic" values may be important in valuing a complex good such as the environment (or the arts). "If an environmental commodity has intrinsic value, we argue that kinked or inflected indifference curves between the commodity and other money expenditures result when intrinsic values are included in WTA measures of value but (at least partially) excluded from WTP measures of value" (Boyce and Brown 1992:1367). In other words, the moral responsibility of preserving a species or an art form, may be captured in a WTA measure, thus inflating it beyond WTP.

In conclusion, both Cummings (Shogren and Shin 1994:256) and Boyce and Brown (1992:1371) recommended that only the WTP method of contingent valuation studies be used when attempting to value a nonmarket good with possible "moral" values because of, among other things, the likelihood of eliciting infinite WTA even where WTP is small or zero.

“It is difficult to see how such infinite individual WTA values can be incorporated into benefit-cost analysis...” (Boyce and Brown 1992:1371).

Also, this research hopes to compare the results gained in South Africa with those of Throsby and Withers' (1996) Australian study and Morrison and West's (1996) Canadian study. A fairly extensive search of the literature did not reveal any WTA study which had been conducted in any part of the field of arts and culture in South Africa. While this is not in itself justification for using the WTP method, its use does allow a comparison of results with other studies. The remainder of this work will deal exclusively with WTP studies.

There are two major ways in which willingness to pay studies, which use the contingent valuation method, can be important in providing evidence for (or against) the public support of the arts. The results of such surveys depend on the hypothetical market devised and the critical assumption that a survey which controls properly for all forms of bias can elicit truthful responses about demand preferences (Callan and Thomas 1996:56). The first way in which WTP studies can be useful is obvious: to assist government in allocating socially efficient amounts of funding. The second way in which they can provide helpful information is in revealing the existence or absence of the positive externalities on which so much of the argument for the public support of the arts rests.

In support of the first point, Bohm (1979:143) argued that, if a reliable method of determining the demand of the individual for public goods could be found, a process of “direct democracy” could be developed, “i.e. have consumers telling their government exactly what their views are about specific public goods instead of letting output decisions rely on the blunt interpretations of these views by politicians”. This more accurate means of decision making would necessarily bring society closer to Samuelson's (1954) optimal ethical welfare point (further discussed below). Taxes levied in this way would then be regarded as payment for a specific service rather than as a loss of private purchasing power. In the case of the arts, this would have the added benefit of allowing society to make choices about the importance of public finance for the arts as well as, possibly, deciding

what sort of art ought to be funded.

Duncombe (1996:5) agreed that, although willingness to pay (WTP) studies may have their problems, “survey methods of this type probably represent the best alternative to political bargaining that public administrators have for guiding resource decisions in the budget process”.

The second function of WTP studies (and the focus of this research) can be the further investigation of the postulated positive externalities discussed in chapter two. This can be done in two ways. Firstly, questions about the benefits provided by the arts can be asked. For example, in a survey on the financing of the performing arts in Australia (Throsby and Withers 1982:16) respondents were asked to “strongly agree, agree, disagree or strongly disagree” with the following sort of statements: (a “don’t know” option was also provided)

“The success of Australian painters, singers, actors etc., gives people a sense of pride in Australian achievement.

The arts help us to understand our own country better.

The arts have an important role in making us look at our way of life.”

Negative attitudes were also solicited by statements such as:

“The arts only benefit those people who attend or participate.

The arts often harm our society by being too critical of our way of life” (Throsby and Withers 1982:16).

Throsby and Withers (1982:17) found that the overwhelming majority of respondents answered “agree” or “strongly agree” to the positive questions (always over 80%), while only 15 - 35% answered thus to the negative questions.

While this method revealed the extent and type of externalities, it did not, on its own, provide any evidence as to their perceived value in monetary terms and may just have been reflecting “good intentions”. However, both the Throsby and Withers (1985:14) and, to a larger extent, the Morrison and West (1986:68) study (a similar survey on the public finance of the performing arts in Canada) found that a minority of respondents actually attended performing arts events regularly, particularly “high culture” events like dance or opera.

“This finding immediately returns us to the question of why a majority reports that it is in favor

of having itself taxed to finance facilities it does not use" (Morrison and West 1996:68).

Thus, the second way in which WTP studies can reveal, and even to some extent quantify, the value of externalities is to establish whether there is a gap between the WTP for the arts and the actual use of or attendance at arts performances. A positive WTP for a majority while attendance is claimed by a minority would seem to indicate that respondents are aware that the arts provide positive spill-overs and, moreover, are willing to pay for them.

The Morrison and West (1986:68) survey posed the following question to the relevant portion of their sample:

"Since you personally do not go to live performances of drama, dance, classical music or opera, what benefits, if any, do you feel you get from these things in return for paying taxes towards them?"

Responses (not suggested by the interviewer) covered many of those proposed by the theory, such as national pride, welfare to future generations and educational importance. However, 40% of respondents claimed that they gained no benefit. It should be noted that, unlike the Throsby and Withers (1985:18) study which found that public arts funding in Australia was significantly below what the public was willing to support, the Morrison and West (1986:69) study found that the majority of Canadians were not in support of an increase in arts funding, suggesting that, "all external benefits have already been internalised or, in other words, that no marginally relevant externalities remain".

Morrison and West (1986:61) however, suggest that, because of various forms of bias, most notably, the way in which information is provided, some surveys overstated WTP. While obvious allowances must be made for different countries, there are several forms of bias which may severely skew the results of a WTP study. The following section contains a discussion of possible sources of misrepresentation in demand revelation.

## **4.2 Sources of misrepresentation in demand revelation**

Throsby and Withers (1986:611) identified four sources of possible bias in WTP studies which may cause individuals to misrepresent their WTP: the liability or free-rider problem; the mixed good bias (attenders vs non-attenders); the information bias (informed vs non-informed responses) and the social choice bias (mean vs median numbers). The following section will discuss each of these.

### **C The liability problem and the Bohm test**

The liability or free-rider problem in estimating the value to individuals of public or mixed goods was first formally acknowledged by Samuelson (1954:389). He pointed out that, so long as all goods were private and operated in a perfectly competitive market, there was no incentive for individuals to misrepresent their demand since they all aspired to their highest indifference curve within the constraints of a budget. However, for a public good, voting or signalling other than that of the market must be used : “Now it is in the selfish interest of each person to give false signals, to pretend to have less interest in a given collective consumption activity than they really do” (Samuelson 1954:388). This is the central problem with a social economy or a socially shared public good. By pretending that it is less valuable than it in fact is, any individual may hope to escape personal liability for their consumption of the good.

Samuelson (1954:389) added, however, that the failure of the market did not mean that there was no optimal solution to the provision of public goods:

“Given sufficient knowledge, the optimal decisions can always be found by scanning over all the attainable states of the world and selecting the one which according to the postulated ethical welfare function is best. The solution exists; the problem is how to find it”.

Bohm (1972:124) argued that the theory of the “free rider” motive to conceal demand preferences had not been empirically tested and that other, perhaps stronger, motives

could result in honest demand revelation. Bohm (1972:119) thus conducted a series of WTP studies in which he compared a number of approaches to the liability problem. The test was conducted on a number of small groups of paid volunteers by the Research Department of the Swedish Radio-TV broadcasting company in 1969. The public good under discussion was a new TV comedy series. Each person was paid immediately on arrival (in order to provide them with money to spend in revealing their preferences) and asked to state the highest "admission fee" that they would pay to see the half-hour programme. If the stated "cost" of showing the programme was smaller or equal to the amount that the group was prepared to pay, the programme would be shown and each person would have to pay something.

The first group were told that, should the programme be shown, they would have to pay the amount they had stated; the second group would have to pay some percentage of the amount they stated; group three, a variable amount; group four, a flat rate; and group five, nothing. The results revealed that there was no significant difference of the stated WTP between any of the groups. This is particularly surprising between groups one and five, since conventional free-rider theory would postulate that group one people would have an incentive to understate their WTP, while group five would have an incentive to overstate. A later non-hypothetical study for an actual public good (Bohm 1984:147) verified these results.

Bohm (1972:125) did not, however, rule out the possibility that differences in stated WTP existed when different liability methods were used, but suggested that the results of the experiment showed that these differences were not very large. Rather than using the conventional "cheating strategies" which economic theory postulates, Bohm (1972:125) suggested that group one revealed a true WTP because, "people tend to regard their impact on total demand, however small it may be, as important" and that group five did likewise because "they feel morally obliged to do so".

Morrison and West (1986:63) agreed that other motives may counteract the free rider problem, but argue that it was the very unimportance of individual answers that would ensure honesty; “The fact that respondents may perceive their views to have little or no weight is likely to induce true preferences and to reduce strategic bias rather than encourage false or inaccurate responses”. They also argued that those who do not want to be part of the study could more easily refuse the interview than provide untrue answers.

What Bohm (1979:147) suggested was that economic motives to over- or understate demand and WTP may (or may not) be overcome by other, perhaps moral, motives, and that these motives may change depending on factors such as the issue under discussion and questionnaire design. He also pointed out that even if “a mechanism that convinces economists (as experts) that incentives for misrepresentation are absent in the sense that it does not pay to be dishonest, or that it pays to be honest [could be found], it may still fail to convince (enough) politicians”. Bohm (1979:148) thus argued that any WTP study must conform to two basic criteria: “intelligibility” and “acceptability”.

The “intelligibility” criterion simply states that non-economists, notably politicians who must agree to the use of the method, must be able to easily understand how the demand revelation method works for it to have even a chance of being accepted. The “acceptability” or “control” criterion states that the method must have some kind of check. Given that the motives for over- or understating WTP may be different in each situation, there needs to be some way of verifying the results of the study (Bohm 1979:148). Bohm’s “interval method” seems to satisfy both requirements.

Bohm (1979:150) argued that if two similar sample groups were given the same questionnaire, but differing liabilities and that the directions of the likely misrepresentation of demand for the two groups were known, then they could act as controls for each other. This effect could be further enhanced because there may be

unknown reasons for the participants to accurately reveal their preferences, as suggested above. For example, two population samples were asked to reveal their preferences for a particular public good project. If the project was to be carried out (i.e. the WTP for the project exceeds or is at least equal to its cost) then the first group would have to pay the amount that they stated (or some related sum), while the second group would be asked to pay only a nominal amount or nothing at all. In this case, there was a clear economic incentive for the first group to understate, and for the second group to overstate their WTP.

If the average WTP for both parties was not significantly different, then one could assume that no serious misrepresentation had taken place and that motives to reveal true preferences had dominated. Even if there was a (fairly small) difference between the WTP of the two groups, the responses of the first group could be regarded as a bottom limit and those of the second group as a top limit - the true WTP occurring in the interval between the two. However, the larger the interval, the less accurate the study could be (Bohm 1979:151).

Bohm (1979:150) argued that incentives not to distort demand revelation could be enhanced by such additions as making the participants aware of the importance of the information, “‘help guide public decisions by actual preferences’ and other moral arguments”, as well as by making the study non-anonymous. He also added that by making participants aware of the other “control” group a further incentive not to distort responses may arise, since too large an interval may make the test less accurate or even unuseable.

Finally, the “interval method” appears to pass the “intelligibility” test : it is fairly simple and easy to understand with “no attempts to manipulate the information problem in order to make telling the truth the dominant strategy at the expense of the simplicity of the question posed” (Bohm 1979:152).

Throsby and Withers (1985:32) used the Bohm interval method to control for the free-rider problem in a study on the public finance of the arts in Australia. They differed from the Bohm method, however, by asking both the liability and non-liability questions in the same sample. Respondents were asked the following two questions (amongst others) directly after each other:

(a) What is the maximum you would want paid out of your taxes each year to support the arts at their current level, if your taxes were adjusted so that you would actually have to pay the amount you nominated?

(b) Now, suppose that there would be no change in your total taxes. What is the maximum you would want paid out of your taxes each year to support the arts at their current level?

(Throsby and Withers 1985:32)

In order to check that the question order was not significant, half the sample were asked these questions in the above order and the other half in the reverse order. In any event, no significant difference in response was noted. While some difference between the liable and non-labile response was noted, it was not as great as would have been expected. For example, 14.5% of the sample nominated a WTP of \$61 - \$100 per year when not liable which decreased to 13.4% when liable.

Throsby and Withers (1986:622) estimated that about 65% of respondents to their survey gave "honest" WTP answers, i.e. their WTP did not differ between the liability and non-liability questions. Of the remaining 35%, only one third were "strong" free riders (those who give a positive WTP under non-liability and zero WTP under liability), the rest being "weak" free riders (those who give non-zero responses, but lower responses under liability). It should be noted that respondents were also given the opportunity to reallocate tax funds from other areas in order to pay for arts support (such as social services, defence, education etc). Thus, a zero or very low willingness to increase current taxes did not necessarily indicate a lack of support for the arts.

Throsby and Withers (1986:627) acknowledged that non-hypothetical situations may make the free-rider problem more significant. They also mentioned the possibility (noted in Bohm 1984:140) that respondents may learn, through repeated use of the method, how the WTP studies work and thus enter into some form of collusion (based on collective overstatement of WTP) to their benefit. In either case, the Bohm interval method could still operate as a check, larger intervals at least alerting researchers to possible misrepresentation.

A difficulty which Throsby and Withers (1985:25) considered was the hypothetical nature of the WTP questions, both liable and non-labile. This differs from both the Bohm experiments (1972; 1984) in which some real payment had to be made. Bohm (1972:116) insisted that, "a prime requirement of the [WTP] experiment is that it should deal with a real decision with respect to a public good, the output of which and the payment for which will actually be carried out under given rules". Schneider and Pommerehne (1983:633) also pointed out that hypothetical surveys may encourage participants to vastly overestimate their likes and dislikes and agreed that the more specifically the public good and proposed action was defined, the more useful would be the results.

However, given the broad nature of the Throsby and Withers (1985:18) research project which made even the definition of the public good under discussion ("the arts") difficult, the use of the Bohm interval at least provided some check on the free rider bias and seems to have been accurate enough to satisfy the researchers: "Given the overall direction of our results, we don't need to rely on a single estimate; rather we can point to the general tendencies of our data...".

A way of controlling for the hypothetical bias was suggested by Cummings and Taylor (1999:651). They experimented with a new "cheap talk" questionnaire design which explicitly made respondents aware of hypothetical bias before asking them the WTP questions.

“The cheap talk script makes three general points: it describes the hypothetical bias phenomena; it discusses possible explanations for this phenomena; and it requests that subjects vote in the upcoming hypothetical referendum as if it were a real referendum” (Cummings and Taylor 1999:651).

While the “cheap talk” design produced results for hypothetical surveys which were statistically indistinguishable from surveys which required some real payment, the authors admitted that the method had some problems. The most important problem is that the length of the “cheap talk” explanation is unrealistic for use in most surveys and particularly in telephone surveys. Tests using much shorter versions of the format were unsuccessful (Cummings and Taylor 1999:656).

It should also be noted that the “cheap talk” design in the Cummings and Taylor (1999:653) study was tested on undergraduate university students who were paid \$10 to participate. These students represent an educated, intelligent group who, having been paid to participate, would naturally be more patient with long explanations than would a volunteer. Significant comprehension problems may emerge if one attempted a lengthy explanation of a theoretical concept to the largely indigent, poorly educated, English second-language-speakers in Grahamstown East (one area of sample population in this study).

