

**THE ECONOMIC VALUATION OF CULTURAL EVENTS IN  
DEVELOPING COUNTRIES: COMBINING MARKET AND NON-  
MARKET VALUATION TECHNIQUES AT THE SOUTH AFRICAN  
NATIONAL ARTS FESTIVAL**

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## **ABSTRACT**

The arts in many countries, but particularly in developing ones, are coming under increasing financial pressure and finding it difficult to justify the increases in government funding needed to maintain and grow the cultural sector. The trend in cultural economics, as well as in other areas, appears to be towards including qualitative valuations, as well as the more traditional quantitative ones. This thesis argues that the value of cultural events should include long term historical qualitative analysis, financial or economic impact and a valuation of the positive externalities provided by cultural events and that any one of these should only be regarded as a partial analysis.

Four methods of valuing the arts using the South African National Arts Festival (NAF) as an example are demonstrated. Firstly, a qualitative historical analysis of the role of the NAF in South Africa's transformation process from Apartheid to the democratic New South Africa is examined, using theories of cultural capital as a theoretical basis. It is argued that the value of cultural events needs to take into account long-term influences especially in countries undergoing political and social transformation.

The second valuation method applied is the traditional economic impact study. Four economic impact studies conducted on the NAF are discussed and methodologies compared. It is concluded that, despite the skepticism of many cultural economists, the method can provide a useful partial valuation and may also be used for effective lobbying for government support of the arts.

Chapter four discusses willingness to pay studies conducted at the NAF in 2000 and 2003 (as well as a pilot study conducted at the *Klein Karoo Nasionale Kunstefees*). It is found that lower income and education groups do benefit from the positive externalities provided by the Festival and that this is reflected in their willingness to pay to support it. It is also argued that such contingent valuation studies can provide a reasonably reliable valuation of Festival externalities, but that they may be partly capturing current or future expected financial gains as well.

Finally, the relatively new choice experiment methodology (also called conjoint analysis) is demonstrated on visitors to the NAF. The great advantage of this method in valuing cultural events is that it provides part-worths of various Festival attributes for different demographic groups. This enables organizers to structure the programme in such a way as to attract previously excluded groups and to conduct a cost-benefit analysis for each part of the Festival.

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# **CHAPTER 1**

## **THE CONTEXT, GOALS AND METHODOLOGY**

### **1. A BRIEF CONTEXT**

The arts in many countries are coming under increasing financial pressure. This is particularly true of developing countries, like South Africa, where the arts must compete with sectors such as housing, education and health for very limited public funds. Many studies have found that arts attenders worldwide represent the educated, prosperous minority of society (Morrison & West, 1986; Dobson & West, 1990; Hendon 1990) and governments focusing on developmental issues may be reluctant to spend on non-essential cultural goods. In South Africa, a further issue is that wealth is still partially spread along racial lines, meaning that it is largely the relatively wealthy European-origin English and Afrikaans speaking population who would arguably benefit most from arts sponsorship.

Throsby (2001) however argues that, in many ways, it is culture that underlies economic development and that “strategies to alleviate poverty in the Third World and to promote economic advancement will need to have regard for the process of cultural change which may be critical in determining their success or failure”. To a certain extent, this is recognized in the stated objectives of the National Arts Council, which include fostering “the expression of a national identity and consciousness by means of the arts” and providing financial assistance, especially to “historically disadvantaged” groups of artists and audiences (HAC 1998:47).

The Grahamstown National Arts Festival (NAF) is an interesting case study in that, not only is it South Africa’s oldest arts festival, covering the politically and economically turbulent apartheid to democracy time period, but in that it is also the most diverse in terms both of the shows on offer and the audience who attend (Snowball and Antrobus 2001). It has grown from its beginning in 1974, when 60 events were presented, to 450 events in 2004. After the withdrawal of the title sponsorship of the Standard Bank in

2001, the NAF has been funded by the Eastern Cape Government (R7.5 million over three years), making it one of the few South African festivals to receive significant public sponsorship. However, in order to argue for, or to justify, the public sponsorship of such an event requires that the benefits of the arts to the community as a whole be accurately measured.

Although the South African government acknowledges the role of the arts in “enhancing the country’s identity and distinctiveness” encouraging “nation building” and assisting in personal development by increasing self-confidence and promoting self esteem (White Paper on Arts, Culture and Heritage 1996), the major focus of policy is the so-called “cultural industries”, emphasizing the financial and job creation aspects of the arts.

Although the economic benefits of the arts are important, research (Antrobus et al. 1997) shows that it is largely those who have the means to gain from, for example, cultural tourists, that mainly benefit. In addition, Seaman (1987) points out that, “Arts proponents 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.” His point is that all investments, for example in a shopping mall, will result in some economic impact, but that this is not a good reason to lobby for public support. It is the positive externalities the arts provide that result in market failure, which should be used to argue for public support.

A more recent development in cultural economics suggests that any market valuation of the arts will not produce a good measure of “value” and that the arts should be recognized as important in their own right by introducing the concept of “cultural capital” (Throsby 2001, Klammer 2002, 2004)

## **2 GOALS OF THE STUDY**

The major goal of the study is to explore the development of arts valuation techniques in cultural economics in a developing country context, using the NAF as a case study. The

relationships between these various types of studies will also be explored, since there has been little research in this area (Seaman 2004). In addition, an interpretive description (as suggested by Throsby 2001) of the Festival, revealing underlying cultural systems and, especially in the apartheid era, tensions around the control and ownership of the NAF, will be explored and compared to the emerging theories of cultural capital.

The research will critically examine the four methodologies used and comment on the relationships between them, since very little work has been done in this area. In addition, the study will add to the very small body of cultural economics research being conducted in developing economies.

### **3 METHODS TO BE USED.**

The first method of contextual, qualitative valuation, discussed in chapter 2, will use what Throsby (2001) refers to as “thick description”, which refers to the interpretive description of the cultural object or event that deepens understanding of context and meaning. While drawing heavily on other disciplines, the fairly new theory surrounding cultural capital and common goods (Klamer 2004) are also used in this valuation technique, which provides a context for the rest of the work.

The market benefits of the NAF are valued by using economic impact survey work conducted over a number of years, from 1996 to 2004. This form of valuation has been used extensively in arts advocacy despite the growing number of detractors (Seaman 1987 and Madden 2001) because it provides a single monetary figure that is easy to understand and to incorporate into government budgets. However, the methodology is far from unproblematic and is not nearly as “scientific” and unbiased as practitioners often claim it is. Nevertheless, a number of cases show that economic impact figures are very effective in lobbying for public support of the arts. Chapter 3 demonstrates how such financial impact figures can be calculated and incorporated into arts valuation.

The non-market benefits of the NAF are valued via two stated preference techniques: willingness to pay (WTP) studies (2000 and 2003) and a choice experiment (CE) conducted in 2003. Willingness to pay (WTP) techniques were first used to measure what were termed the “non-use” values of environmental resources. It was suggested that, as with the arts, even people who never go to the rain forests, benefit from their existence, and even more surprisingly, are willing to pay to protect them (NOAA, 1993). WTP studies conducted in Australia by Throsby and Withers (1985), in Canada by Morrison and West (1986), in Sweden (Hansen 1998) and in Kentucky (Thompson et al. 2002) to name but a few, show that even people who never attend arts events are willing to pay to ensure that they do not die out.

The reasons for this vary widely: the arts enhance national identity and pride in one’s town or country; they provide ongoing education to children and adults; they comment on social policy and development and help to integrate individuals into society (Cwi, 1980). For these and other reasons people who never go to an arts event may benefit from the culture they generate and may want them to be there in case they, or their children, want to attend at some time in the future. Thus, by asking people what they would be willing to pay to support the arts one can to some extent quantify these intangible benefits.

Such non-market values become particularly important in developing countries where a large proportion of the population may not be wealthy enough to attend ticketed shows. By including such non-market values and examining their distribution between different income and education groups, a potentially strong case for the public subsidy of the arts can be made, especially if it can be shown that, unlike the financial benefits, positive externalities accrue to all groups. Chapter 4 discusses the methodological issues related to hypothetical stated preference techniques and presents the results of willingness to pay studies conducted at the NAF.

There is also a great need for a more detailed analysis of the valuation of such arts events to attenders from different gender and population groups in order to encourage previously excluded people to attend the Festival. The relatively new choice experiment (CE)

method seems to be very useful in this regard. While this method has been used for some time in other branches of economics, it has only recently made its appearance in the cultural economics field. To date, very few studies using choice experiments to value cultural goods have been published, although there are a number of studies in progress and the method is gaining in popularity in this field.

CEs have a number of advantages over willingness to pay methods. Firstly, they can describe the good's attributes and the trade-offs between them more accurately than contingent valuation methods (CVM) and one can then value these attributes separately and in combination, thus "they allow the researcher to 'value' attributes as well as situational changes" (Adamowicz *et. al.* 1998:65). Hanley *et. al.* (2001:447-8) agree, adding that while the same results could be obtained by including a number of CV scenarios with differing attributes in a questionnaire, this is a more "costly and cumbersome" alternative to the CE approach. CE is thus better for measuring the marginal values of changes in a particular scenario and may thus be more useful in multidimensional policy design and in setting taxes (Hanley *et. al.* 2001:452).

Although it has some issues of its own, this new method seems to solve many of the problems of contingent valuation and can also easily provide values for the various attributes making up complex cultural goods, like arts festivals. Chapter 5 presents the results of a pilot study choice experiment conducted at the 2003 NAF. Chapter 6 discusses ways in which the various qualitative and quantitative valuation methods can be combined in order to arrive at a holistic valuation of cultural events and concludes the thesis.

## **CHAPTER 2: PART I**

### **THE ARTS, ECONOMICS AND VALUATION**

All the terms central to this thesis, “the arts”, “culture”, “value” and even “economics” (or at least its scope) are contentious. This chapter outlines the current state of the definition of these terms and their relationships in cultural economics. The theory is put into practice in an application to the political and social history of the National Arts Festival, particularly its role during the Apartheid years and in the reconstruction of the “New” South Africa. It is argued that, in addition to the more usual quantitative valuation techniques, which are the focus of this thesis, the arts also require more qualitative social valuation, especially in countries going through conflict and transformation.

#### **1. DEFINING CULTURE AND THE ARTS**

Most economists would agree that culture and the arts do not operate like normal goods (even normal public goods) in the market. There is something special about culture, but defining what it is can be difficult. Both Klammer (2004a) and Throsby (2001) distinguish between the broader idea of culture as a way of living or “culture as identity” and the expression of culture as art forms. The South African White Paper on arts, culture and heritage defines culture as follows:

“Culture refers to the dynamic totality of distinctive spiritual, material, intellectual and emotional features which characterize 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” (White Paper 1996:6).

“The arts” as an expression of cultural identity, is what this thesis is primarily concerned with, in other words, cultural goods. Throsby (2001:4) refers to such goods, in a “functional” definition as “certain activities that are undertaken by people and the products of those activities, which have to do with the intellectual, moral and artistic aspects of human life”. While such a definition may seem almost too broad to be useful, he adds that cultural goods have three characteristics: they have some form of creativity in production, they are concerned with symbolic meaning, which Klammer (2004a)

identifies as *the* defining characteristic of cultural goods, and their output is some form of intellectual property. The White Paper (1996:6) defines the arts in a highly inclusive way, concentrating on the creativity criterion:

“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.”

An interesting shift in cultural economics studies of the arts is evident in these recent, inclusive definitions. Early studies focused almost exclusively on “high” (European) cultural forms, since, as Fullerton (1991) pointed out, “popular” culture products operated well in the market without the need for intervention. The question of who has the right to define what is “high” culture and its relationship to other cultural forms was first addressed by Antonio Gramsci in the 1920’s with his introduction of the theory of hegemony (Turner 1990). 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. Many social theory commentators, like Bourdieu (1984), have also noted that cultural preferences are closely linked to education and social origin. Since the social elite had both leisure time and money, they could afford, and thus control, education and intellectual thought – thus valuing “high” culture above other forms.

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 specialize in political struggle expressed at an ideological, representative level” (Turner 1990:211). As will be demonstrated in the National Arts Festival case study, the contesting of dominant cultural forms in a multicultural society and the control of the means of cultural production were an important part of the South African political and social transformation process.



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 subsidizing “high” culture, one may simply be protecting the dominant view. This is the point made by Peacock (1992:14) when he suggested that the refusal of economists to discuss possible definitions of the arts damaged both our objectivity and credibility since, by passively accepting a particular definition, we may be unintentionally supporting an ideology: “The economist, so it is argued, might become a useful hired gun for the cultural establishment”.

As early as 1980, however, commentators like Cwi were protesting against the unwillingness of economists to discuss “the arts” in a broader form. However Frey and Pommerehne (1989:6) concluded, “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 behavioral regularities among the people concerned; “Whenever such regularities are apparent, the economic concepts of the demand for and the supply of art are appropriate.”

This general consensus, that economists did not have to define precisely the good in order to value it using the market price, still seems to persist, despite (or because of) the more inclusive definitions of the arts now in use. Arjo Klamer, who currently holds the only chair of cultural economics in the world, is at the forefront of cultural economists who argue that, rather than fitting cultural goods into a neoclassical framework, a new kind of economic valuation is needed in the case of the arts.

## **2. ARGUMENTS IN FAVOUR OF THE PUBLIC SUPPORT OF THE ARTS**

There are two distinct streams of thought as to why the arts should be subsidized by the government. The first is based largely on the non-market benefits or externalities that the arts are purported to provide (demand side arguments) and its unique cost structure as outlined by Baumol (supply side arguments). Both of these are rooted in the neoclassical economic framework. The second stream of arguments is relatively

recent and attempts to redefine the framework in which the arts and culture are evaluated; in particular, by introducing the idea of “cultural capital”.

## **2.1 Demand side arguments**

### *The arts as a public good with positive externalities*

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 1996:31).

The public, or mixed public and private good aspect of the arts is important because it has been shown in many studies (Morrison and West 1986, Dobson and West 1990, Hendon 1990, Blaug 2001, Borghonovi 2004 amongst others) including the present research, that arts attenders (particularly at “high” culture events) tend to represent the educated, prosperous minority of society. This is hardly surprising, since (as pointed out earlier) taste formation is shaped by education and social origins. If the arts are a purely private good, then government subsidy would be seen as supporting the pleasures of the wealthy minority of society. This view is also shared by the South African government, which argues that subsidies to “high” cultural events, like ballet and opera, represent a large amount of spending on a small sector of the population that can no longer be afforded (White Paper 1996).

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). 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 - then 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).

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 arising from the culture that the arts generate can be regarded as neither rival nor excludable as argued by Abbing (1980). This distinction is also applied to goods like education that, while a place at university for example is rival and excludable, is regarded as having public good characteristics because of the general social benefits that 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 basis for the public funding arguments.

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).

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 subsidizing 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.

Early commentators, like 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 skepticism about the benefits to the public at large of the upper income members of society attending, for example, subsidized orchestra performances.

Abbing (1980:39) was of a completely different opinion. He argued that the arts are a far more public good than we realize and that excludability is minimal. In other words, the arts are largely a public good that, if they have positive externalities, should be publicly subsidized. 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 tablecloth 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) 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 adaptation 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). Such broad arguments show the way to the development of ideas like that of cultural capital which is further discussed below.

#### *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" – a definition that will inevitably involve some value judgment being imposed on society. 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".

Ver Eecke (1998) argues that merit goods are distinct from public goods precisely because they do not take into account the will of the consumer and because their finance is separate from their use (so payment for the good is not related to one's use of it). While merit goods do not thus satisfy consumer needs directly, they lead to or are necessary to achieve the goals of rational citizens. Merit good arguments should thus only be accepted if one can see that they lead to, or are needed for, the fulfilment of some commonly accepted goal. Ver Eecke gives the examples of national defence (needed to achieve security, not charged according to use and requiring some value judgement) and education (needed to achieve rational, informed people to enhance the operation of the

free market). Having established that merit goods are a separate class from public goods, he goes on to argue that some goods have both characteristics:

“Thus in my view it is wrong to ask whether a particular good is a private, public or merit good. The proper question to ask is which aspects of a particular good exhibit characteristics typical for the concept of private good, for the concept of public good and for the concept of merit good” (Ver Eecke 1998:149).

Arguments for public funding should thus address all the aspects of the good, not simply class it as one particular thing. Arguments in favour of arts funding could thus be presented in private goods terms (economic impact studies), public good terms (contingent valuation studies) and merit good terms (qualitative historical studies including value judgements).

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

As Klammer (2004a) points out, neoclassical economists are loath to delve into issues of “value”, preferring to defer to the market (or contingent market) as capturing economic value and representing individual preferences. As such, 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) 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; otherwise, once the market is deemed inefficient, some dominant voice or perspective inevitably appears.

Throsby (1994), however, felt 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) pointed out, the demand for "high" culture is largely dependent on the education which allows one to access it, this point is valid. As early as 1959, commentators like Musgrave (1959:14) agreed, stating, "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".

Throsby (1994) also 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) 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 channeled 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. Peacock (1969:331) also pointed out that, considering levels of economic growth, an increase in public investment that redistributes income to future generations from the present one may represent a transfer of wealth from a poorer generation to a richer one.

Throsby's (1994) 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. This idea has since been expanded both by Throsby himself (2003) and Klammer (2004b) – that is, that a new theoretical framework is needed for cultural goods whose value is socially constructed.

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 Baumol (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".

The discussion of the arts as a merit good leads very clearly into the notion of cultural capital presented below, but took a long time to be expressed in this form because of the reluctance of economists to discuss "value" as being represented by anything other than market price. However, in order to defend public subsidies for the arts, the merit good argument clearly indicates that one would have to prove that they represented some valuable good that could not be gained through any other means. Also, 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.

## **2.2 Supply side arguments: 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 almost four 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).

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 industrialized country”. Baumol (1995) 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) himself pointed out, however, that the fact that the arts have cost problems does not automatically qualify them for public support. However, if taxpayers 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) Baumol reasserted his original point that, without sufficient public support, the arts will decline in both quantity and quality.

Other writers (like 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 pointed out that access to the arts was greatly expanded by the development of the “new media” of his time 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) 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) 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 traveling of any artist, the production of art may turn out to have a similar capital-labour ratio to other industries.

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). 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. Secondly, increasing wealth is able to support a growing number of “profitable artistic niches”, further increasing non-pecuniary returns, as artists are able to specialize in areas that they find particularly interesting.

Throsby (1994) and Tiongson (1997) also mentioned the possibilities of merchandising activities as a substantial way to increase the income of arts organizations, giving as an example the “tremendous income from Broadway shirts, posters and other souvenirs”. Tiongson (1997:120) 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 non-rival consumption qualities of the arts depends 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) cited the ongoing work of Brooks(1997:2), 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.

Tiongson (1997) 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.

Cowen and Grier (1996) conclude 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 (in the sense that the purchase of a ticket entitles one person entry), “when in fact performance has become an (excludable) public 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 symphonic concerts, 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) suggested that the definition should include popular art forms.

As a result of these and other mitigating factors, Throsby (2001:119) reports that little evidence has been found for the cost disease.

“These studies have shown that the combined impacts of production adjustments, increased demand and generally rising levels of unearned revenue have countered any tendency towards a secular rise in deficits among arts companies, suggesting that although the cost disease will doubtless continue to present such companies with difficult problems, it is unlikely to be terminal.”

Blaug (2001:124) points out that cultural economics has lacked “a single dominant paradigm or overarching intellectual theme that binds all its elements together” and that this is the reason that Baumol’s theoretical work on the cost disease has attracted so much attention. However, it has become less creditable as technological progress has advanced and arts institutions and activities have, if anything, increased. Perhaps the new theories of cultural capital and value creation will provide a better and more inclusive theoretical framework for the subject.

### **2.3. New theories of cultural capital**

Throsby (1999, 2001) first introduced the idea of cultural capital in economics. “Cultural capital, in an economic sense, can provide a means of representing culture which enables both tangible and intangible manifestation of culture to be articulated as long-lasting stores of value and providers of benefits for individuals and groups” (Throsby 2001:44). Like Klammer (2003b), he separates economic from cultural capital, but emphasizes that cultural capital can give rise to both economic value (“ordinary” capital) and cultural value. This distinction is an important one when it comes to valuing cultural goods. For example, events other than the National Arts Festival could provide the same economic value, but not the same cultural value. In other words, while there is substitutability between the economic values that the NAF provides, “there would be expected to be zero substitutability between cultural and physical capital in respect of its cultural output” (Throsby 2001:52).

The recognition of cultural capital as an economic value can thus produce a whole new set of reasons for the public funding of culture. Throsby (2001) draws a parallel between

the preservation of biodiversity (natural capital) and cultural diversity (cultural capital), which generates the kinds of moral arguments that have been used in the case of the preservation of natural capital for years. For example, if the present stock of cultural capital is allowed to decline through lack of investment, one could argue that future generations will be deprived of its benefits, since their interests are not reflected in the current market. Throsby (2001) agrees with Klammer (2002) that the current economic preoccupation with efficiency may be undermining the notion of fairness, that is, “the rights of the present generation to fairness in access to cultural resources and to the benefits flowing from cultural capital, viewed across social classes, income groups, locational categories and so on” (Throsby 2001:56). As will be shown in the NAF case study, the notion of fairness of access was a particularly important and bitterly contested issue.

Like the arguments for maintaining biodiversity, arguments for maintaining the diversity of cultural capital can also be made, since new capital formation can be shown in both cases to depend crucially on the existing capital stock. Even more compelling is the argument that, as in the natural world, no system is isolated, but all are interconnected and the long term sustainability of our existence depends on the maintenance of all these systems, including natural ecosystems and cultural capital (Throsby 2001). Unlike Klammer, who argues for a complete break away from measuring the outcomes of culture in traditional economic terms, Throsby (2001:58) still sees the link as important:

“It is becoming clearer that cultural ‘ecosystems’ underpin the operation of the real economy, affecting the way people behave and the choices they make. Neglect of cultural capital by allowing heritage to deteriorate, by failing to sustain the cultural values that provide people with a sense of identity and by not undertaking the investment needed to maintain and increase the stock of both tangible and intangible cultural capital, will likewise place cultural systems in jeopardy and may cause them to break down, with consequent loss of welfare and economic output”.

Klammer (2002) argues that, in addition to economic and social capital, cultural capital should also be counted as part of an individual’s wealth. He defines economic capital as “the capacity to generate economic values”, usually quite adequately expressed in the market and captured by economic accounting methods. To the extent that human and

natural capital allows the generation of economic capital, they are included in this category. The second type of capital is social capital, which is “the capacity to generate social values”, like friendship and trust. This is capital in the sense that it needs resources to build it up and maintain it and, while it can also generate economic values, it has some intrinsic value of its own that is not well captured in the market. Finally, cultural capital is defined as “the capacity to inspire and be inspired ... to find meaning” (Klamer 2002:465-7).

While Klamer (2002) acknowledges the difficulty of measuring social and cultural capital, he argues strongly that this does not mean that they are irrelevant. Rather, they are the very qualities that give meaning and purpose to life and that “wealth” should be measured in terms of all three sorts of capital, not just in the easily measurable economic sense. In fact, Klamer argues that economic capital has no intrinsic value at all, but is valued rather for what it allows individuals to achieve. However, he (2002:471) does not suggest that markets are useless in measuring economic value, but that we should acknowledge the value of intangible “goods” as well, “When we consider social and cultural values in addition to economic values, the disagreement on an institution like the market becomes a difference of opinion on the weighting of different spheres of value”.

However, while their theory of cultural capital provides an important additional (and perhaps the most compelling) reason for public funding of the arts, it is hampered in practice by the difficulty of measurement. Blaug (2001:132) in his review of the development of cultural economics, comments that there is almost “universal consensus” on the question of whether the arts should be publicly funded, “but, of course, the real issue is not whether to subsidize, but how much and in what form...” In order to answer these questions, some sort of valuation of the arts is necessary, be it in the market, the contingent market or some other, more qualitative form.

### **3. VALUING CULTURAL GOODS AND THE SCOPE OF ECONOMICS.**

As discussed in the previous section, economists have long acknowledged that the arts do not operate well in the market because of their public good characteristics, because they are a merit good and because of their cost structures (Baumol's cost disease). The argument would then be that, in order to argue effectively for government intervention in the arts market, these externalities would need to be proved and measured using a contingent valuation method. However, commentators like Klammer argue that, even when the arts are a private good, their market value is not a good indication of their real value and that this is also the case for contingent market valuations. Thus, rather than refining current market based valuation techniques, an entirely new set of methods and indicators is needed in the case of cultural goods which, both Klammer and Throsby argue, is closer to the original intention of what the study of economics should include.

Klammer (2003a:3) argues that, "the dominant economic paradigm seriously hampers discussion of values among economists" because it is too focused on the idea of utility and rational choice theory. All economists accept the fact that an individual's utility is unknowable – that is, that the satisfaction one gains from a good is highly individual and will be shaped by preferences. However, rational choice theory says that, although one cannot know the reasons for another person's choices, the observation of the choices themselves provides enough information. Since it is assumed that, on average, consumers make choices so as to maximize their utility (whatever it may be), given their budget constraints, one can infer the value they place on various goods by observing their consumption of them. A crucial point is that the idea of "utility" is not affected by this observation – the observer does not presume to draw conclusions about the consumer's motives, morals or reasons for consuming one good instead of another, but, assuming rationality, one can say that the consumed good provides greater utility than the alternative choice of the good not consumed. In other words, consumption and production, which determine market price, are an effective way of valuing a good without having to observe or discuss the reasons behind the choices.

Both Klammer (2002, 2004a) and Throsby (2001) find that rational choice theory is too restrictive a way of “valuing” goods – even private goods that operate well in the market – and that the original scope of economics did not dictate such a narrow field. For example, Keynes referred to economics as a “moral science” and further back, Marshall’s definition of economics was, “the study of mankind in the ordinary business of life” (Klammer 2002:458-9), neither of which dictate that “value” will be determined only in the market. Throsby (2001:20-23) agrees that early theories of the cost of production and individual utilities, combining to lead to the neat equilibrium market price, led to the belief amongst many economists that, “a theory of price is a theory of value”.

Does market value, for goods sold in the market, constitute a good measure of value? Proponents of rational choice theory have recognized problems in this area, but have gone about solving them using contingent valuation methods – that is, by constructing a hypothetical market to arrive at a price.

In the case of consumer surplus, that is, the idea that the consumer may be willing to pay significantly more than the market price for a good, price can capture a minimum monetary value that consumers place on the good, but not (even if one accepts that price is value) the total value. For goods not traded in the market, a market structure can still be evoked by creating a market scenario and asking individuals what they would be willing to pay or willing to accept to change or achieve the scenario. Putting aside all the problems related to hypothetical markets for now, would honest, unbiased answers to such WTP questions generate true values? For willingness to pay (WTP) figures, the problem is that an (honest) answer would be constrained by budget, which may not represent a true value at all. For willingness to accept (WTA) figures, not constrained by budget, a true value may still be elusive, since some things are literally “priceless”, like health or religion or, it could be argued, culture (Epstein 2003).

For example, suppose one wanted to know the “value” of a child. One could work out the financial cost of the child to the parents, but most parents would probably argue that this was a vast underestimate of the value of the child, since it included a number of non-



market externalities that were being ignored. One could then ask what the family would be willing to pay to prevent their child from being taken away from them. An answer might include their whole income and still not be a true value. If one were to ask what they would be WTA as compensation for losing the child, answers are no longer constrained by budget, but they may still not be able to express, in a meaningful monetary amount, how much they value their child.

Of course, the idea is far from new. In his landmark article “Rational Fools” Sen (1977) questioned the assumption of economic agents as rational utility maximisers that underpins welfare economics:

“The complex psychological issues underlying choice have recently been forcefully brought out by a number of penetrating studies dealing with consumer decisions and production activities. It is very much an open question as to whether these behavioral characteristics can be at all captured within the formal limits of consistent choice on which the welfare-maximization approach depends” (Sen 1977:324).

Sen continues to make arguments against using utility as the measure of value, also arguing that freedom and the available choice sets matter (1985). However, when asked, at his recent (2004) visit to Rhodes University to receive an honorary doctorate, whether economists working in areas based on rational choice should abandon the framework entirely, he replied that utility theory did have its uses, but that the problem lay in its being regarded as the *only* theory of value.

Many of the problems associated with the valuation of cultural goods specifically is that the arts, and the cultures they stem from, are very much the product of society rather than the individual around whom marginal utility theory revolves. Both Klammer (2003a) and Throsby (2003) refer to the complex ways in which society values cultural goods, not as individuals, but collectively. Klammer (2004b) puts forward the idea that the arts are a “common” good – that is, not public, because non-members can be excluded from the group in a number of ways, but not private either, in the sense that individual ownership makes no sense where values are socially constructed. The social construction of value or “valorization” (Klammer 2003a) of cultural goods is the crux of the matter.

Klamer gives a number of examples of cases where the evaluation of cultural goods changes their value:

“If foreigners point out to indigenous people that their piles of old stones are actually cultural treasures and that they are willing to pay to conserve them, the indigenous people change their perception of those stones and may even begin to value them. Get a cultural good listed on the UNESCO world heritage list, and people will value that good more.” (Klamer 2003a:11).

Socially constructed values can also change over time. For example, during colonial times, European traders “paid” for African goods in beads, which were valued by Africans because they were foreign and couldn’t be produced locally. Since then, however, African beadwork has become an integral part of the culture, beads being used in traditional dress as decoration, but also to indicate such things as rank and tribal affiliations. Klamer (2004a) comments that traditional African beadwork has now become valued by Europeans as “exotic” due to its long presence in Africa. An interesting example of this reversal is the case of the Albany History Museum in Grahamstown which, in the 1920’s, received a request from a German museum for some traditional African beadwork. Having supplied the beads, they were sent in exchange an ancient Greek terracotta figure of a winged victory or Nike – now one of the treasures of the Albany museum and considered a wonderfully good exchange for the “common” beadwork (Way-Jones 2004, personal communication).

Klamer (2004a:11) also points out that subjecting cultural goods to market valuation may damage them or devalue them. “The rigor of being placed in the sphere of commerce, measured, compared, discussed, priced and treated like any other commodity may very well affect its [the cultural good’s] subsequent evaluation”. That is, simply by making the market valuation, the value of the good is changed. It may enhance the value of the good, or it may damage it. The example of friendship illustrates this point well: by asking someone what he or she would be willing to pay for your friendship, one may have already lost it.

Having established the problems with market price as a measure of value, the next logical question is how else one might go about measuring such values. Here the theoretical

advances have reached a temporary halt. Throsby (2003:279-80) points out that, while economic value, including imputed non-market value, is measurable and expressible in quantitative terms, “Cultural value... is multi-dimensional, unstable, contested, lacks a common unit of account, and may contain elements that cannot be easily expressed according to any quantitative or qualitative scale”. Klammer (2002, 2003, 2004) acknowledges the difficulty of measurement, but argues that this is not a sufficient reason to exclude cultural value from economic study. After all, “when *De Economist* began its appearance, there was no notion of income and a magnitude like economic growth was not much more than a concept, without numerical content” (Klammer 2002:453).

In fact, there appears to be a significant literature developing on the subject of “cultural indicators”, particularly amongst arts policy makers and proponents. Madden (2004) in a study conducted for the International Federation of Arts Councils and Culture Agencies, reports that there are almost 200 articles in English on the subject, exploring many aspects of the value of the arts to society. However, he also finds that the field is “still largely under development” and that the wealth of theory has not been turned into practical arts funding policy.

In discussing possibilities, both in the identification and measurement of cultural indicators, Throsby (2001) does suggest, however, that studying individual responses, if enough consensus arises, might arrive at common indicators of cultural value. A recent paper by Scott, presented at an international *Fuel4arts* Internet conference (2004) discusses the use of the Delphi technique in arriving at consensus between the public and experts on the social impact of museums. The technique works by asking individuals, chosen because of their knowledge and experience, questions via the Internet. Responses are then circulated to all participants, commented on and used in a second round of “discussion” to “build towards a consensus” (Scott 2004:6). The results of the study on what the purpose of museums is and should be, showed that it is possible to reach agreement on general cultural indicators, even between quite disparate groups.

On another track, Throsby (2001, 2003) suggests that cultural value and economic value have a positive relationship so that, although economic value is recognized as insufficient to capture cultural value, the two could be highly correlated, since both values are “formed by a negotiated process akin to a simple market exchange” (2003:281). For Klammer (2002) this is a sell-out – a retreat into the neoclassical framework he is trying so hard to break out of - but until the theories of cultural capital or value can be made operational, even economists who agree with him are likely to continue using market and non-market valuation techniques because of another definition of economics, namely, that it is the study of the allocation of scarce resources to satisfy unlimited wants. At some stage, a decision on spending on non-market goods has to be made and valuation of these goods, however imperfect, provides one way of making allocative decisions, perhaps a more democratic way than leaving it entirely to politicians and experts.

“Despite the difficulties in interpreting prices as economic value, economists working on evaluation of the demand for public cultural goods (or for the public-good element of mixed goods) in the cultural arena have had little alternative but to apply the standard approaches and accept resulting assessments as the best estimates available for the economic worth of the good concerned” (Throsby 2001:25).

Although quantitative measurement of cultural value seems unlikely, qualitative valuations may be more fruitful. Throsby (2001:29-30) discusses several ways of doing this, including mapping, attitudinal analysis, content analysis, expert appraisal and thick analysis. The latter is described as “a means of interpretive description of a cultural object, environment or process which rationalizes otherwise inexplicable phenomena by exposing the underlying cultural systems etc. at work and deepens the understanding of the context and meaning of observed behaviour”.

The value of the National Arts Festival to South Africa obviously extends well beyond its market or non-market value as calculated via economic impact or contingent valuation methods. Its existence, from 1974 to the present, covers a turbulent period in South Africa’s political and economic history and, as such, one is bound to ask whether, or to what extent, it reflected, assisted, or hindered, the process. If culture is at the heart of hegemonic control, it is reasonable to assume that the NAF would have had some role to

play in the struggle for freedom and equality and such a postulated role would certainly constitute an important value, although it is unlikely to emerge from standard economic valuation techniques and is probably not quantifiable. The following section will examine the history of the NAF – its content, control, audiences and sponsors - comparing it to the political situation in the country at the time and applying some of the theoretical concepts developed above, such as cultural capital and the arts as a common good.

## **CHAPTER 2: PART II**

### **THE POLITICAL AND SOCIAL HISTORY OF THE NATIONAL ARTS FESTIVAL**

Economists have always realized the importance of the context in which they are operating and most studies have a brief section to this effect. The following history will attempt to provide a context, but also a look at another way of valuing the National Arts Festival (hereafter “the Festival”) – a qualitative, perhaps subjective, but nevertheless important way of assessing the role of cultural institutions in societies undergoing radical political change.

Throsby (2001) suggests that one might more closely interrogate cultural value by disaggregating it and perhaps using some kind of numerical scale to indicate the importance of each category of value over time. The question of whether the Festival has been of value to South Africa is thus divided into a number of sub-questions and rated in importance over the three phases described below on a scale from one to ten. This is purely the subjective valuation of the author, based on interviews with stakeholders, perusal of past programmes and other literature and a consideration of South African political history. The scope of this thesis does not allow for further research in this area, but the possible application of interview techniques (with the public, festival goers and experts) to the following scheme is clear.

Three major components of the cultural value of the Festival are considered: its role in maintaining diverse South African cultural capital, its role in building new cultural capital and its usefulness as an outlet for political and social resistance. Where data is available (on, for example, audience characteristics), the Festival’s role in the “valorization” (Klamer 2002) of cultural expression by artists, agents and audiences is also discussed. This last point is very much dependant on the previous categories, since the value of judgments made by Festival artists and audiences is subject to the perceived legitimacy of the Festival in representing a truly representative South African voice. The following

section gives a brief overview of the National Arts Festival as it is at present, followed by a historical analysis divided into three periods.

## **1 THE NATIONAL ARTS FESTIVAL AS IT IS TODAY**

The Grahamstown National Arts Festival (NAF) was started in 1974 and had about 60 events, running over a week. Grahamstown is a small Settler town in the Eastern Cape with little industry, but with several excellent private schools, Rhodes University and a division of the Supreme Court of South Africa. Despite its small size and relative isolation, it has one of the county's finest auditoriums in the 1820 Settlers Monument, which seats about 1000 people. Built in 1974 to commemorate the British pioneers who came to South Africa in 1820, the Monument provides the ideal setting for large-scale production events and is used as the major venue for "Main" programme performances during the Festival (Neville 1999).

Title sponsorship of the NAF by the Standard Bank, from 1984 to 2001, as well as from a number of other smaller sponsors, has seen the Festival grow phenomenally from its humble beginnings. It has been described as "The biggest and most vibrant celebration of South Africa's rich and multi-faceted culture" (Southern Africa Places 2003). There are currently about 1800 events at the Festival overall in a ten day period.

In addition to an increase in size, the Festival has grown in diversity, now including theatre, dance, opera, cabaret, fine art, jazz, classical music, poetry readings, "Word Fest" lectures, craft markets and walking tours amongst other things. The focus is not only on the many cultures that make up South Africa and Africa, but also includes performers from China, Argentina, the UK, India and many others. During the Apartheid era, the Festival provided an outlet for otherwise suppressed social comment and political activism.