The study by Morrison and West (1986:66) on the WTP for the public finance of the performing arts in Canada followed the Bohm method more closely. Two separate samples were asked the following question: “Do you think that \$3,35 a year in taxes is too little, too much or just right?”. The first sample was asked the question on the understanding that their taxes would not change, while the second sample’s taxes would increase or decrease accordingly. Again, no significant difference between the stated WTP of the two samples could be found. The researchers pointed out, however, that the lack of strategic bias in this case may be the result of the smallness of the sum of money involved: “Thus an individual respondent may be quite willing to accept being taxed a sum less than the cost of a “twelve pack” of beer, even though he is a non-user...” (Morrison and West 1986:66). In another

section of the same survey regarding “culture in general” a larger amount mentioned (\$128 per person) did result in a bigger (though not great) difference in the Bohm interval. Morrison and West (1986:70) concluded by agreeing with Bohm that a properly handled survey of public opinions about the financing of a public good could generate honest responses about WTP and thus useful information.

### **C The mixed good bias: attenders vs non-attenders**

A second source of strategic bias which Throsby (1984:279) considers important is the nature of the arts as a mixed good. As discussed in chapter two, the arts have both private and public good characteristics. Some parts of the arts, like concerts and exhibitions are excludable and have private good characteristics in that those who do not pay an entrance fee are prevented from consuming the good. However, the arts also have public good characteristics, such as the externalities which they generated - usually not excludable and in most cases, non-rival.

Throsby (1984:280) suggested that there should be separate demand functions for the public and private components of the good and that this may reveal an incentive for the misrepresentation of demand preferences. He is supported by Morrison and West (1986:69) who point out that “horizontal inequity” (differences in benefit between people of similar income levels) may make the idea that it is the wealthy, well educated people that benefit most from arts subsidies too simplistic:

“The theatre attender [as opposed to the non-attender of similar income] will enjoy the benefits of subsidy to the direct use of theatres as well as the external benefits”.

The main point of Throsby’s (1984:285) argument is that those people who attend the live performing arts will have a (logical) reason to overstate their WTP for the service, even where conventional free rider behaviour is absent. Consider an economy which has a mixed good (x) with two users, A and B. User A demands only the public parts of the good (non-attender) and user B demands the private good component (attender). Looked at

simply, if there were an increase in subsidy to good x B would gain more from the decline in price than A (since B is an attender), even though the tax shares of A and B would be equal. There is, therefore, an incentive for A to overstate WTP, since an increase in subsidy would benefit B more than A, while the costs would be shared equally (Throsby 1984:280 - 282).

“The essence of this analysis is that an incentive for overstatement of preferences exists if the individual’s gain from the increase in his or her consumption enabled by subsidisation of the private good exceeds his or her perceived share of the tax necessary to finance this increase in output” (Throsby 1984:282).

In applying this theory to their study on the level of public finance for the arts in Australia (discussed above), Throsby and Withers (1986:624) found a strong correlation between users and higher WTP; “A downward adjustment of about 40% in average stated WTP is required to eliminate this source of bias”. Once this had been done, the results of the study could be used to provide information on the determinants of demand for the public part of the good, such as income, taste and education (Throsby 1984:282).

Throsby (1984:283) pointed out that although his theory provides a precise mechanism for measuring the generation of this bias, it is unlikely that attenders will be able to evaluate their exact gain from overstating WTP. However, all that is required for the inclusion of the private consumption variable is a general belief on their part that their private consumption could be improved relative to cost. He also mentioned that the higher WTP of attenders may be reflecting another source of bias, namely, information. Attenders will naturally have more detailed knowledge of the good in question and may thus have a stronger demand for it since they can appreciate both its private and social benefits better.

## **C      The information bias**

Bohm (1972; 1979; 1984) argued strongly that, in order for respondents to be able to express their WTP accurately, detailed information must be made available to them regarding the proposed project. In his 1984 project, regarding the provision of a statistical service to local governments in Sweden, information about the amount and origin of fixed costs, the costs involved for those who would receive the service (should it be provided), the random distribution of other respondents, the non-anonymity conditions and, most interestingly, “the fact that giving in to the existing incentives to misrepresent WTP would jeopardize the value of the investigation” was provided (Bohm 1984:144).

In Bohm’s 1972 experiment regarding the provision of a new Swedish television programme, detailed information was given verbally at the start of the process (Bohm 1972:117). It included information about the purpose of the research, the exact nature of the product under consideration and an example which demonstrated the possible gains and losses from misrepresenting true WTP - either the (liable) respondents would have to pay, or the programme would not be shown. Bohm (1972:117) argued that it is important that as much information as possible be given so that, “the test is a test of preferences, and not of the degree of information or analytic capacity of different individuals”.

Bohm (1972;1979;1984) also suggested that it is desirable for people to have a chance to consider the questions for a reasonable amount of time and to talk to whomsoever they want to before responding. Far from believing that the formation of coalitions would distort results, he argued that people should be able to form them if they want to. “What this amounts to is an attempt to create a situation which resembles, as closely as possible, an open referendum. Otherwise, the method may not be able to survive for long in a democracy” (Bohm 1984:140). However, he is referring to a country-wide study which is supported by the government and is therefore generally known about and publicised. It is not possible to fulfil this condition in a small or medium sized private study.

While Bohm (1972;1979;1984) recognised the great importance of informing respondents properly, he did not consider that the type, amount and format of the information provided could itself bias the results of the study. The WTP study conducted by Throsby and Withers (1986:311) took into account that information bias may appear in WTP studies for complex mixed goods (like the live performing arts) when responses are given under incomplete information: "This problem is compounded by the fact that information itself may be sub-optimally supplied because of its own public good properties". A further source of information bias may be that consumers misunderstand or don't know their actual amount of liability for the good, particularly if it is funded by non-specific taxes (Throsby and Withers 1986:615).

In order to test and control for the postulated information bias, Throsby and Withers (1985:15) used the Bohm interval method twice - once when respondents were "non-informed" and again once certain information about current tax liability for the support of the arts had been provided by the interviewer. (A card handed to the respondent showed alternative income levels and consequent current payments out of tax for arts support.) A huge range of answers resulted (averages between \$15 and \$200 a head were recorded). In almost every case, however, both liable and non-liable WTP responses were higher once interviewees had been informed of current arts support levels. This result further validated the conclusion of the research that the level of public support for the arts in Australia was too low (Throsby and Withers 1985:18).

Morrison and West (1986:60) cite the solution to the information bias problem of a 1983 study on the public finance of the arts in Ontario, Canada, commissioned by the "Special Committee for the Arts". This study asked directly (with a list of various monetary amounts provided), "How much of every 100 provincial tax dollars do you think goes towards support of the arts?" The study found that a majority of people seemed misinformed about how much provincial tax support for the arts there was, suggesting either a number well in excess of the actual amount or were unable to express any opinion (18% of the sample). The Canadian study then provided information and asked for WTP information:

“In fact, less than \$1 of every 100 provincial tax dollars goes towards support of the arts. Would you be willing to pay ([interviewer] READ EACH AMOUNT) more in taxes per year if you knew the money would be used to support arts facilities or would you not be willing to do that?” (Morrison and West 1986:60).

Morrison and West (1986:60) identified several problems with the above survey method. They argued that asking for an estimate of spending per 100 tax dollars assumed an unrealistic knowledge of tax allocation. They also pointed out that most people in Canada perceive the level of arts funding as being made up of federal, provincial and municipal taxes together, and may be more aware and interested in the total support provided by the three together. Unlike the Throsby and Withers (1985:32) study, in which no prompting was given for monetary WTP questions, this study may have been introducing distortion (or a “starting point bias”) by the interviewer reading a list of WTP amounts that started with \$20 and then decreased. Morrison and West (1986:61) argued that this would tend to bias responses towards the upper limits.

Morrison and West (1986:61) also suggested caution when deciding on the manner in which the information about current levels of finance is given, particularly the use of phraseology. The Canadian study found that, once respondents had been informed (as quoted above), 77% of them indicated their willingness to accept a tax increase. “If the question had been phrased (as it could have been), ‘In fact, more than ten million dollars in provincial tax dollars goes towards support of the arts ...’ we might expect a completely different result from that reported in the survey” (Morrison and West 1986:61).

The Morrison and West (1986:64) study informed respondents of their total tax liability (not just provincial tax) and attempted to avoid the sort of bias, mentioned above, introduced by the phraseology of the questions. In addition, Morrison and West (1986:65) then placed the performing arts in the context of a wide range of public expenditure, such as education, pollution control, housing etc. Their results contradicted those of the 1983 Canadian study (mentioned above), despite being conducted in the same country and only a few years

apart, in that they concluded that current levels of Canadian public finance for the arts were “equal to the social cost at the margin”, that is, no further funding would be socially efficient (Morrison and West 1986:70).

The startlingly different results of the two above mentioned studies demonstrate that while it is clearly important, as Bohm realised at the outset, for respondents to be as informed as possible when stating willingness to pay, it is just as important that the way that the information is given does not introduce a new form of bias.

### **C The social choice bias (mean vs median)**

Withers (Throsby and Withers 1986:321) has shown that using the median rather than the mean measurement of explanatory variables in local arts assistance projects in Australia yields better WTP estimates. Median measures of WTP were considerably smaller than mean values (the mean values are more than three times those of the median), suggesting the presence of quite a large social choice bias. “This result suggests a wide disparity between economically efficient (mean-based) levels of provision of public good and democratically determined (median based) levels of provision” (Throsby and Withers 1986:321). Morrison and West (1986:61) agreed that the median value is particularly useful in eliminating bias from extremely high or low responses and that the median voter theorem predicts that it is the median value which will dominate political outcomes.

One of the reasons that the median rather than the mean value could be particularly useful in WTP studies is that open-ended WTP elicitation questions tend to have a relatively high incidence of “protest” responses. As McFadden (1994:694) pointed out, some respondents may treat the survey as an opportunity to express protest for or against the proposed project by stating unrealistically high or low WTP values. “Even a tiny fraction of consumers giving responses more extreme than their true WTP could lead to estimates of resource value that are in error by orders of magnitude” (McFadden 1994:694). However, he pointed out that, when distribution is skewed, median values may themselves be biased. The question of which value to use is largely unresolved. Romer and Rosenthal (1979:162)

concluded that, “While theorists may find the median voter assumption convenient in the analysis of local public goods and elsewhere, there is hardly any empirical basis for making the assumption”.

Johansson (1993:181) argued that it is the distributional assumption that has the largest impact on the mean value . “Kristrom’s study highlights the fact that the assumption about the distribution’s tails has a tremendous impact on the mean willingness to pay” (Johansson 1993:181).

### **4.3 Other problems with WTP studies**

Despite the ability to control, at least to some extent, for the various forms of bias discussed above, some authors (for example, Diamond and Hausman 1994:46) regard the contingent valuation method as unreliable and inconsistent. They argued that the problems with WTP cannot be eliminated through new forms of questionnaire design, but are inherent in the very concept of the method itself. This section will briefly discuss some of the objections to the WTP methodology.

Diamond and Hausman (1994:46) argued that some of the problems with WTP studies are caused by the “embedding effect” also referred to as the apparent insensitivity of the WTP method to “scope”. They defined this as, “the tendency for WTP responses to be highly similar across different surveys, even where theory suggests (and sometimes requires) that the responses be different” (Diamond and Hausman 1994:46). An example of this is that the stated WTP to preserve one lake (or one art form) will tend to be similar to the stated WTP to preserve five lakes (or five art forms).

Diamond and Hausman (1994:58) have suggested a number of reasons for the “embedding effect”. Firstly, it may be difficult for survey respondents to express accurately preferences for a public good for which there is no market. They even suggested that such preferences do not exist, and that the hypothetical nature of the questions does not constrain respondents to act within their budget. “The absence of direct market parallels affects both the ability to judge the quality of contingent valuation responses and the ability to calibrate responses to have usable answers” (Diamond and Hausman 1994:58). A study by Schkade and Payne (Diamond and Hausman 1994:47) where respondents were asked to “think aloud” as they answered WTP questions, revealed that a strikingly large number of irrelevant factors were mentioned, indicating the difficulty of the task.

It is suggested that many of the problems with WTP studies can be explained by the “warm glow” hypothesis (Diamond and Hausman, 1994:49). This hypothesis suggests that respondents are mainly expressing support for whatever project is being asked about (for example, an arts festival) rather than a specific preference. This explains why the stated WTP does not vary much as the number of projects changes.

Carson and Mitchell’s (1993:1265) WTP survey seems to belie this, however. Their 1986 study compared the WTP to increase the quality of the water in one river as opposed to the WTP to increase the quality of water in all national rivers. They found that the WTP for an increase in national water quality was over 160% more than that to better just one river. These results were based on two separate surveys using large samples. Carson and Mitchell (1993:1266) argue that, rather than an insensitivity to scope, results cited by Diamond and Hausman showed a lack of clear definition of the project for which respondents had to state WTP.

Hanemann (1994:34) agreed and pointed out that the “embedding effect” described by Diamond and Hausman (1994:39) is in fact made of up three separate issues: the scope effect, the sequencing effect and the sub-additivity effect. The scope effect refers to the already mentioned study in which the willingness to pay to protect one lake tended to be

similar to that of the protection of many more lakes. Hanemann (1994:34) cites a number of contingent valuation studies, however, which do show sensitivity to scope. He argued that the two studies which do display scope effects (Kahneman and Knetsch, 1992 and Desvousges *et al*, 1992) are those most often cited by those critical to the contingent valuation method and their results are largely caused by problematic methodologies using, for example, open-ended voting formats and unscientific sampling procedures. "At any rate, even if one regards these two studies as highly credible evidence that respondents were insensitive to scope, they certainly do not represent the majority finding in the contingent valuation literature regarding the variation of willingness to pay scope" (Hanemann 1994:35).

Hanemann (1994:36) also argued that, contrary to Diamond and Hausmans' (1994:46) assertion that willingness to pay responses violate economic theory, sequencing and sub-additivity effects are expected to occur. The sequencing effect refers to the observation that the willingness to pay to protect a succession of individual lakes tends to get lower as more lakes are added. The sub-additivity effect occurs when the willingness to pay for the protection of a composite group of lakes is less than that the sum of the willingness to pay for individual lakes. Hanemann (1994:36) argues that these effects are consistent with the economic theories of substitution effects and the diminishing marginal rates of substitution. In other words, if the lakes are regarded as substitutes, one's willingness to pay to protect lakes near the end of the sequence would be lower than at the start because an improvement in a second lake is valued less and thus that, "far from being inconsistent with economic preferences, sub-additivity is likely to be the norm" (Hanemann 1994:36).

The "warm glow" hypothesis also seems to apply to those surveys which obtained substantially different answers when question order was reversed. In almost all cases, the stated WTP for support of the first case asked about (protection of seals) was higher than that of the second (protection of whales). When the questions were reversed (whales asked about first), WTP for the protection of whales was higher. This "internal inconsistency" leads

Diamond and Hausman (1994:57) to suggest that WTP studies can never be accurate enough to use in policy decisions.

Hanemann (1994:26) admits that a WTP survey, like all surveys, will be sensitive to the manner in which questions are asked. He points out that the effect described by Diamond and Hausman above, does have a logical basis in that answering WTP questions, for no apparent reward, involves work. "Although some [respondents] are motivated to make the effort, others may become impatient, disinterested, or tired" (Hanemann 1994:26). However, he argues that it is important to keep a sense of proportion when dealing with such problems, "As far as I know, nobody has stopped using data from the Current Population Survey, Consumer Expenditure Survey ,,,, because there are response effects in such surveys. The same should apply to contingent valuation surveys" (Hanemann 1994:27).

Diamond and Hausman (1994:55) also argued that, with complex public goods, like the environment or the arts, average consumers do not have enough detailed information to provide accurate preference revelation, even if the "warm glow" hypothesis does not cause inconsistency. While providing some information is possible and necessary, too much information might confuse respondents who cannot assimilate it properly, especially when they have no prior knowledge of the area (Kenyon and Edwards-Jones 1998:464). In any event, respondents will never be as fully informed as experts in the field. "It may be more informative to have expert evaluation of the consequences of an environmental change than to consult the public directly about environmental damage" (Diamond and Hausman 1994:55).