Modeled on the Edinburgh Festival, the NAF has Main and Fringe programmes. Performances on the Main are invited by the Festival organizers and are heavily sponsored. Main performances thus include some larger scale productions, like the ballet,

opera and symphony, as well as foreign companies – often sponsored jointly by their governments. The Main also includes the Winter School, which offers a series of lectures, films and demonstrations by a wide range of people, including academics, artists, political figures and well-known personalities. Because of this sponsorship and subsidy, tickets to Main performances are very reasonably priced, ranging from about R30 to R65 (about USA \$5 - \$10 where 1\$ = R6.50).

The Fringe is open to any performing group, but is not as heavily sponsored, and runs on a more commercial basis. Typically, it attracts smaller productions, often experimental in nature. Given that there is little sponsorship, Fringe performances, although somewhat cheaper, on average, than the Main, tend to cost between R20 and R45 (US \$3 - \$7). Since they are not reviewed before the Festival, the range in quality is enormous, and there is some element of risk of disappointment in attending these shows. Recently, there has been some complaint by Fringe artists that increasing costs are driving up ticket prices and decreasing demand for these shows.

Free shows and street theatre, both offered on the Main program, often including a European group, are also fully sponsored by the Festival organizers. Although there are relatively few of these shows in comparison with other events (5 in 2003), they form an important part of the vibrant atmosphere of the Festival. A number of sponsored art exhibitions, also free to festinos (festival goers), are available.

The Festival includes two craft markets, a smaller one at Church Square and a larger one on the Village Green, sponsored by Transnet, the publicly owned railway company. The craft markets are run on a commercial basis and include a fascinating array of art and craft objects from South Africa and elsewhere, various traditional foods, clothing and much more.

The following section outlines the artistic development of the Festival and its response, or non-response, to the sometimes-violent political changes occurring in South Africa from 1974 to 2004. The period is divided into three phases, “Beginnings” covering the period



from 1974 to 1983 when the Standard Bank took over as title sponsor, Phase two, from 1984 to the beginning of the “New South Africa” in 1994, with the third phase covering the last ten years of development.

## **2 PHASE 1: BEGINNINGS**

Annual arts festivals under the auspices of the 1820 Settlers Foundation were held in Grahamstown from 1970, but don’t appear to have grown in scope and size until the Settlers Monument became available as a venue. According to Neville (1999) the campaign to build a monument to commemorate the British Settlers who came to the Cape in 1820 was started as far back as 1960 by Tom Bowker, an MP for the Albany district. Far from being an establishment project, “it was fear of the English-speaker having no place in the Broederbond<sup>1</sup>-dominated regime and being left out of the design by the new architects of the nation that had motivated Tom Bowker to highlight British Settler history and to launch a campaign for a national monument to honour these Settlers” (Neville 1999:1-2). Thus, from this perspective, the 1820 Settlers movement, which played a large role in founding and running the Festival, had always been an alternative voice to the Afrikaans political leaders and has worked to maintain cultural diversity, albeit focused initially on English culture.

Funding for the 1820 Settlers Monument was sought in parliament, however, and found support at various levels, once the nature of the monument and a suitable site had been identified. Originally, the monument was envisaged as a chapel or shrine, but this vision quickly lost support because of the move at the time to unify European-origin South Africans under the Verwoerd government. The link between the proposed monument and “an English language festival” received wide support, particularly from Professor Guy Butler, who was to serve as the co-founder/chairman of the National Arts Festival in years to come. After many setbacks and changes of plan, the monument was completed

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<sup>1</sup> The Broederbond (band or league of brothers) was a secretive society for protestant, Afrikaaner men. The aim of the society was to promote Afrikaaner nationalism, political interests and influence. During the Apartheid years, many government officials were rumored to belong to this society (Schonteich and Boshoff 2003).

and placed under the auspices of the 1820 Settlers Foundation (Neville 1999). In a very real sense, this world-class venue, with a main auditorium seating about 1000 people, is what enabled the expansion and growth of the Festival and, as will be seen below, the Festival remained linked to the Foundation for most of its history.

The inaugural Festival in the new venue (8-20 July 1974) focused very much on the newly completed 1820 Settlers National Monument. The cover of the programme showed a photograph of the Monument (building crane in the background) and the message from the chairman (Guy Butler) began “Welcome. You have come to celebrate the opening of a Monument designed to perpetuate our many sided heritage...”. The focus was quite clearly on maintaining European cultural capital (as the name of the Monument suggested it would be), the programme including things like plays by Shakespeare, BBC films, ballet and “guided coach tours of Settler country”, but also included “a new play by Athol Fugard”, marked in a second version of the programme as sold out (Festival programme 1974). No Festival took place in 1975.

The 1976 festival was advertised as “The Shakespeare Festival” and included plays, films and talks mainly on this theme with two exceptions – plays by Pieter-Dirk Uys (notable political satirist) “God’s Forgotten” and “Strike up the Banned”. Although few, these shows were the beginning of what was to be a long history of offering outlets for peaceful political resistance at the Festival. A schools programme was also offered for the first time and included an exhibition by the Xhosa Development Corporation of “their manufacturing operations in the Ciskei and Transkei [two of the so-called homelands]... many items are of ethnic origin and include beadwork and traditional Xhosa skirts” (Festival programme 1976). Neville (1999:89) comments on the difficulty of getting government permission for the inclusion of even such limited numbers of African-origin and mixed-origin delegates, despite the fact that only a few weeks before an international United Nations “Year of the Woman” conference was held at the Monument, which was “the largest multiracial gathering ever held in South Africa”. In the end, the Festival was unofficially open to everybody as long as it did not lead to confrontation and this element was downplayed in the press. The year 1976 also saw the start of a significant number of

student drama presentations at the Festival that led to the National Festival of Student Drama (sponsored by the Standard Bank from 1983), which has remained an important part of the Festival to date. With the schools programme, the student offerings played a role in building the cultural capital of young people, although these were originally mostly European-origin students and pupils.

In 1977, although ties with the 1820 Settlers Foundation were still evident, the festival was presented as the “Grahamstown Festival”. In a programme foreword Professor Guy Butler, chairman of the Festival committee, draws attention to the financial strains and difficulty of running the Festival in an economic recession, but says that it was decided to continue because “Our Festival, unlike many others, has a serious vein beneath its gaiety: we gather to celebrate our English language heritage and to encourage its perpetuation in the Republic”. Despite this stated aim, however, the festival included more local content than before, including a competition for the best South African short film, African documentaries, lectures on the use of English by African-origin writers, a series on Xhosa literature including oral poetry and an exhibition of contemporary African art from Fort Hare University (Festival programme 1977). The broadening focus was important if the Festival was to successfully find a place in maintaining and building the more diverse South African cultural capital.

1978 saw the advent of serious sponsors and the effect on the number and variety of shows on offer was immediate. That year, the festival was billed as the “Sharp Festival of the Arts Grahamstown”, starting what was to be a long tradition of title sponsors. The Standard Bank sponsored some of the theatre and the inclusion of jazz made room for the involvement of more African-origin artists in the performance sphere. However, as was to be the case for many years to come, the Festival Committee, who invited the major contributors and allocated sponsorship, was made up exclusively of European-origin people.

The 1979 Festival was sponsored by Five Roses Tea (“Five Roses Festival of the Arts Grahamstown”), which was to continue until the Standard Bank took over in 1984. The

1979 Festival saw the advent of the “Film and Fringe” section of the Festival (about 10 events on offer) and included jazz by African-origin musicians and plays in Afrikaans (Festival programme 1979). The 1980 Festival included for the first time on the Main, a drama with a multiracial cast (“Waiting for Godot”). The Fringe also expanded to include late night theatre, music, dance, film and exhibitions (Festival programme 1980). Thus, although in a small way (and to mostly European-origin audiences), the Festival’s increasing diversity was starting to play a role in maintaining and building the county’s cultural capital.

However, the 1981 Festival began an ill-fated and misconceived (but brief) period of theme festivals, starting with “Mostly Mozart” which (in contradiction of this idea) was billed as the “National Festival of the Arts” for the first time. The stated objective of the Festival committee chairman (D.M. Hopkins) was “to enrich the educational and cultural development of the people of South Africa”. Not surprisingly, the programme had a very Eurocentric flavour, but expanded to include other European cultures, like Spanish dancing and an Ingmar Bergman film festival – a trend not continued due to the cultural boycott. Still, there was some representation of African-origin artists, with the Standard Bank Foundation’s collection of African tribal art being the major exhibition in the Monument art gallery (Festival programme 1981). In this year also, the Young Artists Award was started (later taken over by the Standard Bank). The 1982 Festival, billed as “Boldly Beethoven” followed much the same track, but was to end the overtly themed festivals once and for all. (A local wit wrote in protest to the Grocott’s Daily Mail, “What’s next? Tchust Tchaikovsky?”)

The 1983 Festival (“Five Roses National Festival of the Arts”) was the last year of Five Roses sponsorship. While this Festival highlighted the music of Brahms (as the third in the musical theme series), the chairman’s (Dudley Hopkins) message indicated that a change of focus was taking place and that the Festival committee recognized that a “national” festival had to include cultural forms other than European ones in order to reach its stated aim of cultural development of all South Africans.

“The 1983 Festival follows a similar format to that of the past two Festivals, but the spotlight this year focuses in the main on South Africans – both living and dead... Of one thing we are certain: meaningful black participation can only result in a richer experience for us all” (Festival programme 1983).

The gravity, however, of political developments in South Africa from 1974 to 1983 was hardly reflected in Festival content, making it less useful as an outlet for political and social resistance in this period. In 1974, the National Party increased its parliamentary majority in the April elections, opening the way for more radical apartheid policies and the United Nations general assembly rejected South African participation. November of 1975 saw the first reports of European-origin people being killed in the Angolan war. The war was started in an attempt to stop apartheid protests and ANC supporters outside the country and to prevent the League of Nations mandated territory of South-West Africa from gaining independence, since it was an important buffer zone between South Africa and hostile forces. By 1977, the government acknowledged that there were as many as 2000 South African troops fighting the guerilla war in Angola.

In June 1976 the Soweto uprising saw 575 people, many of them school children, dead when police opened fire on people protesting the mandatory use of Afrikaans as the medium of instruction in schools. The spiral would continue downwards with the death of black consciousness leader, Steve Biko, in detention in 1977 and the imposition of a UN embargo against selling arms to South Africa. In 1978, Vorster was forced to resign (Ministry of Information scandal) and P.W. Botha took over as president (Library of Congress Country Studies 2004).

In 1980, a massive military attack by South African troops against SWAPO (South-West African People's Organization) bases in Angola was launched. 1981 to 1984 saw the inclusion of Asian and mixed-origin race groups (excluding African-origin peoples) in the tricameral parliament as a result of a referendum (held in 1983) by European-origin South Africans to change the constitution (Library of Congress 2004).

Despite the difficult political situation, cultural activity in the county, often drawing attention to the injustices of the system, continued. For example, in 1976 the first film

made in South Africa by African-origin people, “How long must we suffer?”, was produced by Gibson Kente. In 1980 the Federated Union of Black Artists (FUBA) was founded in Johannesburg and in 1983, J.M. Coetzee’s book “The life and times of Michael K” won the Booker prize (Metropolitan Museum Timelines 2004).

Although the UN cultural boycott of South Africa only officially began in 1980, the growing unease about apartheid policy led to earlier reactions by individual countries. The first television broadcast in South Africa was in May 1975, but by 1976, Equity in Britain adopted a policy of refusing to sell programmes featuring its members to South African television and advised members not to work in South Africa. Earlier decisions to limit or ban the exchange of cultural products were adopted by the British Musicians Union (1961), a group of prominent British playwrights (1963), Irish playwrights (1964), British Screenwriters Guild (1965), the American Committee on Africa (1965) and the British Writers’ Guild (1969). Demonstrations by anti-apartheid groups in New York brought about the closure of “Ipi Tombi” (1976) and “Umabatha” (1978). In 1981 the board of Associated Actors and Artists of America, with a membership of over 240 000, decided that its members should not perform in South Africa (Note by the UN Centre against Apartheid 1983).

According to Mzamane (1990) African-origin South Africans saw the cultural boycott as an important way to fight against the apartheid system and a possible means, along with other boycott measures by the international community, to a peaceful solution to the problem. Along with Shore (1990), he stresses that the purpose of the cultural boycott was to isolate, to deny acceptance to European-origin South Africans and to thus impose psychological pressure. Shore (1990:403) comments that, “in many ways cultural politics is at the cutting edge of the new society waiting to be born in South Africa. Through these cultural expressions, it is argued, those Africans committed to a new society are helping people to resist, survive and, ultimately, contemplate alternatives”.

Huisamen (2004: personal communication), who has been involved with the Festival from the beginning, especially in planning and running the Winter School lectures,

comments that the cultural boycott was a double-edged sword as far as the Festival was concerned. While on the one hand it limited the number of international performers, on the other it meant that the stage had to be filled with South African art and artists, thus encouraging their work and making it available to audiences. Like Mzamane (1990) and Shore (1990), however, he agrees that some African-origin and European-origin anti-apartheid artists (like Johnny Clegg) got caught in the cross-fire, in that they were also banned from performing internationally.

As mentioned previously, Klammer (2004) sees the arts as a common good, like a conversation, which cannot be owned by any individual (because it only makes sense in a societal setting), but one from which people can be excluded. Looking at the reasons for and effects of the cultural boycott against South Africa, the definition seems to fit well. Exclusion from the international cultural “conversation”, a denial of access to cultural capital, was a real punishment – perhaps as much as denial of access to more commonly accepted forms of capital or goods, like arms. Being cut off culturally from the rest of the world almost certainly decreased the Festival’s role as a place where art could be displayed and valued. Along with the lack of audience diversity, the lack of international audiences, agents and artists meant that the Festival only had a very limited credibility as a place to judge or value the arts.

Grundy (1993:13) argues that, in the early 1980s, the Festival committee, although making a “verbal commitment to diversity and openness” were in reality not interested in taking such risks and were rather interested in satisfying their European-origin audiences and operated in a “political cocoon”. This is largely true, but can also be argued to be too simplistic a view. Firstly, it is clear from the historical account above that the Festival saw its major role as that of celebrating and preserving the English language and British heritage in opposition to the growing Afrikaans domination. In this sense, it was, in fact, counter hegemonic, rather than in support of the establishment, although most African-origin people did not see it as such. The second factor to consider was the very real danger in becoming too politically involved. As Grundy (1993:15) points out:

“At the time of the Soweto uprising, government censorship and the bounds of artistic expression were unclear and downright dangerous...Virtually no one at the Foundation or the Festival management was prepared to risk closure by or even challenges to the state by presenting more than mildly daring material”.

Despite this, however, Grundy (1993:16) is fiercely critical of the exclusion of African-origin culture arguing that “It was as if the Festival’s management thought that African-origin culture would drag down the arts”. While this is possibly true, the denigration of “popular” culture (as opposed to “high” culture) is hardly new and not necessarily racist. Cultural studies theorists, like Fiske (1989:47), point out that popular culture is “described through metaphors of struggle or antagonism: strategies opposed by tactics, the bourgeoisie by the proletariat; hegemony met by resistance, ideology countered or evaded; top-down power opposed by bottom-up power, social discipline faced with disorder”. From another angle, without the cultural capital needed to “make meaning” out of African-origin art forms, organizers and audiences alike were unable or unwilling to take the risks entailed in including such shows, despite the traditionally liberal nature of arts patrons.

Huisamen (2004: personal communication) adds a further dimension to Festival politics by revealing that, in this first phase, an uneasy and confrontational relationship developed between the 1820 Settlers Foundation, who regarded the Festival as one of their projects, and the Festival committee. As Neville (1990) indicates, the early years of the Foundation were financially fraught, with fund-raising activities taking up much of their time. The Festival quickly became the major earner for the Foundation and while the Foundation felt that the Festival committee was becoming too dominant and trying to influence, for example, the election of the Foundation chairperson, the Festival committee felt concerned that Festival revenue might be used to prop up the financially ailing Foundation. Huisamen (2004: personal communication) agrees with Grundy (1993) that, in this first phase of the Festival it was mainly about maintaining control and staying with what felt safe and familiar, rather than taking risks and being multicultural.

Considering the sub-categories of cultural value outlined in the introduction, the period from 1974 to 1983 does not score well. As far as maintaining diverse South African



cultural capital goes, while it could be argued that protecting or maintaining the English language speaking population's cultural capital in the face of Afrikaner political domination was an important goal, it was a very small part of the culture of all South Africans. Although African-origin artists were involved from the beginning, their influence was minimal and the Festival Committee was made up of only European-origin people. In this category, the Festival thus scores three out of ten. As for building new cultural capital, the Festival was equally unsuccessful in this period. The inclusion of student drama in the programme from 1976 no doubt contributed somewhat, but the tone was very much that of the preservation of English cultural heritage, rather than extending audiences and reaching out to the majority of South Africans. This was partly prevented by the lack of funds, but the score in this category must necessarily also be low: three out of ten.

Even in this early stage, however, the role of the Festival as an outlet for political and social awareness and resistance was starting to be important. Entwined within the programmes of Shakespeare and Brahms can often be found the tendrils of current social comment and the voice of dissent, like the satires of Pieter Dirk Uys and the exhibitions showing the beginnings of an appreciation of African art and artists. In this category, the Festival thus scores five out of ten. Category four (the valorization of culture by artists, agents and audiences) is difficult to comment on in this period because of the lack of audience research until about 1987. However, anecdotal evidence (Huisamen 2004) as well as the laws restricting the movements of African-origin people, suggests that audiences were mostly European-origin, English-speaking liberals. Despite this, the coming ferocity of debates about Festival control and the appearance of Barbara Masikela (head the ANC Department of Arts and Culture) in 1990 (further discussed in phase 2), suggest that the Festival has always been recognized as an important platform on which to present ideas and arguments. Tentatively (given the lack of information) a score of four out of ten is assigned to this value category.

### 3. PHASE 2: 1984-1994

Both Huisamen (2004) and Grundy (1993) agree that the Festival character changed when the Standard Bank took over as title sponsor in 1984. The change, however, was not immediately apparent and the 1984 Festival programme, showing a portrait of Shakespeare on the front cover, still focused largely on maintaining and building European cultural capital. The message from the chairman of the Festival committee (D. Hopkins) focused on the ten year anniversary of the completion of the Monument and the new Standard Bank Sponsorship, but also included the following statement indicating the Festival's commitment to building more diverse cultural capital with a view to more general acceptance (and thus the generation of valuable judgments).

"The most important consideration, though, must remain what has still to be achieved and that is acceptance and participation by all who live in our part of Africa. To be truly representative requires acceptance without fear of patronage on the one hand and natural assimilation, not forced window dressing on the other. To make our Festival an outpouring of South African creativity remains our goal" (Festival programme 1984).

The programme also contained large advertisements and messages of support by some big players in South African business, like Barlow Rand, Sasol, the Tiger Oats Group, Anglovaal Mining Corporation and PPC Cement amongst others. For the first time an official Winter School programme was included, lectures and films however, focusing mainly on the theme of Shakespeare. The Winter School was to become, however, one of the most important sections of the Festival in raising political and social awareness in apartheid South Africa. The Fringe also expanded massively in this year and, as in later years, produced somewhat more daring and experimental works, but still with the focus very much on European-origin artists and art.

Considering what was happening in South Africa that year, the Festival still remained determinedly uninvolved. 1984 saw a falling off in tensions between South Africa and SWAPO with the Angola cease fire and South Africa's statement that it was prepared to talk directly to SWAPO. However, inside the country things remained bleak with increasing rural poverty, a rising inflation rate, falling gold price and an increase in government borrowing. School boycotts and stayaways (in protest against detentions) and

Bishop Tutu's Nobel Peace prize all focused international attention on South Africa's apartheid policies and incited many international protests (South African News Summary 1984). The election for the tricameral parliament in September increased township violence. In September, P.W. Botha was officially named state president (Library of Congress 2004).

In terms of cultural activities, 1984 saw the organization of the highly successful Thupelo Workshop in Johannesburg (encouraging collaborative works by artists from all race groups), which spawned many Triangle International Workshops throughout Africa (Metropolitan Museum Timeline 2004).

The real change in Festival direction is immediately apparent in 1985 – the programme cover showing a stylized form of African mask. The chairman's message also reflects this change in attitude, referring to the Festival as a “melting pot of ideas...where people of divergent cultures struggle to find a common identity and purpose” (Festival programme 1985). The Main programme included high profile African-origin actors, like John Kani, and the Young Artists Award for drama and music went to African-origin and mixed-origin artists, Maishe Maponya and Sidwell Hartman, for the first time. While the Winter School still included things like the inauguration of the South African Shakespeare Society, the keynote lecture, “Images of Africa” was presented by Professor Es'kia Mphahlele of the University of the Witwatersrand. The Fringe presented a number of political plays by African-origin artists, like “Ubu for President” and Athol Fugard's “Sizwe Banzi is Dead”. Clearly, a sea change had occurred and, from this time onwards the character of the Festival became more diverse, politically aware, challenging. It was as if it had become emboldened by the growing political unrest and worldwide resistance to, and protest against, the apartheid state.

Both Grundy (1993) and Huisamen (2004) attribute this “awakening” to the influence of the Standard Bank, despite the fact that it was seen by many as an establishment, capitalist organization. In fact, the South African News Summary (1984 and 1985) reports the growing opposition of big business to the apartheid policies of government.

The Standard Bank itself (and other large corporations) had been collecting fine art by African-origin artists since the 1960s, thus playing an important role in maintaining the cultural capital of African cultures. The first step in their reformation of the Festival was to loosen the ties between the Festival and the 1820 Settlers Foundation, with its overtones of European-origin colonialism, by funding certain things (like the salary of the Festival officer) directly. It was also instrumental in changing the Foundation's name – now called the Grahamstown Foundation (Huisamen 2004).

1985 was a year of economic hardship for South Africa with increases in taxes and fuel prices driving inflation up even further, increasing foreign debt (\$23.9 billion by the end of 1985) and low national productivity. On the political front, ANC led violence increased further despite (or because of) the government's offer to release Mr. Mandela, provided he agreed not to become involved in the violence. By the end of the year, a number of United Democratic Front (UDF) members were detained by the state and restrictions were placed on media coverage of unrest. The first of a series of nationwide "states of emergency" was declared and the Congress of South African Trade Unions (Cosatu), representing 450 000 workers, was formed (South African News Summary 1985).

The political violence that began in 1984 intensified in 1986 in response to a call from the ANC leadership in exile. A political deadlock was reached in that the government would not negotiate with the ANC while they advocated violence and the ANC would not consider a ceasefire until negotiations had started. The South African Defense Force led raids against alleged ANC supporters in Botswana, Zambia, Zimbabwe and Mozambique. In addition to conflict with the state, violence and conflict between African-origin parties, like AZAPO and the UDF also increased. A state of emergency was imposed in June.

On a more positive note, President Botha opened parliament with a reference to the "outdated concept of apartheid", and two of the most indefensible apartheid laws, the Pass Law (controlling the movement of African-origin people into and out of European-origin urban areas) and the Prohibition of Mixed Marriages Act, were repealed. The

economic outlook was still poor with economic growth of only 1% and inflation of 18.6% for the year. Barclays Bank (UK) and about 48 American companies disinvested in South Africa in 1986 (Race Relations Survey 1986). Huisamen (2004) commented that the government was attempting to make apartheid more acceptable on the surface, while retaining most of its key elements. Neither local political parties nor the international community seems to have been fooled, however, because in October the US Congress passed its Comprehensive Anti-apartheid Act and the Dutch Reformed Church (with a largely Afrikaans congregation) declared apartheid an error. In November, the US banned direct US-South African air travel (Library of Congress country studies 2004).

The 1986 Festival theme (originally planned to highlight the effect of Russian Émigrés on Western culture, but necessarily revised because of the cultural boycott) was “Encounters” focusing on cross-cultural understanding. There was also a significant increase in African-origin performing arts groups and institutions on the Fringe. The Winter School reflected a great deal more political awareness, with lectures on “Maids and Madams” and “Witness to Apartheid” and films focusing specifically on apartheid South Africa. Pieter-Dirk Uys presented “Beyond the Rubicon” – an openly satirical drama focusing on P.W. Botha’s famous speech and ridiculing apartheid policies. A photographic exhibition entitled, “South Africa in Conflict” was shown on the Fringe (Festival programme 1986).

Grundy (1993:18) agrees that, while the Main Festival programme remained fairly conservative, partly because of their reliance on the state-funded arts councils for large productions, the Fringe “came alive as more adventuresome material was offered. The audiences were younger. The market for challenging, indigenous theatre grew” as did the Festival’s roles both in maintaining cultural capital and in offering an outlet for apartheid resistance. Yet, despite these changes, Grundy (1993) is skeptical of their real effect because European-origin people still controlled the Festival completely. Despite the continued increase in African-origin artists and performers in 1987, by the following year the Festival was faced with a possible boycott by some progressive cultural organizations (Grundy 1993). The political changes beginning to break up the solid block of National

Party power were also starting to affect the National Arts Festival (NAF), particularly where control was concerned.

Much of the talk in parliament centered around constitutional reform, but with the NP celebrating 40 years in power in 1988, few African-origin leaders of standing indicated any willingness to participate in the process (Race relations survey 1987/88). In 1989 a general election was held, excluding African-origin people, and was accompanied by considerable violence and mass protest. Then, in January of 1989, President Botha suffered a stroke and was succeeded as leader of the NP by F.W. de Klerk in February and as state president in August. De Klerk immediately made it clear that changes were in the offing. In his parliamentary opening address in February of 1990, he referred to the country as being “irrevocably on the road to drastic change” (South African Record 1990:68). Later in the year, he presented to parliament his five-year action plan aimed at creating a new South Africa based on “equality before the law”. Just before his resignation, President Botha had hosted Nelson Mandela to tea at his official residence and they agreed on peaceful negotiations. The Inkatha Freedom Party and the ANC published the terms on which they would be willing to negotiate. The general tone of the political scene seemed positive (in theory – no official talks were held yet), but there was still serious political violence in Natal. Economic growth for 1988 was about 3%, inflation had fallen to 12.9% and foreign debt, while still huge, had decreased to \$21.2 billion (Race Relations Survey 1988/89).

The changing political climate and increasing demands from community leaders for more say in the organization and planning of the Festival led to many talks and meetings between the Festival committee and various cultural groups. The talks were, however, hampered by two things. Firstly, as Grundy (1993:19) mentions, by 1988 some progressive African-origin artists were wary of being identified with the NAF and particularly, the Foundation. Secondly, as both Huisamen (2004) and Grundy (1993) admit, the lack of organization of the cultural groups of African-origin people made it difficult to find acknowledged representatives with whom to negotiate. Thus, while the Festival committee had started to diversify its membership (under the influence of the

Standard Bank) and was open to new ideas, the state of emergency left many groups leaderless and “it was difficult to understand who was in charge, if anyone, and who could speak for whom” (Grundy 1993:29). In addition to these problems, Huisamen (2004) says that the committee itself was “inept at the politics of negotiation”. He refers to this time as the embarrassing “we don’t know who you are, please speak to us” period. Even once organizations like the Transvaal Cultural Desk, speaking on behalf of the UDF, had emerged and significant talks with local community members had been held, the road was far from smooth. This was partly because the Desk quite quickly began to lose the support of its backers and because community leaders were suspicious of the motives behind the consultation process.

“It was a period of frenetic travel, communication, networking, bridgebuilding and politicking. But it was marked by a lack of focus and clarity as few understood for sure who should take the lead and how. Meetings were scheduled and then cancelled. Others were postponed or reconfigured as to agenda and participants” (Grundy 1993:42-3).

In a sense, the Festival negotiation process was a microcosm for South Africa. Parties on both sides were reaching out and making advances to each other and, while there was a predictable amount of distrust and miscommunication, the overall tone of reconciliation and reformation was unmistakable. Grundy (1993) presents the Festival committee as willing to listen and negotiate in order to avoid criticism and be politically correct, but determined to maintain control for themselves. While there was certainly a proprietary air towards the Festival by the committee (references to “our” Festival), it is unfair to assume that the committee was only window-dressing. As Warren Snowball, a Grahamstown resident and Festival attendee since 1974, as well as a member of the committee for a few years in the early eighties notes, it would have been tantamount to committing “financial suicide” to hand over too quickly to the scattered and disorganized African-origin cultural groups who had no clear leadership. A very real concern was also the maintenance of the audience base, who mostly represented European-origin, English-speaking liberals (Snowball 2004:Personal communication).

One indication of this change was the invitation to Barbara Masakela, head of the ANC Department of Arts and Culture, to speak at the Winter School in 1990. Despite the

attempts by the Cultural Desk to prevent her attendance, she did speak at the 1990 Festival, making this the first official public gathering with an ANC speaker since the unbanning of the organization. Her address was a clear challenge to the Festival organizers to change the Festival's structure and composition to be more representative of all South Africans, but also acknowledged the positive changes already achieved (Grundy 1993).

From 1990 onwards, political changes began to take place faster and with a more definite direction. In this year, Nelson Mandela was released from prison and ANC exiles began to return to the country. In August, the ANC declared the end of the armed struggle and in October, parliament repealed the Reservation of Separate Amenities Act. 1991 saw a great many other apartheid acts repealed, the election of Nelson Mandela as ANC president and, in September, the National Peace Accord agreement. Codesa (Convention for a Democratic South Africa) began in December (Library of Congress Country Studies 2004).

Despite continuing political violence, such as the Ciskei defense force firing on ANC protesters in 1992, the murder of Chris Hani (SACP leader) and the storming by European-origin radicals of the venue where constitutional negotiations were being held in 1993, the process of South African political transformation was underway. Most sanctions and boycotts (including the cultural boycott) were lifted in this period and in December of 1994, De Klerk and Mandela jointly received the Nobel Peace Prize. The first democratic national elections were held in April of 1994 with an overwhelming victory for the ANC and Nelson Mandela was elected as president.

When considering the value of the NAF during the politically turbulent 1980s and early 1990s contradictory views arise. On the one hand Huisamen (2004:personal communication) feels that, although the Festival played a fairly minor role, it was an important one. He argues that the Festival offered a way for anti-apartheid activists to reach out to European-origin liberal artists, academics and audiences and to present some radical ideas. In this respect, the Winter School was an especially important area of



dialogue. As proof that the Festival was seen by resistance movements to play an important role, he cites the fact that it was never subject to violent attack, although it would have made a highly publicized event. He sees it as offering “a marketplace for ideas” and an “escape valve for the frustrations which developed under draconian censorship”. It provided an interface, even in the darkest days of apartheid, between the establishment and progressive artists, who felt that they had a chance of getting their message across to the more liberal arts audiences. The state, for its part, recognized the Festival as subversive, but while a certain amount of direct intervention in the form of censorship (including self-censorship by cultural workers) and the detention of artists occurred (Grundy 1993), they mainly responded by funding artists representing their own views (Huisamen 2004).

The view is supported by Ney and Molennarts (1999:505) in their article on cultural theory as a theory of democracy. They argue that culture can be seen as a way of making sense of the world and defining “the good life” – an essentially normative concept. Expressions of culture at times of political change and social reorganization will thus reflect the “struggle for rhetorical legitimacy”. In this context, the Festival’s role in articulating opposing world views during the apartheid era was important, however ineptly it was done.

On the other hand, Grundy (1993:51) ends his review of “The Politics of the National Arts Festival” on a much more pessimistic note:

“Progressive cultural people still regard the NAF as essentially an establishment institution that gives disproportionate exposure and support to white minority artists and art forms, that is still controlled by minority interest, that stands as a symbol of past iniquities and power structures, and that makes little positive and tangible contribution to Grahamstown’s or South Africa’s black populace”.

Scoring in the four value categories from 1984 to 1994 was much improved. In particular, the inclusion of more culturally diverse artists (and thus, audiences) greatly increased the Festival’s value as an institution aimed at maintaining diverse South African cultural capital. Including high profile African-origin artists on the Main programme, more

politically daring work on the Fringe and in the Winter School programme all helped a great deal. Diversity was still somewhat hampered by the control of the Festival by European-origin people and the lack of any organized African-origin cultural groups, but was also a symptom of financial considerations. In this category, the Festival scores six out of ten. There was also an improvement in building new cultural capital, with the expansion of student drama and the Young Artist Award. Here, the Festival scores five out of ten.

In this politically turbulent period, the Festival became an important outlet for social resistance and awareness, especially from 1985 onwards. Despite criticisms and the continued control by European-origin people, even Grundy (1993) agrees that far more politically important material was appearing, especially on the Fringe. The Festival scores seven out of ten in this category. As far as valorization goes, there are several indications that the Festival was being taken seriously as a place to display and value cultural and political expressions. For example, the bitter debates relating to control (especially of the Main programme), the presence of important political speakers and the lack of violence at a time when many other public gatherings were at risk, all point to the idea that the Festival was seen as a valuable platform on which to be seen and which thus generated important opinions. The 1987 and 1989 audience surveys (Davies 1987 and 1989) showed a slight decline in the percentage of the audience with English as their home language. The Festival scores six out of ten in this category.

#### **4. PHASE 3: THE NEW SOUTH AFRICA**

In many ways, the trends towards diversity, amongst audiences, artists and the Festival Committee that started in the previous period were continued and amplified in the New South Africa. Politically, the context was also much more stable. Rather than tracing the development of the Festival and its political context by year, therefore, this section will examine two important areas: the goal of increasing audience and artistic diversity and the challenges of obtaining funding in the new political environment. The same scoring system is used and a comparison of Festival development between periods is made in the conclusion.

### *Audience and artistic diversity*

The role of the Festival in the New South Africa is naturally different from that in the climate of resistance and struggle of the preceding decade. Lynette Marais has been the NAF director since 1989 and feels that the major change in the Festival, as far as increasing diversity goes, began in 1991 and 1992 (Marais 2004: personal communication). In 1991, for the first time, the Festival Committee included non-European-origin members, like Ramoloa Makhene who was the chairman of the Performing Arts Workers Equity (PAWE) at the time (Festival Programme 1991). In his Festival message, Professor Alan Crump, the chairman of the Festival Committee, referred to the criticism that the Festival was receiving from both sides - that it was too Eurocentric on the one hand, and pandering too much to indigenous cultures on the other – as the first sign that it was “moving closer to reflecting the richness and diversity of South Africa’s cultural heritage”. Included in the programme was a one-page essay by Makhene entitled “Thoughts for the Festival-goer” in which he outlines his experiences of South African culture in rural areas and amongst workers’ unions. In conclusion, he poses the following question: “Are you the Festival-goer ready to include the Bapedi drums and horns, the energy of African Dance, workers’ theatre and the beauty and nuance of African languages in your definition of culture?”.

The question still lies at the heart of the success or failure of the Festival’s role in maintaining and building the diverse cultural capital of South Africa and is important on two fronts. Firstly, it links to Klammer’s (2002) definition of cultural capital which is “the capacity to ... make meaning”. Since most of the Festival audience at the time was made up of European-origin English speaking people (Davies 1989), it is reasonable to suppose that most of them would not have had the tools or cultural capital needed to make meaning of, for example, Bapedi drums. The willingness of the audience to experiment and to invest in the necessary cultural capital was, and is, the key to creating a really national festival. The second point is that wealth, and thus the resources to attend the NAF, was (and still is to a certain extent) concentrated in the hands of European-origin people. Thus, from the point of view of the Festival organizers, who needed to sell tickets

in order to remain financially viable, the tastes and demands of the audience would always be an important factor in deciding which shows to include in the heavily sponsored Main programme.

For example, one of the largest events on the 2004 NAF Main programme was the ballet *Giselle* – hardly representative of the interests or culture of the majority of South Africans. When Marais was asked whether she had encountered resistance to the idea from the now much more diverse committee, she said that she had shown them the ticket sales figures for past years, indicating that the ballet was almost always sold out. They then agreed that it should be included. Of course, this is not the only criterion used. For inclusion in the Main programme, events are judged in three spheres: artistic merit, their addition to a “varied and balanced programme” and the costs involved. Submissions are made to the committee who then make a decision (Marais 2004). Marais (2004) also points out, however, that getting people to come to the Festival, for whatever reason, is a first step to exposing them to other forms of art and cultures and thus a step towards building the cultural capital needed to appreciate them.

Van Graan is a playwright who has also been extensively involved in arts administration in South Africa. He is currently the general secretary of the Performing Arts Network of South Africa (PANSA) and was appointed as an advisor to the Minister of Arts, Culture, Science and Technology after the 1994 elections. He now runs an arts and culture consultancy. In a recent interview (LitNet 2004) he pointed out that African-origin audiences tend to go to “black” shows, while European-origin audiences go to “white” shows and that disappointingly little hybrid South African culture has emerged. When considered from the point of view of cultural capital, this is hardly surprising, since it is not only the willingness to attend shows outside one’s own culture that is needed, but also the knowledge and experiences needed to make it meaningful.

A number of initiatives have been included in the NAF to build audiences (and so their cultural capital), particularly amongst the country’s poorer inhabitants. The Children’s Festival, hosted by St Andrew’s Preparatory School, has become a regular part of the

Fringe, catering for children from age 4 to 13. It includes a wide variety of shows, workshops, music and other activities for young audiences. The Studio Project was started in 1994 as a space for performance for young artists from disadvantaged backgrounds. Groups are given assistance in artistic matters, but also in associated marketing and financial skills. The Arts Encounter Project distributes tickets to groups who make written applications to the Festival for assistance. They try to target diverse groups of poorer people, like the unemployed, state schools from low-income areas, craft centers and non-governmental organizations. In 2004, the Studio Project distributed more than 5000 tickets valued at over R95 000 (Marais 2004). In addition, Marais feels strongly that it is the responsibility of prominent citizens, like council members, political figures and others, to act as role models for others in attending cultural events like the Festival. Nevertheless, she also recognizes that building cultural capital and so, audiences, takes time, since arts appreciation depends so much on education and economic factors. When a new middle class of South Africans from all cultural groups develops, that is when she thinks a true mix of cultures and audiences will occur. For now, it is up to the Festival to continue to offer a wide variety of excellent art in as many fields as possible (Marais 2004: personal communication).