In an experiment conducted by Kenyon and Edwards-Jones (1998:8) however, they discovered that, "given certain amounts of information, the public were able to provide WTP bids which ranked the sites in the same order as the experts". This seems to suggest that there is a level at which enough relevant information has been provided. Hanemann

(1994:29) adds that, if the goal of the contingent valuation method is to elicit people's preferences as if they were voting, then prior knowledge of the subject is irrelevant. "Who has standing, and whose values should count, are questions that we as economists have no special competence to judge".

Carson and Mitchell (1993:1267) concluded that it is the quality of the response to a WTP question which will determine the accuracy of the study. This is determined, in their view, by the survey design and administration or content validity:

"Respondents must (i) clearly understand the characteristics of the good they are being asked to value; (ii) find the CV scenario elements related to the good's provision plausible; and (iii) answer the CV questions in a deliberate and meaningful manner" (Mitchell and Carson 1993:1267).

In a later work, Carson and Mitchell (Willis 1998:611) suggested two other ways in which WTP estimates can be judged for accuracy addition to content validity: criterion validity and construct validity. The criterion validity test requires that the WTP estimates be compared to actual market (or simulated market) values. The construct validity test measures the extent to which the WTP findings are consistent with theoretical expectations.

Willis (1998:613) conducted the criterion test by asking potential visitors to an historical site, who seemed to have decided not to enter the site when they discovered the ticket price, what their WTP for a ticket would be. The tickets were then offered to respondents at their stated WTP. Willis (1998:612) argued that the use of a private good to test the validity of the WTP method, usually used for public or mixed goods, is justified because, if the WTP method cannot closely approximate the real value of private goods (which are often easier to define and better known) then it is unlikely that the method will be more accurate for public goods.

Willis (1998:616) found that, of the 43 respondents who considered themselves potential visitors, only 17 accepted the tickets to the site at their stated WTP price. Responses to questions about why respondents would not accept the tickets at their nominated price

were not clear. This seems to suggest that, “a substantial proportion of CVM [contingent valuation method] values are neither very robust nor reliable and are subject to considerable ambivalence” (Willis 1998:616).

Carson (1997:1503) however, argued that, “a single private good, far from representing the best case for a successful CV represents one of the worst cases”. He suggests that this case is strategically equivalent to “voluntary contribution mechanisms” in WTP studies which can be shown to provide incentives to state a positive WTP and yet give a negative response in the actual payment situation.

Chambers and Chambers (1998:146) conducted construct validity tests on a WTP survey concerning the preservation of an historical site. They found that WTP was positively related to interest and behavioural variables as they expected. That is, WTP increased as the respondent’s knowledge, interest and attendance at the site increased. They also found that income (used as the primary theoretical validity test) was positively related to WTP. This suggested that the WTP measure had some theoretical validity, since the preservation of historical sites is considered a normal good. While supporting the WTP methodology, however, Chambers and Chambers (1998:149) cautioned that more research is needed before WTP values can be reliably used in policy decisions.

Portney (1994:16) in his survey of the development of the contingent valuation technique concluded that it seems inevitable that the contingent valuation methodology is going to play a major role in public policy formation and that despite the method’s problems “it is better for economists to be involved at all stages of the debate ... than to stand by while others dictate the way this tool will be used” (Portney 1994:16).

The NOAA (National Oceanic and Atmospheric Administration, US) commissioned a report on the contingent valuation method of valuing non-market goods chaired by Kenneth Arrow and Robert Solow after the validity of the use of this method to value the damage

done by the Exxon Valdez oil spill was hotly debated (NOAA 1993). While the NOAA report recognised the possible distortions which the WTP method is prone to, including inconsistency with rational choice, implausibility of responses, embedding and the absence of a meaningful budget constraint, it concluded that, a “carefully constructed, administered and analyzed” CV report which adheres closely to their guidelines, “can produce estimates reliable enough to be the starting point for a judicial administrative determination of natural resource damages - including lost passive-use value” (NOAA 1993).

#### **4.4 Combining WTP and economic impact studies**

Having outlined both the advantages and disadvantages of the willingness to pay and economic impact methods of measuring the benefits of the arts, it is suggested that the most accurate and fulsome measure can be obtained by using a combination of the two methods. The economic impact method is best used to measure financial or market benefits, while the WTP method can provide data on the social or non-market externalities. Two such studies will now be examined.

The first example of such a combination study is that of the Mildura Arts Centre in Victoria, Australia (Throsby and O’Shea 1980). The Centre consists of a theatre (used for drama, music, films and conferences), a gallery and a museum. It was built between 1964 and 1967, financed mostly (56%) by Mildura City Council loans and the State Government (20%). It is used for a wide variety of activities (music, drama, opera, operetta, dance, film, visual arts) and is used by the majority of local residents with only a mild bias towards the higher socio-economic groups (Throsby and O’Shea 1980:9 - 18).

The researchers pointed out that although such community projects usually aim to provide some social benefits or increase the quality of life, these non-market benefits are not

included in determining the value of either proposed projects or ex post value studies (Throsby and O'Shea 1980:17).

"Many residents of the Mildura district, for example, may value the Mildura Arts Centre's existence and may even be prepared to pay (through local government rates) to maintain it, even though they themselves never set foot inside the Centre. This benefit conferred on all people in the area is no less real for its not being reflected in market transactions" (Throsby and O'Shea 1980:18),

The Mildura Arts Centre study, therefore, included both the traditional cost-benefit analysis, measuring the financial quantities from 1965 to 1982, including capital and operating costs and revenues, as well as a willingness to pay study which accounted for "estimates of consumer surplus, imputed benefits to unpaid admissions and public good benefits" (Throsby 1982:5). When incorporated into the cost-benefit analysis, the valuation of the public good characteristics was the largest single benefit item (Throsby 1982:6).

Once the public good valuation of the Centre was included in the cost-benefit analysis, the Centre's estimated rate of return could be seen to be favourable (about 8.5% as opposed to the borrowing rate for local authorities of 5 - 7%). Throsby (1982:10) pointed out that it is unlikely that an arts centre may appear to be a profitable operation on paper, but that if public good values are included, "profitability can be judged in terms of overall community benefits and that when these are accounted for, a rate of return can be obtained that may be compared with other more commercial investments".

The second study regards the measurement of the impact of the arts on the Kentucky economy which, like the first example, contained both the conventional economic impact approach and a contingent valuation study, which examined "the contribution of the arts to the quality of life of Kentuckians" (Thompson *et al* 1998:1). In addition to money spent on tickets, Kentucky households stated that they were willing to pay \$21.8 million in order to avoid a 25% decline in the number of arts performances in Kentucky. "The value of these donations [WTP] give a minimum estimate of the difference between the value that

Kentuckians place on the arts and the amount they pay for arts performances through ticket prices” (Thompson *et al* 1998:7), and thus provide an indication of the monetary value of the public good benefits provided by the arts.

The economic impact of the arts in Kentucky was calculated to be \$22 million and provided 1 324 jobs (Thompson *et al* 1998:18). By including the contingent valuation measure of the value of the arts as a public good, the estimated value of the arts in the Kentucky economy was almost double what it would have been if only the economic impact figures had been used (Thompson 1998:3). In discussing the study, Thompson (1998:3) argued that the increased quality of life caused by the arts would be felt in the economy through increasing property value and wages. Although this is somewhat debatable, as previously mentioned, it does recall the hedonic pricing argument and suggests a method of checking the WTP study.

In any event, the evidence suggests that the use of a combination of economic impact and WTP studies provide the best estimate of the true value of the arts. The following chapters will describe a WTP study conducted in Grahamstown, South Africa for the Standard Bank National Arts Festival and the way in which the results of this study can supplement the economic impact studies previously conducted on the Festival in 1996 and 1997 (Antrobus *et al* 1997a & 1997b).

## **Chapter Five**

### **SAMPLING AND QUESTIONNAIRE DESIGN**

This chapter details the sampling procedure and design of a WTP questionnaire for a study conducted on the Grahamstown population in May 2000 regarding the Standard Bank National Arts Festival. The aim of the study was twofold. Firstly, the aim was to test the effectiveness of the various methods suggested for the control of bias in a WTP study (discussed in chapter three). Secondly, the study aimed to test the hypothesis that the arts, as represented by the Festival, provide positive externalities which are recognised by both attenders and non-attenders (discussed in chapters two and three).

#### **5.1 Sampling procedure**

The first important step in determining the size of the sample was to define the area of study. A recent, detailed map was obtained of the Grahamstown - Rhini area from the Geography Department, Rhodes University (Appendix 3) and was used to define the research area. In order to integrate the results with the 1996 and 1997 economic impact studies, it was also important to duplicate the area of study used in these reports (Antrobus *et al* 1997a and 1997b).

Grahamstown residents were further divided into Grahamstown West residents and Grahamstown East (Rhini) residents (Appendix 3). The Western area consists largely of middle-class, white and a few affluent black residents and includes the central business district, while the Eastern area consists mainly of black and coloured township residents with a relatively high degree of poverty. It must be emphasised that this is a highly simplistic view and that, while it still reflects the location of the majority of residents, race and wealth divides are becoming ever more blurred.

However, it was felt important to divide the population into the above sectors, since income and cultural orientation (determined by race group) were expected to correlate

highly with willingness to pay responses. Also, it was felt that it would be important to comment on the perceived lack of benefit provided to Grahamstown East residents as reported in the 1996 economic impact survey of the festival (Antrobus *et al* 1997a:9). Recurring comments by visitors included: “the festival is too white; the local township people don’t seem to be included; too expensive for shows” etc (Antobus *et al* 1997a:9). This is reflected in the recorded ticket sales for 1996: Grahamstown East residents purchasing only 22 320 of the total of 72 120 tickets sold to Grahamstonians (Antrobus *et al* 1997a:10).

A more detailed study of show attendance in 1997 however, revealed that, “As to be expected, a larger proportion of black Grahamstownians attended free shows (84% vs 54%)” (Antrobus *et al* 1997b:9). This seems to indicate that, despite income restraints, Grahamstown East residents are interested in the Festival as a cultural resource. It was hoped that the non-market benefits from the attendance at free shows would be captured in the contingent valuation study.

It was also considered important to divide the sample so that provision could be made for possible language difficulties. While Grahamstown West is largely first-language English speaking, Grahamstown East was assumed to be largely first-language Xhosa speaking. In order to facilitate a better response rate and to avoid possible misunderstanding caused by language difficulties, the questionnaire was offered to Grahamstown East residents in either English or Xhosa.

A probability sampling method was used in which 50 Grahamstown West and 50 Grahamstown East households were selected randomly from the telephone directory. It should be emphasised that this study did not attempt to draw a sample weighted by population size. This research, constrained as it was by time and resources, should therefore, be regarded as an exploratory pilot study.

It was estimated that the total population size, made up of those Grahamstown households which had telephones was approximately 7600. Grahamstown East and West households who owned telephones had a one in 760 chance of being selected. However, the large number of unanswered calls in Grahamstown East (possibly because the lines had been disconnected) necessitated enlarging the Grahamstown East sample to 75 in order to attain sufficient responses for comparative and analytical purposes.

## **5.2 Questionnaire design**

(See appendix 4)

### **The introduction**

Good evening. My name is \_\_\_\_\_. I'm conducting a survey for the Rhodes Economics department about the Grahamstown Arts Festival. We'd like to know how people who live in Grahamstown feel about the Festival. Would you be prepared to spend about ten minutes answering some questions about this now, or should I phone back later?

As Mitchell and Carson (1993) emphasise, the seriousness with which respondents approach a willingness to pay survey will greatly influence the validity of the results. It was therefore, important to provide a brief, yet informative and authoritative introduction to the interview. Since the researcher was also a staff member of the Rhodes University Economics and Economic History department, the university name, well known to Grahamstonians, could be used to lend authority and weight to the survey, thus encouraging respondents to take it seriously. Since many of the respondents were expected to have English as a second language, uncomplicated words and sentence structure were used wherever possible.

Much of the aim of the study rested on eliciting the opinions of Grahamstown East residents who are largely Xhosa speaking. A Xhosa form of the questionnaire was, therefore, available and all telephonic interviews in this area were conducted by an interviewer who spoke both Xhosa and English fluently. Respondents were given the option of answering in either English or Xhosa at the start of the interview. The translated version of the questionnaire was checked for consistency by two members of the African

Languages department, Rhodes University, and changes were made where suggested. Most of the interviews conducted in this area were done in Xhosa.

Following the Bohm (1972) suggestion that non-anonymous studies may receive more accurate answers, the introduction does not state that the survey is anonymous. The telephonic nature of the interview, however, may suggest to respondents that their names are known. However, once section four (demographics) was reached, respondents were reassured that no names were attached to responses. This was done because of the importance of the questions regarding income levels and linking names to confidential information of this sort could have been regarded as impolite and discouraged potential respondents from taking part.

### **C      Revealing externalities : questions one and two**

Following the questionnaire design of Thompson, Throsby and Withers (1983), questions about the feelings that the Standard Bank National Arts Festival (hereafter referred to as “the Festival”) evoked were asked first in order to remind respondents of their opinions regarding the arts (see question 2 below). A number of more specific questions from a study on the impact of the Mildura Arts Center (Throsby and O’Shea, 1980), better suited to studies on one particular event or resource, were also used. Rather than follow the open-ended format of the Morrison and West (1986) questionnaire, potentially more leading, but also more structured questions were asked first. This format was chosen to facilitate English second language speakers who preferred to answer in English and also to decrease the time required to conduct the interview (designed to increase levels of participation).

**Question Two : attendance**

I now have some questions about your attendance at the Festival. Please tell me if you have attended or been involved in any of the following sorts of activities at the last **two festivals** added together. (That's 1998 and 1999). I am going to classify these as: none; a few (meaning 2 or 3); quite a lot (meaning 4 to 10); and a very large number (meaning more than 10).

So, please tell me if you have attended none, a few, quite a lot or a very large number of the following sorts of Festival shows over the last 2 years:

2.1 A free "Sundowner" show at the monument

1[ ]none 2[ ]a few 3[ ]quite a lot 4[ ]a very large number

2.2 A free street show

1[ ]none 2[ ]a few 3[ ]quite a lot 4[ ]a very large number

2.3 A play on the "Main" or "Fringe" programs

1[ ]none 2[ ]a few 3[ ]quite a lot 4[ ]a very large number

2.4 A dance event on the "Main" or "Fringe"

1[ ]none 2[ ]a few 3[ ]quite a lot 4[ ]a very large number

2.5 A music event on the "Main" or "Fringe"

1[ ]none 2[ ]a few 3[ ]quite a lot 4[ ]a very large number

2.6 An art exhibition

1[ ]none 2[ ]a few 3[ ]quite a lot 4[ ]a very large number

2.7 A film on the "Main" or Fringe"

1[ ]none 2[ ]a few 3[ ]quite a lot 4[ ]a very large number

2.8 Over the last two festivals, how much time have you spent looking around the craft markets?

**PROMPT:** 1[ ]none 2[ ]1 or 2 hours 3[ ]3 to 5 hours 4[ ]more than 5 hours

2.9 Have you ever been involved in putting on any of the events that we've been talking about at the Festival? 1[ ]Yes: \_\_\_\_\_ 2[ ]No

2.10 Do you have a TV that you can watch? (either your own or some one else's)?

1[ ]Yes 2[ ]No

**INTERVIEWER:**

**IF YES - CONTINUE @ 2.6.1 and onwards**

**IF NO - CONTINUE @ 3 and onwards**

2.10.1 Did you watch *CUE TV* (the Festival TV channel) during either of the last 2 Festivals?

1[ ]Yes 2[ ]No

2.10.2 If a program on the festival was coming up, would you make a point of watching it?

1[ ]Yes 2[ ]No

As mentioned earlier, the Morrison and West (1986) open-ended format did not substantially change the results, except that a larger proportion of the sample claimed that they gained no benefit from the arts. This difference could be interpreted as reflecting different levels of public support to, or interest in, the arts in Australia and Canada, or as a result of other forms of bias. However, the Grahamstown study elicited more negative responses than that conducted by Thompson *et al* (1983). As a further internal consistency check, the open-ended Morrison and West (1986) question was asked later on in the questionnaire of those respondents who claimed positive WTP but little or no attendance (see question 3.5).