While change has been slow, Festival audiences have become more diverse. Table 2.1 below, shows the percentage of the audience whose mother tongue language was reported as English in each year that a survey was conducted. Except for 2001, when most of the data was collected via self-completion forms (in English), which are naturally biased towards responses from English speakers, the NAF audience does appear to be becoming more diverse (European-origin respondents made up 66% of the interview sample in 2001). As has been said before, however, the process is a slow one, with Festival audiences generally representing the better-educated, well-employed sector of society.

The diversification of the Festival Committee to include members like Sibongile Khumalo (one of South Africa's best known singers and actresses), Daniel Marais (assistant director of the Eastern Cape Department of Sport, Arts and Culture), Sydney Selepe (Director of Arts Institutional Governance and an internationally known fine

artist) and Mpho Molepo (Executive secretary for the Southern African Theatre Initiative and a well-known actor), has definitely resulted in a more diverse and representative programme of high-quality shows. The inclusion of high-profile African-origin artists and politicians on the committee has also improved Festival credibility and made it a more effective arena in which to value works of art. However, the market and financial considerations play a large part in the success of such diversification.

*Table 2.1: The percentage of English speakers at the NAF*

| <b>Year</b> | <b>% English speakers</b> |
|-------------|---------------------------|
| <b>1987</b> | 85                        |
| <b>1989</b> | 79                        |
| <b>1996</b> | 70                        |
| <b>1997</b> | 61                        |
| <b>2001</b> | 75                        |
| <b>2003</b> | 53                        |
| <b>2004</b> | 54                        |

In a historical study of the development of cultural diversity in the United States, DiMaggio (1991) argued that social change is also changing the arts, particularly the idea of what is “high” culture and how it should be funded. He defines cultural capital as the resources (education, social capital and so on) that one needs to make sense of such “high” culture – usually European in origin. In the US, “high” culture has been steadily losing its pre-eminence to a multiplicity of other cultural forms which are highly differentiated, but not hierarchically arranged in terms of their value. DiMaggio (1991) argues that what has happened is that cultural capital (using his narrow definition) has been devalued, while other forms of cultural capital have been inflated. Two problems occur in this scenario: firstly, the lack of one recognized “high” culture means that there are no common symbols in society that can stand for something accepted and understood by all. Secondly, since “high” culture offers a way of separating out a part of culture that can be protected from market forces by private and public funding, the lack of a generally accepted “deserving” section of culture will certainly lead to a much wider spread of public and private funding, putting such funding sources under great pressure.

In South Africa, the change in government devalued “high” cultural capital almost overnight, while inflating capital associated with other cultural forms, particularly African-origin ones. Commentators like Marais (2004) and Van Graan (2004) have expressed their concern that no new hybrid South African culture seems to be emerging, but, given the US experiences outlined above, perhaps this is unlikely to happen. Rather, a number of highly differentiated genres may emerge, not easily arranged into a hierarchy, with few common cultural symbols. Barry Ronge (*Sunday Times Magazine* 2004:6), a film critic and astute South African social commentator, drew attention to the recent differentiation of South African African-origin youth, who can no longer be regarded as one group:

“The older [African-origin] generation seems anxious about the new classes and groupings that are forming in what once seemed like a unified and homogenous “black population”. The power brokers want to freeze it into a generic shape with uniformly accepted cultural and political values because that will entrench their power base. But...the vibrant, young black generations of South Africa are starting to celebrate their differences and to build new social and cultural groupings. The phrase “the black youth of South Africa” no longer means what it meant in 1976”.

However, the valuation of high or European cultural forms in South Africa is still tied to economic and educational indicators. This statement, rather than a value judgment, is based on observed facts. In a huge study conducted by the South African Advertising Research Foundation (SAARF 2002), living standard measures (LSMs) were linked to media consumption to a startlingly high degree. For example, LSM 1 is characterized by people living mostly in rural areas, who have not completed high school education, with an average income of R777 per month. Local radio stations in their home language dominate their media consumption, while hardly any people in this group have access to television or read newspapers. As the LSM level (along with income and education levels) increases, so does the penetration of national radio stations, newspapers and South African television stations geared to African-origin audiences (SABC 1 and 2). By LSM 10, very high levels of media consumption of all kinds emerge, with a particular interest in subscription television stations, like MNet (SAARF 2002).

Bourdieu (1984) points out that cultural taste is not an inborn thing, but rather the result of one's upbringing and, particularly, education. Thus the capacity to make meaning of or to decode a particular art form is not easily acquired and, to a large extent, is tacit and thus that much more difficult to acquire from outside a specific social class or group. For example, in a recent interview in *Grocott's Mail* (2004:3), Peter Voges, the Festival committee member in charge of student theatre, commented that, "Art needs to become more accessible. People do not know what music is and clap between symphony movements". The reason Festival audiences often clap between symphony movements is that, for many of them, symphony music is not a cultural form with which they are familiar. Despite the need to be more inclusive, however, the addition of a note in the programme (to the effect that one only claps at the end) seems an unthinkable step to take – people who know about music know when to clap, and the refusal to share that (tacit) knowledge is one way of maintaining the "cultural aristocracy" which Bourdieu is talking about.

Much, however, rests on the economics of the arts in the sense that, when no longer protected from the market by heavy sponsorship, supply is dictated to a certain extent by demand. As will be seen in the following section, there are conflicting forces at work on the Festival in this area, some moving towards greater cultural diversity, others militating against it.

#### *Government funding and sponsorship*

Before the White Paper on Arts, Culture and Heritage was published in June of 1996, most of the government support for the arts in South Africa was channeled through the Provincial Arts Councils (PACs) who were based in the urban areas of the four provinces and focused mainly on European art forms. They were absorbing 46% of the arts and culture budget of the Department and box office receipts made up only 18% of their operating income – not enough to cover administrative costs. The White Paper, with its goals of more equitable redistribution, including all eleven official languages and rural as well as urban areas, could no longer continue to support such structures, stating that, "In



their (PACs) present form, given that they are urban-based, heavily resource-consuming structures, they will still be unable significantly to assist in realizing the RDP's goals of access and redress" (White Paper 1996). From 1996 onwards, the PACs received declining funding, after which government subsidized core infrastructure and staff only. All other funding had to be applied for through the National Arts Council (NAC).

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". 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" (Handbook of Arts and Culture (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 subsidizing 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 subsidized, 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.

In this era, government funding for the Festival was very limited – the upkeep and running cost of the Monument were subsidized to a very small extent and about six Fringe productions a year received government funding to come to the Festival. However, the PACs were an important source of Main programme shows for the Festival, providing expensive, large-scale productions, like ballet, opera and orchestral music, at very reasonable costs. With the demise of the PACs, financing these sorts of productions

for inclusion in the Festival, which has a very short run, is becoming prohibitive (Marais 2004). For those productions it does sponsor, the role of the Festival in encouraging artists and maintaining cultural capital has become ever more important.

The new NAC funding policies, however, have caused considerable controversy. Their policy was to fund projects, rather than companies or organizations, for a very limited amount of time. The result, as both Van Graan (2004) and Marais (2004) comment, is that South Africa currently has no large theatre companies (although dance has fared better). In a presentation to the Parliamentary Ad Hoc Committee on Arts and Culture in June 2004, the Performing Arts Network of South Africa (PANSA) raised a number of other problems with NAC policies, including the late notification of artists of the success or failure of funding requests and the unequal distribution of funds amongst provinces and cultural activities. In addition, the suspension of three of the members of the NAC Board on allegations of misconduct resulted in the withdrawal of international donors and the resignation of two other Board members and had seriously compromised the perceived integrity of the NAC and further worsened administrative inefficiency. PANSA felt that “The NAC has no discernible vision to develop the arts in all nine provinces, no strategies to realize that vision and no proactive implementation mechanisms to pursue such strategies” (PANSA Parliamentary Report 2004).

In some ways, arts festivals, of which there are about 20 in South Africa at present (of various sizes, styles and qualities), have picked up some of the slack left by the lack of structures like the PACs. In an interview (LitNet 2004), Van Graan relates his experience of trying to sell the script of his new play “Green Man Flashing” in the market without success because it was judged “too politically risky”. He then personally staged the work at the NAF in 2004. It was a great success and has encouraged other theatres to buy it. There are a number of such cases, according to Marais (2004), who argues that the Festival is a way of gauging public opinion and making comparisons; in other words, the Festival plays a role in the societal valuation of works of arts.

In 2002, the Department of Arts, Culture, Science and Technology was split into two separate Departments, resulting in the establishment of the new Department of Arts and Culture (DAC), with its own strategic development plans. Its goals (redistribution, diversity, equity of access and the fostering of all South Africa's cultural forms) are very similar to those of the NAC. However, like the White Paper (1996) it also places emphasis on the so-called "cultural industries" and the role the arts can play in economic development and growth. The DAC 2003 "vision" mentioned first "Arts and culture fully utilized in achieving social development and economic empowerment and in branding the country..." followed by issues relating to the preservation and promotion of the arts themselves (DAC Strategic Development Plan 2003). The new Minister, Dr Pallo Jordan's 2004 "vision" however, focuses more on culture itself than economic impact, "... to develop and preserve South African culture to ensure social cohesion and nation-building" (DAC Strategic development plan 2004). In a developing country like South Africa, it comes as no surprise that economic growth and financial considerations are often brought to the fore. For the Festival, the already restrictive financial considerations are only likely to become worse and a greater challenge to its aspirations of artistic quality and diversity.

In 2001, the Standard Bank announced that that would be the last year in which they would act as title sponsor for the festival, although they would remain involved as a "niche" sponsor and assist with marketing the Festival to other sponsors. The motivation for their withdrawal was unclear; the Festival Message (Festival programme 2001) simply referred to the Bank wanting to make space for other sponsors to join. At around the same time, the Standard Bank also became sponsors of night cricket in South Africa – perhaps indicating a wish to become more diversely involved in arts and sports arenas.

Assisted by the Bank, the Festival thus began to lobby for new sponsors from 2002 onwards, at first with limited success. However, in 2002, the Eastern Cape provincial government announced that they would undertake to sponsor the Festival to the amount of R7.5 million over three years. Media reports on the public funding of the National Arts Festival alluded to the intangible cultural benefits that such an event provides. For

example, the Festival is seen to “promote the heritage of this region and the province [Eastern Cape] as a whole” (*The Herald* 29/3/02), “nurture local talent”, “put Grahamstown on the map” (*The Herald* 28/3/02) and expose “our rich cultural heritage in the international arena” (*Daily Dispatch* 27/03/02). However, when announcing their sponsorship, Eastern Cape Government spokespeople concentrated their remarks on the economic benefits, increased tourist attraction and job opportunities offered by the Festival (*The Herald* 28/3/02, *Daily Dispatch* 8/03/02 *Business Day* 4/4/02 amongst others).

William Davies conducted the 1987 and 1989 NAF studies as a member of the Institute for Social and Economic Development (ISER) at Rhodes University. He is now attached to the Eastern Cape provincial government Treasury Department and was thus directly involved in the decision to publicly fund the Festival. When questioned as to why the decision was made, he responded as follows:

“The National Arts Festival has always been a priority consideration for the Provincial Government. Much depended on how to address the perceptions of “eurocentricism” that have been attached to the Festival and whether it should be seen as a cultural-type event or an investment in Local Economic Development. The latter view has largely prevailed and the Festival is now an integral part of the Provincial Growth and Development Plan (PGDP), linked to the Makana Municipality Integrated Development Plan (IDP)” (Personal communication 2004).

Grundy (1993:48) ends his review of the Festival’s history by commenting that whether the NAF received state funding or not could be viewed as a “litmus test” for official endorsement by the new government, but the reality is that this question appears to have been side-stepped by regarding the Festival mostly in a financial light – as the generator of economic growth and job creation. There are two possible reasons for this. Firstly it is much easier to quantify and understand monetary benefits than the social non-market benefits of events like arts festivals and secondly, the issue of the cultural diversity of the Festival, or its “value” to South Africans, need not be considered as the foremost reason for sponsorship.

Huisamen (2004: personal communication) feels that there was significant pressure on the Eastern Cape government to fund the Festival, not only because its closure would result in “an indefensible financial loss”, but also because it is the premier cultural event in the Eastern Cape and losing it would result in significant “loss of face”. Mrs. Balindlela (now premier of the province) had also been a long-time “friend of the festival” and had addressed the Winter School in 1994. Pallo Jordan, the minister of arts and culture, also has a sympathetic view of the Festival, so that, at both local and national levels, Huisamen feels, the government could “risk” support because the Festival had become more diverse, even if not ideal. Other major sponsors include the National Lottery and the South African Broadcasting Corporation (in addition to the Eastern Cape Government, the NAC and the Standard Bank).

While it is clear that South Africans are still struggling to find a clear national voice (if this is going to happen), one theme seems to be ever present and that is the constraints imposed by the economic situation as well as the opportunities funding and audience development projects offer. Thus, while it is clear that the value of cultural goods does not lie only in their market value or contingent market value, it is also clear that to ignore the economic forces surrounding, shaping and being shaped by the arts is unrealistic. As van Graan (*Artz* 2004) puts it, “Liberation is now laced with different nuances which demand interrogation if we are to emerge with a vocal, self-defined, vibrant arts and culture sector. As artists, we often find ourselves asking what democracy really means if financial imperatives now define our opportunities for expression”.

Rating of Festival performance or value in this period is necessarily tentative, since it is not yet clear how it will develop. Nevertheless, the increasing diversity of shows and art on offer from South African and other African artists, as well as the international community, has continued to improve the Festival’s role as a maintainer of our cultural capital, particularly since the demise of the PACs, and so a score of seven is suggested in this category for phase three. Growing audience diversity and younger audiences, along with outreach projects, student drama and the Winter School are also playing a vital role in building new cultural capital in South Africa. In fact, it could be argued that this is now

one of the Festival's most important roles and it scores eight out of ten for this role in the New South Africa.

The one area in which the importance of the Festival could be said to have declined is in its role as an outlet for political and social resistance and awareness. Given the relative stability of the political situation in the New South Africa compared to the 1980s, this is hardly surprising. While some provocative works continue to appear, criticism of the ANC government is still viewed by many as disloyal, as Van Graan's experiences reveal and the Festival scores six out of ten in this category, although there is some indication that things may improve in the future.

As indicated above, another very important function of the Festival in the New South Africa is its role in the valorization of the arts by artists, agents and audiences. As the Festival has gained in diversity (in audiences, artists and in control) it has become more and more credible as a valorization arena, so that now, a success at the Festival is a good way of selling one's work, both within the country and abroad. It scores eight out of ten in this area and is likely to continue to improve in the future.

## **5 CONCLUSIONS**

The above political and social history of the NAF has attempted to weave together some quite disparate threads of history in order to emphasize the long term "value" of the Festival in a changing society. Since it is an ongoing, evolutionary process, dependent on spheres outside the control of the Festival committee, like education levels and economic indicators, no one conclusion as to the success or failure of the Festival in this context can be drawn. Using the four value categories referred to above, however, it is possible to get a sense of the changing role of the Festival over time.

*Table 2.2: Changes in the qualitative value of the NAF in three phases of development*

|   | <b>Phase 1<br/>1974-1983</b> | <b>Phase 2<br/>1984-1994</b> | <b>Phase 3<br/>1995-2004</b> |
|---|------------------------------|------------------------------|------------------------------|
| <b>Maintaining diverse South African cultural capital</b>       | 3                            | 6                            | 7                            |
| <b>Building new cultural capital</b>                            | 3                            | 5                            | 8                            |
| <b>Outlets for political and social resistance or awareness</b> | 5                            | 7                            | 6                            |
| <b>Valorization by artists, agents and audiences</b>            | 4                            | 6                            | 8                            |

The NAF has clearly become increasingly important in maintaining the stock of all South African arts and cultures – cultural capital in the broad definition. Although it started as a means of maintaining specifically British Settler cultural capital, it has certainly broadened its scope over the last 30 years. The same is true of building new cultural capital. In fact, as government support has been stretched thinner and professional theatre companies have all but disappeared, festivals in general have provided an increasingly important source of funding and work to South African cultural workers. Audience development projects are also an important way to build and maintain cultural capital.

As an outlet for political resistance and social comment, the NAF really came into its own in about 1984 and although it continues to present what are considered politically daring works, there has been a drop-off in this sort of comment in the New South Africa, partly because to criticize the present government if one is of African-origin may be seen as disloyal to the “comrades”, many of who were involved in the struggle for freedom and suffered under apartheid. Criticism by European-origin artists is often interpreted as racism – a stigma many are particularly careful to avoid.

The NAF has always played some role in the “valorization”, to use Klammer’s term, of works of arts from the point of view of artists and audiences. If one accepts that cultural value is socially constructed, then it makes sense that extensive social gatherings of diverse artists and audiences present important evidence for the forming of such values. The increasing diversity of the offerings at the Festival has brought greater legitimacy to the values constructed, so that a successful production at the NAF can be used as a reliable and generally accepted measure of value in other spheres.

In conclusion, then, it does appear to be both possible and useful to value cultural goods in a more qualitative way, especially in cases where there have been significant political and/or social transformations. However, financial circumstances have continually surfaced as a shaping influence – both as a limiting and empowering factor. It would thus be naïve and incomplete to exclude more quantitative methods of valuation. The remainder of this thesis explores the valuation of the NAF through economic impact and contingent valuation methods and suggests ways in which they can be combined with each other and with qualitative data to develop a holistic idea of the value of the Festival in order to inform efficient, fair policy decisions about arts funding.



### **CHAPTER 3: PART I**

#### **A LITERATURE REVIEW OF THE USE OF ECONOMIC IMPACT STUDIES IN VALUING THE ARTS**

Economic impact studies attempt to answer the question, “If the event had not taken place, what would the loss of revenue to the impact area have been?” In other words, they attempt to calculate all the additional economic activity that takes place in the impact area as a result of the event being studied. Financial impact of, for example, an arts festival, can be divided into the direct impact of the event and the indirect or induced impact, the latter being a reflection of the interdependencies within the economy leading to multiplier effects (Vogelsong et al. 2001, Seaman, 2003b). These sorts of studies concentrate on the private good aspect of the arts, captured by market transactions, rather than the merit or public good aspects.

As such, commentators are deeply divided on the usefulness of economic impact studies in valuing cultural goods. On the one side are mostly academic arguments that hotly contest the use of economic impact studies, arguing that, in the case of arts advocacy, they are worse than useless and may even be harmful to the cause by encouraging inappropriate comparisons with other sectors and downplaying the whole purpose of culture (Seaman 1987; Madden 1998, 2001 amongst others). On the other side are mostly practitioners and arts organizations who argue that economic impact studies can provide useful information about culture and cultural events and are, moreover, very effective in helping to lobby for public and community support (Vogelsong et al 2001, Heaney and Heaney 2003, Crompton 1995, 1999, 2001 amongst others). Both dissenters and promoters of the method, however, recognize that there are potentially dangerous methodological issues as well.

Chapter 3, part 1, will present an overview of the debate around the use of economic impact studies in cultural economics. Part 2 of the chapter discusses methodological issues illustrated by a number of economic impact studies conducted at the National Arts Festival (1996, 1997, 2003 and 2004).

## **1. THE CASE IN FAVOR OF USING ECONOMIC IMPACT STUDIES IN ARTS ADVOCACY**

The case in favor of the use of economic impact studies rests mostly, as Cohen et al. (2003) suggest, on the pragmatic rather than the ideal. In other words, the fact that such studies can produce a “bottom line” figure, which can be easily understood and compared is perhaps the most important positive argument put forward. The numbers are important, as many commentators show, because they are the basis upon which funding decisions are often made, “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).

Goldman and Nakazawa (1997) agree, stating that, when “hard choices” about which of a number of desirable projects to fund have to be made, economic impact figures can play an important part. When the funds are provided, or partly provided by community residents, “they [expect to] receive a return on their investment in the form of new jobs and more household income” (Crompton 1999:143) and this return can be shown in economic impact figures. For this reason, a vast number of economic impact studies on the arts have been conducted. Madden (2001) reports that, from 1973 to 1993 more than 200 arts economic impact studies were conducted in the United States alone. Since then, the number has continued to grow and, while few academic journals publish the results, the websites of many arts councils provide a long list of arts impact studies and even “Do-it-yourself” kits for arts managers and events organizers wanting to use the technique. A number of computerized input-output models are also available, such as IMPLAN and RIMMS II.

On a more specific level, economic impact studies can provide information about how money can best be spent to improve an event, both in terms of financial gains for the community by, for example, improving areas in which visitors are shown to spend most (Vogelsong et al. 2001), and in terms of improving event quality and composition in order to attract new visitors and to keep regular visitors loyal (Heaney and Heaney 2003).

Heaney and Heaney (2003) conducted an economic impact analysis on a two week summer music institute in Stevens Point, USA. They argue that direct impact figures of participants can be used to expand or improve those areas of the event that visitor spending flags as important. For example, in the case of the music institute, it was found that visitor spending on travel was large, since Stevens Point is fairly remote and the authors thus suggest that information on travel routes, maps and websites could be improved since this might be an important “decision-making determinant” for visitors and also impact on “customer satisfaction” (Heaney and Heaney 2003:260). They also argue that indirect and induced economic impact figures could be used to gain community support and sponsorship, especially from those industries (like accommodation and food) that are shown by the economic impact analysis to attract significant visitor spending. In addition, they suggest that economic impact figures are useful in increasing the “stature and validity” of the institution and in lobbying for local government support on the basis that the event increases economic activity in the region.

A number of economic impact practitioners (Herrero et al. 2004; Cohen et al. 2003) recognize that they are only measuring a partial value of the good or event in question, that is, that the arts generate other significant benefits as well. Seaman (2003b) points out that the arts generate three types of impact: (i) consumption values, made up of use and non-use values best measured by contingent valuation methods, (ii) long run increases in productivity and economic development, best measured by hedonic pricing models, and (iii) short run net increases in economic activity, best measured by economic impact studies. Guetzkow (2002) points out that the impact of the arts on communities occurs in many ways (for example, through direct involvement, audience participation and in simply having artists and arts organizations present) and on both an individual and community level. Economic impact studies, while one of the most popular forms of measuring value, capture only a part of the “impact” of the arts on communities and individuals.

Herrero et al. (2004) conducted an economic impact analysis of the “European Capitals of Culture” festival event in Salamanca in 2002. They found that the festival generated

556.1 million euros for Castilla y Leon, 247.2 million euros for the rest of Spain and 803.3 million euros in total (2004:15). They argue that this is an important way of valuing the festival because a city nominated as a “European Capital of Culture” must be financially sustainable (profitable) in the long run since, “along with the cultural organization itself, there is a need for a remarkable effort in the form of creating new cultural facilities, urban redesign, tourist equipment and communication in the city” (Herrero et al. 2004:3).

A study conducted on the economic impact of the non-profit arts organization in ninety-one American communities by Cohen et al. (2003) showed that, through the spending of audiences and the organizations themselves, they added \$134 billion per annum to the American economy. While Cohen et al. (2003:30) question the validity of using such financial figures to justify government spending on the arts, they report that the study was cited numerous times in political debates and led to a new resolution encouraging the support of non-profit arts organization being adopted by the conference of mayors as well as a \$10 million increase in funds to the National Endowment for the Arts being passed by the House of Representatives in 2002 – the largest such increase in nearly twenty years. They conclude that, “At this time in history, economic development is perhaps the most persuasive message when making the case for support [of the arts] to local, state and national leaders” (Cohen et al. 2004:31).

As reported in chapter two, this has certainly been the case with the National Arts Festival, where economic rather than the more contentious cultural value was the basis for recent public funding of the event. A general review of the press reporting of both increases in funding and in funding cuts seems to verify this argument. For example, *Back Stage* (2003) published a highly critical report of a big cut in funding to the California Arts Council. The basis for the criticism was almost entirely the expected fall in economic impact as a result of the cut, rather than the loss any aesthetic or qualitative values that the arts might provide. Encouragingly, recent media reports on local government’s decision to fund the National Arts Festival have alluded to these intangible benefits. For example, the Festival is seen to “promote the heritage of this region and the

province [Eastern Cape] as a whole” (*The Herald* 29/3/02), “nurture local talent”, “put Grahamstown on the map” (*The Herald* 28/3/02) and expose “our rich cultural heritage in the international arena” (*Daily Dispatch* 27/03/02). However, when announcing their sponsorship, Eastern Cape Government spokespeople concentrated their remarks on the economic benefits, increased tourist attraction and job opportunities offered by the Festival (*The Herald* 28/3/02, *Daily Dispatch* 8/03/02 *Business Day* 4/4/02 amongst others).

## **2. THE CASE AGAINST USING ECONOMIC IMPACT STUDIES IN ARTS ADVOCACY**

Criticism of economic impact studies in arts advocacy can be divided into methodological issues (dealt with in part 2 of this chapter) and conceptual problems. The latter generally argue that even the most sophisticated impact study would not be a good way to motivate for public funds and that, rather than helping, such focus on financial indicators may harm the arguments of arts advocates.

The first problem is that any economic impact study is highly sensitive to the impact area or regional delineation of the research question. Since economic impact relies on the spending of visitors from outside the region and, in some cases, additional spending of locals within the region, the question of opportunity cost must inevitably arise. That is, where is the money coming from and what other sectors or regions have suffered because this one has gained? As Seaman (1987:731) puts it, “when enquiring as to the source of these quasi-mysterious ‘exogenous’ increases in overall spending, one often discovers that they may not constitute net increases, but merely changes in the composition of spending demand”. The point is not a new one and was also made by Baade and Dye (1988:41) in their analysis of the rationale for the public subsidization of sports stadiums, where they argue that “net new activity” often includes “a reallocation of the preexisting level of local residents’ spending”. Madden (2001) elaborates, pointing out that it is not enough to show that there are multiplier effects within the impact region, rather one must show that these effects are larger in the benefiting region or sector than in those industries

or areas from which the event has diverted funds. The same argument holds for diverting government funds towards art:

“Increases in government expenditure must ultimately come from somewhere – either diverted away from alternative policy expenditures, or away from the expenditures of citizens through their taxes. The net effect depends on the ‘inverse’ impacts of the area from which the extra money is diverted” (Madden 2001:167).

Madden’s (2001:172) point is that lobbying for public funds based on projected financial gains for one region by diverting spending away from other regions is not a politically neutral game. In fact, he argues that it smacks of protectionism and “is an invitation to war – event war”. To some extent, this is evident in the competition that has developed between the Klein Karoo Nationale Kunstefees (KKNK) and the NAF (further discussed in chapter 4). Despite the fact that KKNK organizers have completely different aims in mind and, in fact, were assisted by NAF organizers in starting up (Huishamen 2004:personal communication), reports in the media persist in comparing the two festivals, particularly with reference to the number of visitors they attract and their economic impacts on the two towns they occur in.

Another reason for not using financial figures to lobby for arts support is that such studies encourage numerical comparisons with other industries whose purpose is entirely different from the arts. Both Madden (2001) and Seaman (1987) point out that it is unlikely that the arts will ever be shown to have the impact of a “basic industry” like for example, petroleum and coal products, and that such comparisons are in any case spurious. Even if the arts could be shown to have a comparably large economic impact, this would still not be a good reason to lobby for public support. Gazel and Schwer (1997) show that the impact of three *Grateful Dead* rock concerts on the Las Vegas economy was between \$17 and \$28 million, but no one would dream of using these figures to argue for the public support of the rock band, since it is market failure (discussed in chapter 2), rather than economic prosperity, that is the most compelling argument for government support of the arts.

Another problem with using impact studies to motivate for public support of the arts in developing countries is that most of the money accrues to the wealthier residents of the community who have some means of capitalizing on the presence of visitors (further discussed in chapter 4 with regards to the household survey). Seaman (1987:746) concludes, “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, which should be used to motivate for public support to the arts and not the more frequently cited economic benefits.

Madden (2001) goes so far as to say that government intervention based on economic impact figures could do more harm than good, since the objectives of government are seldom aligned with those of the arts. Cohen and Pate (2000:109) talking from the perspective of artists, support this view: “Artists have asserted (in conversation with us) that they feel it is absurd to make decisions on their future funding without fully recognizing the aesthetic worth of their product”. In a similar vein, Tusa (1999 cited in Reeves 2002:36) states that,

“Mozart is Mozart because of his music and not because he created a tourist industry in Salzburg or gave his name to decadent chocolate and marzipan Salzburg kugel. Picasso is important because he taught a century new ways of looking at objects and not because his paintings in the Guggenheim Museum are regenerating an otherwise derelict northern Spanish port...Absolute quality is paramount in attempting a valuation of the arts; all other factors are interesting, useful but secondary”.

In addition to such categorical dismissals of the method, there are other, interpretive problems, arising largely from the attempt to extract information from economic impact studies not designed for the purpose. Personal experience of the disbelief and disappointment of Festival organizers when presented with final reports has prompted further thought about the ways in which such figures are viewed and used. The first anomaly occurs when stated festival aims are compared to the use of financial figures in declaring the festival “a success”. The most striking case of the contradiction between the publicly stated aims of festival organizers and their use of an economic impact study to determine festival value is the SciFest 2001 study (Antrobus & Snowball 2001). Sasol, and others, heavily sponsor the SciFest, which occurs annually in Grahamstown lasting

for about a week. The stated aim of the festival is educational rather than pecuniary. This is borne out by their incredibly low ticket prices, the average price for exhibitions and workshops (in 2001) being R3 and the lecture series (including some Nobel laureates) R7.50. Many events and performances are free and limited only by audience size.

However, the organizers still wanted to use an economic impact study to justify the event in some way. As expected for a small town with many leakages (resulting in a small multiplier) the monetary impact was not large – about R425 000 (Antrobus & Snowball 2001:6). In an attempt to capture at least some of the huge consumer surplus that resulted from such low ticket prices, a travel-cost study was also conducted, the results more than doubling the economics impact alone – a hint of the size of the consumer surplus.

However, organizers felt, quite rightly, disappointed in the results as a means to justify their festival. By stimulating the interest of school children in science, the festival aims to improve the quality of life, not only of the participants, but also of non-visitors who may benefit in later years from the innovative ideas and stimulated economic growth that may result. As adults, visitors to the SciFest may also stimulate the interest of their children and so develop a culture of science.

“The delight of Sasol SciFest is that it makes a Scientist, Engineer and Technologist of us all. The end product is innovative, creative and enquiring citizens... If we remain ignorant about how things work, we impede our understanding of our unique existence, and our ability to make healthy, informed decisions about our future” (Sasol SciFest 2001 official programme: 3).

It could thus be quite convincingly argued that there would also be significant non-use values attached to an event of this kind, as with other public goods like education and health care. As such, a far more accurate estimate of the value of the SciFest could be obtained by conducting a willingness to pay study.

The major point is that the more public good characteristics an event has, the smaller will be the benefits captured by an economic impact study and the larger will be the consumer surplus and the value of non-market goods, which has not been measured at all. The example illustrates Madden’s (2001) argument that economic impact studies measure spending on the event, in other words, *costs*, not benefits and that if the arts were



available for free, they would undoubtedly increase our well-being or utility by a greater amount because of decreased opportunity costs. The usefulness of economic impact studies in these cases, however well they are conducted, is thus questionable.

Another problem area of economic impact study interpretation arises when organizers try to draw conclusions about the relative importance of various Festival activities from data on visitor spending. In July of 2001, Festival organizers commissioned a consumer research study of the National Arts Festival, chiefly in order to establish consumer spending patterns and opinions with a view to using this information to lobby for further sponsorship of the event. Despite the generally good opinion of festival-goers of Main and Fringe shows – an average of 4 out of 5 for quality and price – Festival organizers expressed disappointment that spending on tickets was only the third highest expenditure category, accommodation being first and shopping second (Snowball & Antrobus 2001:18). At first glance, this result does appear to be contradictory or to indicate that Festival visitors are interested in other aspects of the event more than in shows. However, if one considers that shows on the Main as well as aspects of the Fringe, such as organizational staff and programs, are highly subsidized, while accommodation and shopping are not, the errors that can be made by using only expenditure data to indicate interest become apparent.

To illustrate this point, a study was conducted which attempted to calculate how much higher the market price of tickets is than the Festival price. Percentage difference was used in order to avoid inflation effects. Table 3.1 shows four performances that appeared at the National Arts Festival in Grahamstown in 2002 and which were then offered at other theatres in the country at market price. The table shows that, on average, ticket prices outside of the Festival were 41% higher. Table 3.2 shows a more general comparison of various types of events. It is noted, however, that it is very difficult to conduct this kind of analysis with great accuracy because of the impossibility of comparing works of art which, although they may fall into the same broad category, are, by their nature, different. A further difficulty is that some of these “market” prices, still include various levels of subsidy; for example, South African ballet (CAPAB production)

is sponsored by government and other productions which appear at, for example, the Spier Summer Arts Festival or the Standard Bank Jazz Festival, receive some level of private sponsorship.

*Table 3.1: Direct comparison of ticket prices: Festival versus Market*

| <b>Name of production</b>    | <b>Category</b> | <b>Average Festival ticket price</b> | <b>Average market ticket price</b> | <b>Percentage difference</b> |
|------------------------------|-----------------|--------------------------------------|------------------------------------|------------------------------|
| <b>Confessions of Zeno</b>   | Opera           | R49                                  | R82,50                             | 40%                          |
| <b>Nothing but the truth</b> | Theatre         | R38                                  | R60                                | 36%                          |
| <b>Beading my Soul</b>       | Theatre         | R17.50                               | R32.50                             | 46%                          |
| <b>Selaelo Selota</b>        | Jazz            | R35                                  | R60                                | 42%                          |

Possibly the most revealing comparison is between ticket prices for foreign dance companies (St Petersburg State Ballet) in the market versus those offered at the Festival. No full-scale foreign dance was offered at the 2002 Festival (top international companies having appeared at previous Festivals, however), but the highest ticket price for any show was R64. Even when this figure is used, the difference between the two prices is very large (74%). A comparison with other international prices shows the same trend. The National Theatre of Great Britain offered a theatre piece at the 2001 Festival (top price R64). Using an exchange rate of R16 to the pound (2003 exchange rate) the average price of theatre productions at the National Theatre is R424 (2003 prices) – an increase of 85%. However, it can be argued that prices in pounds cannot be directly converted into rands (lack of purchasing power parity) and that better venues will naturally command higher prices.

Table 3. 2: Indirect comparison of ticket prices of event types: Festival versus Market

| Category                       | Average Festival ticket price | Average market ticket price | Percentage difference |
|--------------------------------|-------------------------------|-----------------------------|-----------------------|
| <b>Theatre</b>                 | R34,70<br>(n = 10)*           | R55,5<br>(n = 5)            | 38%                   |
| <b>Ballet (SA company)</b>     | R49 (n = 2)                   | R62,50 (n = 1)              | 22%                   |
| <b>Opera</b>                   | R49 (n = 1)                   | R105#                       | 53%                   |
| <b>Orchestra</b>               | R44.50 (n = 2)                | R72,50#                     | 39%                   |
| <b>Foreign dance companies</b> | R28,50 (n = 1) Top            | R245 (n = 1)                | 88%                   |
|                                | 2001 price = R64              |                             | 74%                   |
| <b>Jazz</b>                    | R31,70 (n = 10)               | R80,62 (n = 4)              | 61%                   |

\*Excluding student and street theatre

#Information from L. Marais, NAF Director (private correspondence 2002)

Note that average Festival prices were calculated on the “normal” tariffs i.e., excluding student/scholar rates.

The average percentage difference between Festival and market ticket prices, including the heavily sponsored ballet and using the lower estimate for foreign dance companies, was 48%. The average percentage difference excluding ballet and using the higher foreign dance estimate is 56%. Using a combination of the figure from table one and the upper and lower estimates of table 2, an average percentage mark-up of 48% is reached.

So, if one could identify a unit of shopping and a unit of show attendance, the hypothesis is that the unit of show attendance would cost less than the shopping unit because shows are subsidized, while shopping is not. Thus, if we assume that festival goers are rational and thus maximize their utility, then we would expect them to consume more units of shows than shopping. Nevertheless, both shows and shopping are subject to diminishing marginal utility, so that, even if shows were for free, there are only a limited number of them that one could enjoy per visit or per day. With the shows sponsored so heavily, it is quite possible that  $MU = 0$  at a lower spending level for shows than for shopping, but this does not necessarily indicate that visitors spend more time shopping or that this is their preferred activity.

One way to test this hypothesis would perhaps be to get some idea of the relative time spent shopping versus the time spent at shows. Even without this, however, it is reasonable to assume that the lower-than-market price of the shows would result in a larger area of consumer surplus for shows than for shopping. So rather than just comparing price times quantity (total spending) for shopping and shows, to make a meaningful comparison between the two, one would need to compare the consumer surplus provided by each as well.

Given the low price of shows, at only about half of the real market price, it is entirely possible that even if many more units of shows than shopping are consumed, the total amount spent on shopping would be greater than the spending on shows. This would not, however, be an indication that shopping was considered by visitors to be the more important activity. A much better methodology to use for gathering such information would have been one capable of measuring consumer surplus and other non-market values, for example a willingness to pay study (discussed in chapter 4) or a choice experiment (discussed in chapter 5). The crucial point about economic impact studies of cultural events is thus to realize their limitations, that is, what they *cannot* tell one, as well as what they can.