The original decision that only the live performance arts offered at the Festival be considered in order to reduce the scope of the research was abandoned. It became clear from the pilot study (conducted in Fort Beaufort, a small town about 80km away, outside the research area) that respondents were unable to distinguish their opinions about the Festival as a whole from those associated with only the live performance arts. This was probably particularly true of non-attenders. It is extremely doubtful whether the continual repetition of “the live performing arts at the Festival”, rather than the use of a shorter and less specific term, which was intended to help respondents to keep their mind on only the relevant part of the Festival when answering the opinion questions was effective. A broader range of Festival activities were therefore included.

The second question, which determined the festival attendance of respondents, was able to be much more specific. The period over which attendance was measured was longer than usual (2 years). It needs to be taken into account, however, that the ten day to two week Festival occurs only once a year and that it is quite possible that respondents may have missed one of them. The 1999 Festival marked the twenty fifth anniversary of this event, however, and was thus celebrated with a two week Festival (rather than the usual ten days) which included a wide variety of national and international artists. The 1999 Festival was also more than usually publicised and it is thus likely that the Grahamstown population would have made some effort to attend. However, attendance at previous festivals was noted and accepted.

Attendance at the free daily “Sundowner” show at the Settlers’ Monument (a series of live previews for “Fringe” shows) and free street shows was included because it was expected that, since income would probably prove to be one of the major limiting factors amongst the Grahamstown East population, these free shows could be regarded as positive externalities provided by the Festival.

Following the Thompson, Thosby and Withers (1983:47) study, questions were also asked about television coverage of the festival in order to gauge the interest levels of respondents. Those respondents who had access to a television set were asked about their viewing of both the Festival channel, *CUE TV*, which was provided at no extra cost, and any other South African Broadcasting Association programmes on the Festival (available legally through the payment of a licence fee).

### **C Willingness to pay : question three**

While the resources for this study did not allow for the Throsby and Withers (1986) uninformed - informed Bohm intervals, some basic information considered relevant to the Festival was provided (see question format on the following page). Exact amounts of tax contributions towards the arts by individuals in different income brackets was not made available by the government. Neither would the Standard Bank disclose any information regarding their financial support of the Festival. The information provided is thus rather sketchy and based on information received from Marais (2000), the festival officer.

**Question three: WTP**

The next section is about measuring the value of the Festival to you through your willingness to pay tax to support it. The Festival costs between R8 and R10 million each year which is paid by the sponsors, mainly the Standard Bank. 2001 will be the last year that the Standard Bank will pay for the Festival. If no new sponsor is found, the Festival will end.

At the moment, the government (using our tax money) helps about six Fringe productions come to the Festival each year. [If asked: between 1 and 2 hundred thousand.] They pay for none of the running costs.

3.1 Do you think that the amount of government money available to the Festival at the moment is **[PROMPT]**:  
1 [ ] too little                      2 [ ] too much                      3 [ ] just right                      4 [ ] don't know

The next questions are about how you think your taxes should be spent. Remember that even if you don't pay income tax, you still pay tax on the things that you buy.

3.2 Supposing that there would be **no change in your monthly taxes**, would you be willing to allow R5 of your taxes each month to be spent on supporting the Festival?

1 [ ] Yes                      2 [ ] No                      3 [ ] don't know / WNV

3.3 Now suppose that **you would actually have to pay** the R5 extra in taxes each month. Considering your monthly expenses, would you still be willing to pay R5 a month towards supporting the Festival?

1 [ ] Yes                      2 [ ] No                      3 [ ] don't know / WNV

3.4 How sure are you that your answers have shown your accurate willingness to pay to support the Festival? **[PROMPT]**

1 [ ] not at all sure                      2 [ ] fairly sure                      3 [ ] very sure                      4 [ ] don't know

**INTERVIEWER: FOR THOSE WHO ANSWER YES FOR EITHER OF THE ABOVE, BUT "NONE" OR "A FEW" FOR ALL OF QUESTION 2 ASK Q3.5 BEFORE PROCEEDING.**

3.5 Since you yourself haven't been to the Festival much, why are you willing to spend some of your taxes on supporting it? **[NO PROMPT]**

- 1 [ ] future generations benefit
- 2 [ ] education
- 3 [ ] tourism / economic benefit
- 4 [ ] community pride
- 5 [ ] I like to support a good cause
- 6 [ ] other: \_\_\_\_\_

**INTERVIEWER: FOR THOSE WITH ZERO WTP, ASK Q 3.6 BEFORE PROCEEDING**

3.6 Which of the following reasons explains why you are willing to pay nothing? Stop me when I say something you agree with.

- 1 [ ] I don't think that the extra money will improve the Festival much
- 2 [ ] I don't have enough money
- 3 [ ] I don't think that the money will be used to support the Festival
- 4 [ ] I don't support the idea of the Festival at all because .... (please give your reason) :
- 5 [ ] other : \_\_\_\_\_

The form used is somewhat different from that of the study by Throsby and O'Shea (1980) on the Mildura Arts Centre in Australia. The announcement of the withdrawal of Standard Bank as the title sponsor of the Festival after 2001 was made shortly before interviewing began and was considered an important factor in gaining accurate WTP responses. While it could be argued that the threat of a total collapse of the Festival might have inflated WTP above its actual value, the reality of such a decline indisputable and highly probable. Marais (2000) considered that, at best, the Festival would reduce drastically in size and, at worst, have to close entirely. Interviewers were instructed not to inflect this information with any obvious emotion.

Despite the attempt to provide accurate and unbiased information, however, it is accepted that the final form of the questionnaire may be biased towards a positive WTP response. The consistency checks already mentioned were designed to control for and minimise this.

It should be noted that this study, being, as far as the author knows, the first of its kind in South Africa, did not seek to provide an accurate WTP number which could be used in policy decisions, but merely sought to establish a general trend or attitude of the public towards the live performing arts at the Festival. One of the aims of the study was to establish whether the largely black Grahamstown East (Rhini) inhabitants perceived some positive spillover effects from the Festival even though they did not benefit greatly in a financial sense.

In order to introduce the idea of government support for the live performing arts and to start off with a fairly simple opinion, the Morrison and West (1986) question was used, where respondents were asked to rate the present public support of the Festival as "too little" or "too much" or "just right". Following the Thompson, Throsby and Withers (1983) study the next question reminded respondents (particularly important in Grahamstown East where many of the inhabitants are unemployed) that tax contributions to the arts were not limited to income tax, but included VAT.

There has been much debate in recent literature about which form of WTP question elicits the most accurate response: the open-ended or dichotomous choice (DC) format. The report by the NOAA panel (Arrow *et al* 1995:11 - 14) recommended the use of the referendum (DC) format over that of the open-ended request. As Werner (1999:479) points out, the DC format places less burden on the respondents because they only have to state whether they would be WTP a certain amount or not (yes/no format) rather than having to decide on their maximum WTP. This may lead to a greater response rate and more accurate answers than the open-ended format. However, the DC method only reveals an interval in which the respondent's WTP lies, not the actual amount. This method often does not allow for zero WTP (the respondent simply stating that they would not be WTP a certain amount) which may mask the importance of other variables, like income (Werner 1999:480).

The choice of open-ended or DC format for WTP questions is important because these formats have been shown to give widely different answers. In a study by Kealy and Turner (1993:328) it was found that, while there was no significant difference between the open and closed-ended questions for private goods, the closed-ended responses were 1,4 to 2,5 times as large as the open-ended questions for public goods. This study did not suggest reasons for the differences in value or recommend the use of one format above the other (Kealy and Turner 1993:328).

Carson (1997:335) agrees that responses to open-ended questions are likely to be downwardly biased and to introduce more uncertainty relative to DC format questions. However, he does not recommend that the open-ended questions be abandoned in WTP studies. Like Werner (1999), Carson (1997) points out that the DC format only provides an interval in which WTP occurs and that this makes econometric analysis difficult. Bennett and Tranter (1998) suggest that the statistical analysis needed for DC format WTP questions may introduce further forms of bias.

Boyle and Johnson (1997:1496) questioned the use of DC questions in WTP studies because they found that the initial bid given by the questionnaire biased the WTP responses, “the higher the initial bid, the higher the final bids”. They suggested that the reason for this was that respondents, in most private good transactions, use price as an indication of quality and value. In WTP surveys, the initial bid may be taken as a proxy for price. They suggest that, since initial bids are clearly not neutral stimuli, they be randomly assigned to respondents.

Bennett and Tranter (1998:255) point out that the open-ended format also has problems. Other than the downward bias that this format is prone to, open-ended questions about unfamiliar public goods (particularly where non-users are concerned) may result in a particularly high number of non-responses or “protest zero’s”. However, they particularly recommend this format for exploratory or pilot studies where starting point bids may prove to be very inaccurate.

Bennett and Tranter (1998:256) particularly emphasise the importance, for any WTP elicitation format, of questions which explore the motives behind the WTP responses. They suggest the use of both the open-ended and closed-ended formats in “debriefing questions” which will help to reveal sources of possible bias and various protest or strategic bids.

The open-ended format was initially chosen for the Grahamstown survey for a number of reasons. Firstly, since this was the first study of its kind in the area, the initial bid for the DC format would almost certainly be somewhat inaccurate and thus have introduced some form of bias. Secondly, it was expected that there would be a number of zero values for the WTP questions, perhaps because of “protest zero’s”, but, more likely, because of income constraints, especially in Grahamstown East, which has a large indigent population. As discussed above, the DC format would have made the elicitation of these zero’s difficult.

However, the pilot study revealed an alarmingly high number of “don’t know” responses, or questions about what an acceptable rate would be. In the final study, therefore, it was decided to use a single DC format (yes/no) at a single level of R5 per person, per month. The amount was chosen as representing a fairly significant value while not being unmanageable (R5 having a purchasing power of about 2 loaves of bread or 2 litres of milk or one beer). It was taken into account that as income lowers, this amount becomes more significant.

A “don’t know” or “would not vote” (WNV) option was still provided for these WTP questions. Although interviewers did not prompt respondents to use this option as it was feared that many respondents would see it as an “easy way out” of a question requiring some thought, this response was accepted. A study by Carson and Hanemann (1998:336) suggests that, in DC WTP questions, the WNV respondents can be treated as having voted “no” without altering the distribution of responses, the estimate of WTP or the construct validity of the results. They suggest that some respondents may not want to admit that they are not willing to pay for more of a socially desirable good, particularly if the interviewer somehow conveys (by manner or tone) that the “right” answer would be a positive WTP. Accepting a WNV or “don’t know” response may give respondents a more socially acceptable way to indicate that they do not support the program (Carson and Hanemann 1998:336).

The WTP questions were not checked for “first response” bias by reversing the order of questions 3.2 and 3.3 because the sample was not large enough to allow for two separate populations. While some form of this bias is possible, it was not thought likely that it would be large. The Thompson, Throsby and Withers (1986:621) study did test for “first response” bias, but found no significant difference between the two samples which were then amalgamated for further analysis.

The remaining three questions in the WTP section used both open and closed-ended questions to explore possible reasons for WTP responses. Firstly, a “post decision

confidence measure” was used (Bennett and Tranter 1998:255) to determine the extent to which respondents regarded their responses as accurate. Seller (Willis 1998:616), using the post decision confidence measure with an open-ended CV format, found that almost 25% of respondents could not provide an accurate answer. However, it was decided not to use the percentage measure suggested by Bennett and Tranter (1998:257), since the very low average levels of education in Grahamstown East, combined with possible language difficulties, may have caused misunderstanding and inaccurate answers. Instead, a series of prompted responses was used, indicating general levels of confidence.

Considering the small amount of information provided, it was expected that a fairly low level of confidence in the WTP responses would be found. It was hoped, however, that the responses to this question would be an indication of the level of thought the respondents had given to the WTP questions. The wording of the question was deliberately phrased to emphasise that it was the confidence in the personal accuracy of the respondent’s answers that was being tested, not whether they had got the answer “right”.

As suggested by Chambers and Chambers (1998:146), for those respondents with zero WTP for either question 3.2 or 3.3, a prompted, mostly closed-ended, question was asked about the reasons for their answers. It was thought that, by providing prompted answers, respondents were given the impression that there were a number of legitimate possible reasons for stating a zero WTP and that this answer was not “wrong”. It also provided the opportunity to test for those respondents who did not accept the contingent market set up by the interviewer, by suggesting the response: “I do not think that the money will be spent on the Festival”. As Chambers and Chambers (1998:147) suggest, these respondents may introduce bias through the use of “protest zero’s” and their responses should be excluded from WTP estimates. The partly open-ended question, “I do not support the idea of the festival at all because ...” also tested for possible “protest zero’s”, allowing respondents the opportunity to expand on their motives. These prompted responses also

provided an opportunity for respondents to indicate the income constraint without embarrassment.

The most interesting group of respondents, as far as the Grahamstown research was concerned, would be those who reported no or very low levels of involvement in or attendance at the live performing arts at the festival (see question two), but nevertheless indicated a positive WTP. Question 3.5, an unprompted, open-ended question, taken from the Morrison and West (1986:68) study, was put to such respondents. The purpose of this question was two fold: firstly, it allowed for an internal consistency check in that responses to this question were expected to be similar to the externalities reported in question one. Secondly, as Chambers and Chambers (1998:146) suggest, those respondents who reported that they supported a “good cause” or words to that effect, could be responding to a “warm glow” (discussed in chapter three) rather than to a specific WTP question. Omitting the WTP values of these respondents could result in a less biased estimate.

## **C Demographics : question four**

### **Question four: demographics**

Finally, we'd like to know some details about you. Remember that your name is not be attached to any of the answers you have given. Your telephone number was selected at random from the phone book. This information will help us to use your answers in a more detailed and accurate way.

The introduction to the demographics question specifically stated the anonymous nature of the survey. As mentioned before, this was to encourage respondents to answer questions of a personal nature about income, age, race etc. The justification for the need for the information (“This information will help us to use the answers you have given us in a more detailed and accurate way.”), was felt to be necessary because of the sensitivity regarding questions about race in South Africa at present.

General questions, all prompted if need be, were then asked about education level, income and employment - all shown to have some significant relationship to arts attendance (see chapter two). The questionnaire format from the Thompson, Throsby and Withers (1983:51 - 52) study was used.

5. Thank you very much for your time and help. Before we finish, is there anything else about the Festival that you would like bring to my attention? [If yes, make brief notes]  
[NOTE: If asked, results of the survey will be passed on to festival officers and organisers]

Finally, an opportunity was given to those respondents were particularly wanted to make some other comment about the Festival to speak. This was done because the pilot study revealed that some respondents had very strong opinions about the Festival, not covered in the questionnaire, which they felt to be very important.