Even those who criticize impact studies as a tool for arguing for the public support of the arts, however, do recognize that they can be useful. Seaman (1987) points out that, if economic impact studies are conducted with methodological soundness, they can be used successfully to examine the relationships between various parts of the economy and to make predictions about income and output changes. Madden (1998) agrees, adding that, in addition to financial flows, economic impact studies can provide important information about the effects of demand and supply shocks on regional economies and a way of comparing the financial redistribution that results from different projects. However, both Madden and Seaman point out that economic impact studies are seldom put to only these uses and they both argue vehemently that, in the majority of cases, economic impact studies of arts and culture are an “abuse of economic analysis” (Seaman 1987:725).

In conclusion, one can make two points about the use of economic impact analysis of the arts. Firstly, accepted as a *partial* analysis and especially if conducted in conjunction with some other sort of study better suited to the measurement of non-market values, impact studies can be useful to a certain extent. Secondly, economists requested to conduct such studies find themselves in a particularly uncomfortable position. On the one hand are commentators like Madden (2001:174) who argue that undertaking such studies is a “prostitution of economics”, since economists must know how questionable the reasoning behind such studies is. On the other hand, attempts to convince arts managers of the usefulness of the conceptually more complex contingent valuation methodologies is, as Madden (2001) also admits, slow work and that the evidence seems to show that, at the moment, and particularly in developing countries with much poverty and unemployment, financial impact arguments appear to work best when lobbying for public support.

## **CHAPTER 3: PART II**

### **ECONOMIC IMPACT STUDIES CONDUCTED AT THE NAF AND METHODOLOGICAL ISSUES**

Festival visitor surveys and economic impact studies have a fairly long history at the NAF. Although not directly linked, it is important to note that NAF studies, even those specifically aimed at calculating the economic impact of the event, all included a great deal of other information, such as the origin of visitors, their major activities at the Festival, their perceptions and opinions of various Festival shows, accommodation and restaurants, and demographic information (age, income, home language and so on). As such, comparisons between studies, particularly regarding visitor numbers and spending patterns is possible and new studies are obliged to comment on changes that appear to have occurred. Section one provides a brief history of studies conducted at the NAF and the developing relationship between Festival organizers and researchers. Section two discusses the calculation of net direct impact and indirect impact with reference to the four NAF impact studies conducted.

#### **1. STUDIES CONDUCTED AT THE NAF**

Davies from the Institute for Social and Economic Research (ISER) connected to Rhodes University conducted the first studies (“FestQuest”) in 1987 and 1989. The primary aim of the Davies studies was to provide information on visitor activities and spending, rather than to calculate economic impact.

The first economic impact studies were conducted by Antrobus et al. (1997a, 1997b) on the 1996 and 1997 Festivals. The official funders of the work were the Grahamstown Foundation (who administered and ran the Festival), the Grahamstown City Council, the Village Green (the Festival craft market) and Rhodes University. 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. Initially, it was planned that the project would 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).

At the presentation of the 1996 and 1997 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). Antrobus (2000) suggests that the disbelief in the 1996 and 1997 survey results occurred partly because of expectations which had been set up by the previous “Fest Quest” studies, which found that there were between 10 000 and 14 000 Festival visitors in 1987, and between 12 500 and 16 500 visitors in 1989, which approximated a 25% increase in visitor numbers over two years. In the Antrobus *et al* studies (1997a and 1997b), done a decade later, sponsors were expecting to see a greater increase in numbers than had actually occurred. 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.

However, in 2001, organisers requested a “consumer research” survey be conducted (by members of the Rhodes University Economics Department) on the 25<sup>th</sup> anniversary of the NAF, which was to be an especially long Festival with many outstanding artists. Impetus for the research had also gained new importance as the title sponsor, the Standard Bank, had announced their withdrawal as the main sponsor and new sources of sponsorship had to be sought. The objectives drawn up by the Foundation were as follows:

- “1 To establish various demographic and psychographic profiles of Festival attendees (by age, gender, socio-economic group, race, affinity groups, etc).
- 2 To understand attendees Festival experience (shows/events per day, attitude to restaurant and accommodation availability, quality and prices, mobility around Grahamstown, etc).
- 3 To establish user patterns (how long do people visit for, day trippers, overnights, 2/3 dayers, longer stayers, etc).
- 4 To establish expenditure levels in terms of entertainment, meals, accommodation, shopping, etc.
- 5 To establish frequency of Festival attendance (first time, regular, occasional etc) and why.
- 6 To understand whether attending is part of a broader itinerary in the region, province or country.

- 7 To establish the likelihood of returning in the future personally.  
8 To establish the likelihood/willingness of attendees to refer friends/relatives to attend in the future” (Snowball and Antrobus 2001).

Thus, while including the collection of much of the data used to calculate economic impact, specific figures were not requested, nor was an estimate of visitor numbers. The report appears to have been received favorably and the study received some media attention. New sponsors, including the Eastern Cape government, were found.

In 2003, a group of academics led by Prof Saayman from the University of Potchefstroom applied to the National Research Foundation for funds to conduct economic impact, household (willingness to pay) and business surveys at three South African arts festivals – the National Arts Festival, the Klein Karoo Nasionale Kunstefees and Aardklop. The NAF studies were conducted (Snowball and Antrobus 2003) and made available to NAF organizers at a nominal fee, but (as will be reported on below) there were some significant methodological problems with economic impact questionnaire design that resulted in inexact results.

Despite these problems, NAF organizers requested Snowball and Antrobus (2004) to conduct a further consumer research survey at the 2004 NAF. The research proposal stated that, “Following on from the 2001 consumer research report, a very similar questionnaire will be developed with a view to use this survey instrument on an annual basis in order to create a run of data for marketing and comparative development purposes.”

It thus appears that the long-term partnership between the university’s economics department and the organizers of the NAF has in fact developed. Specific procedures for dealing with media enquiries have been mutually agreed on in order to cut down on misrepresentation of results (not always successful, as will be illustrated in the following sections) and have significantly reduced friction between parties. In addition, an informal arrangement has developed, whereby cultural economics researchers are given access to Festival personnel and data in exchange for making academic research articles on the Festival available to organizers.



The danger, as Crompton (1995), Earls (1998) and others point out, is that researchers may feel under pressure to provide the “right” result to organizers, or may be co-opted into showing a large financial impact, believed by some to be a powerful rationale for public support and sponsorship. However, given the history of economic impact and other studies at the NAF, issues of this sort appear to have been resolved in the sense that, while organizers and researchers may disagree on, for example, visitor number calculation, there is space for both interpretations. In general, Festival organizers have accepted research findings, even those showing a decline in visitor numbers and impact.

## **2 CALCULATING ECONOMIC IMPACT**

The following section outlines some of the methodological issues related to economic impact calculation, illustrated by the 1996 (Antrobus et al. 1997a), 1997 (Antrobus et al. 1997b), 2003 (Snowball and Antrobus 2003) and 2004 Festival studies.

### **2.1 Direct net economic impact**

The first step in any economic impact study is to determine the net injections into the impact area as a result of the event, often referred to as direct impact or first-round spending. Tyrrell and Johnston (2001) argue that, in addition to visitor spending, spending by producers, the value of the time donated by volunteers and media spending should be included. However, they draw a sharp distinction between gross and net direct value. Net direct spending should not include spending that would have occurred in any case, for example, spending by locals which could be regarded as “diversions of spending” from other goods in the area (Seaman 2003b) and spending by “casual” visitors or “time switchers” who would have come regardless of the event. Crompton et. al (2001) suggest a questionnaire format that could be used to detect such visitors including questions about their main reason for visiting the area.

Tyrrell and Johnston (2001) point out that, in a short term event with many foreign producers, gross direct impact may be very large, but net direct impact may be negative

because of the diversion of local spending away from local goods towards “foreign” producers who take most of their profits with them. Thus, in the case of the NAF, which relies on many performers and vendors from outside the region, it is likely that net and gross direct economic impact will be considerably different. The following section discusses methodological issues in calculating net direct impact at the NAF.

*Defining the area of study and excluding local spectators.*

Crompton (1995:25) argues 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) 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.

What he does not point out is that when one expands the area of study, from, for example, the Grahamstown area to the Eastern Cape province, a great many more “visitors” will count as “local spectators”, much of whose spending should be excluded from the analysis. Crompton argues that only attenders from outside this area should be included in the study, since the spending of locals does not represent injections of new money, but merely the “recycling” of money already in the area. The aim of any economic impact study is to determine the financial gain to a region that occurred directly as a result of the event, so spending that would have occurred in any case should be excluded. However, he does admit 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).

An example of an arts impact study that did include additional spending by local residents is the 1990 - 1991 Edinburgh Festival study (1991:9), which included the one million pounds spent by residents of the region “which is additional to normal economic activity”. The argument here is that, especially for events of short duration, like a festival, local residents may choose to stay in town and “holiday” at the festival instead of spending entertainment funds outside the area.

In the case of the NAF, all studies have defined the area of study as Grahamstown, possibly including small villages in the Makana district (like Salem and Alicedale), but not extending to any larger cities (like Port Elizabeth and East London) that are further away. “Locals” are thus defined as those who normally live in Grahamstown (including university students). As illustrated in table 3.3 below, the 1996 and 1997 studies did not include any spending by local residents. However, the 2003 and 2004 studies included local “visitors” and their spending, by asking Grahamstown residents to report spending “in addition to your normal monthly expenses”. Locals made up 20%, 21%, 33% and 17% of respondents in the four years in which economic impact studies were conducted.

Despite this relatively careful definition of area, media reports persist in misreporting results. For example, the impact figure for 2003 (R33 million) was reported as being applicable to the whole Eastern Cape Province in the headline, “G’Town festival earns EC R33m” (*Daily Dispatch* 2003). This is simply untrue, since the figures were calculated for Grahamstown, not the whole province. Provincial impact figures would have included fewer “visitors”, but also fewer leakages and would have produced substantially different figures. However, since the Eastern Cape government is now a major Festival sponsor, expanding the impact to the whole region made better political sense, but fallacious economics!

In an attempt to determine to what extent local spending would have occurred in the area regardless of the Festival, the 2003 household survey also asked residents to detail their Festival spending. Of the 87% of local respondents who reported some Festival spending,

about half (52%) stated that they spent more than they did in a normal week. However, 53% of those with additional spending stated that they would have spent the money in Grahamstown anyway, 32% would not have spent it (saved) and only 15% would have spent it outside Grahamstown. In order for local spending to have a net positive effect on the region, it has to be shown that there is import substitution, in other words, that spending which would have occurred outside the region now occurs in the impact area as a direct result of the event (Seaman 2004). Since only 15% of local Festival spenders fall into this category, including even “additional” local spending on the festival becomes problematic.

Furthermore, Seaman (1987:732) points 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”. In other words, the opportunity cost of diverted local spending should also be considered.

Crompton (1995), Crompton et al. (2001) and Tyrrell and Johnston (2001) also argue 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, since they would have spent money in the area anyway. Crompton (1995) 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 coincide 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.

Other than asking foreigners whether the Festival was their main reason for coming to South Africa, only the 2003 and 2004 NAF studies checked for the presence of such visitors. The 2003 questionnaire included a question asking whether the Festival was the

main or only reason for visiting Grahamstown and in 2004 a question asking visitors (non-locals) if the Festival was their main reason for coming to the Eastern Cape was included. While useful in some ways, a large proportion of visitors (about 40%) actually live in the Eastern Cape and the 2004 question would have been much more useful if it had asked about Grahamstown specifically.

It can be logically argued that time-switchers and casuals are unlikely to make up a significant proportion of visitors to Grahamstown. Firstly, unlike larger cities, Grahamstown does not have many other attractions that 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-incide with the Festival, few of the attenders stayed on for the Festival and, after some complaints were received, the practice was discontinued (Antrobus 2000). In 2003, 84% of visitors surveyed stated that the NAF was their main or only reason for visiting Grahamstown. In 2004, only 8.5% of respondents (excluding Eastern Cape residents) reported that the Festival was not their major reason for visiting the Eastern Cape.

#### *Determining visitor numbers*

As Crompton et al. (2001) point out, even the best estimates of net economic impact will depend to a great extent on the accuracy of visitor number calculation. However, very little on how this figure is arrived at has been written. In their Springfest example (a 4 day annual cultural festival held in Ocean City) Crompton et al. used an hourly and bi-hourly counting method at various access points to arrive at an estimate.

The 1996 and 1997 NAF studies used two methods for visitor number calculation (Antrobus et al. 1997a and 1997b). The first method (“ticket sales method”) was to collect data on the average number of ticketed events attended by each respondent for the whole Festival. This average number included Festival visitors who had attended no ticketed shows and were mainly concerned with shopping at the craft markets and/or attending free shows and street theatre and art exhibitions. The average number of ticketed shows attended was then divided by the total number of tickets sold, excluding

those sold to local residents, to arrive at a total number of visitors (21 662 in 1996 and 20 700 in 1997).

The second method (“accommodation method”) used the visitor questionnaire to determine the percentage of visitors using university accommodation and the average number of nights such people stayed. Data on the number of bed nights sold during the Festival was then obtained from Rhodes University and divided by the average length of stay to give the number of visitors in the university residence accommodation category. Since the percentage of visitors in this category was known, total visitor numbers, excluding locals and including day visitors, could then be calculated (25 808 in 1996 and 19 822 in 1997). In both the 1996 and 1997 surveys comparable results were obtained using the two methods. However, both methods rely heavily on a representative sample of festivalgoers being drawn from the population to avoid over or understatement of important figures, like the number of shows attended and the length of stay.

A particular problem is that day visitors and those staying for only one or two nights are more difficult to collect data on because they are generally in more of a hurry than longer-stay visitors (Antrobus et al. 1997). In a study on Festival accommodation, funded by the Grahamstown Accommodation Guild, (Antrobus and Snowball 1998) a specific attempt to collect data from day and short-stay visitors was made by using a “sixty second interview”. The motivation behind it was that, since the interview would take only one minute of the visitor’s time, even those who were only staying for a day or two might be willing to help. In addition, prizes (Festival posters) were offered to selected lucky numbers and the following advertisement was run on CueTV (the local Festival TV station run by the Journalism Department that year): “Rely on Accommodation Guild members to fulfil your Festival accommodation needs. Take part in our 60 second interview. Win great prizes and help our Festival grow” (Antrobus and Snowball 1998:3).

Of those interviewed, 12.6% were day visitors. Longer, self-completion questionnaires were also used at the 1998 Festival, but of these respondents, only 5.6% were day visitors. The implication for the average length of stay and thus for the calculation of visitor numbers for use in economic impact studies is great. In particular, the method of

data collection (self-completion versus interviews) and the length of the questionnaire are likely to have important effects on numbers like the average number of ticketed shows attended and the length of stay. In general, visitor numbers calculations using the ticket sales and accommodation methods are thus likely to be downwardly biased if only self-completion questionnaires are used and the questionnaire is long. The 2003 and 2004 studies used the ticket sales method of visitor number calculation in conjunction with counting methods (particularly at free events and street shows) done by Festival organizers in an attempt to control for this possible underestimation. Results are reported in table 3.3 below.

*Table 3.3 Method and visitor number calculation*

| <b>Category</b>   | <b>1996</b>         | <b>1997</b>         | <b>2003</b> | <b>2004</b>         |
|---|---------------------|---------------------|-------------|---------------------|
| <b>Method (percentage interview versus self-completion)</b> | 84                  | 42                  | 100         | 41                  |
| <b>Average number of ticketed shows attended per person</b> | 5.2                 | 6                   | 4.9         | 6                   |
| <b>Total number of tickets sold</b>                         | 184 761             | 157 380             | 95 913      | 104 617             |
| <b>Percentage of local respondents</b>                      | 20                  | 21                  | 33          | 17                  |
| <b>Visitor numbers (* excluding locals)</b>                 | 25 000*<br>(31 250) | 20 000*<br>(25 300) | 20 000      | 20 000<br>(16 600*) |

The reporting and interpretation of even very robust visitor number calculation is also far from obvious. Crompton (1999) points out that one of the most contentious parts of any economic impact study is the calculation of visitor numbers because average spending per visitor is multiplied by the number of visitors in order to determine the first round, or direct, economic impact of the event. However, visitor number estimates are also important because there is a prestige component to being able to claim to have many visitors, particularly in the South African case, where the emergence of a number of arts festivals in recent years has led to considerable competition.

It is obviously in the interests of the organizers, therefore, to have as many people as possible attending and visitor number calculations are thus quite often based on a certain amount of wishful thinking. Reporting of actual discreet visitors versus visitor days thus needs some clarification since the term “visitor numbers” is not as unambiguous as it sounds. Confusion can lead to many recriminations and disbelief, since it is possible that an obviously smaller festival can claim a larger number of visitors, when referring to visitor days, than a much larger one which refers to actual individual people.

The confusion arises because of the differing length of time that visitors spend at an event. For example, a festival that is located near large cities is more likely to attract day visitors and short-stay visitors than one that is located in a more isolated area. A good example is the annual Grahamstown SciFest. Since this science festival takes place in Grahamstown, which is relatively far from most large cities and is aimed mostly at school children, the average length of stay is quite long – 3,3 days (Antrobus & Snowball 2001:3) and this needs to be taken into account. The same is true of the NAF, which tends to attract longer-stay visitors who come every year (see table 3.3).

For example, in 2003 the average visitor at the NAF stayed for about 6 days and there were 20 000 visitors (using the ticket sales and counting methods). However, this figure refers to individual people, so the number of visitor days (i.e. the addition of the number of visitors who were at the festival each day) was in fact around 121 000. The latter figure was, of course, much more acceptable to organizers and also gives a better idea of the size of the event, since it takes into account the characteristics of the particular festival location and makes comparison with other events more meaningful. While a festival located closer to large cities may thus claim to have a larger number of different individuals attending, it is the comparison of visitors per day that is most revealing. However, it must be emphasized that the reporting method makes no difference to the economic impact, since spending per day will remain unaltered.

#### *Including producers, sponsors, vendors and the media*

Tyrrell and Johnston (2001) argue that, in addition to calculating the spending of visitors or spectators, spending in the impact area by producers, sponsors, vendors and the media should also be included. However, they also point out that, in order to avoid double counting, the source, starting point, destination and reason for the expenditure also needs to be tracked if this method is to be followed. “ The advantage of limiting an analysis to visitor expenditures is the simple avoidance of double counting. Accordingly, when analysing the transactions of all the above groups, it is critical to track the path of each



expenditure source to ensure that double counting does not occur” (Tyrrell and Johnston 2001:95).

Only the 1996 and 1997 NAF studies included producer surveys – both visiting and local business people and performers. By far the majority of traders come from outside the impact area. As suggested by Tyrrell and Johnston (2001) visiting traders do have a large impact on Grahamstown in terms of their spending. For example, the 95 enterprises surveyed in 1996 reported spending in Grahamstown of R2.3 million on wages to local residents, materials, site fees, electricity, fuel and living expenses (like accommodation, food and general consumer spending). It was estimated that visiting traders spent about R38 million in Grahamstown during the 1996 Festival (Antrobus et al. 1997a).

Producers (who produced shows) were surveyed at the 1996 and 1997 Festivals. However, both studies, which relied on a self-completion questionnaire sent out with the “information pack” provided to performers by organizers, had a very poor response rate – 17 responses in 1996 (8.5% response rate) and 13 responses in 1997. Data was not very robust, but it was estimated that visiting performers spent about R1.3 million in 1997, mostly on the provision of accommodation and food for cast members and their families. However, as Tyrrell and Johnston (2001) point out, counting producer expenditure as well as the full value of sponsorship (often used to pay for the costs of producers on the Main program) could result in double counting. Producer and vendor earnings were thus excluded from the direct net economic impact figures in 1996 and 1997.

Surveys of local businesses were also conducted in 1996 (Antrobus et al. 1997a) and 2003 (Snowball and Antrobus 2003). Despite the long time interval, the two business surveys showed very similar results. In both cases, local businesses who provided food and drinks, services (travel agencies, banks) or goods related to Festival activities (photography, florists, pharmacies) experienced a significant increase in their monthly income during the Festival. Both surveys also found that for hardware stores, building contractors and the media (including printing services) business increased directly before the Festival as households and producers prepared for the event. An interesting point from the 2003 survey was that businesses who reported no change in monthly income

admitted that, since the Festival takes place in the Rhodes University holidays, they would, without the Festival, have experienced a fall in income. In other words, the NAF has an important role in smoothing the cyclical nature of the earnings of local businesses.

Negative comments related to the presence of visiting traders who were perceived to increase competition in some sectors (particularly amongst clothing retailers) and cause congestion and overcrowding that discouraged regular local customers from shopping. The 1996 survey points out that the money making opportunities of the Festival are not limited to local traders. While stall rental is required in the biggest craft market (Village Green), other venues, such as High Street and Church Square are free. If one accepts the Crompton et al. (2001) view that municipal spending on events is expected to generate a financial return for local tax payers, one can understand the frustration of local businesses regarding visiting traders who have not paid anything towards the event, but are reaping the benefits, in some cases in direct competition with locals. However, given that the NAF is largely funded by outside sponsors, the argument does not hold much water.

None of the NAF studies have included a study of the spending in the area by the media as suggested by Tyrrell and Johnston (2001). As with performers, however, it is quite likely that some spending by media personnel is captured in the visitor survey, especially where shows have been targeted. It is undeniable that there is an increased media presence in Grahamstown over the Festival. The Rhodes University department of Journalism and Media Studies has been running the Festival newspaper, Cue, for a number of years, and since 1998, a TV station or TV programming has been produced by CueTV as well. While both these initiatives are partly run using student labour and university staff assistance, they are also funded from outside the region and include mentors and guest writers from other publications. Since the Cue newspaper is printed and sold in Grahamstown and a large proportion of funding is used for accommodation of visiting writers and mentors (who generally receive only a small honorarium), it is likely that leakages from this sector are fairly small and that a case could be made (if double counting could be avoided) for including part of the value of the sponsorship obtained in these publications in the direct net economic impact.

In addition to university media, the NAF receives wide coverage in the national press, especially in provincial newspapers like the *Eastern Province Herald* and the *Daily Dispatch*, but also including national publications, like the *Sunday Times* and *Business Day*. The radio station, *SAfm*, has also had representatives at the Festival, including live broadcasts from the Village Green. The Rand value of media coverage of the Festival (including newspapers, magazines, online articles, radio and TV) has increased steadily from about R38 million in 2002 to nearly R80 million in 2004 (Marais 2004: personal communication). It could thus be argued that the additional publicity has a significant impact on local businesses, private schools, the university, estate agents, game lodges in the surrounding area and other related industries. Such effects would fall into the “long run increases in productivity and economic development” category mentioned by Seaman (2003b) and are typically not included in a short run economic impact study. However, long run gains could be a very important part of Festival benefits and their exclusion from the economic impact valuation should be kept in mind.

### *Supply constraints*

In addition to demand side errors, Seaman (2004) points out that few, if any, cultural economic impact studies have referred to supply side constraints. He points out that if event visitors displace or crowd out visitors who might otherwise have come to the region, then not all event visitor spending can be included as a benefit since, if the event had not taken place, other visitors would have spent in the impact area.

Supply constraints certainly do exist in Grahamstown, particularly with regard to accommodation. Grahamstown has only one major hotel, a growing number of upmarket guest houses and many “bed and breakfast” establishments run from private homes – a large number of them only during the Festival. Accommodation is also offered during the Festival in Rhodes University residences.

While the 1996 study (Antrobus et al. 1997a:11) reported that the vast majority of visitors (92%) claimed that their stay was not limited by the availability of accommodation, a number of stakeholders were of the opinion that “a critical shortage was developing”.

The extension of Festival accommodation from hotels to private homes occurred in about 1984 and appears to have allowed significant expansion. However, the study commissioned by the Accommodation Guild in 1998 (Antrobus and Snowball 1998) found that further expansion in this area was unlikely, since 71% of respondents in the higher income part of town who were not letting during the Festival claimed that nothing would make them change their mind. Expansion into the lower income East side of town, first given major publicity in 2004, does not appear to have been a success (*Grocott's Mail*).

While it is thus possible that the NAF supply constraints prevent visitors to the area which might otherwise have taken place, Seaman (2004) also gives reasons why this may not occur in certain cases. Firstly, since the timing of the NAF is annual and well advertised, it is almost certainly known in advance and non-Festival tourists could easily reschedule their visit. In fact, since the Festival takes place in mid-winter (July) it is unlikely that it is displacing many tourists, particularly foreigners who generally come to South Africa in our summer months. Secondly, some (fairly) small amount of visitor displacement may occur, but this is offset by additional local spending that would have occurred outside the area, were it not for the Festival. In addition, even if there is some crowding out of non-Festival visitors, those attending may spend more money than the former group. Finally, it may be that there is enough excess capacity available in the town to cater for both groups.

Other than the last point, it seems reasonable to assume that these arguments are valid in the case of the NAF and that supply constraints are really not a significant limiting factor. The only evidence to the contrary occurred when the Rhodes University centenary weekend celebrations and the first weekend of the 2004 Festival coincided. About a month before the Festival was held, an urgent call to Rhodes staff was issued, requesting accommodation of expected centenary guests who were unable to find accommodation elsewhere in the town. However, such events are rare and it is also possible that old Rhodians who would otherwise not have attended the centenary event, did so because it coincided with the Festival.

### *Excluding market and non-market costs*

Crompton (1995:30) argues 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. He points 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, in other words the original “investment” (Crompton et al. 2001). Public funding from outside the region can likewise 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?”. Although 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).

None of the Grahamstown Festival studies explicitly calculated and subtracted local investment in the Festival. When interviewed in 2000 Antrobus expressed the view that spending by Standard Bank (the then 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. However, 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). However, no estimate of the monetary costs of such negative factors was made.

Seaman (1987) 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.

*Table 3.4: Costs and benefits not included in the NAF economic impact surveys.*

| Benefits   | Costs  |
|--|--|
| <b>Effects of media coverage on local businesses and other stake holders.</b>  | <b>Increased competition for local businesses</b>  |
| <b>Long term economic growth and productivity increases.</b>   | <b>Increased costs to local municipality in terms of extra policing, traffic control and refuse removal.</b> |
| <b>Value of externalities to local population (further discussed in Chapter 4)</b>                                   | <b>Inconvenience to local residents and “Festival refugees”</b>  |
| <b>Additional local spending that counts as “import substitution” (not included in 1996, 1997 and 2004 studies).</b> | <b>Possible crowding out of non-Festival tourists.</b>   |
|  | <b>Possibly use of “political capital” and the opportunity cost of Festival sponsorship.</b>                 |

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. Table 3.4 above summarises the benefits and cost not included in the economic impact calculation. While the benefits section contains some potentially large categories, like long run growth potential and the value of externalities, the cost section is less convincing, particularly where there are offsetting factors, such a in the case of “Festival refugees”.

While not including a monetary estimate of these cost and benefits, the NAF studies are not entirely naïve. All studies used only visitor spending categories to avoid double

counting. Although sponsorship provided to the organisers and, in the 2003 and 2004 surveys, spending generated by craft market space rental, was included, some adjustments were made for the immediate outflow of performer and vendor earnings.

## **2.2 Indirect impact**

In addition to direct effects, events such as the NAF generate indirect impact as a result of successive rounds of spending that occur within the region via the multiplier. Second round or indirect spending is then added to the estimate of direct spending in order to calculate total economic impact. The following section discusses the use of multipliers, including the importance of the employment multiplier, in calculating this figure.

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. The size of the multiplier and thus, the effects of successive rounds of spending, will depend on 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 spending by local earners outside the host economy and savings. 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”. Seaman (2003b) reiterates this, but since it is time consuming and expensive to calculate a multiplier from first principles, the tendency in many studies seems to be exactly that, i.e. to use multipliers that have been derived for the region, or for other events, or simply to use an estimate. However, some countries have developed regional input-output models, like Minnesota IMPLAN Group and RIMS II developed by the USA Bureau of Economic Analysis, which can be adjusted to the specific region and help with calculating indirect impact (Seaman 2003b).

The Grahamstown Festival multiplier of 0.18 first used in the 1996 and 1997 studies (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). When compared to other arts festival impact studies (Edinburgh Festivals, Adelaide Festival and Melbourne Festival), all of which used higher multipliers, the Grahamstown multiplier seems to be reasonable (Snowball and Antrobus 2001).

In 2003 a business survey was conducted (Snowball and Antrobus 2003), part of which surveyed local businesses to determine the extent to which stock sold in Grahamstown is sourced from outside the region. It was found that, on average, 87% of stock was bought from outside Grahamstown (Port Elizabeth, East London and Johannesburg being the main suppliers). The result suggests that leakages from the area can be expected to be large in second round spending, even if local residents spend Festival earnings at local businesses.

Crompton et al. (2001:81) suggest that a sales multiplier, that is, the effect of an extra unit of visitor spending on economic activity, is not actually a very useful measure of economic impact and that it is the personal income multiplier that should be used since “it enables the economic benefits received by residents to be related to the cost they invested”. Given the extent of the leakages from local business, turnover in terms of the value of sales is unlikely to be related closely to increases in income. However, specific data on household and business income changes, as a result of the Festival, is difficult to collect, since respondents are often reluctant to give accurate figures, making the estimation of an income multiplier, in the absence of a pre-existing input-output model, difficult to estimate. The 1996 and 1997 NAF studies used the sales multiplier stating that, “The visitors’ initial expenditure is likely to go through numerous successive rounds of spending as wages and salaries earned over the Festival are used to purchase local goods and services. However...the indirect expenditure generated is relatively modest” (Antrobus et al. 1997a:23). Table 3.5 below illustrates the relatively small size of indirect impact claimed.



The employment multiplier shows how many full-time jobs are created as a result of the event or Festival. However, as Crompton (1995:22) and Crompton et al. (2001) point 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”. 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 NAF studies did not fall into the trap outlined 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 were 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 (Antrobus 1997a:ii). An interesting point, that other commentators do 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). This seems to be largely as a result of the lack of technical skills amongst unemployed Grahamstonians, which encourages artists and vendors to bring in their own personnel.

The business survey conducted in 2003 (Snowball and Antrobus 2003) found that, in local businesses, no permanent jobs were created as a result of the Festival. Instead, of the 32% of businesses that did create additional employment opportunities, the majority hired temporary workers over the Festival period or, in 12% of cases, simply asked existing staff to work overtime. An additional factor relates to the origins of temporary employees. For the maximum benefits to accrue, both in economic and social terms, businesses should hire local unemployed people. However, the majority of additional

employees hired were Rhodes University students who stayed on after term ended to see the Festival and earn some extra money – some of which might have been taken out of the impact area when they returned home.

Festival organization generated 4 permanent jobs and 382 casual or ad hoc jobs around the Festival period in 2004. Of these temporary jobs, 180 were filled by unemployed people (about 47%) and 113 (30%) were students, the remainder being contract workers and employed people. Where possible, service providers were local companies, who in turn employed additional labour for the Festival period (Marais 2004:personal communication). It can therefore be concluded that, while the Festival does provide additional temporary employment (and a small number of permanent jobs), relatively few previously unemployed people benefit, since much use is made of people already employed (inside or outside the impact area) and students.

### **2.3 Total economic impact**

The total economic impact of the Festival can be calculated by adding the net direct and indirect figures. However, before the final impact figures for the Festival are compared, a note on methodology is warranted. In most studies, a combination of interviews and self-completion questionnaires was used because, while interviews might provide more reliable data, self-completion questionnaires are much cheaper to administer. Several of the reports and proposals refer to the fact that self-completion questionnaires, especially those handed out at shows, will result in data that is biased towards people who go to shows, are English first language speakers (and can thus more easily complete the questionnaire) and stay for a longer time. The clear negative relationship between the average number of ticketed shows attended per person and the percentage of data collected via interviews is demonstrated in table 3.3 above.

If the ticket sales method alone is used to calculate visitor numbers, this might significantly bias the number downwards and, since longer-stay visitors are also more likely to fill in self-completion questionnaires, length of stay data and thus the accommodation method may also be biased. For example, the average number of ticketed

shows attended per respondent in the 2004 survey using interview data was about 6, while the average using self-completion questionnaire data was 10.5. The 2004 study used only interview data and various counts (for example at the craft market and free shows) conducted by the Festival organisers to calculate visitor numbers. Table 3.5 below shows the calculation of economic impact in the four study years.

*Table 3.5 Economic impact calculations*

| <b>Category</b> (All figures in millions of Rands) | <b>1996</b> | <b>1997</b> | <b>2003</b> | <b>2004</b> |
|--|-------------|-------------|-------------|-------------|
| <b>A. Total visitor spending</b>                   | 25.9        | 23.5        | 27          | 30          |
| <b>B. Sponsorship and craft market spending</b>    | 1.5         | 1.5         | 13          | 13          |
| <b>C. Immediate outflows (30% of A + B)</b>        | 7.6         | 7           | 12          | 13          |
| <b>D. Net direct impact (A + B – C)</b>            | 19.8        | 15          | 28          | 30          |
| <b>E. Indirect impact (D x 0.18)</b>               | 3.4         | 2.7         | 5           | 5.5         |
| <b>F. Total economic impact</b>                    | 23.3        | 17.7        | 33          | 35.5        |
| <b>Total impact at 2000 prices</b>                 | 30          | 21          | 27          | 28.6        |

A few other methodological notes are in order as well. The 1997 study, although it calculated first round visitor spending and reported a 10% decline in this form of impact (Antrobus et al. 1997b), did not actually go on to calculate total economic impact. It is thus assumed that sponsorship levels remained approximately the same, but that producer and vendor earnings (outflows) declined somewhat as visitor numbers declined (see also the decline in ticket sales). An estimate of the immediate outflows was made by extrapolating from the 1996 data, which showed outflows as approximately 30% of total visitor spending. Since the 1996 study, no survey of Festival traders has been conducted<sup>2</sup> and, as a result, it has simply been assumed that immediate outflows are approximately 30% of total visitor spending, which is far from ideal, but better than using the gross direct impact figure.

The 2003 questionnaire caused some confusion in terms of group versus individual data, particularly regarding the number of ticketed shows attended, since the question asked for

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<sup>2</sup> Postal surveys of Festival artists sent out with other information in 1996 and 1997 had very poor response rates. Vendors were thus interviewed directly – a fairly costly process which was not included in the 2003 and 2004 studies for budgetary reasons. The 2004 report recommends urgently that the producer survey be updated soon.

“number of ticketed *shows*” not the number of tickets bought by the group. Since spending data was collected for each travelling group (average size of 1.8 people) there was some doubt as to how to interpret the results. Two calculations were thus made, one assuming figures to be for the group and one assuming them to be for the individual. (65% of people gave figures for a group size of 1). The average of the two figures was then used for the first round visitor spending calculation, since the assumption that figures were per group (despite the fact that this is what the question asked for) might have been overestimating visitor spending. The 2004 study specifically asked respondents whether they were choosing to quote group figures or individual ones. Crompton et al. (2001) argue that group spending figures are likely to be more accurate, especially for accommodation spending. However, it is unlikely that group members would be able to account for other spending categories for all their members (like craft market spending and spending on food and drinks). Thus, in a festival that attracts relatively few family groups with young children, it was initially decided that individual spending data be collected (Antrobus et al. 1997a and 1997b) and was done so at all except the 2003 Festival.

Noteworthy points of the above table are the fall in ticket sales, visitor numbers and real economic impact from 1996 to 1997, with a slow recovery being reflected in the 2003 and 2004 figures. However, ticket sales of 1996 levels (184 761) have not been seen again, with 2003 and 2004 figures hovering around 100 000, but showing an upward trend. The same is true of real economic impact (at 2000 prices), which is now starting to approach 1996 levels again.

The major reason posited for the decline is the emergence in the New South Africa of a large number of other arts festivals, the greatest rivals at present being the Klein Karoo Nasionale Kunstefees (KKNK) started in 1995 catering for a mostly Afrikaans speaking audience and the Aardklop Arts Festival that began in 1998. Perhaps the decline is also partly due to the freedom of expression and speech in the New South Africa. As shown in chapter 2, the Festival played a very important role in the apartheid era as an outlet for otherwise repressed expressions of political and social protest. Once the elections had been held and the New South Africa was underway, its role necessarily had to change and

the falling off of ticket sales and economic impact may have been a reflection of this period of uncertainty. The stabilization and growth of the Festival in recent years may thus indicate that this tricky period has been successfully negotiated, even in face of increased competition from other festivals, and that the NAF is finding its place in the new democracy.

### 3 CONCLUSIONS

The above literature review and case studies of the NAF have attempted to demonstrate that, despite the idea that economic impact studies provide a simple, undisputed way of measuring the value of the arts to a community, they are in fact complex and depend very much on the knowledge and integrity of the researchers. Even Crompton, a supporter of the methodology admits that,

“Often there is a presumption in the minds of “bottom-line” orientated audiences who are unfamiliar with the technique that the analyses are “scientific” and, hence, the outputs are objective and unequivocal. This is fallacious. Economic impact analysis is an inexact process and output numbers should be regarded as a “best guess” rather than being inviolably accurate” (Crompton et al. 2001:80).

On the other hand, Seaman, who has been a vehement opponent to the use of economic impact analysis as a means of arts advocacy (1987) in favour of the contingent valuation method (CVM), has recently stated that,

“Increasing familiarity with either of these approaches may well render one more sympathetic to the alternative. For example, while CVM has the potential to capture important aspects of value not observed in market transactions, the approach is commonly criticized for exhibiting various biases...At the same time, the deficiencies of economic impact spending studies have become legend and are in part responsible for the rise of contingent valuation as an alternative.” (Seaman 2003a:4-5).

Like CVM studies, discussed in chapters 4 and 5, economic impact studies, if reasonably well done, can provide interesting and useful information about the financial impact of an arts event like the NAF, which can be used as part of a successful argument in favor of public support for the arts. However, the crucial point here is that the valuation is *partial*,

not complete or total, and does not provide exact, “scientific” or unbiased data any more than other non-market valuation techniques do.

## **CHAPTER 4: PART I**

### **THE CONTINGENT VALUATION METHOD: A LITERATURE REVIEW**

While it is all very well to argue that the positive externalities supposedly provided by the arts should be taken into account when conducting a cost-benefit analysis, the measurement of such non-market values is far from simple. There are, however, well-researched methods of doing so, the most popular of which is the contingent valuation (CV) method.

The following chapter is divided into three sections. First the contingent valuation method is outlined and its use and recent context discussed. Then selected case studies of willingness to pay (WTP) surveys conducted in the field of cultural economics are reviewed and finally, some of the major criticisms and defenses of the method are considered.

#### **1. THE WTP METHOD AND CONTEXT**

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 CV method also includes stated choice or choice experiment surveys, which ask respondents to choose between various scenarios in which the levels of the attributes making up the good are varied (further discussed in chapter five).

The National Oceanic and Atmospheric Administration review on the use of CV studies published in the Federal Register in 1993, 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” (NOAA 1993).

Passive use values (also referred to as non-use values) are defined by Carson et al (1999:100) as “those portions of total value (measured by WTP or WTA) that are unobtainable using indirect measurement techniques which rely on observed market behavior”. Thus, while methods like travel cost and hedonic pricing will capture the non-market value of the good to users, this does not include people who, for whatever reason, might be non-users, but still willing to pay to preserve or support the public good. In other words, passive use values require no direct involvement of the user with the good at all and “as a result, economists are fond of saying that passive use leaves no behavioral trace” (Carson et al. 2003:258). Diamond and Hausman (1993) outline three types of non-use values: the value of one’s own possible future use of the good, the value of one’s enjoyment of the use of the good by others (also called bequest value) and finally, values unrelated to human use of the good.

A number of models can be used to estimate WTP or WTA functions (Johansson 1993; Carson et al. 1999), but the general theory can be presented as follows: If initial utility ( $U_0$ ) is a function of certain levels of income, prices, private goods and public goods, and an increase in the amount of public good supplied increases utility ( $U_1$ ), then WTP represents (or exactly offsets) the difference between  $U_0$  and  $U_1$ , such that the final level of utility is unchanged. In the WTA case, the decline in utility is exactly equal to the increase in utility due to the compensation amount.

Contingent valuation surveys were, until about 1990, a little-studied branch of environmental economics. However, on the 24<sup>th</sup> of March 1989, the Exxon Valdez oil tanker, misjudging its position, crashed into Bligh Reef in Prince William Sound off the coast of Alaska (Carson et al. 2003). The tanker released 11 million gallons of crude oil into the Sound, hugely damaging what had been one of the most environmentally pristine



areas on earth. The local newspaper, *Anchorage Daily News* (1999), in a retrospective of the oil spill ten years after the event, termed the accident “one of the worst human-caused environmental disasters in history”. The newspaper also reports the slowness of the response to the disaster as a result of not having disaster management programmes in place.

However, all this was to change when it became known that the State of Alaska and the Federal Government intended to use a contingent valuation study to litigate against the oil company, arguing that they were liable for more than just the clean-up costs and lost income, but also for the non-market value of the huge environmental damage caused to the Sound. As a result of this, “the attention paid to the conceptual underpinnings and estimation techniques for passive use value changed rather abruptly” (Carson et al. 2003).

Early in 1990, Carson et al. (2003) were commissioned to run a huge WTP study to determine the value of the American public of the Prince William Sound, the details of which have recently been published in *Environmental and Resource Economics* (2003). After being given a large amount of information, including maps and photographs, respondents were asked to vote for or against a proposal to provide an escort ship programme for oil tankers entering the sound. The results of the survey showed that American households were WTP about \$2.8 billion for the program. Although the case was settled out of court, the State Attorney General was reported as saying that the CV study “was the heavy artillery in our briefcase” (*Anchorage Daily News* 1993).

In an attempt to discredit the method, the oil company appears to have funded quite a lot of research into the method. Many of these papers were presented at a conference organized by Cambridge Economics, Inc. held in Washington in 1992 and were published, with transcriptions of discussions (Hausman (editor) 1993). Although there are few direct references to it, traces of a violent debate and doubt over the bias of Exxon sponsored research remain. For example, in a 1996 article, Diamond adds a footnote to the effect that, while earlier research may have been funded by the Exxon company, the current article (also on CV criticism) was not. Carson et al. (1993:258-9) comment that

“Much of the recent criticism of CV is contained in the Exxon-sponsored conference volume ...”<sup>3</sup> At the conference itself, discussion was often heated, with one non-economist referring to the process during a discussion as “a milieu of dueling economist” (Hausman 1993:458). Despite this, however, the papers presented at this conference set the agenda for contingent valuation research and many of the issues raised are still being debated.

In their 2003 article, Carson et al. conclude that the out of court settlement between the State of Alaska and the Exxon Company approximated the CV value quite well. They also note that, since 1989, there have been no major oil spills in American waters, perhaps suggesting that the inclusion of non-use values in possible litigation, while not uncontested, is still acting as a significant deterrent to oil companies taking risks that may result in pollution.

One of the results of this heated debate was the National Oceanic and Atmospheric Administration review on the use of CV studies (NOAA 1993), chaired by, amongst others, Kenneth Arrow and Robert Solow. The report concluded that, if its guidelines and recommendations were followed, “CV studies can produce estimates reliable enough to be the starting point of a judicial process of damage assessment, including lost passive-use values” (NOAA 1993:24). Another result was that, although CV studies have now been applied in many fields, most of the methodological research has been conducted in the field of environmental economics. While much of the following literature review thus refers to studies conducted in this field, a review of some of the (much smaller) body of work in cultural economics will now follow, giving particular prominence to those case studies that are directly comparable with the National Arts Festival research of this thesis.

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<sup>3</sup> Diamond, after his 1996 article, appears to have published no further work on the contingent valuation method. Hausman, his co-author in the famous 1993 paper, and editor of the criticism book mentioned above, also appears to have turned to other areas of research.

## **2. SELECTED WTP CASE STUDIES IN CULTURAL ECONOMICS**

By 2002 fifty-two CV studies had been conducted in the field of cultural economics. However, comparatively few of these were in the area of valuing “the arts” generally (7), the remainder being focused on more specific areas, like museums, historical sites, broadcasting, heritage, theatre and libraries, amongst others (Noonan 2002). The following section will briefly review 5 of the WTP studies conducted on the arts generally to date, two in Australia (Thompson, Throsby and Withers 1983; Throsby and O’Shea 1980), one in Ontario (Morrison and West 1986), two from Kentucky (Thompson et al. 1998 and 2002) and one from Kansas (Glass et al. 1999). In addition, an earlier study conducted at the Grahamstown National Arts Festival (Snowball and Antrobus 2001) and a recent study (2003) at the Oudtshoorn Klein Karoo Nationale Kunstefees (KKNK) (Snowball and Antrobus 2003) will be introduced. Both the latter studies were used as pilot surveys for the 2003 NAF project and will be more extensively discussed in part two of this chapter. However, they are introduced here in order to better illustrate some of the theory below, particularly as it applies to developing countries. The case review is divided into three parts: those valuations based only on WTP studies, those combining WTP and economic impact studies and the two South African valuations.

### **2.1 WTP valuations**

One of the earliest arts WTP studies (1982) was conducted by Thompson, Throsby and Withers in Australia (1983). To a great extent, the South African studies are based on their methodology. The survey asked a random sample of 827 Sydney residents detailed questions about the arts, including their interests, attendance, participation, perception of benefits or costs, views on public funding and WTP to support the arts under various conditions. They used an innovative form of the Bohm interval (further discussed below) to detect and control for overstatement of WTP (reported on in detail in Throsby and Withers 1986).

Eighty per cent of respondents were interested in at least one of the art forms mentioned and there was also a general interest in arts policy. Throsby and Withers (1985) suggest that, where a divergence between (lower) attendance and (higher) interest is detected, policies to improve community access to the arts may be effective. In terms of attendance, while their study found that, as expected, audiences for so-called “high” arts forms (opera, dance, theatre) “were biased towards the wealthier and better-educated, this bias is nowhere near as marked as is often claimed to be the case” (Throsby and Withers 1985:585). They also found that about a quarter of the Australian adult population actually participate in the arts, especially all types of music.

Even more importantly, the Australian study found that there was wide-spread agreement with the idea that the arts provided “community public benefits”, such as national pride, assistance in understanding and interpreting “our country and its culture”, as well as general educational value (Throsby and Withers 1985:591). Respondents were then asked how much they were WTP for such public benefits through an increase in taxes. Although the survey picked up some forms of bias, like “free riders”, and arts attenders who had a strategic motive to overstate their true WTP (further discussed below), even after controlling for such bias, just under three-quarters of respondents voted for increased arts subsidy at a significantly higher level than government support at the time. Respondents were given a choice of either an increase in current taxes or a reduction in other government spending as a means for paying for the increased arts subsidy. Most respondents (80%) indicated that they would rather decrease other areas of government spending, in particular, social services and defense (Thompson et al. 1983). The authors conclude that “The notion of the arts as a luxury and as only an elite pleasure foisted on an unknowing or resentful public is simply wrong” (Throsby and Withers 1985:594).

Another early WTP study on the arts was conducted by Morrison and West (1986) in Ontario, consisting of a sample of 463 households, using telephone interviews. In particular, they wished to investigate whether increasing arts subsidies would benefit mainly the wealthy arts attenders, or whether what they refer to as the “external” benefits from the performing arts, justified tax spending even for non-attenders. The idea is that one 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 an awareness by respondents 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 Thompson et al. (1983) study, which found that public arts funding in Australia was significantly below what the public was willing to support, Morrison and West (1986:69) 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) suggested that, because of various forms of bias, most notably, the way in which information is provided, some surveys overstated WTP.

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

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.

”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.

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 combined 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 to the Kentucky economy was almost double what it would have been if only the economic impact figures had been used (Thompson *et al.* 1998:3). In discussing the study, Thompson *et al.* (1998:3) argue that the increased quality of life caused by the arts would also be felt in the economy through increasing property value and wages. However, this sort of hedonic pricing study was not undertaken, although it would certainly be an indication of the value of the positive spill-overs of the arts.

The above study then added the economic impact and WTP figures to provide a total value of the arts in Kentucky of \$43.8 million a year. However, this method was criticized by Seaman (2003a) on two grounds. Firstly, he argues that part of what the WTP estimate may be picking up is the projected current or future earnings of the respondent or their household due to the arts. In other words, the WTP estimate includes, to some extent, economic impact and that simply adding them leads to double counting. Secondly, he argues that, rather than giving a total value, the WTP figure measures only one scenario (that of a specified decrease in arts events), not the value of the externalities provided by 100% of Kentucky arts events.

A follow-up study (Thompson *et al.* 2002) asking the same questions about WTP for arts amenities in Kentucky, was conducted using a mail survey of “arts patron” and “all households” samples. As in previous studies, it was found that arts attenders and arts patron households had higher average income and education levels and that their mean WTP was significantly higher than the “all households” sample for both active use and off-site use (like watching television programs about the arts). Estimated WTP to avoid a 25% decrease in arts performances and exhibitions was \$16.9 million a year for all Kentucky households.

An interesting feature of both studies was the recognition of loss aversion (further discussed below), in that mean WTP per household to avoid a 25% loss was found to be significantly more (\$11.44) than that the WTP to increase arts performances and exhibitions by the same amount (\$6.21). Considering that the costs of increasing arts performances and exhibitions in Kentucky by 25% would cost \$12.6 million, a WTP to avoid this loss of \$16.9 million indicates a net benefit of \$4.3 million. Thompson et al. conclude that the relatively small net benefit indicates that current levels of support are relatively efficient.

The final study in this group was conducted in Kansas by surveying 515 households and asking a dichotomous choice WTP question for “a substantial increase in the amount of arts activity in your local area” (Glass et al. 1999:28) to be paid for by an increase in tax. It was found that Kansas households would be WTP \$19 million in increased taxes for the rather vaguely defined “substantial increase” and that, as in other studies, participants in arts events or education programs were more likely to favor the increase. Even for the highest WTP bid amount (\$20), 47% of households were willing to pay. In addition to this, an economic impact study found that expenditure by the Kansas Arts Commission, which provides grants to arts organizations, resulted in just over \$1 million of impact in the region. The addition economic activity generated by the arts increased local tax revenue by nearly \$100 000 and provided 18 additional jobs in the state in 1998. Long term impact, in terms of a positive effect on the rate of economic growth, through attracting businesses may be considerably larger.

### **2.3 South African WTP studies for the arts**

The earlier WTP pilot study conducted at the National Arts Festival (NAF) in Grahamstown (Snowball and Antrobus 2001) was the first such study to be conducted on the arts in a developing country. As such, new issues arose around, for example, willingness versus ability to pay (further discussed below), several of which were further addressed in the research at the NAF in 2003. In addition, the divide of wealth and education levels along racial lines (as discussed in previous chapters) makes the detection



and valuation of positive externalities provided by the arts, particularly to lower income and education groups, a very important justification for their public support.

The first study was conducted in 2000 and surveyed 73 households by telephone from the higher income, mainly populated by European origin people, as well as the lower income area, populated by mainly African origin people. The questionnaire design (further discussed in part 2 of this chapter) was very similar to the Thompson et al. (1983) study. After questions regarding the respondent's attitudes, attendance, spending and earnings at the annual NAF, the WTP scenario was presented, asking respondents if they would be willing to pay an additional R5 in taxes per month if this would prevent the Festival from being closed down (2001 was the last year in which the title sponsor of the NAF, the Standard Bank, provided significant funding).

Although attendance at ticketed Festival events, spending and earnings were significantly biased towards high income respondents, attendance at free events (like street theatre, art exhibitions, the preview "Sundowner" concerts and the craft markets) was more evenly spread. Contrary to popular belief, that lower income residents resented and got nothing out of the Festival, responses to opinion questions revealed that, in some cases, feelings were more positive than amongst high income residents. Even when liable for the increased tax, 73.5% of low income area residents were willing to pay as compared to 81.3% of higher income residents. Reasons given for positive WTP responses where attendance at shows was low included: "improving our nation"; "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". The Festival is also seen as a very important source of future economic growth, job creation and development. These responses showed a high degree of awareness of the positive externalities that the Festival provides.

In addition to the R23.5 million (Antrobus et al. 1997b) that the festival was estimated to provide in economic impact, it was calculated that Festival externalities were worth R2.3 to R3 million a year. The study concluded that, while much of the economic benefit of

the NAF accrued to higher income earners, Festival externalities provided valuable public goods to low income and education groups as well (Snowball and Antrobus 2001).

The second study conducted at a South African arts festival and also used as a pilot study for the current research, was at the Klein Karoo Nasionale Kunstefees (KKNK), and Afrikaans-medium festival that takes place yearly in Oudtshoorn (Snowball and Antrobus 2003). The structure of the KKNK is very similar to the NAF, including Main and Fringe programs, free shows and art exhibitions. Like Grahamstown, Oudtshoorn is still divided along wealth and racial lines, although the dominant language spoken by both European origin and mixed origin people is Afrikaans. In 2003, 97 telephone interviews were conducted on a representative sample, asking what their WTP to avoid a 25% or 50% fall in Festival size would be. The WTP question had random starting points (closed ended, dichotomous choice) with bidding up and down.

As in the NAF case, opinions amongst both low and high income area residents at the KKNK were largely positive and attendance at free shows for low income residents was considerably more than that of high income area residents. While average WTP for high income households was much higher (R17.50) than for lower income households (R8.96), the percentage of people willing to pay some positive amount was almost exactly the same in both areas (65%). It was estimated that WTP to avoid a 25% fall in KKNK size was R2.5 million a year (Snowball and Antrobus 2003), in addition to the R43.7 million in economic impact that the Festival provides (Saayman and Saayman 2003).

A brief review of the use of WTP studies in valuing the arts suggests that they can be useful in two ways. Firstly, they can determine the presence (or absence) of non-market values or externalities amongst various population groups in order to counter the commonly held belief that arts sponsorship benefits only the wealthy minority of society who actually go to the ticketed shows. Secondly, such studies can quantify the value of cultural public goods and be used for making policy decisions about sponsorship levels. However, there is a significant body of work that criticizes the CV method, and

particularly the use of WTP studies, as a means for valuing non-market goods. The following section will consider the ongoing debate in this area.

### **3. CRITICISMS AND DEFENSE OF THE CV METHOD**

Even since the Exxon case in the early 1990's, there has been a storm of sometimes quite vehement criticism of the CV method (mostly represented by WTP studies) and equally heated defense. The following section reviews some of the major areas of criticism, focusing on the nature of hypothetical markets and the ways in which CV responses have violated the assumptions of neoclassical economic theory.

#### **3.1 Hypothetical markets and the “free rider” problem**

One of the first questions many critics of the WTP method ask is how one can be sure that respondents will tell the truth. The NOAA panel (1993:7) raised the issue of “implausibly large responses” and it has since been found in many studies that hypothetical markets tend to overestimate WTP. The current debate has shifted from whether or not hypothetical bias, defined as the difference between hypothetical and real WTP, exists to a discussion on how the problem can be detected and controlled. There are two major directions in this field. Firstly, there are those who, by comparing real and hypothetical valuations for the same good, seek to find some method of calibration for hypothetical responses that will bring them more in line with real responses. Secondly, there is ongoing research into how questionnaire design can be used to moderate this form of bias. The following section provides a historical background to the hypothetical bias or “free rider” problem in contingent valuation and reviews the current debates regarding calibration and questionnaire design.

The liability or free-rider problem in estimating the value to individuals of public or mixed goods was first formally acknowledged by Samuelson (1954). 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 signaling 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”.

Some of the earliest and seminal research on the existence and control for hypothetical bias in WTP studies was conducted by Peter Bohm. Bohm (1972) 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) thus conducted a series of WTP studies on small groups of paid volunteers. The public good under discussion was a new TV comedy series. Each respondent was asked to state the highest admission fee that they would pay to see a 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) 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, he 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), in their study of the performing arts in Canada, agree that other motives may counteract the free rider problem, but argue that it is 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) 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. Given that the motives for over- or understating WTP may be different in each situation, he proposed what came to be called “the Bohm interval method” as a way of verifying the results of the study.

Bohm (1979) 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 exceeded or was 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).

A number of studies since have used some version of the Bohm interval with largely similar findings to Bohm's original tests. The Thompson et al (1983) study of the arts in Australia used the Bohm interval method to control for the free-rider problem, but differed from the Bohm method 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. Where some difference between the liable and non-labile response was found, 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) 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).

Throsby and Withers (1986) acknowledged that non-hypothetical situations may make the free-rider problem more significant. They also mentioned the possibility (noted in Bohm 1984) 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) considered was the hypothetical nature of the WTP questions, both liable and non-labile. This differs from both the Bohm experiments (1972 and 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”.

The Morrison and West (1986:66) study 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.

An earlier National Arts Festival survey (Snowball & Antrobus 2001) used the Bohm interval method in a very similar way to Throsby and Withers (1985) except that a once-off WTP amount of R5 was used (dichotomous choice yes/no response), rather than a bidding system asking for a maximum WTP amount. Respondents were told that, “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. They were then asked to following questions:

“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?

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?” (Snowball 2000:92).

Of the 80 telephone interviews conducted, three respondents in the Grahamstown West area (9.4% of the West sample), which is largely populated by European-origin residents who have high income and education levels, and seven respondents in Grahamstown East (20.6% of the East sample), which has a largely African-origin, low income and



education population, responded “yes” and then “no” or “don’t know” to the non liability and liability questions, suggesting that only 14% 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 behavior. This would also explain why there appear to be more than twice as many free riders in the low-income, township area compared to the more affluent west side of town. This conclusion is supported by Booysen’s (2001:695) article on the major reason for the non-payment for services in South Africa. He concludes that, “the problem of non-payment of services appears to be a problem of ability-to-pay, rather than willingness-to-pay.”

The first version of the Oudtshoorn KKNK questionnaire (Snowball and Antrobus 2003) also incorporated a Bohm interval, modeled on the Throsby and Withers (1986) usage, as follows:

Supposing no change to your total monthly taxes would you be willing to allow R10/R20/R30 per month of the taxes you already pay to be spent on the festival if this would prevent the festival from getting 25%/50% smaller next year? This means that there would be less money available for other government projects.

Now suppose that you would have to pay the extra R10/R20/R30 out of your monthly income. That means you wouldn’t have the R10/R20/R30 each month to spend on other things that you normally buy, like food, transport or entertainment. Considering your monthly expenses, would you be willing to pay R10/R20/R30 a month if this would prevent the festival from getting 25%/50% smaller?

This attempt to use the Bohm interval in the KKNK Oudtshoorn study (Snowball and Antrobus 2003) was, however, unsuccessful and was dropped after version 1 (45 interviews) of the questionnaire. The intention was to ask both liable and non-liable WTP questions in order to control for free rider bias. As reported, a version of this question worked relatively well in the 2001 Grahamstown study, but was much simpler in that, crucially, it did not include in the non-liable tax question, “This means that there will be

less money for other government projects”, which was suggested by a reviewer to make the scenario more realistic. However, the result was chaos and what appeared to be an abundance of irrational answers. However, on closer consideration, this reminder, along with previous scenario information mentioning health and education, creates some doubt as to how the question was interpreted. If your household is benefiting directly from government projects like state education, health care, child support grants and so on, a vote for more money to the festival, even if you didn’t have to pay it yourself, could be interpreted to result in a fall in already received transfer payments, in which case, the question is liable and not non-liable.

Even if one does not benefit from such transfer payments directly, it is debatable whether respondents would feel morally able to move funds from fundamental areas like health, to an arts festival. This is reflected in the fact that some respondents asked which areas of government activity would receive the cuts (military spending or education?). This again raises the interesting and difficult question of ability versus willingness to pay, so important in developing countries. Respondents, particularly in poorer mixed or African-origin populations, may benefit from festival externalities and want to indicate a positive value, but income constraints, taken seriously, would dictate a zero WTP, which could be interpreted as no externalities provided. Vague, non-liable questions (as in the 2001 Grahamstown study) may provide an answer, but will also be prone to free riders.

An update study of the Bohm interval, using a laboratory experiment conducted on a sample of 60 university students was conducted using a private good (additional tutorials) as the example (Kumalo 2003). In this split sample test, one group of students were asked their WTP, “knowing that you would not actually have to pay or that you would pay only some percentage of the amount you have stated” while the second group were told that they “would actually have to pay the full amount that you have stated”. While group one (non or partially liable) provided a mean WTP figure slightly higher than group two (fully liable), there was no significant difference between the two.

Although there have been few studies that have used the Bohm interval as such, his experimental work gave rise to two distinct streams in hypothetical bias research. One stream consists of a growing literature comparing real with hypothetical values in an attempt to find some general rule of calibration, in other words, the ratio of mean hypothetical to mean actual WTP (List and Gallet 2001: 242). Studies range in size and type from tiny samples conducted in laboratory conditions (Botelho and Pinto 2002) to larger mail surveys (Nestor 1998) and face-to-face interviews (List and Shogren 1998). As previously mentioned, most of the methodological work on WTP studies has been conducted in the field of environmental economics and it is thus to case studies in this area that reference will mostly be made.

A study in cultural economics comparing real and hypothetical bids was conducted by Willis (1998) who asked visitors to an historical site, Warkworth Castle, 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) 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) 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).

List and Shogren (1998) conducted first a hypothetical and then a real within-sample WTP study at a collectable baseball card auction. Respondents were first asked to bid hypothetically for a card or a group of cards and the sealed bids placed in a voting-style

box without the interviewer seeing the amount. They were then asked to bid in reality for the cards, the highest bidder to be notified by telephone and, on sending the money, receiving the cards. The results showed a ratio of hypothetical-to-actual overbidding of between 2.2 to 3.5, suggesting that the NOAA proposed “divide by two” rule might be justified (List and Shogren 1998:203). However, they also found that hypothetical bias was highly context specific (so that adding or subtracting substitute cards from the set being bid on changed calibration significantly) and that overstatement was significantly higher for non-dealer respondents who were less familiar with the good and its usual market price.

Nestor (1998) argues that there are great advantages in combining hypothetical or stated preference data with real market or revealed preference data, such as reducing multicollinearity between site or good characteristics and extending the data analysis beyond the range available using one sort of study only. Using a study on waste disposal options, where some households were already paying an optional tariff for sorted recycling, while others did not yet have the option available to them, she showed that, although hypothetical bias was present, it was not of a very high magnitude. While results were “mixed”, she did not find, in contrast to List and Shogren (1998), that experience with the “good” being valued (in other words, more information) had any effect on WTP amounts or hypothetical bias.

Whitehead et al. (2000) conducted a similar analysis, combining revealed preferences from travel cost methods with stated preference data for quality improvements in outdoor recreational facilities. They also found that by including stated preference techniques, they are able to comment not only on the value of such quality improvements to current users, but also to potential users. Botelho and Pinto (2002) conducted a laboratory experiment comparing real and hypothetical WTP for the provision of an information leaflet on the otter. While hypothetical responses were higher than real responses in a split-sample survey, the hypothetical data could be used to predict, given the demographic characteristics of the respondent, “what they would have responded if they had been placed in the real treatment” (Botelho and Pinto 2002:995). They thus conclude

that, while hypothetical bias is present, the valuations of the hypothetical survey still convey useful information, especially if they can be calibrated to real data.

There is thus growing evidence that, although hypothetical bias undoubtedly exists, the data from such surveys can still be used to inform decisions. However, the search for a general calibration ratio does not appear promising for various reasons. Firstly, it is only really possible to conduct such tests where a real market situation for the good exists – mostly limited to private goods (Lusk 2003). Carson (1997) argues that, for some classes of goods, in particular, public goods to be provided by voluntary contributions and private goods to be purchased, it is impossible to design a survey in which the dominant incentive strategy will be to tell the truth because, “the survey response must provide the possibility of strictly altering the respondent’s choice set without strictly expanding or contracting it ...” On the other hand, WTP surveys on public goods provided through the use of coercive payment mechanisms and quasi-public goods appear to equal or underestimate real market valuations. “Thus, a single private good, rather than representing the “best” case for a successful CV, represents one of the worst cases” (Carson 1997:1503)

The second problem with calibration experiments is that they appear to be good and context specific. A meta-analysis of 29 real and hypothetical WTP calibration experiments, covering a wide range of goods, methodologies and elicitation techniques, comes to this conclusion, as well as arguing that, in general, calibration is relatively small 1.26 to 1.30 (List and Gallet 2001). The study also finds evidence, as in the baseball card example, that the more subjects know about the good, usually a private good, the smaller will be the hypothetical bias. Research in this area seems to be moving toward the NOAA panel’s conclusion that “No automatic or mechanical calibration of responses seems to be possible” (NOAA 1993:25).

The other proposed way of controlling for the hypothetical bias is through questionnaire design. Research in this area has mostly focused on the “cheap talk” design first suggested by Cummings and Taylor (1999). They experimented with questionnaire

design that 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 that were statistically indistinguishable from surveys that 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).

However, Aadland and Caplan (2003) conducted a 1000 household WTP study of curbside recycling using a cheap talk questionnaire design significantly shorter than that of Cummings and Taylor (1999), but conveying similar information. They find that the design significantly reduces WTP amounts and, by comparing WTP amounts with real market data, are able to conclude that it reduces hypothetical bias.

A WTP mail survey was conducted for genetically modified “golden rice” by Lusk (2003) using a longer cheap talk script for half the sample. He found that the cheap talk design did significantly reduce WTP bids, but that it was most effective amongst respondents who were inexperienced and had no knowledge of the subject (genetically modified foods) prior to the survey. For those with prior knowledge, the cheap talk design reduced WTP, but not by a statistically significant amount.

A study conducted by List (2001) using a cheap talk design in a split-sample field experiment at a collectable sports card auction found very similar results. While List found that the cheap talk design significantly reduced hypothetical bias amongst inexperienced bidders, it had no effect on traders and experienced bidders. He comments that this result represents a challenge for future CV research design in eliminating hypothetical bias for all

subject types, but that recognizing the importance of the link between “reliability of stated values and the experience with the good” is an important step forward (List 2001:1504-5).

Related to this is an innovative paper by Champ and Bishop (2001) who suggest, using both stated and revealed preference data from two large studies on the purchase of wind-generated electricity. They found that, by asking respondents how certain they were that their WTP responses reflected their true values, where 1 was very uncertain and 10 was very certain, they could identify those respondents likely to be overbidding in the hypothetical market. Simply by recoding “yes” WTP responses from respondents who rated themselves less than 8 on the certainty scale to “no”, they found that WTP results replicated those of real market data for the same good and statistically significant hypothetical bias vanished.

Despite the different directions that research into hypothetical bias in contingent valuation studies have taken, it does seem possible to draw some general conclusions. Firstly, the better informed respondents are, or the more familiar they are with the good, perhaps also reflected by their certainty that their WTP bids reflect their true preferences, the less likely it appears that they will be prone to overstating WTP. Secondly, it appears that the Diamond and Hausman (1994) claim that calibration could lie anywhere between 1 and 10 is overly pessimistic and that Bohm’s original idea, that hypothetical bias in properly designed surveys is not likely to be large, stands. The crucial issue in controlling for hypothetical bias, therefore, appears to be the information that is provided to respondents (along with their personal previous experience of the good where applicable) and the way in which the questionnaire is designed. Both these issues are further discussed in part two of this chapter.

### **3.2 The embedding effect and the “warm glow” hypothesis**

One of the major ways in which hypothetical bias is detected in WTP surveys of goods without direct market parallels is in inconsistency of the results with what economic theory predicts. Foremost amongst these is the insensitivity of willingness to pay bids to the scope or amount of the good being valued.

“Usually, though not always, it is reasonable to suppose that more of something regarded as a good is better so long as an individual is not satiated. This is in general translated into a willingness to pay somewhat more for more of a good ... Also, if marginal or incremental willingness to pay for additional amounts does decline with the amount already available, it is usually not reasonable to assume that it declines very abruptly” (NOAA 1993:6).

Initially, a number of WTP studies were cited as demonstrating such insensitivity to scope. For example, Kahneman (1986 cited in NOAA 1993:4) found that WTP for the cleanup of all the fishing lakes in Ontario was “only slightly more” than the WTP to clean the lakes in one region. A similar case is the now infamous “birds” study (Desvousges et al. 1993), which showed that the WTP to preserve 2000, 20 000, or 200 000 birds was the same. Diamond’s later (1996) analysis in fact argues that, given certain Neoclassical assumptions about the utility function, WTP to save 100 000 birds, for example, must be at least 100 bigger than the WTP to save 1000 birds in order for the study to pass the scope test.

In addition to the scope insensitivity problem, sometimes referred to as the embedding effect, CV studies appear prone to two other related problems. The first is the ordering or sequencing effect that occurs when either the amount or variety of the good being valued is varied in different orders (Hanemann 1994). It was found in a number of studies that question ordering is extremely important to the value placed on the good being asked about, the first good on the list usually receiving the higher value (Diamond and Hausman 1994).

The second associated problem is that of individual valuation and summation (IVS) or the sub-additivity effect. In this case, the WTP for a composite good is less than the WTP for its parts valued separately (Hanemann 1994). The IVS problem is outlined in Hoehn and Randall (1989:550), where they show that “conventional benefit cost outcomes are systematically biased” because valuing individual parts of a composite good (for example, one endangered species amongst many) does not take into account “the crucial elements of scarce productivity and the substitutions that it imposes”. The simple addition of the stated values for individual goods (like endangered species) will thus overestimate the real value that respondents place on endangered species as a whole.



One of the methods that the NOAA panel (1993) proposed to reduce implausibly large responses was to remind respondents of budget constraints, or of the goods they could have bought with the money they claim to want to pay, as well as available substitutes. However, Kahneman et al. (1999) and Lusk (2003) point out that several studies reminding respondents of budget constraints and substitutes failed to reduce WTP amounts or improve sensitivity to scope. Loomis et al. (1994) conducted a split-sample mail survey on WTP for reduced fire hazards in Oregon forests. Half of the sample was given explicit reminders of other substitute resources and their budget constraints, while the other half were not. They find that there is no statistical difference between the results obtained and than mean WTP was the same, regardless of the reminders.

The explanation for scope insensitivity and related phenomenon put forward by critics of the WTP method, like Diamond and Hausman (1994) and Kahneman and Knetsch (1992) was that respondents were not really valuing the good in an economically rational way, but were merely expressing a positive attitude to the good in question, or “purchasing moral satisfaction” from giving to some worthy cause. This “warm glow” hypothesis argues that, since individuals are only showing support for some composite good (like the arts or the environment), there is no reason to suppose that their WTP would vary much with the amount of the specific good in question. The NOAA report (1993:8) notes that, if warm glow does occur, the WTP results “should not be taken as reliable estimates”.

Although some of Diamond’s earlier work is regarded as biased, since he was one of the economists funded by the Exxon Company, his theories regarding the warm glow hypothesis are persuasive. In particular, he argues that, if the process of, for example, giving money to save 1000 birds, provides utility in addition to the actual birds saved (the good), then the WTP estimate is, at least in part, capturing some moral satisfaction or warm glow. In other words, 1000 birds are not a perfect substitute for 1000 birds *saved*. This could lead to a situation in which the government could, for example, propose the development of a wilderness area, where no development is really intended, and increase welfare by announcing that the results of a WTP study to block the development had been successful. “In other words, if we are not willing to restrict analysis to preferences

defined over the state of the environment, rather than also including the process resulting in that state, then we need a new welfare economics ...” (Diamond 1996:346).

Interestingly, this ties in well with the work of Sen (1985) who argues that Neoclassical utility theory and welfare economics are flawed in that they do not take into account the process by which the final outcome is reached or consider the role of the choice set available to the individual who made the choice. Sen would undoubtedly agree with Diamond that we need a new welfare economics, but in Sen’s case it would be a theory that included utility derived from the process (taking into account the limitations of the other available choices) rather than excluding it. Carson et al. (2001:177) agree with this view, stating that, “It is utility, whatever its source, that matters to total value” and that the motivations behind increases in utility are irrelevant as far as economic theory is concerned.

Some of the most interesting theoretical work on CV has been done by Kahneman et al. (1999). They argue that attitudes are much more closely linked to WTP bids than the economic concept of preferences and that this poses a problem because attitudes violate many of the assumptions of rational choice theory. Preferences are assumed to exist already and imply a choice of one good over another that can be linked to a budget constraint and quantified. However, attitudes do not imply choice and are thus not easily fitted into choice theory. For example, preferring bagpipes to opera implies a choice of one over the other. Having a positive attitude to bagpipes does not imply a negative attitude towards opera. Diamond and Hausman (1993:27) comment that, “Our conclusion is that people do indeed care about preserving wilderness areas, but we infer that standard CV questionnaires do not generate a description of preferences but, rather, elicit responses that generally express concern about preserving wilderness”. That is they argue that CV responses capture attitudes (“general concern”) not preferences.

In several experiments, Kahneman et al. (1999) find that attitudes, expressed on rating scales, are highly correlated to valuations expressed in dollar terms. For example, ratings on numerical scales were elicited in the case of a proposed intervention to protect the

peregrine falcon being threatened by pollution. Measures used were WTP, degree of political support for the proposed intervention, personal satisfaction from contributing to the scheme and rating of the importance of the problem as a public issue. All the rating systems showed a high degree of correlation (Kahneman et al. 1999).

One of the expected results of the theories of Kahneman et al. (1999:211) is that WTP studies will inevitably be insensitive to the size or amount of the good being valued because respondents will be using “judgment by prototype” to make decisions and to express an attitude, rather than focusing on the specific situation described. Using a number of examples and with reference to well-known psychological theories, they show that “judging by prototype” is inevitably prone to “extension neglect”, that is, unless respondents are specifically drawn to issues of size or number, they will have little or no effect on the valuation of the good. For example, in the Desvousges et al. birds study, Kahneman et al. (1999:212-3) suggest that the scenario brings to mind a mental image of “an exhausted bird, its feathers soaked in black oil, unable to escape” and that this image is likely to dominate expressions of the respondent’s attitude to the problem, including their willingness to pay for a solution, which will not be much affected by the *number* of birds saved. They apply a similar theory to the “add-up test” (or IVS).

The issue of scope sensitivity is a vital one, since the NOAA report (1993:5) sets this measure of internal consistency or rationality as a minimum requirement of proof that the WTP responses “corresponded to some reality”. As such, it falls into the panel’s “burden of proof” subset, “... if a CV survey suffered from any of the following maladies, we would judge its finding unreliable” (NOAA 1993). However, the NOAA panel, after the initial report was published, noted that the “adequate responsiveness” mentioned in the report did not necessarily mean a statistically significant responsiveness to scope, which may depend crucially on the context and was ultimately a “judgment call” (Arrow et al. 1994, reported in Smith and Osborne 1996:288).