## **Chapter Six**

### **THE RESULTS OF THE RESEARCH**

There were two main objectives to the Grahamstown Festival WTP study. The first was to test the hypothesis that the arts, as represented by the Standard Bank National Arts Festival, provided externalities to both attenders and non-attenders which they were willing to pay for. The second objective was to determine the effectiveness of the WTP technique in revealing and measuring these externalities and its usefulness, in conjunction with economic impact analysis, in determining the value of a cultural event, such as an arts festival. The following chapter will discuss the results of the WTP survey conducted in Grahamstown in May 2000.

#### **6.1 Response Rate**

The original population of 50 randomly selected telephone numbers from Grahamstown East yielded 37 completed calls, a 74% response rate. Only 3 calls were directly terminated (the others being rated as no reply, busy, no longer in existence, language barriers or under age - all respondents had to be over 18). Numbers were called back at least twice and all calls were made after hours or on weekends.

The Grahamstown East responses from the original population of 50, however, were unacceptably low, mostly because calls were not answered. The Xhosa language interviewer pointed out that when a line is cut off because the bill has not been paid, it sounds as if the telephone is ringing, when in fact it is not. It was confirmed by Telkom, that it may be as long as five months before callers are informed that the number has been disconnected and that, before this is done, it sounds as though the telephone is ringing and that the line is operative. The high rates of unemployment and poverty in Grahamstown East make this a highly likely scenario. The sample was thus increased to 75, yielding 36 completed calls, a 48% response rate. Five calls were directly terminated.

Of the calls completed in Grahamstown East, only two interviews were conducted in English, all the remainder (94.4%) in Xhosa. The final number of completed interviews was thus 73, slightly more than half the population (50.68%) coming from Grahamstown West.

## **6.2 The demographics of respondents<sup>1</sup>**

Since the sample was not stratified in any way, the demographics of respondents were entirely random. A wide range of age groups was recorded. There was a significant difference at the 5% level, between the ages of respondents from the two areas, Grahamstown East respondents tending to fall mainly into the 18 - 35 age group (63.9%), while West residents were spread more evenly, the largest group (40.5%) being in the 35 - 50 age group. This reflects the difference in age distribution between the white and coloured (28% of the population younger than 18) and black (53% of the population younger than 18) population groups (Stats SA 1996:37).

A marked bias towards female respondents (75.3% of the total sample) was recorded. However, there was no significant difference between the two areas at the 5% level.

Language, race, income, profession and education statistics merely verified the original assumptions made when dividing Grahamstown into two areas. Grahamstown East respondents were all black people who spoke Xhosa at home. Only 16.6% of respondents from this group had been to technikon or university and 52.8% had not completed matric. A significant proportion of Grahamstown East respondents were unemployed (27.8%) and only 13.9% were employed as professionals or white collar workers. The unemployment figure recorded in the Grahamstown study is significantly lower than that of the Eastern Cape province as a whole which is 48.5% (StatsSA 1996:128). It should be noted, however, that only households with telephones were

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<sup>1</sup> More detailed statistics of the results are available from the Department of Economics and Economic History, Rhodes University, Grahamstown.

contacted. These would undoubtedly represent the wealthier members of the Grahamstown East area. Income levels in the East were correspondingly low, with 77.8% of respondents earning less than R1000 per month.

Grahamstown West respondents were white (81.1%) or coloured (18.9%) people who spoke English (64.9%) or Afrikaans (32.4%). Of this group, 64.9% had been to technikon or university, 62.2% were working as professionals or white collar workers and only 11.4% earned less than R1000 per month. These results were expected and verified ideas that the East side of town is in general far worse off than the more opulent West which is where the Festival largely takes place. Responses to opinion, attendance and WTP questions were, however, far more surprising.

### **6.3 Question 1 : opinion**

As discussed in chapter two, one of the most prevalent opinions about the arts is that the people who attend and so benefit from public subsidy, are mostly wealthy and well educated (Morrison and West 1986:58). Thus, it could be expected that the opinions of the largely indigent Grahamstown East population would show a marked difference from those of the wealthier Grahamstown West respondents, the East being much more critical of the Festival. As already mentioned in chapter three, the general perception of many Grahamstonians and outsiders is that the Festival is too "white" and does not benefit all residents, particularly not those in the most needy East area.

The responses to the opinion statements will now be analysed and compared to responses from similar studies in Australia (Throsby and O'Shea 1980 & Throsby and Withers 1983). It should be noted, however, that the population of Australia is far more homogenous than that of South Africa and comparisons must take this into account.

**Table 6.3 : Comparison of arts opinion surveys in Grahamstown, Sydney and Mildura.**

| Question   | Grahamstown | Ghst.<br>West | Ghst.<br>East | Sydney | Mildura |
|--|-------------|---------------|---------------|--------|---------|
| 1.1 Pride (% agree)                                      | 78          | 65            | 92            | 95     | 94      |
| 1.2 Understanding (% agree)                              | 85          | 76            | 94            | 85     | n/a     |
| 1.3 Only benefits those who go to shows (% disagree)     | 71          | 83            | 58            | 64     | n/a     |
| 1.4 Too critical (% disagree)                            | 81          | 87            | 75            | 81     | 93      |
| 1.5 Option demand (% agree)                              | 93          | 89            | 97            | n/a    | 96      |
| 1.6 Education (% agree)                                  | 86          | 81            | 92            | 97     | 96      |
| 1.7 Doesn't cover costs - should be dropped (% disagree) | 59          | 62            | 56            | 78     | n/a     |
| 1.8 Tourist attraction (% agree)                         | 97          | 95            | 100           | n/a    | 96      |

Source: Sample survey of Grahamstown 2000; Throsby and O'Shea 1980:7 and Throsby and Withers 1983:184

The first statement of the Grahamstown survey concerned community pride (see table 6.3): "The Festival gives all the people of Grahamstown a sense of pride". Both the Mildura (Throsby and O'Shea 1980:7) and Sydney studies (Throsby and Withers 1983: 184) found that 93.5% and 94.8% of respondents respectively agreed or strongly agreed with a similar statement. While as a whole only 78.1% of Grahamstown respondents agreed or strongly agreed with this statement, an astonishing 91.7% of East respondents agreed or strongly agreed, to only 65% of West respondents.

To statements about the arts "helping us to understand the politics and cultures of our country better", the Sydney study (Throsby and Withers 1983:184) found that 84.6% of respondents agreed or strongly agreed. This compares very closely to the

Grahamstown study (84.9%). Again, however, East respondents felt more positively than West - 94.4% of East respondents agreed or strongly agreed to only 75.6% of West.

Responses to the statement, "The Festival only benefits people who actually pay to go to the ticketed shows" were considered particularly important in the light of the aforementioned criticisms of the Festival. To a similar question, the Sydney study (Throsby and Withers 1983:184) found that 64.1% of respondents disagreed or strongly disagreed. Surprisingly, 71.2% of Grahamstown respondents disagreed or strongly disagreed, though, as expected, a higher proportion of West residents (83.8%) responded this way as compared to East (58.3%).

The next statement solicited another negative opinion: "The arts at the Festival harm society because they are too critical of our way of life". A similar statement about the "disturbing influence" of the arts in the Mildura study (Throsby and O'Shea 1980:7) resulted in the vast majority of respondents disagreeing or strongly disagreeing (92.7%) as did the Sydney study (81.2%) (Throsby and Withers 1983:184). A similar result was obtained in Grahamstown, 80.8% of respondents disagreeing or strongly disagreeing, with a somewhat higher percentage of these respondents in the West area.

The fifth statement in this section solicited opinions of future use values: "The Festival should be kept going so that people, or their children, have the choice of attending it in the future". A similar statement in the Mildura study (Throsby and O'Shea 1980:7) had a 95.5% agree or strongly agree response. This is very similar to the Grahamstown response (93.2% agree or strongly agree), surprisingly, however, made up of a slightly higher percentage from the East (97.2%) than the West (89.2%).

"The arts offered at the Festival are useful in educating the community at all ages" solicited an 86.3% agree or strongly agree response from Grahamstonians - 91.6% from Grahamstown East and 81.1% from Grahamstown West. The Mildura study (Throsby and

O'Shea 1980:7) had a similar response - 96.4% agree or strongly agree, as did the Sydney study (Throsby and Withers 1983:184) - 96.5%. It needs to be noted, however, that these studies specifically asked about the education of school children, which may account for the higher positive responses.

Opinions solicited by the next statement however, proved to be somewhat problematic: "If the Festival doesn't make enough money to cover costs, it should be dropped". A similar, but perhaps clearer question from the Sydney study (Throsby and Withers 1983:184) which read, "All theatres, opera ..... should be made to survive on their ticket sales alone" solicited a 78.1% disagree or strongly disagree response. The Grahamstown study, however, solicited only a 58.9% disagree or strongly disagree response, 62.2% from West respondents and only 55.6% from the East.

The response is particularly puzzling when the very high percentage of respondents who have a positive WTP is considered (further discussed below). However, the later question designed to illuminate WTP responses, revealed that one of the major reasons that respondents in Grahamstown East are willing to support the Festival is the hoped-for economic benefit that it may provide. Given the level of unemployment recorded in the East area (27.8%) it is hardly surprising. Since the question did not clearly define "costs", the idea may have been formed that if the Festival did not "cover costs" there would be no economic benefit for anyone. This explanation is supported by the fact that there was no other evidence of internal inconsistency within these questionnaires. The confusion surrounding this question is also reflected in the high percentage of "don't know" responses (21.6%) from Grahamstown West.

As expected, the statement, "The Festival is an added attraction to tourists to Grahamstown" solicited a 97.26% agree or strongly agree response - 100% from the East and 94.6% from the West. This again reflects on the perceived importance of the economic benefits of the Festival to East respondents. The tourist attraction question in

the Mildura study (Throsby and O'Shea 1980:7) had similar results, with 96.4% of respondents agreeing or strongly agreeing.

In general, there are surprisingly few opinion differences between the Grahamstown and the Australian studies. One of the most marked differences is in the answers of the statement, "The Festival only benefits people who actually pay to go to ticketed shows" where the Grahamstown response was 7.1% higher (disagree or strongly disagree) than that of Sydney. This is also one of the most important indicators of the perceived level of externalities. The relatively small difference between the Sydney (64.1%) response and that of Grahamstown East (58.3%) was the first indication that the commonly held view that the Festival does not benefit the poorer East area is incorrect. This is supported by the fact that in several cases, East residents feel more positively about the Festival than do those from the wealthier West. It is speculated that the wealthier West residents may have been "over compensating" for the generally believed idea that the poorer East residents do not benefit greatly from the Festival.

However, as Throsby (1982:6) points out with regards to the Mildura study, "Both an expected response bias towards those favourably inclined to the Arts Centre and the unavoidably leading nature of this group of questions, are likely to exaggerate results in a positive direction". A better indication of true opinions can be gained by WTP data which can be adjusted somewhat for bias.

#### **6.4 Question 2 : attendance and interest** (See appendix 5 for correlation tables)

As was expected, there were significant positive correlations (at the 5% level) between the ticketed shows and attendance by people from Grahamstown West. Plays, music events and films all fell into this category, with 52.8% of East people having attended no plays, 47.2% no music events and 86.1% no films. There was no significant correlation (at the 5% level) between attendance at dance events and area. This, however, is probably a result of low attendance by West people (35.1% had attended no dance events in the last 2 festivals) rather than anything else.

**Table 6.4 : Attendance at the Grahamstown Festival by local respondents in the last two years (1998 & 1999)**

**West**

**East**

| Show Type:<br>% attendance from<br>each area | None (0) | A Few<br>(1 - 3) | Quite a lot<br>(4 - 10) | V large no.<br>( >10) | None (0) | A Few<br>(1 - 3) | Quite a lot<br>(4 - 10) | V large no.<br>( >10) |
|--|----------|------------------|-------------------------|-----------------------|----------|------------------|-------------------------|-----------------------|
| 2.1 "Sundowner"                              | 35.1     | 45.9             | 8.1                     | 10.9                  | 83.3     | 13.9             | 2.8                     | 0                     |
| 2.2 Street show                              | 35.1     | 43.2             | 16.2                    | 5.5                   | 11.1     | 55.5             | 16.7                    | 16.7                  |
| 2.3 A play                                   | 18.9     | 51.4             | 24.3                    | 5.4                   | 52.8     | 41.7             | 5.5                     | 0                     |
| 2.4 Dance                                    | 35.1     | 48.6             | 13.5                    | 2.8                   | 52.8     | 33.3             | 13.9                    | 0                     |
| 2.5 Music                                    | 21.6     | 43.2             | 24.3                    | 10.9                  | 47.2     | 44.4             | 8.4                     | 0                     |
| 2.6 Art Exhibition                           | 24.3     | 24.3             | 35.1                    | 16.3                  | 44.4     | 47.2             | 2.8                     | 5.6                   |
| 2.7 Film                                     | 62.2     | 18.9             | 10.8                    | 8.1                   | 86.1     | 11.1             | 2.8                     | 0                     |
| 2.8 Craft Market                             | none     | 1 - 2 hours      | 3 - 5 hours             | > 5 hours             | none     | 1 - 2 hours      | 3 - 5 hours             | > 5 hours             |
| % attendance                                 | 8.1      | 13.5             | 27                      | 51.4                  | 0        | 33.3             | 16.7                    | 50                    |

Attendance figures for the free shows (“Sundowners” at the Monument, street shows and art exhibitions) are also interesting. As expected, there was a strong correlation (significant at the 5% level) between Grahamstown East people and free street shows (only 11.1% had attended none as compared to 35.1% of West people). However, the same did not apply to “Sundowners” at the Monument (a medley of live previews of drama and music events open to all at 5pm in the Monument foyer) or art exhibitions, both of which showed a significant positive correlation between West residents and attendance. This lack of correlation between low income groups and attendance at free shows can, however, be explained by expected correlations with education levels.

All correlations between attendance and education were positive, but only attendance at plays (0.24), art exhibitions (0.31) and films (0.32) produced results significant at the 5% level. This may explain the lack of significant attendance levels at certain free shows by Grahamstown East respondents (who have significantly lower levels of education than West respondents) and represents an important educational opportunity for the community. The positive, significant correlation between income and attendance at art exhibitions also supports this conclusion.

The distance of the Monument from the town centre and the time of day at which the show is held may have a discouraging effect on the attendance of East residents, who do not have easy access to transport, at the “Sundowner” shows. The distance of the Monument from the East side of town is significant and the early winter dark and cold could offset the benefits of the free concert. This is further supported by a positive (but not significant at the 5% level) correlation between income and attendance at “Sundowners” and education and attendance at theatre events.

The other free Festival event, the craft market, showed a slight (but not significant) correlation between attendance and Grahamstown East respondents, with both groups spending large amounts of time there (50.7% of respondents spent an average of more

than 5 hours at the craft market over the last 2 Festivals). Only 13.9% of Grahamstonians reported being involved in any of the Festival events being discussed. As expected, a higher proportion of wealthier West respondents were involved than respondents from the East.

Also as expected, positive (but not significant) correlations between income and attendance were recorded for dance events and films, while significant positive correlations between income and attendance at plays (0.34) and music events (0.25) were recorded. Negative (but not significant) correlations between income and attendance were recorded for free street shows (-0.09) and the craft market (-0.04). As discussed, there were positive correlations between income and attendance at "Sundowners" (0.20 - not significant) and attendance at free art exhibitions (0.38 - significant).

There was an expected positive correlation between white people and attendance at most events, significant at the 5% level for attendance of plays (0.38), music events (0.36), art exhibitions (0.50) and films (0.31). As expected, positive correlations between lower income groups, represented by black or coloured people, and high attendance at free shows were found for street shows (-0.14) and the craft markets (-0.13) (although not significant at the 5% level).

As with the Sydney study (Throsby and Withers 1985:9) the expected correlations between income and education (and in the South African case, race) and attendance at ticketed performance arts shows was not as severe as expected. At the last 2 Festivals, an average of 51% of Grahamstown East respondents had attended at least one play, at least one dance event, at least one music event and at least one art exhibition as compared to an average of 77.6% of Grahamstown West respondents.

Given the vast differences in income between the two areas (77.8% of East residents earn less than R1000 per month, while only 11.4% of West residents do) these statistics indicate a greater interest and attendance rate in the East area than is generally believed to exist. This interest is borne out by the high percentage of Grahamstown East

respondents who have a television and would make a point of watching a programme on the Festival - 97.1% as compared to only 67.9% of West respondents.

The interest indicated by the number of East residents who reported that they would watch a television programme on the Festival is contradicted by the responses to the question regarding *CUE TV* (54.5% of West residents reported watching while only 14.3% of East residents did). The difference can be explained partly by the reports of respondents in both areas that they had difficulty in tuning in (*CUE TV* is broadcast from the Department of Journalism and Media Studies, Rhodes University). Help with tuning was offered largely in the West area which possibly explains their higher viewership. In 1999, *CUE TV* was broadcast on a satellite channel, far easier to receive than the analog broadcast, but only available to those who possessed the relatively expensive decoder and dish.

### **6.5 Question 3 : willingness to pay**

The responses to the first two questions determined that the Festival provided positive externalities and that these were recognised by both attenders and non attenders. Once respondents had been reminded of their opinion of and attendance at the Festival, a more concrete and quantifiable measure of their support of the Festival was elicited via the willingness to pay questions. Besides gaining information about respondents' WTP to support the Festival, this section of the questionnaire also tested the suggested methods (see chapter three) of controlling for the various forms of bias that this method is particularly prone to.

#### **C Adjustments for “warm glow”, internal inconsistency and non acceptance of the contingent valuation market**

As mentioned already, the questions directly following the WTP section (open ended, with no prompting and partly open ended with prompting) were designed to detect forms of bias other than free riders in the WTP responses.

As suggested by Chambers and Chambers (1998:139), respondents who had attended none or very few of the festival events and who claimed that their reason for supporting the festival was “I like to support a good cause” were deleted from the study as “warm glow” respondents. Three such candidates were discovered, all in Grahamstown West. 4.1% of the total sample.

All respondents who attended none or few festival events, but had a positive WTP were asked what their reasons were for supporting the Festival. This unprompted question allowed for an internal consistency check with responses to the opinion questions (question one). One obvious example of internal inconsistency was found in Grahamstown West where the respondent disagreed with the statement about the Festival being useful for educational purposes (1.6), but claimed in the unprompted, open ended question 3.5 that she supported the Festival because of its important education aspects.

Two further deletions for lack of internal consistency occurred in Grahamstown East when the respondents answered “no” to the non liability WTP question, but “yes” to the liability question and were unable to explain their answers. The Xhosa language interviewer and translator reported that the WTP section of the questionnaire was the most difficult to translate and was also the section he was asked to explain or repeat most often. It is therefore quite likely that there was some misunderstanding in these two cases. Internal consistency tests conducted on all the other low attendance, positive WTP respondents were passed.

A check for “protest zero’s” or the non acceptance of the contingent valuation market (Chambers and Chambers 1998:141) was conducted by suggesting to respondents with zero WTP such responses as “I don’t think the money will be used to support the festival”. Only one such case was discovered and deleted.

In all, 7 responses were deleted as containing “warm glow” responses, internal

inconsistency or protest zero's, 9.6% of the total sample. The following discussion will deal with the adjusted WTP results, which exclude these cases.

### **C Willingness to pay results**

The WTP responses (see table 6.5a) were far higher than expected, especially in the East area. With no liability, 90.6% of West (95% confidence level: 80.5%; 100.0%) and 94.1% of East (95% confidence level: 86,2%; 100,0%) residents were willing to allow an additional R5 of their monthly taxes to be spent of the Festival. With liability, 81.3% of West (95% confidence interval: 67,7%; 94,8%) and 73.5% of East residents (95% confidence interval:58,7%; 88,4%) were willing to pay an additional R5 in taxes each month to support the Festival. The fact that, in the non liability question, the East actually has a higher stated WTP than the West is astounding, given the much lower levels of attendance and income in this area.

**Table 6.5a : Summary of adjusted WTP responses**

| Area  | No liability<br>YES | No liability<br>NO | Liability<br>YES | Liability<br>NO | Free Riders |
|-------|---------------------|--------------------|------------------|-----------------|-------------|
| West  | 29 (90.6%)          | 3 (9.4%)           | 26 (81.3%)       | 6 (18.7%)       | 3 (9.4%)    |
| East  | 32 (94.1%)          | 2 (5.9%)           | 25 (73.5%)       | 9 (26.5%)       | 7 (20.6%)   |
| Total | 61 (92.4%)          | 5 (7.6%)           | 51 (77.3%)       | 15 (22.7%)      | 9 (13.6%)   |

Total sample size : 66

Grahamstown West : 32 (48.5%)

Grahamstown East : 34 (51.5%)

Note: As suggested by Carson and Hanemann (1998) "don't know" responses (4.5% of the total sample) were re-coded to reflect a "no" answer.

It should be noted, however, that since the single discreet format question was not used by any of the WTP studies mentioned previously, is not possible to compare the Grahamstown WTP response directly with any of them. Also, because of the limited time

and financial resources available to the Grahamstown study, it is possible that the study is biased towards a positive WTP response for two reasons, both regarding the information bias. Firstly, the telephone interview format did not allow for a great deal of information regarding the breakdown of the individual's tax contributions to arts and culture, education, defence etc to be made available in order to place contributions to the arts in the context of a wide range of public expenditures as is suggested by Morrison and West (1986:66), nor was the government helpful in providing such information . It is quite possible that if contributions to arts and culture had been directly compared to public spending on housing schemes, education, health, security and the various government job creation programmes, a lower WTP would have been elicited, especially from the East area.

Secondly, the information which was provided (indicating the withdrawal of the Standard Bank as title sponsor and the likely closing of the Festival if no other sponsors were found) almost certainly resulted in a positive WTP bias. The information was provided by Marias (2000), the Festival officer, who, at the time of the interview, was not hopeful of finding another sponsor to take over from the Standard Bank. What seems most likely to happen is that the Festival will become much smaller, with several private sponsors supporting specific parts of it. However, by May 2000 nothing definite had been announced. The only way to test the magnitude of the information bias would be to run a similar WTP study, with modified information, once the future of the Festival has been settled.

The poor quality of the information provided, however, was not reflected in the "post decision confidence measure" (Bennet and Tranter 1998:255) in which respondents were asked to rate their "sureness" of the accuracy of their stated WTP. While Seller (in Willis 1998) found that almost 25% of respondents to an open ended WTP question could not provide an accurate answer, 53.8% of Grahamstown respondents were "fairly sure" that their WTP answers were accurate, and 35.4% were "very sure", only 10.8% feeling "not at all sure" or choosing the "don't know" option.

The lack of information was evident, however, in the question (3.1) which asked whether the respondent regarded current levels of government support to the Festival as "too little",

“too much”, “just right” or “don’t know”. Although 45.5% of respondents regarded current support levels as “too little”, 36.3% choose the “don’t know” option. The identical question in the Canadian study by Morrison and West (1986:64) which provided a great deal more information, had only a 6.5% “don’t know” response.

Likewise, the “mixed good bias” mentioned by Throsby (1984:280) could not be satisfactorily tested for in this study. This form of bias appears because attenders have a logical reason to overstate their WTP, since they will benefit more directly from any increase in public subsidy (see chapter 3). In the Grahamstown study, there was a negative correlation between attendance and WTP because the low levels of attendance in the East sample were combined with a surprisingly high positive response to the WTP question. This result makes the significant distortion of the results by the mixed good bias unlikely. However, to test for it properly, a more accurate WTP amount is needed, which could be gained by a series of WTP yes/no bids. Higher attendance levels would thus logically be associated with higher WTP bids. With only one yes/no WTP question, however, this form of bias could not be tested for.

Even allowing for some positive bias, the WTP responses of both Grahamstown West and Grahamstown East respondents was unexpectedly high and will be examined in further detail below. Firstly, however, the results of the Bohm test for “free riders” will be discussed.

### **C Testing for “free riders”**

As discussed in chapter three, one of the major problems with WTP questions is that they are usually hypothetical which may encourage “free riders” - those respondents who would vote for an increase in government spending on the arts, but who would not make a contribution themselves. In order to control for this, the Bohm interval method, as used by Throsby and Withers (1985:32) was applied.

Three respondents in Grahamstown West (9.4% of the West sample) and seven

respondents in Grahamstown East (20.6% of the East sample) responded “yes” and then “no” or don’t know” to the non liability and liability questions, suggesting that 13.6% of the sample were “free riders”.

However in the Grahamstown study, not all those who answered “yes” to the non liability questions and “no” to the liability question can automatically be regarded as “free riders” because of the extremely low levels of income recorded (less than R500 a month) for some respondents in Grahamstown East. In these cases, it is quite possible that the refusal to pay extra is the result of honesty about an income constraint, rather than because of “free rider” behaviour. This would also explain why there appear to be more than twice as many “free riders” in the East area compared to the West. However, since the sample was probably already somewhat biased towards positive WTP responses (as discussed above), all candidates with “yes” and then “no” responses to the WTP questions (3.2 and 3.3), were regarded as “free riders”.

The Grahamstown result compares favourably, however, with the Sydney study where only about 65% of responses were considered to be “honest” (Throsby and Withers 1986:622) and is more similar to the Morrison and West (1986:66) Canadian study where no significant difference between liable and non liable WTP was recorded. However, like the Canadian study, the amount mentioned (R5 a month or R60 a year) was perhaps small enough to encourage honest answers. As mentioned in chapter 3, the larger the sum the greater seems to be the number of “free riders”.

### **C WTP in Grahamstown West**

Positive WTP responses in the wealthier Grahamstown West area were higher than expected, but not nearly as startling as those in the poorer East. With no liability, 90.6% of West residents were willing to allow an additional R5 of their taxes to be spent on the Festival. When liable, this dropped to 81.3% indicating that 9.4% of the West sample were “free riders” - a very low number.

Of the five respondents who indicated a negative response to both the WTP questions three were from the West (9.4% of the West sample). These respondents claimed to have attended no Festival events, with the exception of one person who had been to “a few” (defined as 1 - 3) plays and art exhibitions in last two years. Lack of money was quoted as the reason for the negative response (although only one respondent earned less than R1000 per month) and one respondent felt that the Festival was “too commercialised”.

The high percentage of people willing to pay R5 per month when liable from this area is most important to the Festival. Only two respondents from the West had a low attendance level and positive WTP, the vast majority of respondents in this area having attended at least some Festival events (see section 5.4). Their unprompted reasons for supporting the Festival although they did not attend were the future use option and community pride.

Although the WTP responses in this area undoubtedly displayed some attender or mixed good bias, it was not, as is explained above, possible to check for it. This area also contained all the deleted “warm glow” responses (3).

The Grahamstown West interviewer remarked that, “Respondents are anxious about the possible loss of the Festival. It does mean a lot to the locals”.

### **C WTP in Grahamstown East**

What is surprising about the East WTP result is not only the extremely high percentage of people with a very low average income who are willing to pay to support the Festival, but the fact that, for the non liability question, the poorer side of Grahamstown, who do not, allegedly, gain much from the Festival, actually have a higher percentage of people who are willing to pay to support it (94.1%) than does the wealthier East (90.6%).

Respondents who had low attendance figures, but a positive WTP were asked why they

were WTP for a service that they used very little (67.6% of East respondents fell into this category). In the East area, the benefit of future generations (quoted by 30% of the low attendance, positive WTP group), education (23% of this group) and community pride (4%) were mentioned, but by far the most frequently quoted reason was economic benefit and tourism (61.5%). Ten respondents from this group (43.8%) mentioned some other reason for their support of the festival, including, “improving our nation” and “exposing people to culture”, “giving people something to do and keeping them away from crime”, “keeping the town alive” and that it was “good for the community”. These unprompted explanations encapsulated many of the externalities mentioned in the opinion question (question one) and indicate a surprisingly high appreciation of the externalities provided by the Festival to non attenders.

Amongst attenders, the employment and educational opportunities provided by the Festival were also mentioned often in answer to the final question, “Is there anything else about the Festival that you would like to bring to our attention?” East respondents often mentioned, in conjunction with this, that the Festival did not generate as much economic benefit for the area as they would like, but this was never quoted as a reason for closing the Festival down or withdrawing support. The following are examples of such additional comments:

“I would prefer it if locals were given preference for small jobs, for example, security. Town businesses get enough business and the unemployed from the township will get more benefit from these jobs”.

“The disadvantaged should get more than just peripheral jobs. Personal development is an important aspect that is often neglected. We should use the Festival to grow Grahamstown and its people”.

When asked for his impression of the general attitude of respondents, the East interviewer, commented that, “The overwhelming majority of respondents showed a high level of concern regarding the employment issue during the Festival ... They feel that the Festival has not yet broken through the town barrier and that the township should be more involved”. Other than the cultural value that the Festival provides, what East respondents seem to be

most willing to pay for is the job creation potential of the Festival. Given the high levels of unemployment in this area and the lack of any other large industry in Grahamstown, this is hardly surprising. What these results also suggest is that even though East households benefit less in money terms than those in the West, their Festival earnings form a far more important part of their income, than does Festival income for West households (see table 5.5b below). This is similar to the conclusion reached in the Festival economic impact analysis by Antrobus *et al* (1997a:27):

“The fact that so much more income is retained by Grahamstown East households suggests that they view the Festival in terms of an income earning opportunity, whilst Grahamstown West residents take advantage of the greater consumption opportunities.”

**Table 6.5b : Average income and retained income per household**

| Area                                     | West       | East         |
|--|------------|--------------|
| Average income from labour per household | R194       | R187         |
| Average income from accommodation per/hh | R791       | R84          |
| Average retained income per household    | R53 (5.4%) | R224 (82.7%) |

(Antrobus *et al* 1997a:ii)

Although the East area had a higher percentage of free riders than the West (possibly because of income constraints), the East’s initial WTP responses were higher than those of the West area. This seems to indicate a great interest in keeping the Festival going despite low levels of attendance in the East area and a WTP for the externalities that the Festival provides that far exceeded the initial expectations of the study.

### **C What are the Festival’s externalities worth?**

It must be stressed that because of the smallness of the sample and lack of detail allowable in the telephone interview format, as well as the extremely unreliable nature of the information about the Grahamstown population available, these results will, at best, be a general approximation of the value of the Festival’s externalities.

The 1994 estimate by the Grahamstown municipality, is that there were 27 548 people living in the West area and 97 219 people living in the East. The census conducted in 1994 (Stats SA 1996:37) indicated that about 53% of black people in the Eastern Cape province and 28% of whites were under the age of 18. Since 100% of the Grahamstown East sample were black and three quarters of the Grahamstown West sample were white, these statistics can be considered a reasonably accurate representation of population age groups. In the East area, people owning telephones represent the wealthier members of the community (although many reported earning less than R500 a month). In order to adjust somewhat for this bias, a second calculation, with the WTP response for this area downgraded from 73% to 60% is included (see table 6.5c)

**Table 6.5c : Valuing Festival externalities**

| Area   | % of pop < 18 | pop no. > 18 | % WTP R5 | no. WTP R5 | WTP p/a    |
|--------|---------------|--------------|----------|------------|------------|
| West   | 28            | 19 835       | 80       | 15 868     | R952 080   |
| East 1 | 53            | 45 693       | 73       | 33 356     | R2 001 360 |
| East 2 | 53            | 45 693       | 60       | 27 416     | R1 644 960 |
| East 3 | 53            | 45 693       | 50       | 22 847     | R1 370 820 |

Of the 47% of the East population (the adults), we assume first that 73% of them are willing to pay R5 a month in increased taxes to support the Festival, which amounts to just over two million Rand per year (East 1 calculation: table 6.5c) at a 95% confidence interval of (72,6%; 73,4%) . Of the adults (72%) of the West population, the results have shown that about 80% of them are WTP the extra R5 per month. This amounts to nearly a million Rand a year at a 95% confidence interval of (79,5%; 80,5%). In total therefore, this very rough estimate suggests that the externalities of the Festival are worth about three million Rand a year to the people of Grahamstown. In the second East calculation (East 2: table 6.5c), it is assumed that only 60% of the people who live in Grahamstown East would be WTP R5 per month to support the Festival. In this case, Grahamstonians would be WTP about R2.6 million for Festival externalities. If only 50% of the East population are WTP (see East 3 calculation: table 6.5c), the total value of Festival externalities falls to just over R2.3 million.