While critics of the method argue that WTP studies will never be able to produce responses consistent with the economic theory of rational choice, however responsiveness

to scope is measured, this is hotly contested by a number of other commentators, whose main argument is usually that it is the survey design and/or methodology that is at fault. Hanemann (1994) is the foremost of such defenders. In terms of the case studies often cited in the case for scope insensitivity, he argues that the Kahneman (1986) lakes study actually found a 50% difference in WTP for lake cleanup in one region as opposed to all of Ontario and that the survey itself was not well run, consisting of only a brief telephone interview using an open ended WTP question (1994). In the case of the “birds” study, he argues that the results *were* consistent with what economic theory would predict, given that changes in bird population were described to respondents as “much less than 1 percent” (2000), “less than 1 percent” (20 000) and “about 2 percent” (200 000). Presented in this manner, it would have been surprising if such tiny percentage changes in bird population size had elicited much difference in WTP. However, when this was pointed out to William Desvousges at the Exxon conference, he countered that focus group studies had shown that respondents understood the questions and that respondents were not faced with more than one scenario, so that the relative change in bird population size between scenarios may not have been significant (Desvousges (discussion session) in Hausman (1993:161):

“Now, what we were trying to do in the focus groups- keep in mind that we’re not asking the same respondent 2000 versus 20 000 versus 200 000 – so I think that that is a difference here. What we did was to take the three versions and give a respondent one of those three versions”.

Hanemann (1994) also argues that if one takes into account that birds or lakes may be regarded as substitutes for each other and that saving or cleaning them has a declining marginal utility, one would not expect WTP to increase proportionately with an increase in the good. Randall, Hoehn and Tolley (1981) agree that sequencing can be understood in terms of economic theory, that is, as the list progresses, budget constraints become increasingly limiting, as well as substitution effects setting in (Dupont 2003).

In a follow up study by Schkade and Payne (1992, cited in Carson and Mitchell 1993), using the Desvousges et al. survey instrument, respondents were asked to “think aloud” as they made their WTP decision. While the study revealed that respondents thought of a strikingly large number of irrelevant factors, indicating the difficulty of the task (as

Diamond and Hausman (1994) point out), it also forced respondents to concentrate more and results showed a 100% difference in median WTP to preserve 2000 and 200 000 birds (Carson and Mitchell 1993).

Carson (1997:1505) supports this view, arguing that “specific, avoidable survey problems can mimic the impression of insensitivity to scope” and that these are mostly associated with studies using mall intercepts and short telephone interviews and which have vague descriptions of the good, the provision and/or the payment mechanism. “If there is a central problem with contingent valuation it is that people will try to answer whatever question is put to them. The quality of the response is crucially dependent on the information provided to and perceived by the respondent, and the seriousness with which the respondent takes the survey interview” (Mitchell and Carson 1993: 1266-7).

A growing number of WTP studies conducted in accordance with the NOAA panel guidelines are showing sensitivity to scope. Further research into the theoretical reasons behind those studies showing scope insensitivity is also advancing. Carson et al (1996) conducted a study looking at four large-sample environmental quality willingness to pay studies, including the original Exxon study, done in 1991, and a follow up study in 1993, all of which conformed to the NOAA panel’s guidelines. All studies showed sensitivity to scope, with studies valuing more inclusive public goods producing higher WTP estimates than those valuing “smaller” goods. In a later review (2001) Carson et al. reinforce their claim that the vast majority of modern CV studies do show sensitivity to scope, and that those that don’t generally did not follow NOAA guidelines on questionnaire design and survey administration.

Using a meta-analysis of five studies conducted on the WTP for improvements in visibility (air quality) at national parks, Smith and Osborne (1996:290) test for scope sensitivity and the context-specific a priori expectations dictated by economic theory. They find that, “Regardless of the sample composition or model specification, there is a statistically significant, positive relationship between willingness to pay and proportionate improvement in the visibility range” (1996:295). They also found that

when differences between studies in the economic commodity being valued are included, for example, the base visibility conditions, the amount of time the changes in visibility were to occur for etc, the differences in WTP results were economically plausible.

On a more theoretical level, Bateman et al. (2004) show that scope sensitivity is significantly affected by whether the “visible choice set” is revealed to respondents before they are asked to bid or not and that this, rather than the warm glow hypothesis, can account for the variation in scope sensitivity in WTP studies. When testing for scope within a single interview, the amount of the good is varied (quantitative nesting) or the type of quality of the good are changed (qualitative nesting) and respondents are asked their WTP for each scenario. In an experiment and field study, Bateman et al (2004) found that, where respondents were told in advance what all the possible choices were, the studies were far more sensitive to scope. Furthermore, in the studies with visible choice sets, the order in which the good was varied, bottom-up or top-down, was not a significant factor – in contrast to many studies reporting the so-called sequencing effect, where the order of questions make a vast difference to the WTP bid.

Bateman et al. (2004:89) offer some suggestions as to why removing the element of surprise should have such a dramatic effect on scope sensitivity. Firstly, they point out that they are not claiming to have solved the issue of strategic bidding, but that by revealing all options before a vote, they have held “strategy space constant” and achieved internal consistency in that responses are sensitive to scope and do not vary with list direction. This result is as predicted by choice theory, “different strategy spaces result in different valuations”. A second suggestion is that reported sensitivity to list direction is as a result of the gains/losses asymmetry (also relevant to the difference between WTP and willingness to accept), which postulates that gains are worth less than losses because of loss aversion, also known as the “endowment effect”. Finally, they suggest that the element of surprise can produce negative reactions in respondents, resulting in a lowering of stated values.

Related to this, Dupont (2003) found strong evidence that sequencing effects depend very much on how familiar respondents were with the good in question. In a WTP study used to value improvements to swimming, fishing and recreational boating in Hamilton Harbour in Ontario, she found that WTP bids for passive users and potentially active users were significantly affected by question ordering, while those for current users were not. She concludes that, “If respondents are not familiar with the environmental good/activity (passive users) or are uncertain as to the enjoyment they will obtain from it (potentially active users) then they may be more subject to order effects than active users” (Dupont 2003:336).

Sensitivity to scope will continue to be the acid test of internal consistency in WTP studies. Kahneman et al. (1999:217) conclude that, “Insensitivity to scope is the inevitable result of general rules that govern human judgment. It is naïve to expect broad psychological laws to be overcome by minor methodological adjustments”. However, the general consensus seems to be that insensitivity to scope is as a result of poor survey design, rather than proof that contingent valuation itself does not conform to economic theory.

### **3.3 Disparities between willingness to pay and willingness to accept**

Another important way in which contingent valuation surveys violate the standard assumptions of economic theory is in the large difference in the outcome of survey depending on whether respondents are asked their WTP to avoid a decline in some good or service or if they are asked their willingness to accept (WTA) compensation for the same proposed decline. The Expected Utility Hypothesis, put forward by Willig in 1976 and extended by Randall and Stoll in 1980, implies that, when income effects are small (which most studies suggest they are), then differences between WTP and WTA measures will be small (Inder and O’Brien 2003; Hanemann 1991; Boyce and Brown 1992:1367).

In other words, the theory suggests that, when goods are sold in a competitive market with no transactions costs, they take on the properties of money. In this case, not only can WTP be shown to be equal to WTA, but these can also be shown to approximate the average market price of the good, with straight line indifference curves resulting (Shogren et al. 1994). However, as several authors have noted (Boyce and Brown 1992; Morrison 1997; Hanemann 1991; Shogren et al. 1994) this has not proved to be the case - WTA usually exceeds WTP by a factor of anything from two to ten and sometimes more than this.

Given that income effects have usually been shown to be small, two distinct theories have emerged as possible explanations for the WTP-WTA disparity, namely the substitution effect first put forward by Hanemann (1991) and the loss aversion or so-called endowment effect, proposed by Kahneman et al. (1990). The following section reviews these two theories and their possible combination (Morrison 1997a and 1997b) as well as some other later suggestions.

Hanemann (1991) argues that the implications of the Randall and Stoll model have been misunderstood. He points out that, for changes in the quantity of a good, there is no presumption that WTP must equal WTA especially if the good has no close substitutes. He develops a model showing that, if income effects are held constant, WTP and WTA measures will become increasingly divergent as the number of substitute goods is reduced. "In the limit, WTP could equal the individual's entire (finite) income, while WTA could be infinite" (1991:625-6). Shogren et al. (1994) use the example of the trade-off between health and wealth to illustrate this, showing that, with no perfect substitutes, indifference curves will take the usual shape convex to the origin. This argument is supported by Amiran and Hagen (2003) who show that, if utility is asymptotically bounded, full compensation for the loss of a public good, which has no perfect or close substitutes, may be impossible because the extra income from compensation (WTA) cannot purchase an equivalent good. It is thus possible for WTA to be infinite without violating any fundamental neoclassical assumptions.



Adamowicz et al. (1993) used two experiments to test for the presence of the substitution effect in WTP-WTA disparity. The first experiment obtained WTP and WTA responses for a movie ticket, where the film was also available on video. The second regarded tickets to a live hockey game that would also be shown on TV. The sample was split in each case, one half being informed of the substitutes (the video and TV coverage) the other, not. While the movie/video experiment (using open-ended questions) showed no sensitivity to the presence of substitutes, the hockey experiment (using close-ended questions) did. "Using the mean value welfare measure, the difference between the WTP and WTA was \$13.40 (40 percent) smaller for the substitute sub-sample than for the no-substitute subsample" (1993:425). The authors conclude that the availability of substitutes does have a significant effect on the difference between WTP and WTA.

Brown (1994) however, disputes the findings of Adamowicz et al. (1993). He points out that, while both WTP and WTA declined in absolute terms when substitutes were offered (as one would expect), the ratio of WTP to WTA did not change much at all, the WTA/WTP ratio being about 1.86 with or without the substitute.

The other main argument put forward to explain why WTP and WTA can differ so much is a form of loss aversion or the "endowment effect". In a number of experiments, Kahneman et al. (1990) found that initial ownership, or endowment, affected significantly what subjects would be WTA to part with the good. For example, in one of the experiments, one group of subjects were given redeemable tokens to trade while in another were given consumer goods (coffee mugs or chocolate bars) and told that, if they could arrive at a mutually agreeable price, they could trade. The expected volume of trade ( $V^*$ ) was about 50% in both markets, in other words, with randomly assigned goods or tokens, about half the goods would change hands. However, in the token market, where tokens had no value, other than that imputed by the researcher, the ratio of actual trade ( $V$ ) to expected trade was 0.91, while in the consumption good market,  $V/V^*$  was only 0.31. This pattern persisted even when a number of iterations of the market simulation were run with the same subjects. All eight experiments produced robust results, implying that "the observed undertrading of consumption goods may be largely due to a reluctance to part with entitlements" (Kahneman et al. 1990:1339).

This result also contradicts the Coase theorem, which argues that, where there are no transactions costs, the allocation of resources amongst bargaining individuals should not be affected by initial property rights or endowments. “However, if the marginal rate of substitution between one good and another is affected by endowment, then the individual who is assigned the property right will be more likely to retain it” (Kahneman et al. 1990:1340). Kahneman et al. (1990) conclude that the market asymmetry observed in the WTP-WTA disparity is thus not likely to be some kind of cognitive mistake that will disappear with the use of a different survey method or repeat iterations, but that theorists need to accept that utility depends strongly on starting point. In a later study Thampapillia (2000:510) illustrates that “the shape of an individual’s underlying utility function, and hence the indifference curves, changes when an individual’s endowment changes”.

In stark contrast to this Shogren et al. (1994) ran a number of Kahneman-like tests (coffee mugs and chocolate) and discovered no significant difference in WTP and WTA after the first iteration. In other words, for private goods, with no transactions costs, they found that respondents do learn what reasonable values to place on goods as they gain more market experience and that this equalizes WTP and WTA. However, when the same set of tests were conducted for a good for which there are few substitutes (health in the form of reduced risk of food contamination), they found that WTA is always greater than WTP and conclude that Hanemann’s (1991) argument is correct.

One of the major differences between the Shogren et al. (1994) experiments and the Kahneman et al. (1990) tests however, is that Kahneman et al. used a Becker-DeGroot-Marschak auction, while Shogren et al. used a Vickery auction. Shogren et al. (1997) argue that the Vickery auction is far more realistic and like a real market, thus encouraging market-like learning, while the Kahneman et al. methodology does not. “Is the endowment effect a fundamental part of choice or simply an artifact of a weak exchange environment? The weaker the exchange institution, the weaker the socialization of rational behavior and the stronger the potential hold of asocial anomalies of choice” (Shogren et al. 1997:243).

The idea that market discipline encourages learning is supported by a later study by List (2003) using information from two field studies – a tradable sports cards auction and a collectable pin auction. Using a method similar to that of Kahneman et al. (1990), List finds that, while a significant endowment effect does appear in pooled data (indicated by the low percentage of respondents who were willing to trade their “endowed” good for an alternative good of similar value), the picture changes dramatically when the sample is divided up according to trading experience. In this case, professional traders and experienced non-traders show no endowment effects, while inexperienced traders show a huge effect.

Morrison (1997a and 1997b), however, points 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 (WTP and WTA), has not yet been adequately addressed. On conducting an experiment (chocolate) first allowing both endowment and substitution effects to vary and then controlling for substitution effects, Morrison (1997a) finds first no significant difference between WTP and WTA and then, in the latter experiment, a significant difference. She thus argues that the Shogren et al. (1994) results, that no endowment effect exists, is unjustified.

In addition to these two main streams of thought, a few commentators have also suggested more psychological theories as to why WTP and WTA often differ so much. 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.

Inder and O’Brien (2003) suggest that the unpleasant psychological uncertainty caused by having to make a choice, either as a seller (WTA) or a buyer (WTP) may cause the wide range of disparities observed. They argue that loss aversion is not adequate to explain

differences in WTP and WTA because it looks at only one side of the equation – the seller who is willing to accept compensation for a loss – and does not take into account the psychological effect of the sale on the buyer, who might be unsure about what the asset is worth to them, the utility it will generate and what price the buyer will accept. Band and O'Brien suggest that, to compensate for such uncertainty, sellers (WTA measure) will tend to overstate their values, while buyers (WTP measure) will understate theirs, resulting in wide and varying disparity between WTP, WTA and market price.

The NOAA Panel (1993:18) recommended that only the WTP method should be used, “because [it] is the conservative choice”. Many commentators (Cummings in Shogren et al.1994 and Boyce and Brown 1992 amongst others) agree that only the WTP method of contingent valuation studies be used when attempting to value a nonmarket good with possible “moral” values because of 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). While some commentators, like Mansfield (1999), still argue that compensating value is the correct measure of welfare loss, rather than WTP, in practice, most studies have stuck to the WTP recommendation.

### **3.4 The mixed good bias**

The arts, as a mixed good, 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 generate - usually not excludable and in most cases, non-rival. The following section discusses the difficulty of separating the pure non-market externalities from the market or financial benefits of a mixed good in WTP studies.

### *Attendees versus non-attendees*

Throsby (1984) suggests 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 attendee [as opposed to the non-attendee of similar income] will enjoy the benefits of subsidy to the direct use of theatres as well as the external benefits”.

This idea was later articulated as the distinction between total value and passive use value that Carson et al. (1999) make. They point out that WTP consists of two parts, passive use value (externalities that accrue to users and non-users) and direct use value (that accrues only to users). The main point of Throsby’s (1984) argument is that those people who attend the live performing arts will thus have a (logical) reason to overstate their WTP for the service, even where conventional free rider behavior 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-attendee) and user B demands the private good component (attendee). 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 attendee), even though the tax shares of A and B would be equal. There is, therefore, an incentive for B 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 [part of the mixed] 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, Throsby and Withers (1986) found a strong correlation between users (i.e. attendees) 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).

The mixed good bias fits well with the Thompson et al. (2002) suggestion, which states that, for those who frequently attend the highly sponsored festival shows, willingness to pay may represent some sacrifice of consumer surplus, or an avoidance of travel costs, rather than purely a valuation of positive externalities. To test this, the National Arts Festival sample (Snowball and Antrobus 2001) was divided into three groups: those with no or very low attendance at ticketed events, those with some/medium attendance and those with frequent attendance. Using the sample which excluded biased responders and the liable WTP response, it can be seen from table 4.1 that, as expected, the higher the attendance of respondents at ticketed festival events, the more likely they were to respond positively to the WTP question.

*Table 4.1: Attendance at ticketed events and willingness to pay at the Grahamstown NAF 2000*

| <b>Attendance rating</b>   | <b>Percentage positive WTP (liable, adjusted for bias)</b> |
|----------------------------|--|
| <b>Low/no attendance</b>   | 56%  |
| <b>Medium attendance</b>   | 76%  |
| <b>Frequent attendance</b> | 100%   |

Since the NAF study (Snowball and Antrobus 2001) used only one dichotomous choice question with no further bidding, it was not possible to discount the WTP figure in any way. However, it should be noted that, given the low bid (R5) it is quite possible that some of the medium and frequent attenders would have been willing to pay more than this amount. It should also be pointed out that there was an expected positive correlation between income and attendance at ticketed festival events. Frequent attenders were thus all from higher income categories, with correspondingly fewer budget constraints – also reflected in their willingness to pay.

The Oudtshoorn study (Snowball and Antrobus 2003) took a much broader view of attendance, including attendance at ticketed shows, free shows and also hours spent at the craft markets. Partly, this was to acknowledge that attendance can include non-market

activities and partly to diminish the high positive correlation between attendance at ticketed events and income. As can be seen in the table below, the average WTP to prevent a 25% reduction in the size of the KKNK increases dramatically with attendance.

*Table 4.2: Attendance at ticketed shows, free shows and the craft market at the KKNK 2003*

| <b>Number of shows + hours at craft market</b> | <b>Average WTP</b> |
|--|--------------------|
| <b>0 – 3</b>                                   | R3.33              |
| <b>4 – 7.5</b>                                 | R11.60             |
| <b>8 – 12</b>                                  | R13.80             |
| <b>13 and above</b>                            | R15.22             |

#### *Mixed good characteristics and earnings*

In addition to the consumer surplus of attenders, Seaman (2003a:13) suggests that what a WTP study may also be capturing is a willingness to pay for expected economic benefit. This could be reflected not only in present earnings, but also in the long-term growth of the area. “Would not a very real component of the “bequest” motive of a parent of a 13 year old child be the possibility that that child could possibly maneuver into a position to be a direct beneficiary of the higher income and expanded job opportunities that the event would provide?”

Regarding the NAF study (Snowball and Antrobus 2001), this would certainly make sense of one of the major result anomalies, that is, that 42% of low income area respondents agreed with the statement that if the Festival did not make enough money to covers its costs, it should be dropped, yet 73.5% (liable figure, adjusted for bias) of this same group professed a positive WTP to support the festival.

It is postulated that respondents whose most important reason for supporting the Festival was the possibility of employment understood the above statement to mean that the Festival would not result in monetary gain for anyone, since it was not a profitable exercise, hence the anomaly. The idea is further supported by respondents with low attendance and positive WTP who were asked why they were willing to contribute. As

can be seen from table 4.3, by far the majority of such respondents (64%) mentioned economic benefit and job creation as one of their reasons for supporting the festival.

*Table 4.3: Reasons for WTP – Grahamstown NAF 2000*

| <b>Unprompted reason for support</b>  | <b>Percentage of total respondents with WTP &gt;0 and low attendance</b> |
|---------------------------------------|--|
| <b>Benefit of future generations</b>  | 32   |
| <b>Community education</b>            | 24   |
| <b>Tourism</b>                        | 16   |
| <b>Economic benefit/ job creation</b> | 64   |
| <b>Community pride</b>                | 4  |
| <b>Other</b>                          | 40   |

(Note that responses do not sum to 100% because more than one reason per respondent was accepted.)

In addition to this, at the end of the interview, all respondents were asked if there was any other information that they would like to add. Of the 27 respondents who chose to comment, 41% mentioned some aspect of the employment opportunities provided (or not sufficiently provided) by the Festival. In all, 33% of the total sample (adjusted for bias) mentioned the importance of the employment aspect of Festival. 8% of the total mentioned it twice – once as a reason for positive WTP and once as a comment at the end of the interview (Snowball 2000).

The Oudtshoorn study (Snowball and Antrobus 2003) results were even more pronounced. Here, respondents who mentioned more than one reason for their WTP were asked which reason was most important. 53% of those willing to pay to support the festival cited job opportunities in general, or their own earning from the festival, and the economic benefit to the town (attracts tourists) as their main reason for support. When including those respondents who mentioned these reasons, but did not cite them as the most important one, the figure increased to 79.7%.

It seems highly likely, therefore that, as Seaman (2003a) suggests, the willingness to pay figure is in some cases capturing not only the non-market positive externalities provided by the festival, but also some expected market benefits.



If one can establish the extent to which the WTP figure reflects the value of non-market externalities versus market benefits, the ideal situation, as suggested by Seaman (2003a), would be to run both a WTP and accurate economic impact study at the same event. One could then combine the two results, appropriately weighted, in order to arrive at a true economic value for the festival. However, simply adding WTP and economic impact figures would, as argued above, result in some double counting.

### **3.5 Other categorical critiques of the CV method**

Sunstein (2002) and Sunstein et al (2001) argue strongly that CV, especially in the case of cultural goods, will produce incoherent valuation. Their point is that WTP will vary sharply with the category of goods being considered, that is, estimates will be “category bound”. For example, for cultural amenities being considered in isolation, it is quite likely that a significant WTP amount will be elicited, but that if other categories were included, like some aspect of health care, the WTP for the cultural amenity would drop sharply. “When people explore particular problems in isolation, they normalize them by comparing them to a cognitively accessible comparison set consisting of cases from the same basic category. When cases from other categories are introduced into the picture, people’s judgments can be greatly affected, because the process of normalization is disrupted” (Sunstein 2002:1). Thus, WTP estimates obtained in isolation, particularly for cultural goods, which appear fairly low on most people’s public goods rankings, are judged unreliable.

Sunstein (2002) poses two solutions to the problem, both of which he rejects. Firstly, one could include as wide a range as possible of other public goods (health care, education, environment etc) in the WTP questionnaire. Sunstein rejects this on the grounds that the task would be incredibly complex and result in “cognitive overload”. An alternative would be to include at least some other categories, but this would allow for serious manipulation, since the categories chosen would certainly affect the WTP result. Epstein (2003:267-8) supports this position, arguing that, even for private goods, if removed from

a specific context where price comparison with similar articles is possible, WTP responses are likely to be “haphazard and of limited reliability”.

A second problem, raised by Sunstein et al. (2001) is that of the validity of assuming that WTP responses are a monetary expression of utility. Like Kahneman et al. (1999), they argue that even when people can produce “coherent and consistent moral intuitions”, they are not easily translated into numbers. They consider the example of a jury deciding on the penalty (number of years in jail) for a particular crime, which when considered in isolation, appears just, but when considered along with penalties for other crimes, is not coherent. Sunstein (2002) concludes that, while the market mechanism is not suitable for making judgments about the provision of cultural goods, WTP surveys are not a solution either, particularly when one considers income constraints.

Recalling somewhat the endowment theory discussed above, Epstein (2003) argues that, even for private goods, value is not well defined, consisting of a market value and (an often divergent) subjective value. He argues that, even if subjective value is ignored, market values, for example, quotes from various builders for adding to a house, can vary quite a lot and if market values for private goods are unreliable, how much more unreliable will be stated preferences for public goods in hypothetical markets?

Epstein (2003) also points out that there are a number of biases introduced into WTP studies by, for example, assuming that non-use or existence values are always positive and that the lower bound of the WTP response is zero. There may be cases where existence value may in fact be negative. A second point is that existence value can apply to many goods some of which may exclude others. “To ask whether people attach existence value to redwood trees does not tip the scales in favor of their preservation. It is necessary to pose a second question: do they also attach existence value to redwood furniture. But one cannot have both” (Epstein 2003:272).

Even the most ardent supporters of CV studies do recognize their limitations. Carson et al. (2001), while concluding that many of the problems of CV can be overcome, mention

two areas in which the method is limited. Firstly, WTP studies are limited by wealth. In developed countries, this is less of a problem, but in the developing world, where government policies are often designed specifically to provide public goods to the poorer parts of the population, this can be a significant handicap. However, ways in which to overcome or at least take into account this problem are discussed in part 2 of this chapter. The second limitation is that, like all real or hypothetical markets, only the preferences of the current generation, and perhaps those imputed for future generations are taken into account, leaving the true preferences of future people unknown and essentially unknowable.

Throsby (2003) also identifies areas where WTP will not capture the full value of the good, particularly if the good is cultural. For example, if the respondent does not personally value the good, but recognizes that value may accrue to others, either as individuals or society as a whole and is thus willing to pay for it. Throsby (2003:279) argues that such societal values are particularly relevant to cultural goods because of their nature:

Culture can be defined as the set of beliefs, traditions, customs, etc. which identify a group and bind its members together ... So the value of cultural goods that I am discussing here is a value identifiable in relation to the group rather than to the isolated characteristics of individuals. It is apparent that the perception of this sort of value is not going to be captured by an expression of individual WTP”.

Thus, Throsby (2003) argues that, while WTP studies can certainly capture some of the economic value of a cultural good, the relationship will never be perfect and that even the best studies will tend to undervalue the cultural good in question.

### **3.5 Tests of CV validity**

Carson and Mitchell (1993:1267) concluded that it is the quality of the response to a WTP question that 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 et al. (2001) suggested three other ways in which WTP estimates can be judged for accuracy in addition to content validity: convergent validity, construct validity and reliability. “Validity” in this context refers to the success of the study in measuring what it actually set out to measure.

The construct validity test measures the extent to which the WTP findings are consistent with theoretical expectations. As discussed above, these *a priori* expectations, based on economic theory, could include a sensitivity to scope, that users would be WTP more than non-users and that WTP would be related to the income of respondents. The convergent validity test requires that the WTP estimates be compared to actual market (or simulated market) values. This could take the form of a comparison between a WTP study and a travel cost study, or as discussed above, a comparison between a hypothetical and real market situation. Reliability refers to whether the study can be replicated, either in a different context, or at a different time (temporal reliability). While Carson et al. (2001) mention a few examples of reliability tests; relatively few such studies exist at present.

The above review outlines the debate around the three major ways in which the results of contingent valuation studies have been criticized and shown to be inconsistent with neoclassical economic theory, that is by being implausibly large, by showing insensitivity to scope and by demonstrating a large disparity between WTP and WTA measures, as well as other general criticisms. As the NOAA Panel (1993) suggests, many of these problems can be controlled for through rigorous and conservative questionnaire design and much of the CV debate has shifted to this arena. The NOAA recommendations, as well as the results of later research, are discussed in the following chapter, in conjunction with the questionnaire design of the 2003 National Arts Festival study.

## **CHAPTER 4: PART 2**

### **WILLINGNESS TO PAY STUDIES AT THE KLEIN KAROO NATIONALE KUNSTEFEEES AND THE NATIONAL ARTS FESTIVAL: QUESTIONNAIRE DESIGN AND RESULTS**

The following section details the questionnaire design, sampling procedure and results of willingness to pay studies conducted at the Klein Karoo Nationale Kunstefees (KKNK) in Oudtshoorn (pilot study) and at the National Arts Festival (NAF) in Grahamstown. In order to validate the results, the findings of both studies are presented together and compared to an earlier study on the NAF (Snowball 2000) as a test of temporal reliability.

#### **1. QUESTIONNAIRE DESIGN AND SAMPLING TECHNIQUES<sup>4</sup>.**

The Klein Karoo Nationale Kunstefees (KKNK), used as the pilot study for this research, takes place in Oudtshoorn (Western Cape) in early April and features visual and performing arts. It was started in 1995 as an Afrikaans alternative to the mostly English National Arts Festival and focuses on Afrikaans language productions and culture (KKNK *Feesgits* 2003). Both the NAF and KKNK have similar structures in that they include ticketed Main and Fringe events, a certain number of free shows and craft markets. Both are heavily sponsored by private organizations, although the NAF has recently received considerable backing from the Eastern Cape government as well.

A certain amount of competition, reported on in the media, has sprung up between the older, more culturally diverse NAF and the newer, more focused KKNK. On the basis of ticket sales and economic impact, the KKNK is larger (Snowball and Antrobus 2003 and Saayman and Saayman 2003) and appears to be growing faster than the NAF. However, when comparing the quality and diversity of shows, the NAF is ahead.

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<sup>4</sup> I would like to thank Dr D. Noonan of Georgia Tech (previously of the Chicago University Cultural Policy Centre) and Prof E. Thompson of Kentucky University for helpful comments on draft questionnaires.

The two festivals were chosen for comparison because they are South Africa's biggest arts festivals at the moment. Both occur in small towns that are still divided along racial lines into high and low income areas. The structure of both festivals is similar as is their duration, making comparisons and combination of results easier. However, despite these similarities, there are also marked differences. The two festivals occur in two different provinces. The Eastern Cape (NAF) is one of South Africa's poorest provinces, with a mainly African-origin, Xhosa speaking population. The Western Cape (KKNK) is wealthier and has a more diverse population, mostly consisting of mixed-origin people and European-origin Afrikaans speaking people. Thus, by researching whether lower income groups benefit from arts festivals in such different situations, it may be possible to draw more general conclusions or compare differences from the results.

Questionnaire design took place in 3 phases, KKNK version 1 (45 interviews), KKNK version 2 (52 interviews) and the final NAF questionnaire (199 interviews). All versions were offered in English, Afrikaans and Xhosa to facilitate language differences. (Questionnaire versions, in English, are available in Appendix 1.) Table 4.4 below summarizes the various design phases and changes. It was decided to conduct telephone interviews (land or fixed line numbers) because the cost of face-to-face interviews was prohibitive and, while not ideal, it was felt that telephone interviews were far preferable to a postal survey, particularly in areas where literacy is not high. In addition, it was easier to cater for different language groups when conducting telephone interviews. If respondents preferred to answer in a language in which the initial interviewer was not proficient, the interview could easily be continued with someone else.

A common criticism of using telephone interviews is that this biases the average household income of respondents upwards, since only those households who can afford a telephone are surveyed. Although it is thus possible that low income area household will produce upwardly biased average income figures, the results show that households with very widely ranging incomes were included, perhaps as a result of telephone sharing between low income households.

Table 4.4: Questionnaire design phases

| Section                       | Purpose  | KKNK Version 1 | KKNK Version 2  | Grahamstown   | Results/comments                |
|-------------------------------|--|----------------|-----------------|---|---------------------------------|
| <b>Opinion</b>                | Setting the scene, consistency check   | X              | X               | X (question replaced)   | Replaced question worked better |
| <b>Attendance figures</b>     | Check for attender bias  | X              | X (simplified)  | X   | Simplified question adequate    |
| <b>Spending</b>               | Important for calculation of additional spending for economic impact figures and price elasticity estimation | X              | X               | X (order slightly different and elasticity question simplified) | Even adjusted, not very useful. |
| <b>Earnings</b>               | Check for correlation between WTP and earnings (indication of 'double counting' with eco impact)             | X              | X (simplified)  | X   | Successful                      |
| <b>WTP: Bohm interval</b>     | Check for free riders  | X              |                 |   | Unsuccessful                    |
| <b>WTP: scope test</b>        | Internal validity check  | X              | X               | X   | Successful                      |
| <b>WTP: DC and open ended</b> | Calculate mean WTP and check for starting point bias   | X              | X               | X (more bids)   | Successful                      |
| <b>WTP: Sureness scale</b>    | Check for bias   | X              | X (Qualitative) | X   | Successful                      |
| <b>WTP: debriefing</b>        | Consistency check  | X              | X               | X (no options)  | Successful                      |
| <b>Demographics</b>           | Explanatory variables  | X              | X               | X   | Mostly successful               |

## 1.1 Opinions and externalities

As Carson and Mitchell (1993) emphasize, 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. As such, the National Research Foundation, who were sponsoring the survey and the Rhodes University Economics Department, who were running it, were mentioned in order to lend authority and weight to the survey, thus encouraging respondents to take it seriously.

Following the questionnaire design of Thompson, Throsby and Withers (1983), questions about the feelings that the festival evoked were asked first in order to remind respondents of their opinions regarding the festival. 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. The reason for using these relatively old studies as a basis is that, while a great number of WTP studies have now been conducted in the cultural economic field, very few of them have attempted to value a number of different arts events at once. That is, they tend to focus on one sort of cultural resource, like museums, a specific heritage site or performing arts. Those that are more general (for example, Thompson *et al.* 2003) have generally not used opinion questions to gauge attitudes before asking the willingness to pay question.

Respondents were asked to respond to various opinion statements on the feelings of pride the festival evoked, its possible future use values, educational potential and its possible harmful effects on society by stating “agree”, “disagree” or “don't know”. Very similar questions were used in the earlier NAF study as well (Snowball 2000). In addition to being an ice-breaker, the opinion questions also provided a useful internal consistency check in that they could be compared to later, open-ended responses.

As indicated in table 4.4, only one change was made to this section. The large number of “don't know” responses to question 1.5 in KKNK version 1, that is, “The government



ought not to sponsor the festival because there are more important things to spend taxes on” was replaced with “ The festival only benefits people who go to the shows you have to buy tickets for”. It was felt that the first question required a fairly large amount of knowledge about government spending on other programs to be answered with any certainty and that it was, in any case, not very useful in gauging the attitudes of the sample group towards the festival, since even those most in favour might feel morally obliged to put healthcare, education, security and such areas, above an arts festival. The replacement question (used in the 2000 NAF study) provided answers that were more useful in explaining WTP results. This finding does, however, seem to support Sunstein’s (2002) argument, mentioned in part 1 of this chapter, that context and information are of vital importance in eliciting coherent responses in WTP studies.

## **1.2 Attendance, spending and earnings.**

The following questions probed attendance at the festival itself, attendance at ticketed shows, free shows and the craft market. Attendance at either the 2003 or, for those who did not attend that year, 2002 festival attendance was accepted. While one could argue that accepting data from the previous year (2002) could decrease the accuracy of responses, both festivals (KKNK and NAF) take place over a ten day period once a year and it is quite likely that local residents may have missed one year, but still be interested in and affected by the festival.

As indicated by table 4.4, the first version of the KKNK questionnaire contained a very detailed section on exactly what sort of ticketed shows (theatre, dance, music and so on) the respondent had attended. While this was interesting in terms of taste, it was found to take too long, resulting in some respondents failing to complete the questionnaire. The section was thus simplified to record only the number (and not the type) of ticketed shows and free shows and visits to the craft market. Craft market attendance also raised some problems. The pilot study asked for the number of hours spent at the craft market and suggested certain ranges. However, a large number of respondents choose the top option (more than 5 hours), making the data inexact and difficult to use in quantitative

ways. The NAF questionnaire was changed to ask how many times each respondent had attended the craft market, irrespective of the amount of time spent there. This allowed for much greater variation in answers and took less time, as interviewers did not have to read out options as in the pilot study version.

The next question asked about spending at ticketed events, craft markets and “eating out” at local or festival restaurants during the festival. The section also included a question asking respondents if they spent more during the festival than usual and, if they did, what they might have spent the money on if there was no festival. These questions (as mentioned in the economic impact section) were designed to test the theory that additional local spending should be included in economic impact calculations of such events and to determine, as suggested by Crompton (1999), whether the additional spending would have taken place outside the impact area if no event had been held.

In an attempt to measure the elasticity of ticket prices, respondents who had some ticket spending were asked (after stating their actual ticket spending) whether they would have attended the same number of shows if ticket prices had been 10%, 20% or 50% higher (each respondent was asked only one amount). As pointed out by Noonan (personal correspondence 2003), this question is open to “lumpiness”, since dropping a whole show as a result of a relatively small increase in price, would result in a far greater percentage decrease in attendance. Nevertheless, the question was attempted, varying the three amounts. The problem encountered was that large numbers of respondents attended no ticketed shows and were thus not asked the question. This made the data set for this question rather small. It was therefore decided to include two elasticity amounts per respondent. The results could also be used to test the idea put forward by Thompson et al. (2002) that, for attenders, WTP may be partly a donation of consumer surplus (linked to the mixed good bias discussed in part 1 of this chapter).

Information about festival earnings (type and amount) was also requested. The first version of the questionnaire at the KKNK included questions about job search and the

perceived reasons for failure to find a job. However, the time taken and the large number of vague or “don’t know” responses resulted in this section being significantly simplified.

### **1.3 The WTP question**

*The provision of information and the information bias in CV studies.*

One of the most problematic features of designing a WTP study is in deciding what level of information to provide to respondents. 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. Kenyon and Edwards-Jones (1998) summarize the two main schools of thought on this issue. The “not too much argument” points out that better information does not always mean more and that too much can lead to assimilation problems for the respondent. On the other hand, the “not too little” school points out that, for respondents to make reasonable decisions, some threshold of information about the good being valued is required. Ideally, some “adequate” level of information is required; the problem is how to test for it.

Niewijk (2001) is highly critical of the whole CV method, but focuses particularly on information bias. Not only does he argue that an attempt to provide as much information as possible is bound to cause some bias, he also points out that, even if all this information is provided, the respondent must assimilate it and accept it as true in order to give an accurate valuation. He also argues that CV measures are supposed to be measuring pre-existing values, but that if respondents are not directly aware of the existence of a particular good before the survey, the information provided might in fact create the value it proposes to measure.