While it can be argued that these estimates are upwardly biased, one must also keep in mind that the population has probably increased in the last six years (since 1994) and that, in order to calculate WTP accurately, a further bid, higher than R5 would be needed. It is thus possible that at least some respondents would be willing to pay more than R5 a month in extra taxes to support the Festival.

The Grahamstown WTP figure may seem small in comparison to, for example, the Kentucky estimate (Thompson *et al* 1998:3) : “Kentucky households would be willing to pay \$21.8 million to avoid a 25% decline in the number of arts performances in Kentucky” or the Sydney estimate of \$20 per head. It should be kept in mind, however, that both these studies (and most other WTP studies) were conducted for ongoing arts events and that the Kentucky study included the entire state, a much larger population than Grahamstown. With this in mind, a WTP of a smallish town of between R2.3 and R3 million a year in additional taxes to support a ten or eleven day Festival is comparatively good.

As far as the Grahamstown study is concerned, however, it is enough that the majority of Grahamstonians recognise the value of Festival externalities and have a positive WTP. The above estimate of between R2.3 and R3 million also indicates that the magnitude of these externalities is such that it could certainly form an important part of any future estimate of the value of the Festival to the Grahamstown community.

The conclusion that Throsby and Withers (1985: 18) drew can also be applied to the Grahamstown WTP study:

“Given the overall direction of results, we don’t need to rely on a single [WTP] estimate. Rather, we can point to the general tendencies in our data, which give some unequivocal guidance as to what conclusions can be drawn.”

## 6.6 Conclusions

There are two major conclusions to this research, closely related to one another. Firstly, it can be concluded that the arts do provide positive externalities and that these are recognised as important by both attenders and nonattenders and should be included when measuring the value of a cultural event. Even the relatively small Grahamstown study, found a high degree of homogeneity between the opinions of respondents regarding the externalities provided by the arts, and these were, for the most part, overwhelmingly positive, even amongst non attenders with very low incomes.

In further support of the idea that arts externalities are universally seen as important, is the surprisingly similar responses of this study to the Mildura (Throsby and O'Shea 1982) and Sydney studies (Throsby and Withers 1985).

The second conclusion is that the WTP method can be used effectively to measure the externalities provided by the arts and to quantify their value. It does appear to be possible to control for the various forms of bias that WTP studies are prone to: "free riders", "warm glow" responses and protest zero's, and to check for internal consistency. It also seems likely that other forms of bias mentioned in chapter three, such as the information bias and the mixed good bias, can be effectively controlled for in a more detailed study than the present one.

Although the smallness of the sample and the single DC format WTP question did not make a very accurate calculation of a WTP figure for Grahamstown possible, the Grahamstown study can act as a fairly reliable starting point for more detailed WTP studies. It is suggested that further research use face to face interviews, provide more substantial information on current tax spending and use more than one WTP bid in order to gain a more accurate idea of WTP and also to control for attender and mixed good bias.

## Chapter Seven

### CONCLUSIONS AND RECOMMENDATIONS

The main objective of this research was to investigate the accuracy and appropriateness of the methods used for measuring the value of the arts to society using the Standard Bank National Arts Festival as a case study. The objective is important because, in developing countries, like South Africa, motivation for public funds for the support of the arts must be made in competition with other important areas such as health and education.

Defining the arts in a country as multicultural as South Africa is no easy task. However, as Throsby and Withers (1985:5) note, the difficulty of defining the arts does not stop governments from making decisions about them. For the purposes of this study, all the offerings at the Standard Bank National Arts Festival (hereafter known as “the Festival”) were included. They were: live theatre (formal and street shows), live music of all kinds, live dance, films, the craft market and fine arts.

Public funding of the arts in South Africa at present is in a state of flux. There are a number of public or jointly run public and private institutions supporting the arts at present. However, they are mostly under-funded. Only 0.15% of the national budget is spent on the arts (National Expenditure Survey 1999:109).

The experimental nature of the Festival offers a great opportunity to encourage and provide exposure for young artists of all types (the “Fringe” programme) as well as to expose them to more mainstream influences (some of the “Main” programme). It is the ideal place to allow a truly “shared culture”, that is neither purely African or purely Eurocentric, to develop. Nettleford (1994:153) argues that it is this creolisation, or true mixing of cultures, which is so important in holding societies together and for “nation building”. Despite this, however, the Festival receives very little public funding.

An argument against further public funding for the arts, however, is that many commentators (including Morrison and West, 1986 and Dobson and West, 1990) believe that it is the educated, prosperous minority of society that benefit most from arts subsidies, not the poor. While it is true that there is a high positive correlation between income and education and attendance of the arts, this does not account for the non-excludable, non-rival public good characteristics of the arts. These positive externalities can be divided into roughly two categories. Firstly, the arts provide social benefits, such as enhancing national identity and pride, the ongoing education of children and adults, a critique of social policy and personal development. Secondly, they provide economic benefits, such as making an area more attractive to business, consumers and tourists, the creation of jobs, community benefits through the multiplier effect, etc.

While economic impact studies can provide a reasonably good estimate of the economic benefits of the arts, the social benefits, external to the market are much more difficult to quantify. However, Seaman (1987:744) argues strongly that if the positive externalities which the arts provide are not taken into account, governments are unlikely to be persuaded to provide sufficient public support.

The measurement of the positive externalities of the arts, or even proving that these postulated spillovers exist, poses interesting methodological problems. Several studies however, have attempted to do this using the contingent valuation or willingness to pay (WTP) method (Thompson, Throsby and Withers 1983; Thompson, Berger and Allen 1998, Morrison and West 1986 and Throsby and O'Shea 1980). This technique has been used extensively in the past to estimate "passive use values" in environmental economics and it is argued here that the same basic methodology can be applied to the arts (NOAA 1993:3).

While economic impact studies are often methodologically flawed and may produce unreliable results (see chapter 3), it is argued that WTP studies suffer from even greater problems. In particular, "free riders", "warm glow" responses, "protest zero's" (non

acceptance of the contingent market) and internal inconsistency need to be controlled for. A number of methods for doing this have been suggested and were applied to the WTP study conducted on the Grahamstown Festival. In general, the evidence suggests that the use of a combination of economic impact and WTP studies provide the best estimate of the true value of the arts.

To the knowledge of the author, no WTP studies had been conducted on the arts, or an arts event in South Africa at the time of the study (May 2000). The Standard Bank National Arts Festival is particularly interesting because a large part of the Grahamstown community (Grahamstown East) have very low levels of income and education and are mainly black, while a smaller percentage (Grahamstown West) are affluent, well educated and mainly white. At the time of the study, there was a general perception, backed by the results of the Festival economic impact study by Antrobus *et al* (1997a and 1997b) that the Festival did not benefit the East population much and that their feelings towards it were hostile.

The Grahamstown WTP study consisted of 73 completed telephone interviews, 36 from Grahamstown East and 37 from the West. The demographics of respondents verified the initial assumptions about the differences between race, income and education levels of the residents of the two areas.

Responses to the opinion questions which were designed to reveal Festival externalities, however, were most unexpected. This question (question 1) asked respondents to agree or disagree with statements about the feelings of pride the Festival evoked in Grahamstonians, the education it provided, its tourism attraction potential etc. Surprisingly, East residents often expressed more positive opinions about the Festival than did West respondents (see table 5.3). Opinion responses also compared favourably with responses to similar questions from the Sydney (Throsby and Withers 1983:184) and Mildura (Throsby and O'Shea 1980:7) WTP studies on which the Grahamstown study was based.

In general, there were surprisingly few opinion differences between the Grahamstown and

the Australian studies. One of the most marked differences was in the answers to the statement, "The Festival only benefits people who actually pay to go to ticketed shows" where the Grahamstown response was 7.1% higher (disagree or strongly disagree) than that of Sydney. This is also one of the most important indicators of the perceived level of externalities. The relatively small difference between the Sydney (64.1%) response and that of Grahamstown East (58.3%) was the first indication that the commonly held view that the Festival does not benefit the poorer East area is incorrect. Like Throsby (1982:6) however, the Grahamstown study acknowledges that the opinion question responses are probably positively biased and that the WTP data provide a more accurate view.

As was expected, there were significant positive correlations (at the 5% level) between the ticketed shows and attendance by people from Grahamstown West. Plays, music events and films all fell into this category, with 52.8% of East people having attended no plays, 47.2% no music events and 86.1% no films.

As with the Sydney study (Throsby and Withers 1985:9), however, the expected correlations between income and education (and in the South African case, race) and attendance at ticketed performance arts shows was not as severe as expected. At the last 2 Festivals, an average of 51% of Grahamstown East respondents had attended at least one play, at least one dance event, at least one music event or at least one art exhibition as compared to an average of 77.6% of Grahamstown West respondents. Given the vast differences in income between the two areas (77.8% of East residents earn less than R1000 per month, while only 11.4% of West residents do) these statistics indicate a greater interest and attendance rate in the East area than is generally believed to exist. This interest is borne out by the high percentage of Grahamstown East respondents who have access to a television set and would make a point of watching a programme on the Festival - 97.1% as compared to only 67.9% of West respondents.

Before compiling the WTP data, checks for "warm glow" responses, internal inconsistency and "protest zero's" were conducted, and responses displaying one of these forms of bias

were excluded from the sample. Using the Bohm interval method, 13.6% of the sample were identified as “free riders”.

The WTP responses (see table 5.5a) were far higher than expected, especially in the East area. With no liability, 90.6% of West and 94.1% of East residents were willing to allow an additional R5 of their monthly taxes to be spent on the Festival. With liability, 81.3% of West and 73.5% of East residents were willing to pay an additional R5 in taxes each month to support the Festival. The fact that, in the non liability question, the East actually has a higher stated WTP than the West is astounding, given the much lower levels of attendance and income in this area.

Respondents who had low attendance figures, but a positive WTP were asked why they were WTP for a service that they used very little (67.6% of East respondents fell into this category). In the East area, the benefit of future generations (quoted by 30% of the low attendance, positive WTP group), education (23% of this group) and community pride (4%) were mentioned, but by far the most frequently quoted reason was economic benefit and tourism (61.5%). Ten respondents from this group (43.8%) mentioned some other reason for their support of the festival, including, “improving our nation” and “exposing people to culture”, “giving people something to do and keeping them away from crime”, “keeping the town alive” and that it was “good for the community”. These unprompted explanations encapsulated many of the externalities mentioned in the opinion question (question one) and indicate a surprisingly high appreciation of the externalities provided by the Festival to non attenders.

A rough estimate of the yearly value of Festival externalities based on the WTP responses from each area and rather sketchy Eastern Cape demographics, resulted in a figure of between R2.3 and R3 million rand a year. This is in addition to the estimate of R27 million by the economic impact analysis of the Festival (Antrobus *et al* 1997a:23).

While the value of the externalities provided by the Festival may seem to be a relatively

small amount, it should be noted that it may prove to be an important factor in motivating for further public support. While it is true that the wealthier West population receive a higher share of the purely economic benefits of the Festival, the same is not true of the value of the externalities.

If the main objective of the Festival was to make economic profits, it could rightly be argued that the wealthier people of the town gain more, although there is evidence that the money earned by East residents forms a more important part of their income (see chapter 5). When the externalities are taken into account, however, it can be shown that a large proportion of these benefits accrue to the very people who need them most.

If, at the end of 2001, when the Standard Bank withdraws its title sponsorship, the Festival were to die, the people who would lose most would not be the wealthier West residents who do not need the extra earnings from the Festival very much and can afford to travel further afield to attend the arts, but the poorer, largely black East residents, whose Festival earnings form a vital part of their income and to whom it represents a rare chance of experiencing both the private and public good characteristics of the arts.

It can thus be concluded that the arts, as represented by the Grahamstown Festival, do provide positive externalities and that these are recognised as important by both attenders and non attenders and should be included when measuring the value of a cultural event. Secondly, the WTP method can be used effectively to measure the externalities provided by the arts and to quantify their value. It does appear to be possible to control for the various forms of bias that WTP studies are prone to: “free riders”, “warm glow” responses and protest zero’s, and to check for internal consistency.

Although the smallness of the sample and the single DC format WTP question did not make a very accurate calculation of a WTP figure for Grahamstown possible, the Grahamstown study can act as a fairly reliable starting point for more detailed WTP studies. It is suggested that further research use face to face interviews, provide more substantial

information on current tax spending and use more than one WTP bid in order to gain a more accurate idea of WTP and also to control for attender and mixed good bias.

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### **APPENDIX 1**

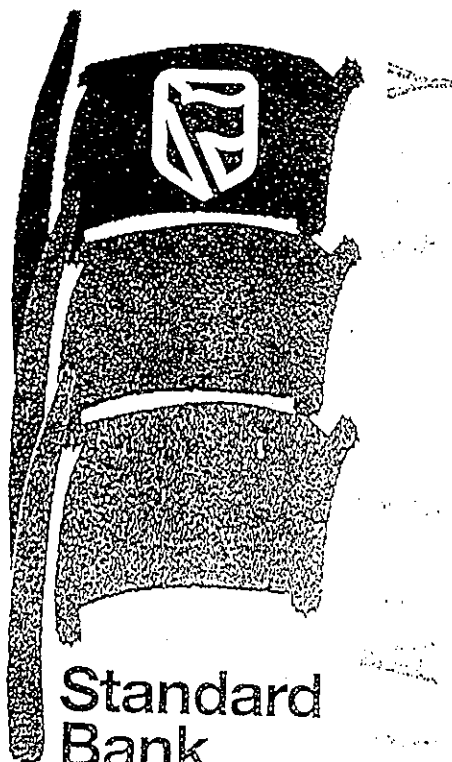
Contents page of the 1999 Standard Bank National Arts Festival program (hard copy only).

### **APPENDIX 2**

Table of expenditure estimates from the National Expenditure Survey (1999:109 and 113) (hard copy only).

### **APPENDIX 3**

Map of Grahamstown showing the East-West divide for research purposes (hard copy only).



# Standard Bank National Arts Festival

June 29 - July 11 1999

We have made every effort to ensure that everything printed in this publication is accurate. However, mistakes and changes can occur and we do not accept any liability for them.

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## APPENDIX 2

# 15: ARTS, CULTURE, SCIENCE AND TECHNOLOGY

### AIM

*The aim of the Department is to deal with matters pertaining to arts, culture, science and technology and render state archive and heraldic services and state language services at national level.*

### EXPENDITURE ESTIMATES

Table 15.1 Expenditure by programme

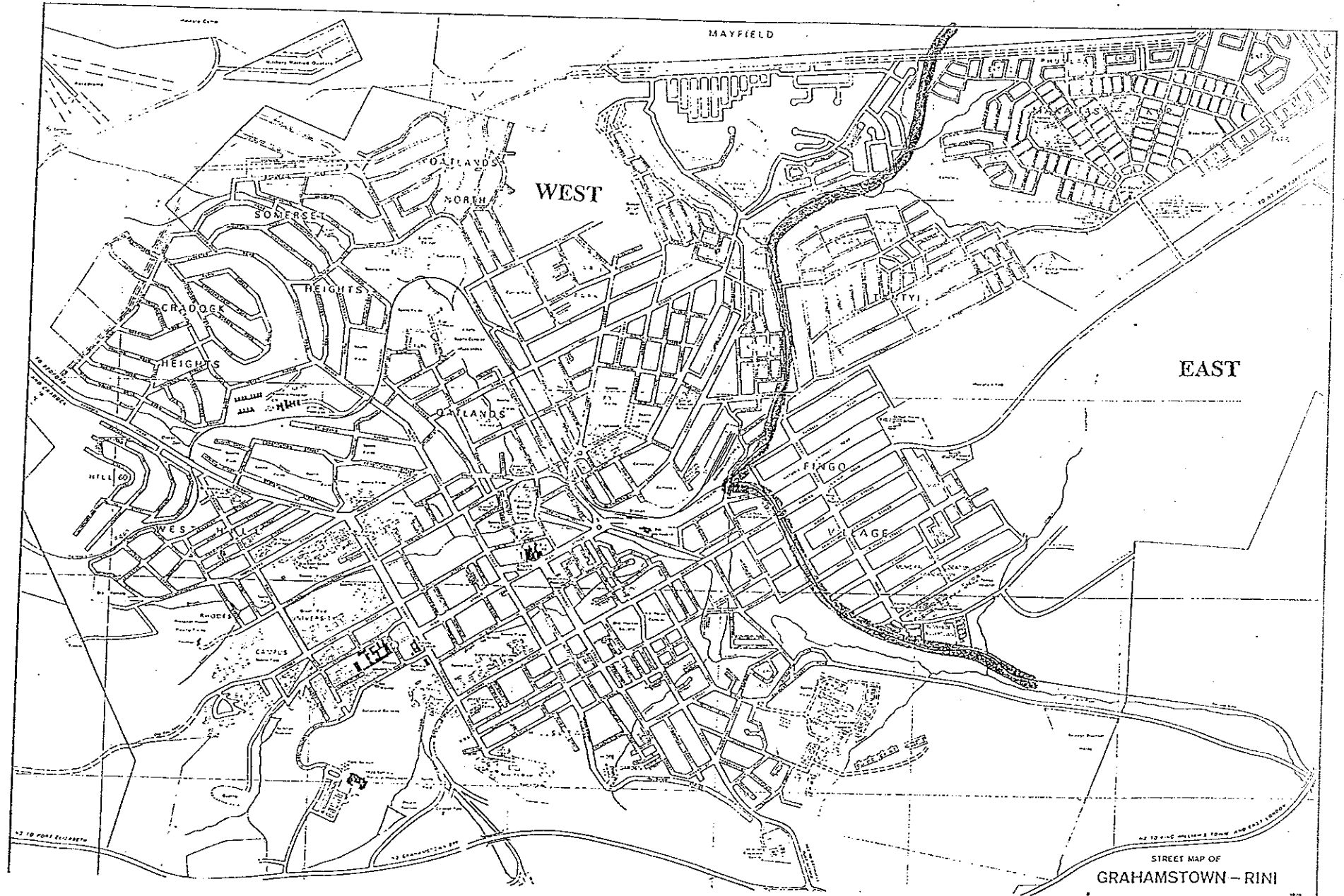
| R million                           | Expenditure outcomes |         |         | Preliminary estimates<br>1998/99 | Medium term expenditure estimates |         |         |
|-------------------------------------|----------------------|---------|---------|----------------------------------|-----------------------------------|---------|---------|
|                                     | 1995/96              | 1996/97 | 1997/98 |                                  | 1999/00                           | 2000/01 | 2001/02 |
| Administration                      | 14,8                 | 17,6    | 24,3    | 24,4                             | 20,6                              | 22,4    | 23,7    |
| Arts and culture <sup>1</sup>       | 221,0                | 219,3   | 266,4   | 311,0                            | 270,3                             | 294,2   | 310,8   |
| National archives                   | 11,0                 | 13,2    | 14,2    | 15,9                             | 14,7                              | 16,0    | 16,9    |
| National language services          | 4,3                  | 6,1     | 7,9     | 25,7                             | 26,1                              | 28,4    | 30,0    |
| Science, technology and information | 255,7                | 276,8   | 335,4   | 418,1                            | 474,5                             | 516,5   | 545,7   |
| Sub-total                           | 506,8                | 533,0   | 648,2   | 795,0                            | 806,2                             | 877,5   | 927,1   |
| Capital works <sup>2</sup>          | -                    | -       | -       | 39,4                             | 38,4                              | 30,0    | 31,0    |
| Total                               | 506,8                | 533,0   | 648,2   | 834,4                            | 844,6                             | 907,5   | 958,1   |

(National Expenditure Survey 1999:109)

National budget expenditure ( R million)

| 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/00 | 2000/01 | 2001/02 |
|---------|---------|---------|---------|---------|---------|---------|
| 151 831 | 176 291 | 190 607 | 204 293 | 216 780 | 230 722 | 247 250 |

(National Expenditure Survey 1999:113)



**APPENDIX 4**

**WTP AND EXTERNALITIES QUESTIONNAIRE : STANDARD BANK NATIONAL ARTS  
FESTIVAL, GRAHAMSTOWN 2000**

|   |   |  |
|---|---|--|
| <b>Call Number:</b> _____                           |   |  |
| <b>Call Rating:</b>                                 |   |  |
| <input type="checkbox"/> <sup>1</sup> call answered | <input type="checkbox"/> <sup>2</sup> call terminated | <input type="checkbox"/> <sup>3</sup> call completed |
| <input type="checkbox"/> <sup>4</sup> no reply      | <input type="checkbox"/> <sup>5</sup> busy            | <input type="checkbox"/> <sup>6</sup> call back      |
| <input type="checkbox"/> <sup>7</sup> other : _____ |   |  |

Good evening. My name is \_\_\_\_\_. I'm conducting a survey for the Rhodes Economics department about the Grahamstown Arts Festival. We'd like to know how people who live in Grahamstown feel about the Festival. Would you be prepared to spend about ten minutes answering some questions about this now, or should I phone back later?

**IF NO (to now and phone back) :** I am sorry to have bothered you. Goodbye.

**IF NO TO "NOW":** What time would suite you? \_\_\_\_\_

**IF YES:** Thank you. Are you eligible to vote? [If questioned: over 18]

**IF NO:** Thank you for your time, but I am afraid that, because some of these questions are about taxes and income, we can only use results from the voting population. Is there anyone else in your house who is over 18 and can talk to me now?  **YES** (begin again)       **NO** Thank you for your help, goodbye.

**IF YES IN GRAHAMSTOWN EAST:** Would you like to answer these questions in English  or Xhosa  ?      **[CHANGE TO OTHER QUESTIONNAIRE IF XHOSA]**

**IF YES IN GRAHAMSTOWN WEST: Q1**

### Question one : opinion

Firstly, I'd like to know what you think of the Festival. I'm talking about the "Main" and the "Fringe" programs and also free and street events. The questions I'm going to ask you are about live theatre, dance and music, as well as art exhibitions, films and the craft markets at the Festival.

live theatre e.g. acting, a play, a mime etc  
live dance e.g. ballet, modern dance, traditional dance  
live music e.g. opera, classical music, choirs, pop music, jazz and drums.

I have a few statements here that I'd like to hear your opinion on. In each case, I'd like you to say if you strongly agree, agree, disagree, strongly disagree, or don't know.

1.1 The Festival gives **all** the people of Grahamstown a sense of pride.

strongly agree       agree       disagree       strongly disagree       don't know

1.2 The arts at Festival help us to understand the politics and cultures of our country better.

strongly agree       agree       disagree       strongly disagree       don't know

1.3 The Festival only benefit people who actually pay go to the ticketed shows.

strongly agree       agree       disagree       strongly disagree       don't know

1.4 The arts at the Festival harm society because they are too critical of our way of life.

strongly agree       agree       disagree       strongly disagree       don't know

1.5 The Festival should be kept going so that people or their children have the choice of attending it in the future.

strongly agree       agree       disagree       strongly disagree       don't know

1.6 The arts offered at the Festival are useful in educating the community at all ages.

strongly agree       agree       disagree       strongly disagree       don't know

1.7 If the Festival doesn't make enough money to cover costs, it should be dropped.

strongly agree       agree       disagree       strongly disagree       don't know

1.8 The Festival is an added attraction for tourists to Grahamstown.

strongly agree       agree       disagree       strongly disagree       don't know

## Question Two : attendance

I now have some questions about your attendance at the Festival. Please tell me if you have attended or been involved in any of the following sorts of activities at the last **two festivals** added together. (That's 1998 and 1999). I am going to classify these as: none; a few (meaning 2 or 3); quite a lot (meaning 4 to 10); and a very large number (meaning more than 10).

So, please tell me if you have attended none, a few, quite a lot or a very large number of the following sorts of Festival shows over the last 2 years:

NOTE: will also accept attendance figures from previous festival visits (before 1998) if respondent has missed the last 2.                     PREVIOUS FESTIVAL VISITS QUOTED

2.1 A free "Sundowner" show at the monument

none             a few             quite a lot             a very large number

2.2 A free street show

none             a few             quite a lot             a very large number

2.3 A play on the "Main" or "Fringe" programs

none             a few             quite a lot             a very large number

2.4 A dance event on the "Main" or "Fringe"

none             a few             quite a lot             a very large number

2.5 A music event on the "Main" or "Fringe"

none             a few             quite a lot             a very large number

2.6 An art exhibition

none             a few             quite a lot             a very large number

2.7 A film on the "Main" or Fringe"

none             a few             quite a lot             a very large number

2.8 Over the last two festivals, how much time have you spent looking around the craft markets?

**PROMPT:**     none             1 or 2 hours             3 to 5 hours     more than 5 hours

2.9 Have you ever been involved in putting on any of the events that we've been talking about at the Festival? <sub>1</sub>[ ]Yes: \_\_\_\_\_ <sub>2</sub>[ ]No

2.10 Do you have a TV that you can watch? (either your own or some one else's)?  
<sub>1</sub>[ ]Yes <sub>2</sub>[ ]No

INTERVIEWER:

**IF YES - CONTINUE @ 2.6.1 and onwards**

**IF NO - CONTINUE @ 3 and onwards**

2.10.1 Did you watch *CUE TV* (the Festival TV channel) during either of the last 2 Festivals?  
<sub>1</sub>[ ]Yes <sub>2</sub>[ ]No

2.10.2 If a program on the festival was coming up, would you make a point of watching it?  
<sub>1</sub>[ ]Yes <sub>2</sub>[ ] No

### **Question three: WTP**

The next section is about measuring the value of the Festival to you through your willingness to pay tax to support it. The Festival costs between R8 and R10 million each year which is paid by the sponsors, mainly the Standard Bank. 2001 will be the last year that the Standard Bank will pay for the Festival. If no new sponsor is found, the Festival will end.

At the moment, the government (using our tax money) helps about six Fringe productions come to the Festival each year. [If asked: between 1 and 2 hundred thousand.] They pay for none of the running costs.

3.1 Do you think that the amount of government money available to the Festival at the moment is  
**[PROMPT]:**

<sub>1</sub>[ ] too little <sub>2</sub>[ ] too much <sub>3</sub>[ ] just right <sub>4</sub>[ ] don't know

The next questions are about how you think your taxes should be spent. Remember that even if you don't pay income tax, you still pay tax on the things that you buy.

3.2 Supposing that there would be **no change in your monthly taxes**, would you be willing to allow R5 of your taxes each month to be spent on supporting the Festival?

<sub>1</sub>[ ] Yes <sub>2</sub>[ ] No <sub>3</sub>[ ] don't know / WNV

3.3 Now suppose that **you would actually have to pay** the R5 extra in taxes each month. Considering your monthly expenses, would you still be willing to pay R5 a month towards supporting the Festival?

- <sup>1</sup>  Yes                      <sup>2</sup>  No                      <sup>3</sup>  don't know / WNV

3.4 How sure are you that your answers have shown your accurate willingness to pay to support the Festival?  
**[PROMPT]**

- <sup>1</sup>  not at all sure                      <sup>2</sup>  fairly sure                      <sup>3</sup>  very sure                      <sup>4</sup>  don't know

INTERVIEWER:

**FOR THOSE WHO ANSWER YES FOR EITHER OF THE ABOVE, BUT “NONE” OR “A FEW”  
FOR ALL OF QUESTION 2  
ASK Q3.5 BEFORE PROCEEDING.**

3.5 Since you yourself haven't been to the Festival much, why are you willing to spend some of your taxes on supporting it? **[NO PROMPT]**

- <sup>1</sup>  future generations benefit  
<sup>2</sup>  education  
<sup>3</sup>  tourism / economic benefit  
<sup>4</sup>  community pride  
<sup>5</sup>  I like to support a good cause  
<sup>6</sup>  other: \_\_\_\_\_

INTERVIEWER:

**FOR THOSE WITH ZERO WTP, ASK Q 3.6 BEFORE PROCEEDING**

3.6 Which of the following reasons explains why you are willing to pay nothing? Stop me when I say something you agree with.

- <sup>1</sup>  I don't think that the extra money will improve the Festival much  
<sup>2</sup>  I don't have enough money  
<sup>3</sup>  I don't think that the money will be used to support the Festival  
<sup>4</sup>  I don't support the idea of the Festival at all because .... (please give your reason) :  
<sup>5</sup>  other :

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**Question four: demographics**

Finally, we'd like to know some details about you. Remember that your name is not be attached to any of the answers you have given. Your telephone number was selected at random from the phone book. This information will help us to use your answers in a more detailed and accurate way.

4.1 Please tell me when I mention your age group:

- 18 - 25     26 - 35     36 - 50     51 - 65     66 or older

4.2 What is your home language?

- English     Xhosa     Afrikaans     Other: \_\_\_\_\_

Not necessary to ask if obvious from voice [Ask if in ANY doubt]

4.3 What is your race group?

- black     coloured     white     other: \_\_\_\_\_

4.4 Are you:

- Male    or     Female

4.5 What is your highest level of education? **[MAY PROMPT]**

- No schooling  
 Some schooling, but no matric  
 Matric  
 Technikon / Technical college i.e. Diploma (may be attending this at present)  
 University i. e. Degree (may be attending this at present)  
 Other: \_\_\_\_\_

4.6 What is your job at the moment? **[MAY PROMPT]**

- Professional (doctor, business person, lecturer, teacher)                      *Start Q 4.6 @ 3*  
 White collar worker (secretary, clerk, shop assistant, agent)  
 Blue collar worker (builder, cook, cleaner, security guard, labourer)  
 Service person (police, army, navy, air force, nurse)                      *Start Q 4.6 @ 1*  
 Student  
 Housewife  
 Retired  
 Unemployed

4.7 Please tell me when I mention your gross monthly income at the moment:

- 1.  less than R500 per month
- 2.  between R500 and R1000
- 3.  between R1000 and R3000
- 4.  between R3000 and R6000
- 5.  between R6000 and R12 000
- 6.  greater than R12 000

5. Thank you very much for your time and help. Before we finish, is there anything else about the Festival that you would like bring to my attention? [If yes, make brief notes]

[NOTE: If asked, results of the survey will be passed on to festival officers and organisers]

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**Thank you again. Goodbye.**

**INTERVIEWER NOTES**

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