Kenyon and Edwards-Jones (1998) ran a field experiment in which four ecologically interesting sites were valued by (environmental) experts and the public (WTP study). Their hypothesis was that, if the ranking of the sites in ecological interest by the experts matched the public’s ranking in terms of willingness to pay for a ticket to the site, then

they would have arrived at the ideal level of information. When varying the amount of information supplied to the WTP study respondents, they found that small amounts of information were characterized by large numbers of protest bids (zero WTP responses) and a ranking of sites inconsistent with that of the experts. However, when much more information about the sites, including photographic, textual and ecological data, as well as a visit to the site, was provided, WTP study respondents were able to rank the sites in the same order as the experts. They conclude therefore, that, given enough of the right kinds of information, CV studies could be used effectively to make land-use decisions. However, they acknowledge that the comparison of expert with public valuations may not always be appropriate, since CV studies are meant to include precisely those public good characteristics which the experts may not value, for example, that it is “a nice place to walk” or that it provides “open space”.

Krueger (2002) conducted an experiment on groups of university students on their WTP to convert livestock farms to game farms in the surrounding area. Three different levels of information were provided to three different groups of respondents, the first group receiving only a very brief statement, group 2 being provided with more details and background information and group 3 receiving the most comprehensive explanation of the proposed project. In agreement with Kenyon and Edwards-Jones (1998) he found that low levels of information correlated with a high number of non-responses and zero WTP bids. Mean WTP for those given the smallest amount of information was also significantly lower than for the other two groups. The biggest difference in mean WTP occurred between group 1 and 2, group 2 respondents being willing to pay 7.2% more than group 1. While mean WTP of group 3 respondents was still higher than for groups 1 and 2, it was only 4.5% higher, suggesting that, as some “adequate” level is approached, providing more information does not significantly affect WTP bids and that attempting to provide “complete” information is not necessary.

Ajzen et al. (1996), using the Elaboration Likelihood Model of persuasion, argue that information given in WTP studies is often persuasive, even when it is judged by the researcher to be unbiased. They suggest that information bias will be affected by two

things, the quality of the argument and the personal relevance of the good or situation to the respondent. Using an experiment conducted on university students for both a public good (campus movie theatre) and a private good (personal noise filter) they show that both these factors have a significant effect on WTP bid amounts. As expected, argument quality was positively related to WTP amount, as was personal relevance. It appears that when the good is perceived as being personally important to the respondent, they are much more sensitive to the strength or weakness of the argument.

In addition, the experiment contained an interesting attempt to check whether “moral satisfaction” (warm glow) significantly affected WTP (Ajzen et al. 1996). Before the WTP scenario, the questionnaire, through a series of cognitive exercises, activated either individualistic or altruistic motives. They found that, for those respondents for whom the scenario had little personal relevance (therefore making them less sensitive to the strength of the argument), the “superficial motivational cues” provided by the individualistic or altruistic priming had a highly significant effect on WTP bids (Ajzen et al. 1996:56). In other words, while all WTP responses were shown to be correlated with primed attitudes, warm glow responses are likely to be much more of a problem when respondents do not perceive the way in which the good can be of personal relevance to them and/or the argument presented is weak.

In a theoretical paper Throsby and Withers (1986) suggest that information bias may appear particularly 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-labile WTP responses were higher once interviewees had been informed of current arts support levels.

Morrison and West (1986:60) criticize 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 the respondent thought went 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 the following 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) 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. They thus 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).

In their own study, Morrison and West (1986) 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 they 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 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).

Designing the informative section of the KKNK and NAF 2003 study was made significantly easier by the fact that a high percentage of each local population actually attend the arts festivals each year (see attendance figures presented below) and could thus be expected, not only to have a reasonable level of knowledge about the good being discussed, but also to have some personal interest in it. The greatest difficulty in designing the scenarios was the lack of information on funding and costs. While it had been widely publicized that the NAF was receiving R7.5 million over 3 years from the Eastern Cape Government, general figures on national per capita spending on the arts were not available. On the cost side, sponsors are often not willing to allow exact amounts to be disclosed and in the case of many of them (for example, cell phone operators, car hire firms, accommodation providers etc) their contributions were in-kind and hard to quantify. Noonan (2003) found, in a meta-analysis of WTP studies, that information about current tax burdens decreased WTP amounts, while information about the costs of the project increased WTP. It is thus desirable to include both or neither of these measures in an attempt to avoid bias.

Providing this sort of information in an unbiased way, however, is far from simple. As in the Canadian study (cited in Morrison and West 1986), did one say that, for example, the NAF cost about R10 million a year and that government sponsorship covered only about a quarter of this? Or that arts funding in South Africa overall was less than 1% of the national budget? All these figures are true, but it is debatable how they would be

interpreted, especially by the poorer sections of the population who could have little idea of relative costs and government budgets. While more contextual and comparative information could have been provided, it is debatable how much of this would have been assimilated by respondents and would have made the telephone interview longer, thus possibly reducing response rates.

Another issue that was considered was that it would be preferable to have relatively similar scenarios in both the KKNK and NAF studies in order to make comparison easier and that it was very important, as pointed out by Sunstein (2002), to give respondents a context in which to make the decision and a reminder that there were substitutes (for example, sporting events and environmental conservation) that could also provide cultural externalities. As such, it was pointed out that government funding was required in many areas, “like schools and hospitals” and that these might be regarded as “more important than arts festivals”. In addition, the well-known withdrawal of the Standard Bank as title sponsor of the NAF in 2001 was alluded to in order to give the scenario credibility. The Standard Bank has since become the title sponsor of night cricket in South Africa.

The change in the public good that respondents were “buying” was defined as a 25% or 50% decrease in the size of the festival, defined as there being 25% or 50% “fewer shows and fewer visitors”. One way to illustrate such a fall in size would have been to estimate the drop in economic impact of the festival. However, as will be seen below, there is already a significant relationship between WTP and economic impact and it was felt that focusing respondent’s attention on financial benefits, rather than externalities (which is what the study was trying to quantify), would have resulted in an even more biased result.

#### *Payment vehicle and question format*

Initially, WTP studies for the same good were expected to produce similar results, even if the question format differed, and, when this was shown not to be the case, the method was criticized (Carson et al 2001). However, it is now generally accepted that different



elicitation formats yield different strategies and that question format can have a significant effect on WTP bids (Carson 1997). There are two main ways of structuring WTP questions. The first is an open-ended (OE) format, which simply asks respondents what the maximum amount is that they are willing to pay for a particular good, with no suggested amount. The second method is the dichotomous choice (DC), closed-ended format, which asks respondents whether they are WTP  $x$  amount for a particular good, eliciting a yes/no answer. The DC question format can be followed up by another round of bidding (double-bounded) or by an OE question (Carson et al. 2001). The latter design is based on the iterative bidding (IB) method, not much used recently (Willis 2002). Much research and debate has surrounded question format, focused mainly on the differences between the DC and OE format and whether the NOAA (1993) recommendation that only the DC format be used is justified. A brief review of the literature and the design of the KKNK and NAF question format will now follow.

The NOAA (Arrow 1993) recommendation that only the DC question format is used is based on the idea that, in order to obtain meaningful WTP bids, respondents need to take the hypothetical market as seriously as possible. In order to encourage this, a familiar and realistic pricing mechanism should be used. Since in most (western) countries, consumers are faced with purchasing decisions at set prices, the NOAA recommended the DC or referendum format as being more familiar to respondents and also because, since most respondents would not be familiar with pricing public goods, the DC format reduces the cognitive difficulty of the task. While these arguments certainly carry some weight, it has also been shown by many studies (discussed below) that the DC format WTP questions result in consistently higher WTP estimates than OE questions, and the NOAA recommendation is thus at odds with their call for “conservative” questionnaire design.

The problem seems to be exacerbated for public goods in hypothetical markets. For example, in a study done by Kealy and Turner (1993) it was found that, while there was no significant difference between open and closed-ended WTP 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. In a later study, Loomis et al. (1997) found that, in

experiments where real payments were made, there was no significant difference between the two question formats, but in hypothetical markets, DC values were 2.54 times higher than OE question values. A series of experiments conducted by Balisteri et al. (2001) also concludes that, while both OE and DC format questions produce upwardly biased results, the effect was more pronounced for DC questions. Reaves et al. (1999), in comparing various question formats in a study to value an endangered species, actually find that the double bounded DC format has a lower response rate and a higher level of protest responses than OE or payment card options.

All studies suggested that it was premature to abandon the OE WTP format although, as Carson et al. (2001) point out, OE format questions are known to elicit many zeros, few small amounts and a few very large amounts, making mean values sensitive to outliers. Bennett and Tranter (1998) also find that OE questions result in a particularly high number of non-responses where respondent are not familiar with the good being valued.

A problem with the DC format is the so-called “anchoring” bias, that is, that final WTP amounts will depend on the initial starting point bid. As Boyle et al. (1997) and later Willis (2002) point out, people tend to use the starting point as a suggested norm and an indication of what is expected of them or, as in the case of a private good, use price (suggested by the initial bid) as a proxy for value. The problem is that bid amounts are usually chosen to maximize the efficiency of the research design, not to convey information about the good, and that the starting point bid may thus displace the prior WTP, which is what the researcher is interested in finding out (Herriges and Shogren 1996). An additional issue, particularly when only one yes/no question is asked (single-bounded DC) is the statistical interpretation of the results. Giraud et al. (2001) show that significant differences in referendum style WTP estimates can be obtained depending on which statistical technique is used to analyze the data and suggest caution until an industry standard can be developed.

One way in which the efficiency of DC format WTP studies could be increased is to have follow-up questions, bidding up or down depending on the response to the initial

questions. However, several studies (cited in Herriges and Shogren 1996) have shown significant differences between the WTP distribution implied by initial and follow-up bids. Herriges and Shogren suggest that, like the iterative bid design, this is because follow-up bids are also sensitive to starting point bias and that even if this is controlled for, the efficiency gains from using follow-up questions are reduced. Carson et al. (2001:191) suggest that follow-up questions are biased because they signal to respondents that, “the cost is uncertain, that the quality of the good has changed or that the government is willing to bargain over costs” and that any of these suggest that WTP distributions between the first and follow-up questions should be different.

Willis (2002) used an iterative bid (IB) design to determine the revenue maximizing ticket price for entry into an historical park in Naples. He argues that, where there is uncertainty about parameters and distribution, the IB design, where WTP amounts are increased in small, equal increments, will capture the highest price consumers are willing to pay and measure all of consumer surplus. Willis (2002) finds that leaving some bid levels out (as the DC format does) significantly affects the demand curve for the good and the greater the number of bid levels, the more accurate the study is likely to be.

All DC format surveys are, however, expensive, since sample size has to be large in order to generate statistically significant results. Bille Hansen (1997), in one of the first WTP surveys on specific cultural goods, used an open-ended question to determine the maximum WTP to preserve the Danish Royal Theatre. She argues that, where the good is likely to be known to everybody and especially where respondents are used to the idea that they pay taxes to support it, the use of the open-ended format question is justified. The Australian arts study (Thompson et al. 1983) also used the OE format as did the Canadian study (Morrison and West 1986), although the question was only asked after respondents had been informed of and commented on current spending (“too little”, “too much” or “just right”).

The Mildura Arts Centre survey (Throsby and O’Shea 1980) used a form of payment card, that is, respondents were asked their maximum WTP, followed by suggested

amounts. While this method appears to be promising, as reported in Reaves et al. (1999) it is, of course, only possible in face-to-face interviews and postal surveys, but has the additional benefit of revealing the whole choice set to respondents, which as argued by Bateman et al. (2004), may be an important determinant of bid accuracy.

The DC format has, however, largely been accepted as the way to structure WTP questions in cultural economics. For example, the Kentucky arts WTP survey (Thompson et al. 2002) asked only one DC format question with varying, randomly assigned amounts. While this appears to be the only method not prone to starting point bias, a very large number of responses is required at each “price” level to make results statistically significant. A telephone survey in North Carolina, eliciting WTP for submerged maritime cultural resources (Whitehead and Finney 2003) attempted to use the double bounded DC format in order to increase the efficiency of results. However, significant starting point bias was detected in the second round of bids.

Another option is to combine DC and OE format questions. For example, a study done on WTP for domestic television programming in Australia (Papandrea 1999) used this method, first asking respondents whether they were WTP an additional \$12 per household for a 10% increase in local programming and then following up with an open-ended question asking for the maximum WTP (for those who answered “yes”) or whether they were WTP anything (for those who answered “no”). Santagata and Signorello (2000), in their study of the WTP for the “Napoli Musei Aperti” in Naples, used an even more advanced combination of DC and OE format questions: if respondents answered “yes” to the first DC question (random variations in starting point), then this was followed up by a further two DC bids and finally an open-ended question. They comment that, while this method results in richer data, it could be prone to starting point bias in the later phases and this is in fact what is found, although the OE response mean is lower than the DC format response, thus probably controlling for this form of bias. The result is similar to the findings of O’Conor et al. (1999), who, in testing various WTP question formats, find evidence of starting point bias in this kind of combination question as well as in the double-bounded DC format.

In concluding their section on elicitation formats, Carson et al. (2001:193) state that, “At present, the choice a CV researcher typically faces is between using an elicitation format that is unbiased, but with a large confidence interval [single DC format] and using one that is potentially biased, but with a much tighter confidence interval”. Willis (2002:320) also points out that, in deciding on WTP question format, there is the “usual trade-off between survey costs and model accuracy and reliability”.

The KKNK study (2003) used first a DC question, with three randomly assigned starting points (10, 20 and 30 Rand), followed-up by an open-ended question asking for maximum WTP. While the logit model based on the first DC format question and the log-linear model used to analyze the final WTP figures performed fairly well (further discussed in the results section) without showing significant starting point bias, a great many responses (nearly 21%) were greater than 1% of household income and were thus excluded on the grounds that they showed hypothetical bias (unrealistically high WTP responses). It was hypothesized that higher initial bids were also encouraging zero responses, since South Africans are not used to bidding and regarded the amount mentioned first as a “price” to which a final binary response was made. In an attempt to mitigate this, the NAF 2003 study used a format closer to the iterative bid design discussed by Willis (2002) in which a number of up and down bid amounts were included, all respondents starting from a level of R10 (the median in the KKNK study), followed-up by an OE question for respondents who answered “yes” or “no” to all bid levels.

A “don’t know” or “would not vote” (WNV) option was provided for all WTP questions. For bidding purposes, such responses were treated as “no” votes and interviewers proceeded to the lower bid or OE question. 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. (Krosnick et al. (2002) find that “no opinion” options discourage respondents from thinking carefully about results, particularly those with low levels of education.)

A study by Carson et al. (1995) suggests that, in dichotomous choice WTP questions, the WNV responses 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 et al 1995).

*Follow-up questions and sureness measure.*

The remaining three questions in the WTP section explored 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. As discussed in part 1 of this chapter, the exclusion of unsure respondents could play an important role in controlling for hypothetical bias (Champ and Bishop 2001). Initially, a scale from 1 to 10 (“where 1 is not at all sure and 10 is very sure”), based on the Thomson et al. (2002) study, was used (in version 1 of the KKNK questionnaire), asking respondents to rate their sureness that they had accurately shown their WTP to support the festival. However, many respondents chose the extremes (1 or 10), refused to answer the question or responded with “don’t know”, or a percentage amount. Interviewers suggested that it was the numeric scale that was the problem, particularly amongst those respondents with low levels of formal education. As a result, the qualitative scale used in the 2000 NAF questionnaire, (“not at all sure”, “fairly sure”, and “very sure”) which is not as precise, but performed better, was used.

Finally, the very important debriefing questions were asked, probing the reasons, in an open-ended format, for either positive or negative WTP responses. As the NOAA suggests, this section is vital to the study, not only because it adds to its explanatory power, but because it can be used to detect biased responses, for example those respondents who did not accept the contingent market (“I do not think that the money will

be spent on the Festival”) and the detection of so-called “protest zeros”. Chambers and Chambers (1998) suggest that some respondents use the WTP format to express protest of various sorts, for example, against tax payment or government intervention. These respondents may introduce bias through the use of “protest zeros” and their responses should be excluded from WTP estimates. It has become usual practice to “trim” both such zero responses and very high WTP amounts. Also as suggested by Chambers and Chambers (1998), those respondents who reported that they supported a “good cause” or words to that effect, could be responding to a warm glow (discussed in part 1 of this chapter) rather than to a specific WTP question. Omitting the WTP values of these respondents could result in a less biased estimate. The debriefing section also acts as an internal consistency check, since responses to this question could be compared to the externality opinions reported in question one.

The only change that was made to this section in the questionnaire design was in the recording process. In the pilot study (KKNK), although the questions probing respondents’ reasons for WTP were open-ended and unprompted, interviewers were provided with a list of possible answers, including space for “other”. This appears to have resulted in interviewers “fitting” respondents’ answers into particular categories and making the information less varied and rich. In the NAF study, therefore, it was decided not to offer interviewers any options, but simply to provide space for writing.

#### **1.4 Demographics**

The final section collected general demographic information on respondents and their households. Until this point, in order to make the survey as realistic as possible, the anonymity of responses had not been emphasized. However, due to the sensitive nature of income data and requests for race information in South Africa at present, it was stated in the introduction to this last section that none of the information would be linked to a particular telephone number or used for anything other than the survey.

Finally, an open-ended question was included, asking respondents if there was anything else they would particularly like to say. Once the final version of the questionnaire had been refined, it took, on average, about 10 minutes to administer.

## **1.5 Validity tests**

The results of the contingent valuation study at the NAF conducted in 2003 will be tested for validity in three ways. Firstly, the results will be compared with those of the KKNK study (the pilot study) conducted in the same year and using a very similar survey instrument. While there are differences between the two cases, there are, as has been pointed out already, a number of similarities, both in the festival events under discussion and the division of the local populations along race and income lines. Comparison of the two studies should thus provide some idea as to the robustness of the results.

Secondly, internal validity test will be conducted, using what Carson et al. (2001) refer to as construct validity. This procedure tests whether results are consistent with what economic theory would predict. Firstly, the law of demand requires that, as the “price” of the good increases, the quantity demanded should fall – indicated here by a decrease in the number of people willing to pay higher amounts. Secondly, as discussed in part 1 of this chapter, the results should show sensitivity to scope – WTP to avoid a 50% reduction in festival size should be greater than WTP to avoid a 25% reduction. Finally, WTP amounts need to show some evidence of being constrained by the budget of the respondent – WTP figures and per capita or household income should have a significant negative relationship.

The final test is one of temporal reliability, that is, whether the results can be replicated over time, showing stable preferences. The NOAA panel report (1993) calls for such “temporal averaging” particularly in the case of the valuation of environmental goods which change over time.

“Time dependent measurement noise should be reduced by averaging across independently drawn samples taken at different points in time. A clear and substantial time trend in responses would cast doubt on the ‘reliability’ of the finding” (NOAA 1993:19).



One of the largest tests of temporal reliability was conducted by Carson et al. (1995) who compared the original Exxon oil spill study conducted in 1991 with a similar survey with a comparable sample conducted two years later. Temporal reliability was tested for in three ways: the distribution of for and against votes at various bid levels, the parameters of the models and the mean WTP amounts. They find no significant differences or trends over time and conclude that “the [NOAA] Panel’s concerns are unsubstantiated and not as important as its recommendation could be interpreted to imply” (Carson et al. 1995:19).

The WTP study conducted in 2000 on the NAF (Snowball 2000) had very similar elements to the 2003 study and, while no direct comparison of WTP amounts is possible (the 2000 study had only one dichotomous choice question at one level and a different scenario), a comparison of general similarities and differences is achievable<sup>5</sup>.

## **2. RESULTS OF THE KKNK AND NAF SURVEYS**

Having described the questionnaire design process, the following section presents and discusses the results of the studies conducted at the KKNK and the NAF. First, the non-parametric results are discussed and then the results of various regressions are presented in section 2.4. The chapter concludes with a discussion of the validity and reliability tests applied.

### **2.1 Sampling, response rates and data “trimming”**

As has already been mentioned, the telephone survey method was chosen. Since telephone access is considerably greater in high than low income areas and a random sample of numbers would have been biased in favor of the high income area. Each town was thus divided into high and low income areas and a sample, approximating population make-up, was then taken.

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<sup>5</sup> For a comparison of the NAF 2000 study, the Australian arts study (Throsby and Withers 1985) and the Canadian study (Morrison and West 1986), see Snowball and Antrobus (2001).

The response rate was generally very good. Of the people contacted, 89% from Grahamstown and 97% from Oudtshoorn were prepared to participate. Unanswered calls were retried at least twice and interviewers offered to phone back at a more convenient time if respondents were busy. All calls were conducted between seven and half past nine in the evening in the week following each festival. To facilitate responses, particularly opinions, interviews were conducted in English, Afrikaans and Xhosa by interviewers proficient in the language of choice. Only people eighteen years or older were interviewed since the questionnaire involved questions about taxes and income. A total number of 97 interviews were conducted in Oudtshoorn and 199 interviews in Grahamstown.

For the non-parametric analysis of such factors as opinions, attendance and earnings, all responses were included. However, some vague and/or contradictory responses were excluded. As Jorgensen and Syme (1995:400) note, the exclusion of biased responses “seems to be largely ad hoc” and requires a judgment call on the part of the researcher. In both the KKNK and NAF surveys those respondents whose reasons for positive willingness to pay were vague (“I don’t know”) or whose stated willingness to pay was some positive amount (usually small), but who expressed strong negative feelings (“The festival is useless”, “The money is spent on unimportant things” etc) and those who were “not at all sure” of their responses were excluded. Such excluded responses made up 9% of the Oudtshoorn and 3% of the Grahamstown sample. The remaining sample consisted of 86 interviews from Oudtshoorn and 193 from Grahamstown.

A much larger problem was that nearly a quarter of the respondents, 23.6% in Grahamstown and 20.6% in Oudtshoorn, indicated a positive WTP greater than 1% of stated normal household monthly income<sup>6</sup> and were judged as representing an unreasonably large amount for a 10 day festival occurring only once a year. Such large responses are generally regarded as indicating a positive response to supporting the good, but an unrealistic numerical indication of willingness to pay. By far the majority of these

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<sup>6</sup> For those who were unable or unwilling to provide household income figures, the average household income in their area was used to calculate this figure.

cases occurred in the low income areas. In both studies household income data was particularly unreliable, partly because only about 60% of respondents were willing and able to give such a figure. The problem was particularly evident in the low income areas. In research conducted on labour market questionnaire biases in third world contexts in the Grahamstown area (Mbatha 2003) it was found that, amongst low income groups, respondents often contradicted themselves during the interview when reporting on household income. The research suggests that question phrasing is crucial in collecting accurate information from this group and that the extended family networks and associated responsibilities of many people can result in a very inaccurate household income report. For example, how is it possible that respondents who reported no household income had access to a telephone? Quite probably, government grants, family support and incidental earnings are being excluded in this and many other cases.

Two approaches were adopted to deal with the problem: firstly, an upper bound of 1% of household income was set (for those who did not state household income, average income for their area in each town was used); secondly those whose willingness to pay was greater than 1% of household income were excluded from the sample. Both results are reported below.

An equally problematic issue is the exclusion or inclusion of responses where willingness to pay equals zero. Some commentators, like Lindsey (1994) and Chambers and Chambers (1998) suggest that some zero responses, or “protest zeros” should be excluded from results on the grounds that they do not represent a valuation of the good (particularly if it is a public good assumed to have positive externalities), but a protest against, for example, increased taxes or another form of payment vehicle, surveys in general or other factors not related to the specific good being valued. Zero bids may also be an indication of free rider behavior, if associated with positive opinions about the good. Even if such zero responses reflect a genuine budget constraint, they do not provide an estimate of the value of the good to the respondent. Bille Hansen (1997) comments that such responses are most likely to occur when respondents regard the study as illegitimate in some way, but that, especially amongst non-users, a reasonable percentage

of zero responses may be reflecting true willingness to pay. Some biased responses can be detected in the debriefing section, but, as Boyle and Bergstrom (2001:198) point out, “Why would someone who is behaving strategically reveal this motive to an interviewer?”

In opposition to the view that zero bids should be excluded is that of Jorgensen and Syme (1994) who argue that second guessing respondents is a dangerous game and that the only defensible reason for excluding such zero responses is if they can be shown to be arbitrary. Stazzera et al. (2003:462) also comment that excluding selected data may affect the validity of the results, since “the remaining sub-sample of non-protestors would be biased”. At the moment, decisions on the inclusion or exclusion of such responses appear to be *ad hoc* and context and study specific.

In order to test whether zero responses were protest zeros or could be explained by willingness to pay determinants, log-linear regressions of results from the KKNK and NAF were run, first including and then excluding the remaining zero responses<sup>7</sup>. Results showed that the number of significant variables and the goodness of fit of all models improved when zero responses were included. The “opinion” variable, recorded as a score from question 1, where a positive opinion about the festival counted as one and a negative opinion, zero, became less significant when zero bids were excluded. These results suggest that, on average, zero WTP bids were related to negative opinions regarding the “good” being valued and were not random or protest responses and should thus be included. Even Lindsey (1994), who makes a strong case for the exclusion of all zero responses, agreed in a later note (1995) that the inclusion of zero responses is appealing and that, at the very least, CV reports should indicate whether they have done so or not.

While excluding very high and some zero responses on the grounds that one is following the conservative design suggested by the NOAA Panel (1993) can be defended, Bille

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<sup>7</sup> In order to include zero responses in the log-linear regression, a constant was added to the willingness to pay amounts. Since the log of a constant is zero, this would not affect the coefficients obtained.

Hansen (1997) points out that such truncation comes at a price, which is that the mean WTP is considerably altered, especially in quite small sample sizes. This is what Throsby and Withers (1986) referred to as the “social choice bias”. They show that using the median rather than the mean measurement of explanatory variables in the valuation of 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), indicating 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) agree 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.

McFadden (1994:694) concurs that when some respondents use 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”. However, he also points out that, when distribution is skewed, median values may themselves be biased. In his meta-analysis, Noonan (2003) compares mean and median WTP estimates from 48 studies. On average, he finds that the mean is 1.5 times higher than the median value. However, for goods involving primarily use values, public payment vehicles (like taxes) and large-scale goods, lower ratios are obtained. Differences for the festival studies are thus not expected to be large and mean results are thus primarily reported after data trimming.

## 2.2 The demographics of respondents<sup>8</sup>

The following section will present the demographics of respondents in Grahamstown (NAF) in some detail, followed by a comparison with Oudtshoorn (KKNK) respondents. The purpose of the first section is to show that the sample was adequately representative of the population and to test the hypothesis that Grahamstown is divided into two areas (a high income West area and a low income East area). The comparison with the Oudtshoorn sample will determine whether the town has a similar high/low income area divide and facilitate the comparison between the two festivals of further results.

As expected, the demographics of Grahamstown East and West population samples differed dramatically, and in most cases, proved to be a representative sample of the population when compared to statistical data on the town. In both areas, however, a much higher percentage of women (71%) was interviewed than was representative of the population (56% women according to Stats SA 1996 Census data). However, given the nature of a telephone interview, this was hard to avoid, and perhaps provides an interesting insight into gender differences in telephone use.

Sixty-two percent of Grahamstown respondents were African-origin people, 34% were of European-origin and 4% of mixed-origin. When compared to the statistical data on the population of the area, it was found that this approximates the census data (Stats SA 1996) on the population's racial make-up quite well. The home language of 62% of respondents was Xhosa, 34% spoke English and 4% Afrikaans.

Like sex, the age of respondents was purely a matter of chance. Census data on age for Grahamstown residents is somewhat misleading because it captures a large population of students at the university and schools, inflating the younger age groups of white people in

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<sup>8</sup> The survey design was based on 1996 census data, which was the most recent data available at the time. When the 2001 census data was released late in 2003, comparisons with figures likely to have changed (like income) were made and are referred to in the text. Other variables, like sex and age distributions were compared at a provincial level and do not appear to have undergone any major changes.

particular<sup>9</sup>. Table 4.5 below shows the average age and distribution of age groups for the sample, indicating that at least some people from each age category were interviewed and confirming the idea that permanent Grahamstown residents (since schools and university residences were not surveyed) show the usual pattern of an older average European-origin population.

*Table 4.5: Age groups of the NAF sample*

|                      | <b>Total sample</b> | <b>High income area</b> | <b>Low income area</b> |
|----------------------|---------------------|-------------------------|------------------------|
| <b>Age mean</b>      | 43.4                | 49.3                    | 39.5                   |
| <b>Age median</b>    | 44                  | 50                      | 37                     |
| <b>18 – 25 years</b> | 22%                 | 8%                      | 30%                    |
| <b>26 – 35 years</b> | 14%                 | 11%                     | 17%                    |
| <b>36 – 50 years</b> | 27%                 | 34%                     | 23%                    |
| <b>51 – 65 years</b> | 27%                 | 34%                     | 23%                    |
| <b>&gt; 65 years</b> | 10%                 | 14%                     | 7%                     |

The average number of years of education for the whole sample was about 12, the average for the high income area being 14.6 and 10.3 in the low income area. The percentage of people with 12 years of education or more for the whole sample was 63%, 91% in high income area and 43% in the low income area.

Household income, as expected, was vastly different between the two groups. However, as previously discussed, only about 60% of the sample would or could disclose their household income. One of the problems is that quite a number of respondents in the low income area claimed to have zero household income, yet reported some spending at the festival and had positive willingness to pay. What probably happened was that respondents in this category were reporting no *regular* monthly household earnings by any of their members. This is not surprising, given the very high unemployment rate amongst African-origin people in Grahamstown – 50% of the labour force being currently unemployed and looking for work (Stats SA 1996). However, from an economic point of view, state grants and in-kind donations should also be included, as should money from other family members or loans.

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<sup>9</sup> This is particularly noticeable when comparing the number of white people younger than 15 (around 18%) with the number of white people aged 15 – 29 (41%).

*Table 4.6: Mean and median household and per capita income in the Grahamstown sample*

|                     | <b>Total (114)</b> | <b>High income area (54)</b> | <b>Low income area (60)</b> |
|---------------------|--------------------|------------------------------|-----------------------------|
| <b>HH Y mean</b>    | R5128              | R9691                        | R1021                       |
| <b>HH Y median</b>  | R2400              | R7000                        | R700                        |
| <b>P/c Y mean</b>   | R1853              | R3632                        | R251                        |
| <b>P/c Y median</b> | R500               | R2500                        | R140                        |

As table 4.6 shows, the difference between the two areas is vast, even at a household level, getting even more severe at a per capita level. Census data for 1996 show that the biggest single group of African-origin earners falls into the R201 – R500 per month group, approximating the mean of R251 for the sample, while the biggest single group of European-origin earners was the R1501 – R2500 category, indicating a possible upward bias of the sample mean (R3632). However, 2001 census data show the largest group of African-origin earners in the Grahamstown area (about 27%) falling into the R400 – R800 category, with the biggest group of European-origin earners in the R3201 to R6400 category.

Information on the type of employment of respondents was also collected (see figure 4.1 below). As expected from the income results, more people from the high-income area were employed in professional posts (40%) or as white-collar workers (28%) than those in the low-income area (6.7% and 5% respectively). Nearly 28% of people in the low-income area reported being unemployed, while there were none in this category in the high-income area. The second largest group in the low-income area was students (23.5%) – a much higher proportion than students in the high-income area (9%). A possible explanation for this is the greater number of younger people in the African-origin population group, than amongst European-origin people.



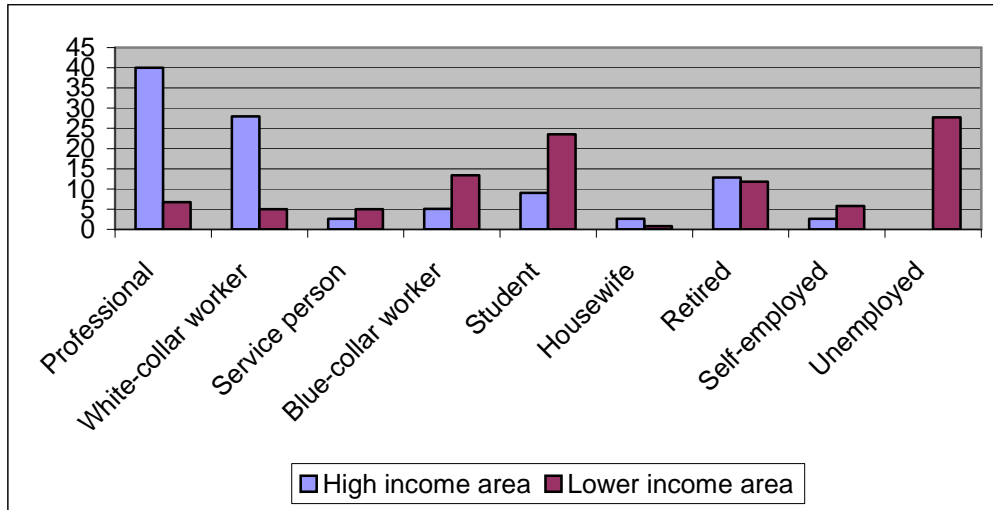


Figure 4.1: Types of employment plotted as a percentage of each sample at the NAF

In conclusion of this section, one can see a clear divide between the high and low income areas. The high income area consists largely of European-origin people, who speak mainly English at home, and have higher levels of income and education. The low income area consists of African-origin people who speak mainly Xhosa and have much lower levels of income and education.

Table 4.7: Comparison between the demographics of the NAF and KKNK samples

|                                   | Grahamstown         |                     | Oudtshoorn          |                  |
|-----------------------------------|---------------------|---------------------|---------------------|------------------|
|                                   | High income         | Low income          | High income         | Low income       |
| <b>Race group</b>                 | 86% European-origin | 100% African-origin | 95% European-origin | 92% mixed-origin |
| <b>Language</b>                   | 85% English         | 100% Xhosa          | 92% Afrikaans       | 95% Afrikaans    |
| <b>Sex (% female)</b>             | 62%                 | 77%                 | 56%                 | 66%              |
| <b>Average age (yrs)</b>          | 49.4                | 39.5                | 49.5                | 41.2             |
| <b>Average years of education</b> | 14.6                | 10.3                | 13.7                | 10.8             |
| <b>% Completed high school</b>    | 91%                 | 43%                 | 92%                 | 47%              |
| <b>Average per capita income</b>  | R3632               | R251                | R4 525              | R731             |

As with Grahamstown, the KKNK sample was also shown to be fairly representative of the demographics of the region (Stats SA 2003) and bore out the original assumptions. Of the 61 people interviewed in the low-income area, 3 were of African-origin, 2 were of European-origin while 56 were of mixed-origin. The average per capita monthly income was R731.11 for an average household size was 4.5 people. Three of the respondents interviewed cited Xhosa as their home language and 58, Afrikaans. The average age of respondents was 41.2 years and the median age 28 years old. Average years of education for this area was 10.8, with 47% of respondents having finished high school.

Of the 36 people interviewed in the high-income area of Oudtshoorn, 33 people spoke Afrikaans and 3, English. Two of the respondents were of mixed-origin and 34 of European-origin. The average per capita monthly income per household was R4 524.77 for a household of 2.8 people. The average age of respondents was 49.5 years and the median, 50 years old. Average years of education for this area was 13.7, with 92% of respondents having completed high school.

As can be seen from the data, Oudtshoorn, like Grahamstown, is still largely divided into two groups: the largely European-origin residents who have relatively high average incomes and educations and the largely mixed-origin or African-origin residents with lower income and education levels. The difference in income levels between the wealthier Western Cape (KKNK) and poorer Eastern Cape (NAF) can also be seen.

### **2.3 Opinions and externalities**

Opinion questions were asked first, directly after the introduction. Table 4.8 shows that, in general, communities in both towns felt that their arts festival provided them with positive, non-market externalities in the form of feelings of pride, improved community education and value to future generations (or future use options for themselves). The results suggest that including only market benefits from the festivals in their valuation (in other words, economic impact studies) would underestimate festival value for the majority of both communities.

In terms of future-use value and educational potential, opinion results seem to have remained fairly stable over time. Given that the 2000 study had a very small sample size (73), relatively small percentage changes in responses should not be taken too seriously. Taken in general, therefore, the comparison of results does not show any startling reversal of opinion that cannot be explained by changing circumstances, suggesting that there is a reasonable degree of temporal reliability in opinions.

Although not large in most cases, there are some interesting differences between high and low income groups. In both towns, more people from the low income areas agreed that the festival gave all the people in the community a sense of pride, despite the fact that people from these areas attended fewer shows and festival events than did those from the high income area. Another interesting difference is that, in both cases, more low income area respondents valued the education potential of the festivals than did high income respondents, probably because so little else is available to low income respondents in the way of extra mural and cultural activities. In both cases, however, high income groups were more responsive to the idea of future or option use value, perhaps as a result of the fairly transient and migratory nature of many low income residents as compared to those in the high income area.

As a test of temporal reliability, a comparison is also made with the NAF 2000 study, which used many of the same opinion statement questions. The first major difference occurred in question two, which solicits a negative opinion about the arts harming society because they are too critical. While 29% of the sample for the 2003 NAF study agreed with this statement, 19% of 2000 respondents had done so. In addition, while more people from the low income area had agreed in 2000 (implying that the arts were too critical) than in the high income area, by 2003, this had reversed, with marginally more people in the high income area agreeing.

This is an interesting trend and rather than putting it down to non-reliability, one could argue that, as the nature of political art at the NAF changes, from protest at a minority government oppressing the majority to a more uncomfortable, self-critical look at the

current ruling party and past injustice, one might expect more people to feel uneasy about such criticism. What is particularly interesting is that it is not the largely African-origin population of the low-income area sample who are most worried by this aspect of the Festival, but the high income area respondents, perhaps because European-origin people feel most uncomfortable with criticism either of the past system, under which many of them benefited, or the current system.

The other major difference in opinion between the 2000 and 2003 studies occurs around the second question soliciting a negative opinion, that is, that the festival only benefits those people who go to the ticketed shows. While more people in low income areas agree with this statement in both years, the affect is more pronounced in the 2003 study, with only 49% of low income people disagreeing with the statement, as opposed to 58% in 2000.

Significantly more people in the high income area in the 2003 study agreed that the festival gave all the people of the town a sense of pride than in 2000. It was hypothesized at the time of the 2000 study (Snowball) that this could be as a result of the overcompensation of high income area residents for the fact that it was generally believed that low income area residents did not benefit much from the NAF. The subsequent highly publicized government sponsorship of the NAF, including reports of financial benefits as well as non-market ones (as discussed in chapter 2) may have helped to overcome this perception and move the high and low income area opinions closer together.

**Table 4.8: Opinions at the NAF 2003, KKNK and NAF 2000 studies**

| Statement  | NAF 2003    |            |             | KKNK 2003   |            |             | NAF 2000    |            |             |
|--|-------------|------------|-------------|-------------|------------|-------------|-------------|------------|-------------|
|  | High income | Low income | Average     | High income | Low income | Average     | High Income | Low income | Average     |
| <b>1.1 The festival gives all the people of Grahamstown/Oudtshoorn a sense of pride. (% agree)</b>                                 | 79          | 92         | 86 agree    | 92          | 83.6       | 87 agree    | 65          | 92         | 78 agree    |
| <b>1.2 The arts offered at the festival harm society because they are too critical of our way of life (% disagree).</b>            | 69          | 73         | 71 disagree | 83          | 82         | 83 disagree | 87          | 75         | 81 disagree |
| <b>1.3 The festival should be kept going so that people or their children have the choice of attending in the future (% agree)</b> | 100         | 91         | 94 agree    | 100         | 90         | 94 agree    | 89          | 97         | 93 agree    |
| <b>1.4 The shows and events at the festival are useful in educating the community (% agree).</b>                                   | 70          | 93         | 84 agree    | 75          | 82         | 78 agree    | 81          | 91         | 86 agree    |
| <b>1.5 The festival only benefits the people who go to the shows you have to buy tickets for (% disagree).</b>                     | 81          | 49         | 62 disagree | n/a         | n/a        | n/a         | 83          | 58         | 71 disagree |

## 2.4 Attendance, spending and earnings at the festivals

The next section of the interview probed the levels of spending and attendance at the NAF. As would be expected in a small town without many other events, the majority of Grahamstonians (73.4%) attended the festival in 2003, a higher percentage from the high income area (81%) than from the low income area (68%). Festival attendance over the past 2 years (2002 and/or 2003) showed that nearly 85% of residents had attended<sup>10</sup>.

The average number of ticketed shows attended by Grahamstown residents, including non-attenders, was 1.33 for the whole festival and 1.5 for attenders. As might be anticipated, attendance at ticketed shows is strongly correlated to income, resulting in a much higher average number of ticketed shows being attended by high income area festival-goers (3.1) compared to low income area attenders (0.4). On average, 66% of high income area residents attended at least one ticketed show, while only 16% of low income area residents did so.

The average spending on tickets was similarly divided. For all Grahamstown residents (including non-attenders) the average spending on festival tickets was about R60 per person, R135 in the high income area and about R10 in the low income area. For those people who attended at least 1 ticketed show, average spending was R167 per person, R205 in the high income area and about R60 in the low income area.

The research found that there was a much lower average ticket price in the low income area (R28) than compared to the high income area (R45). This result can be explained in two ways. Firstly, there is some variation in the price of festival shows, from around R68 to about R25. The more expensive shows are generally put on in bigger venues, like the Monument, and cater more to the tastes of “high culture” lovers, for example, the symphony concerts and the ballet. It is therefore quite likely that people from the low income area do not attend these more highly priced shows, choosing local, more popular

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<sup>10</sup> Attendance is defined as attendance at ticketed or free shows, including art exhibitions and the craft market.

art forms more often than not. Secondly, a number of respondents reported no spending on ticketed shows despite having attended some of them. When questioned, they indicated that they had been given sponsored or complementary tickets, thus resulting in the lower average ticket price which was calculated by dividing total spending on tickets by the number of ticketed shows attended.

Eighty-eight percent of festivalgoers attended at least one free show at the 2002 or 2003 festival. Free shows were defined as art exhibitions, street theatre and music and “Sundowner” shows offered at the Monument. On average, almost three-quarters of all low income area respondents attended some free shows, while 60% of high income area residents did. Thus, while wealthier residents, who have a higher average disposable income, attend more of the ticketed events, poorer residents still benefit from the festival by attending the free shows.

The data used for calculating the average number of free shows attended was not very robust, since many respondents answered “yes” or “many” or “few” to the question asking for the number of free shows attended. Twenty respondents from the low income area reported that they had attended the “Transnet truck” music show – sometimes spending much of the day there. The average attendance figures for free shows therefore should be regarded as rough estimates only.

The average number of free shows attended by Grahamstonians from the high and low income areas was equal, at 2.5 shows per person over the whole festival. For those festinos who attended at least one free show, the average number was 3.7 over the whole festival, 4.3 for high income area residents and 3.4 for low income area residents. As indicated above, however, one cannot draw many conclusions from this data given the wide range of free shows on offer. In the current data, a ten-minute visit to an art exhibition would score the same attendance figure as a two-hour visit to the Transnet truck music show.

While a lower percentage of low income area residents (including non-attenders) visited the craft market at least once (76%) than high income area residents (83%), the number of visits for those who went at least once was slightly higher for the low income (4.3) than for the high income area group (4). The average number of visits for the whole sample was 3.3.

The average spending by Grahamstonians at the craft market was about R290, R576 for those from the high income area and R101 for those from the low income area. Average spending on food at the festival was R80, R168 for the wealthier residents and R25 for those in the low income area.

Table 4.9 compares attendance for high and low income area respondents between the NAF and the KKNK. As can readily be seen, there is a much higher attendance at ticketed shows amongst high income area respondents at both festivals, but there is also a fairly high level of participation from low income area residents at free shows and the craft market, particularly at the KKNK.

*Table 4.9: Average number of free and ticketed shows attended at the NAF and KKNK (including non-attenders)*

| Show                            | Grahamstown |            | Oudtshoorn  |            |
|---------------------------------|-------------|------------|-------------|------------|
|                                 | High income | Low income | High income | Low income |
| # of Free shows                 | 2.5         | 2.5        | 2.3         | 3.8        |
| # of Ticketed shows             | 3.1         | 0.4        | 2.6         | 0.8        |
| Ratio of free to ticketed shows | 1:1.24      | 1:0.16     | 1:1.13      | 1:0.21     |



### *Changes in spending as a result of the festival and consumer surplus*

About 87% of the total NAF sample reported some spending at the festival. Of these, 48% claimed that they spent no more than they did in a normal week, while 52% reported some extra spending as a result of the festival.

At first glance, this seems to indicate that increased local spending could have a significant economic or financial impact on the town. However, this is only the case if the money would have been spent outside the area otherwise. However, the result shows that, for those with additional spending, 53% would have spent it in Grahamstown anyway, 31% would not have spent it (saved) and only 15% would have spent it outside the area. This verifies Crompton's (1995) point that counting local spending as part of economic impact is problematic because it may have been spent in the area anyway, or is financed out of local savings.

One of the things that the WTP figure may be capturing (other than the value of the non-market part of the good in question) is consumer surplus. Thompson et al. (2003) suggest that WTP figures simply added to economic impact figures are quite likely to "double count" since some WTP for attendants may be a donation of consumer surplus. Both the festivals studied are highly sponsored and ticket prices are therefore far from representative of market price or market value. It was thus considered quite likely that significant consumer surplus existed and a question was designed to test for this directly.

Respondents with some spending on tickets were asked whether, if the ticket price rose by a particular amount (10%, 20% or 50%), they would still have bought the same number of tickets. Illustrative figures were also provided to make the scenario more realistic. As Noonan (personal communication 2003) pointed out, this method is far from perfect because the units are so big, making it "lumpy" and very difficult to calculate price elasticity of demand with any accuracy. For example, for a person attending 2 shows, spending would be R66 on average. If, for a 10% rise in price, they dropped one show, that would mean a 50% drop in quantity, making marginal price effects impossible

to detect. However, as an experiment to determine whether attenders of ticketed shows were aware of their consumer surplus (and to test whether the presence of acknowledged consumer surplus affects WTP) it provided interesting results. Diagram 1 below shows the results for both the Grahamstown and Oudtshoorn festival respondents.

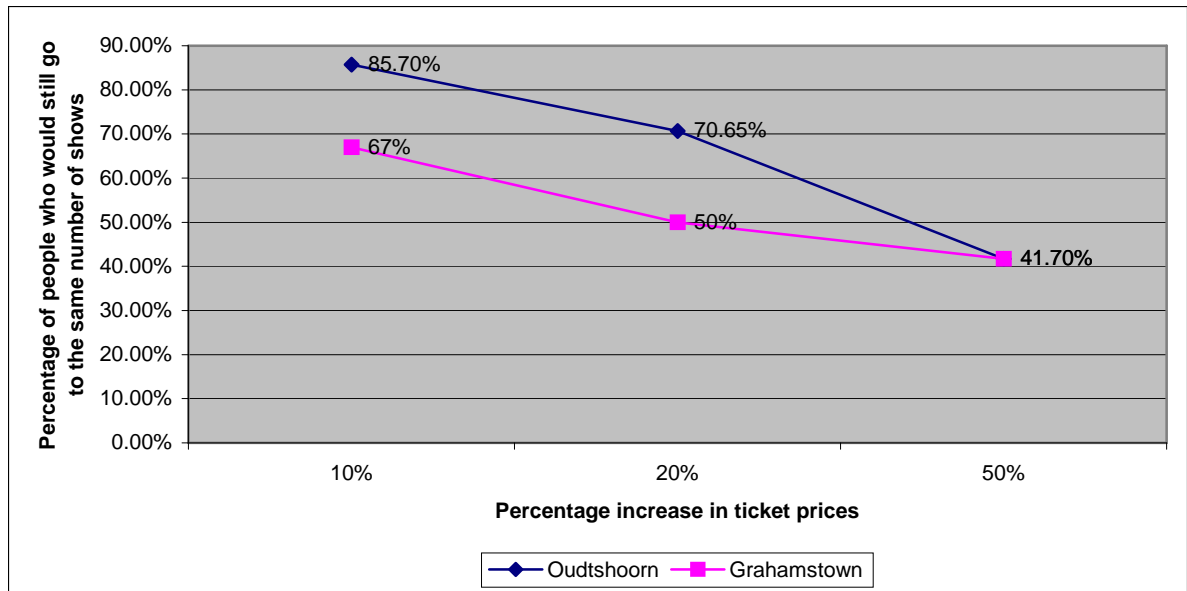


Figure 4. 2: Consumer surplus at the NAF and KKNK

All one can usefully say about these results is that they conform to expected economic theory, as price rises, demand falls, and that there does appear to be a fairly high level of consumer surplus at both festivals, although it is initially much higher at the Oudtshoorn festival than at the Grahamstown festival. The latter is probably a result of the difference in show type and quality and possibly related to the higher income of Western Cape respondents. None of the regressions (discussed below) showed consumer surplus (represented as a binary variable, 1 if at least 10%, 0 otherwise) as being significant in determining WTP however, this was perhaps because the number of respondents who attended shows, and thus were asked the consumer surplus question, was very low, particularly in the low income area.

### *Earnings and economic impact*

Although both festivals have quite considerable economic impacts on their regions - R33m a year for Grahamstown (Snowball & Antrobus 2003) and R44m a year for Oudtshoorn (Saayman & Saayman 2003) - impact in terms of earnings by households resulting directly from the festivals are limited. Only 21% of Grahamstown respondents and 30% of Oudtshoorn respondents had earned money from the festival and in both cases, fewer people from the low income than the high income areas had benefited directly.

*Table 4.10: Festival earnings and spending at the NAF and KKNK\**

|                                  | <b>Grahamstown</b> |            | <b>Oudtshoorn</b> |            |
|----------------------------------|--------------------|------------|-------------------|------------|
|                                  | High income        | Low income | High income       | Low income |
| <b>Average festival earnings</b> | R390               | R106       | R833              | R341       |
| <b>Economic impact (%)</b>       | 19%                | 45%        | 32%               | 40%        |

\*Average earnings excluding vary large atypical amounts (3 cases) earned by people operating businesses from home.

Seaman (2003a) suggests that, in addition to current earnings, WTP figures may be capturing some future expected economic benefits, either for the respondents themselves or for their families and children. Given that both Oudtshoorn and Grahamstown are relatively small towns with little industry, tourist events like arts festivals are one of the few opportunities available for earning additional income and WTP to support them might reasonably be expected to have something to do with economic benefit. As can be seen from table 4.10 (economic impact), and as one would expect, both low income areas were more interested in the income potential of the festival and mentioned it as a reason for their support, than the high income areas. Given the relative poverty of the Eastern Cape, it is also understandable that those in the low income area in Grahamstown would be most interested in festival income (current or potential), as compared to the wealthier Western Cape residents.

## 2.5 Willingness to pay

As described above, the WTP section of the questionnaire was designed very carefully in order to avoid as much bias as possible. As part of the conservative design recommended by the NOAA (1993), WTP amounts obtained from bids were recorded as the last amount that the respondent definitely agreed to, not the cell mean. So, for example, someone who agreed to the R10 bid, but not the R20 bid was not coded as WTP = R15 (as is often the practice), but WTP = R10. In addition, the qualitative results presented below used only data from the 25% reduction scenario. Table 4.11 presents the mean results of the WTP to avoid a 25% reduction in festival size and a comparison with the KKNK. The results of both methods for dealing with willingness to pay responses greater than 1% of household income are shown – that is, reducing such responses to a maximum of 1% of household income and excluding such responses entirely.

*Table 4.11. Qualitative willingness to pay results*

|   | <b>Grahamstown</b>            |                   | <b>Oudtshoorn</b>  |                   |
|---|-------------------------------|-------------------|--------------------|-------------------|
|   | <b>High income</b>            | <b>Low income</b> | <b>High income</b> | <b>Low income</b> |
| <b>% of the sample willing to pay some amount &gt; 0</b>          | 77.5                          | 79.6              | 65.5               | 64.7              |
| <b>Average WTP amount (WTP &gt; 1% household income excluded)</b> | R10.42 (\$1.60) <sup>11</sup> | R8.09 (\$1.24)    | R17.50 (\$2.69)    | R8.96 (\$1.38)    |
| <b>Average WTP (Upper bound of 1% of household income)</b>        | R14.80 (\$2.28)               | R6.55 (\$1)       | R17.42 (\$2.68)    | R10.33 (\$1.59)   |

An important result is that, despite a much lower attendance at ticketed events and lower earnings from the festival, a similar percentage of respondents from low income groups were willing to pay something to support the festival as where those from high income groups at both festivals. As would be expected though, the average WTP for those from high income areas was more than for low income areas. The difference between the two becomes more marked when willingness to pay responses greater than 1% of household

<sup>11</sup> Dollar amounts were calculated using the current exchange rate of R6.50 to the dollar.

income are recoded to a maximum of 1% of household income, but the general pattern remains the same. However, given that excluding nearly a quarter of the sample is likely to lead to sample selection bias, the upper bound WTP figures were used in the regression models below and in calculating total willingness to pay.

Interestingly, a considerably higher percentage of respondents in the Grahamstown than in the Oudtshoorn sample were willing to pay to support the festival. A possible explanation is that the Grahamstown festival is a national arts festival, has been running for longer and tends to draw more publicity and a more diverse audience. Oudtshoorn on the other hand is relatively recent and caters mainly for Afrikaans speakers. Perhaps this results in the magnitude of externalities for the Oudtshoorn festival being smaller than those for the Grahamstown festival. Also as expected, given the higher average incomes for the Western Cape, mean WTP amounts were higher in Oudtshoorn.

The NAF 2000 study results are not directly comparable to the NAF 2003 results, since the scenario was considerably different. In particular, the 2000 study valued the whole festival (which would have ceased to exist if no additional sponsors were found) and had only one DC question at the R5 level with a liable/non-liable Bohm interval (Snowball 2000). However, a qualitative comparison can be made. Firstly, as one would expect with a smaller good (25% of the festival as opposed to 100% of the festival), the percentage of respondents willing to pay in the 2000 study was considerably higher than the 2003 study, 92% as opposed to about 78% on average. In the non-liable question in the 2000 study, as in the 2003 results, a higher percentage of people from the low income area (94%) than the high income area (91%) were willing to pay. Both these results suggest a relatively high degree of temporal reliability.

#### *Stated reasons for positive and negative willingness to pay responses*

One of the most important parts of any WTP questionnaire is the debriefing section after the WTP question in which one not only detects biased or inconsistent results, but also

discovers what exactly it is about the event or good in question that respondents value or dislike.

At the 2003 NAF, a dominant reason for WTP in the lower income area was the perceived economic benefit: “Creates employment”, “Brings jobs”, “Jobs for the children”, “Helps the unemployed” and so on. Future or potential earnings, either by the respondent or by a member of their family or the community as a whole, were also cited, one respondent stating clearly that, “Others get jobs, maybe next year I will be lucky”. Reasons for not being willing to pay to support the festival amongst the low-income group, were quite often related to their perceived lack of financial benefit from the event: “It no longer gives job opportunities”, “People with money benefit”, “Unemployed should get priority”, “It benefits only white people” and so on. However, these sorts of responses were a far smaller group than those who did expect to gain financially.

There was a high level of awareness amongst low income area respondents of the other, non-financial, benefits that the festival provides. The mostly commonly cited were that the festival provides entertainment and contact with the outside world (“I saw people I never thought I would”, “We see nice things, people and clothes”), educational benefits, especially for the youth, community pride and bringing “life to the town” and the showcasing of artistic talent, particularly locals (“Exposure for the gifted”, “Makes us proud and love theatre”).

Reasons for positive WTP in the high-income area were much more focused on the non-financial benefits offered by the festival, although a significant number still cited employment creation, tourism and personal and/or community financial gain. Many respondents mentioned the entertainment value of the festival (“It is the most exciting part of the year”, “Gives us a chance to have a holiday”), the benefit to local schools and their pupils, the importance of fostering the arts, especially in the Eastern Cape, community pride and general community education. Reasons for not being willing to pay in the high-income area were mostly related to the perceived deterioration in the quality or organization of the festival. For example, “Festival is a mess – Grahamstown is too

small and traffic is bad”, “Too crowded and not my kind of thing”, “Quality is bad” and so on.

Following the Morrison and West (1986) design, the NAF 2000 study asked only those respondents who had a positive WTP, but low attendance figures and those with zero WTP their reasons for being willing or unwilling to pay. Reasons for support were very similar to the 2003 study, being dominated by the economic or financial reasons, especially in the low income area, but also including non-market benefits, like community education, exposing people to culture, nation building and so on. Reasons for a lack of support, particularly amongst low income area residents, revolved around the lack of economic benefits provided by the festival, the lack of involvement of black residents and, amongst high income area residents, issues of quality deterioration and commercialization – also very similar to the NAF 2003 study. Similar sort of results were also obtained for the KKNK, although more respondents in both areas cited income constraints and (in the low income area) racism as reasons for non-support.

#### *Calculating total willingness to pay*

The overall willingness to pay to avoid a 25% reduction in festival size was calculated using the mean willingness to pay figures (bound to a maximum of 1% of household income) for each area in Grahamstown and Oudtshoorn (see table 4.12 below). For Grahamstown, willingness to pay was almost R3 million (about \$462 000) and for Oudtshoorn R2.9 million (\$446 000) per year.

*Table 4.12: Willingness to pay for the NAF and the KKNK*

|   | <b>Grahamstown</b> |                   |              | <b>Oudtshoorn</b>  |                   |              |
|---|--------------------|-------------------|--------------|--------------------|-------------------|--------------|
|   | <b>High income</b> | <b>Low income</b> | <b>Total</b> | <b>High income</b> | <b>Low income</b> | <b>Total</b> |
| <b>Number of people</b>                       | 27 548             | 97 219            | 124 767      | 14 400             | 65 600            | 80 000       |
| <b>Average number of people per household</b> | 3.2                | 5.2               |              | 2.8                | 4.5               |              |
| <b>Total number of households</b>             | 8 608              | 18 695            | 27 305       | 5 143              | 14 578            | 19 721       |
| <b>Average WTP per month</b>                  | 14.80              | 6.55              |              | 17.42              | 10.33             |              |
| <b>WTP per year by all households</b>         | R1.53m             | R1.49m            | R3.02m       | R1.07m             | R1.8m             | R2.87m       |

Although the questionnaire elicited individual WTP (“your” WTP) recent findings by Delaney (2004) indicate that the majority of respondents to such apparently individual questions are in fact providing household WTP figures. While assuming that WTP figures are for the whole household, rather than individuals, may underestimate total WTP somewhat, this is far preferable to the vast overstatement that Delaney argues would result if WTP figures were regarded as individual. In calculating the total WTP for the NAF and KKNK therefore, it was assumed that the figures were per household, as can be seen from table 4.12.

## 2.6 Regression results

A number of statistical models were run to determine the effects of attendance at festival shows, current earnings and future expected earnings as a result of the festival, opinions and demographic factors on willingness to pay. Results are presented below.

### *Statistical models*

A model often used in the analysis of data with some zero responses and some numerical ones is the Tobit model, a limited dependent variable regression model. Like the Logit model, the Tobit model is also a binary response dependent variable model that gives the log of the odds ratio, (hence the name, Logit), but the Tobit model assumes that the dependent variable is censored in some way. The classic Tobit model has the dependent variable censored at zero. The latent dependent variable ( $Y^*$ ) is thus different from the observed dependent variable ( $Y_i$ ) because of the censoring. For data with observations clustered at a censored point (such as zero) it has been shown that OLS estimators are biased downwards and inconsistent (Gujerati 2003).

$$Y_i = B_1 + B_2X_i + u_i \text{ where}$$

$$Y = 0 \text{ if } Y^* \leq 0$$

$$Y = Y^* \text{ if } Y^* > 0 \quad (\text{Greene 2000:908})$$

However, Sigelman and Zeng (1999) have shown that, for the correct model specification to be a Tobit model, at least some of the data must be censored. If the zero responses are



not the result of censoring, but because of the choices of individuals, then the correct model specification would be a linear OLS model. The assumption of how respondents make their decision is thus crucial: if respondents decide how much they are willing to pay, which could include negative values, then the Tobit model is appropriate. However, if respondents decide whether they are willing to pay or not, and then, if they are willing to pay, how much they will contribute, no censoring has taken place and the Tobit model is not appropriate.

As Epstein (2003) has pointed out, it is theoretically possible for respondents to have negative values for a good – that is, that one would wish to take money away from the good, or be paid compensation for putting up with it. It is thus possible that people not willing to pay to prevent the festivals from getting smaller actually experience negative externalities associated with them. The assumption one would have to make is that some respondents with a negative willingness to pay censored their responses to zero.

Linear ordinary least squares (OLS), log-linear and Logit models were run as well as the Tobit model. Results (contained in appendix 2) showed that the coefficient signs were the same as for the Tobit model, but the magnitude (and thus significance) of the coefficients were smaller. This suggests that the methods using the OLS technique are biased downwards and that the Tobit model is the correct specification. The results of the Tobit models are presented below and discussed.

### *Variables*

The dependent variable in both studies was the amount that respondents were willing to pay to prevent the festivals from getting 25% or 50% smaller. In order to prevent any upward bias, WTP amounts were recorded as the last amount that the respondent definitely agreed to, not the cell mean. So, for example, someone who agreed to the R10 bid, but not the R20 bid was not coded as  $WTP = R15$  (as is often the practice), but  $WTP = R10$ . For very high and low amounts responses are based on the open-ended questions (“What is the maximum amount you are willing to pay?”).

Despite the lack of data for some households, the final willingness to pay amount was limited to 1% of stated household income or, for those who could or would not provide household income figures, 1% of the average household income for their area (WTP bound). This method, while defensible as a means to make willingness to pay bids more realistic, may have introduced some bias. However, models run with unbound willingness to pay figures did not show any startling coefficient differences (signs were all the same, but with some small changes in magnitude).

A method of evaluating income is to use expenditure data and was considered as an alternative to what were expected to be fairly unreliable stated household income figures. However, it was decided that this was too cumbersome a method to use during a telephone survey and since both Oudtshoorn and Grahamstown can still be divided into high income and lower income residential areas, expenditure on housing was used as an indication of income. An area variable, coded as 1 for low income areas and 0 for high income areas was thus used as a proxy for income. As can be seen from the qualitative demographic results, area also correlates strongly with racial and language characteristics. In the regressions run for each area, household income was included as a further check of internal consistency.

Demographic variables were quite often highly correlated with area, as the qualitative results show. In order to avoid multicollinearity, only age in years and sex (coded as 1 more males and zero for females) were included. A priori, it was unclear whether age would be negatively or positively correlated with willingness to pay. Older people could be argued to have more income and more cultural capital, thus suggesting that they would be willing to pay more. However, younger people may be more attracted to festival-type events and there is some evidence (Snowball and Antrobus 2003) that NAF audiences are becoming younger. Sex was also an unknown quantity, although early studies at the NAF (Davies 1987 and 1989) show a greater percentage of women festival goers than men.

Years of formal education were not significant in any of the models and education was not included as a variable in the final specification. Findings in many other studies on the

characteristics of people who support increased arts funding, however, do show education as an important determinant of willingness to pay. Brooks (2001 and 2004) and Rushton (2004) find that higher levels of education are associated with both support for increased government spending on the arts and with private donations to arts organizations in the United States. This supports the idea, presented in chapter two, that cultural capital, often obtained via formal education, is needed to make meaning of or appreciate the arts.

The insignificance of education in explaining willingness to pay in the South African case could have a number of possible explanations. Firstly, one could argue that the wide variety of shows offered at the festivals allow for a range of levels of engagement, so that shows that require large amount of cultural capital to be understood can be avoided by people without it in favour of more easily accessible entertainment. This, however, does not take into account the many different sorts of cultural capital present in South Africa – some of which may not be directly related years of formal education, but rather to traditional upbringing and informal education. This might be the case especially where strong oral traditions are still operating. A much more complex measure of cultural capital, including informal and traditional education, would thus need to be used in order to gauge accurately the relationship between education and willingness to pay to support the festival.

Attendance at free shows was measured as the number of free shows attended plus hours spent at (KKNK sample) or number of visits to (NAF sample) the craft market. Attendance at ticketed shows was measured as the number of ticketed shows attended by the respondent during the festival.

For inclusion in the regression, positive sentiments expressed in the opinion question were given a score of 1 and negative or “don’t know” answers scored zero. Because of the change in opinion question 5 (as outlined earlier in this chapter) in the Oudtshoorn pilot study, KKNK results included only opinion questions one to four, while the NAF opinion variable included all five opinion questions. It was expected that positive opinions would be related to a greater willingness to pay.

Seaman (2003a) suggests that, in addition to current earnings, WTP figures may be capturing some future expected economic benefits, either for the respondents themselves or for their families and children. Given that both Oudtshoorn and Grahamstown are relatively small towns with little industry, tourist events like arts festivals are one of the few opportunities available for earning additional income and willingness to pay to support them might reasonably be expected to have something to do with economic benefit. However, as reported above, very few residents actually have current earnings from the festivals, especially in low income areas. As an attempt to test the theory that future earnings, as well as current earnings are an important determinant of willingness to pay, those respondents who cited economic benefits, jobs, improved income and so on either as their reason for being willing to pay, or mentioned this aspect of the festival as being important in the open-ended comments section at the end of the questionnaire, were coded as 1, and 0 otherwise (“jobs” variable).

As a test of internal validity, a scope variable was included, coded as 0 for the 25% scenario and 1 for the 50% scenario. It was expected that the scope variable would be positive, indicating that the larger the good being valued, the greater would be the “price” they were willing to pay for it.

### *Results*

The following interpretation will focus on the Tobit model results for the whole Grahamstown sample and the whole Oudtshoorn sample as well as for the Grahamstown sample divided into high and low income areas. Results of the logit, log-linear and OLS models are contained in appendix 2.

The Tobit models were run in order to examine which variables are significant in determining whether a person is likely to be willing to pay or not. Results for the combined models are presented in table 4.13 below. The NAF model for both areas combined performed fairly well for cross-sectional data, the adjusted R-squared being 0.55 and six of the nine variables being statistically significant. The KKNK model

performed less well with an adjusted R-squared of only 0.21 and fewer significant variables. This is probably the result of a much smaller sample size at the KKNK and because of ongoing questionnaire design during this pilot study stage of the research. Like the logit model, Tobit model results can in be interpreted in two ways from the coefficient results which give  $\ln(P/1-P)$ : Firstly, the probability ratio can be computed by taking the antilog of the coefficient and secondly the actual probability (P) can be computed.

The NAF area variable is negative and significant as expected, given the negative relationship between willingness to pay and household income. The model shows that, holding other things equal, the probability of being willing to pay to support the festival if you are from the high income area is close to one (0.99). Although not always statistically significant, the sign on the area variable in all the models used was always negative. The demonstrated negative relationship between WTP and income is also useful as an internal consistency check (further discussed below).

Table 4.13: Tobit models for the NAF and KKNK<sup>12</sup>

| Variable                     | NAF (n=192) |           | KKNK (n = 86) |           |
|------------------------------|-------------|-----------|---------------|-----------|
|                              | Coefficient | Std Error | Coefficient   | Std Error |
| <b>C</b>                     | -5.951661   | 5.911155  | -10.40959     | 15.06212  |
| <b>Area</b>                  | -5.611982** | 2.261815  | -8.713464     | 6.867251  |
| <b>Attendfree</b>            | 0.395248*   | 0.223323  | 0.615533      | 0.616128  |
| <b>Tickets</b>               | 1.480079*   | 0.903071  | 1.400896      | 2.154035  |
| <b>Earnam</b>                | 0.001210*** | 0.000131  | -0.000175     | 0.000287  |
| <b>Jobs</b>                  | 5.578118*** | 1.480566  | 20.27518***   | 5.676934  |
| <b>Opinion</b>               | 3.252981*** | 0.972580  | 6.082695*     | 3.245468  |
| <b>Age</b>                   | -0.074805   | 0.048832  | -0.332485**   | 0.145763  |
| <b>Sex</b>                   | -2.771382   | 2.170746  | 6.669071      | 5.872537  |
| <b>Scope</b>                 | 2.524016    | 1.956391  | 4.783475      | 7.276156  |
| <b>Adjusted R-squared</b>    | 0.5515      |           | 0.2070        |           |
| <b>F Statistic</b>           | 27.6384     |           | 3.6187        |           |
| <b>Probability of F stat</b> | 0.0000      |           | 0.0008        |           |
| <b>Mean WTP</b>              | 9.93        |           | 14.25         |           |

Quasi-maximum likelihood covariences and standard errors computed using the Bollerslev and Wooldridge (1992) method.

<sup>12</sup> Significant at the 1% level \*\*\*  
Significant at the 5% level\*\*  
Significant at the 10% level\*

Table 4.14 shows the results of the separate Tobit regressions for the high and low income areas in Grahamstown. The household income variable is only significant (at the 1% level) in the low income area, where it is positive (as economic theory would predict). A R1 increase in monthly household income in the low income area thus increases the probability of being WTP 1.0028 times. In the high income area, household income is not significant. This is probably because, with higher average incomes, the WTP amount makes up a smaller percentage of the household's total budget and, once some threshold level has been passed, WTP is not primarily determined by income.

*Table 4.14: NAF Tobit model results for high and low income areas*

| Variable                     | High income area (n=76) |           | Low income area (n=116) |           |
|------------------------------|-------------------------|-----------|-------------------------|-----------|
|                              | Coefficient             | Std error | Coefficient             | Std error |
| <b>C</b>                     | -10.29497               | 10.45264  | -2.721632               | 2.845017  |
| <b>Attendfree</b>            | 0.432723                | 0.512656  | 0.341557**              | 0.137077  |
| <b>Tickets</b>               | 2.030649*               | 1.106124  | -1.483030*              | 0.801460  |
| <b>Earnam</b>                | 0.001256***             | 0.000133  | 0.000990                | 0.001339  |
| <b>Jobs</b>                  | 5.648460                | 3.682708  | 3.755013***             | 1.020313  |
| <b>Opinion</b>               | 5.012896***             | 1.891089  | 1.271433*               | 0.488011  |
| <b>Age</b>                   | -0.117866               | 0.116292  | -0.062740**             | 0.031632  |
| <b>Sex</b>                   | -7.243839*              | 4.380567  | -0.684072               | 1.299603  |
| <b>Scope</b>                 | 6.405779                | 4.551720  | -0.600940               | 1.088526  |
| <b>Household income</b>      | -0.000298               | 0.000218  | 0.002819***             | 0.000823  |
| <b>Adjusted R-squared</b>    | 0.5381                  |           | 0.2645                  |           |
| <b>F Statistic</b>           | 10.9527                 |           | 5.7209                  |           |
| <b>Probability of F stat</b> | 0.0000                  |           | 0.0000                  |           |
| <b>Mean WTP</b>              | 15.20                   |           | 6.48                    |           |

Brooks (2004) finds that income is positively related to private donations to the arts (as one would expect), but not with direct government support. Rather, it is the ideological position of the person that influences their support for government aid to the arts most strongly. For example, in his study, liberal, Christian, European-origin people are most likely to be in favour of government support. Rushton (2004) also finds that per capita income is not a significant factor in determining whether the respondent will vote in favour of a tax increase to fund further arts support (although there is a positive correlation), but that his/her political party is a significant determinant.

Interestingly, Rushton (2004) finds that there is a significant positive relationship between African-American people and votes in favour of increased taxes to support the arts. However, he notes that cultural institutions in the Detroit area where the study was conducted are still somewhat segregated by race group and that support for the arts could thus be related to the specific institutions, rather than to a general trend.

Both the KKNK and NAF Tobit results show that opinions about the festivals, relating to their educational potential, generation of civic pride and so on, are a significant determinant of whether or not a respondent is likely to be willing to pay. An increase in the opinion score of one unit increases the probability of being willing to pay some amount nearly 26 times at the NAF. Opinions were significant determinants of willingness to pay in both the Grahamstown high and low income areas as well. These results suggest that the willingness to pay figure is an indication of the value of positive festival externalities. However, this result does not exclude the idea that WTP figures may also be capturing something else.

As suspected, Seaman's (2003a) suggestion that economic considerations may also be captured in the willingness to pay figure are borne out by the data. At the NAF festival, the amount of money earned at the festival (earnam variable) and the respondent's views on the economic benefits that the festivals can provide to themselves, their family or the town as a whole (jobs variable) are both positive and significant determinants of willingness to pay.

An increase in current earnings of one Rand at the NAF increases the probability of being willing to pay 1.0012 times. The variable is small because relatively few people have any current earnings. Earnings were a significant determinant of willingness to pay in the Grahamstown high income area, where most of the earnings occur, but not amongst the low income area respondents.

The "jobs" variable (coded as 1 if economic or financial gains were mentioned, zero otherwise) was highly significant (1% level) at both festivals. The probability of being

willing to pay if the respondent mentioned financial gains was close to one at both festivals (0.99). It appears that the hope of future financial gain is a very important reason for being willing to pay and that, as Seaman suggests, the willingness to pay figure is thus capturing some of the expected economic impact as well.

In comparing the jobs variable between high and low income areas it is not surprising that, while it is positive in both areas, it is only a significant determinant of willingness to pay in the low income area. This suggests that, in areas where cultural events are associated with increased tourism and income and where there is a high level of unemployment (low average income), willingness to pay figures will also be capturing some of the value of expected future financial gains. In higher income areas where there are current earnings from cultural tourists, it is also likely that financial impacts will be captured by WTP studies.

Attendance at free and ticketed events was found to be a positive and significant determinant of whether or not respondents would be willing to pay. Attendance at one more free NAF show increased the probability of being willing to pay 1.5 times and was significant in the low income area, but not in the high income area. Attendance at one more ticket show increased WTP probability 4.4 times and was positive and significant in the high income area. Given the different attendance patterns of people from these two areas, this is not surprising, since qualitative results show that the ratio of free to ticketed show attendance is much higher in the low than in the high income area, while high income area residents attend more ticketed shows. A puzzling result is the negative sign (significant at the 10% level) on the tickets variable in the low income area, suggesting that attendance at one more ticketed show by respondents in this area is associated with a lower probability of being willing to pay. Possibly this has to do with the quality or type of ticket shows attended by people from this area, or is related to the distribution of sponsored tickets for these shows.

Demographic variables were not statistically significant in the combined Tobit model regression, but both had negative signs, indicating the older people and men were less



likely to be willing to pay to support the NAF. (Age was negative and significant at the 5% level at the KKNK). Separate regressions showed that age was significant in the low income area, a one year increase in age being associated with a 1.06 decrease in the probability of being willing to pay. The age result is possibly related to lack of use value or, as some respondents indicated, irritation over noise and congestion and disapproval of some of the more explicit show advertisements. The result is consistent with the increasingly young audiences at the NAF.

As mentioned above, the Grahamstown festival has always attracted more women than men, particularly to the craft markets and art exhibitions. The sex variable was negative, but only significant (10% level) in the high income area, showing that the probability of being willing to pay if the respondent was a female from the high income area (holding all else constant) was close to one (0.99).

In conclusion then, the regression results show that the probability of being willing to pay to support the NAF depends on one's opinions about educational value, future use value and civic pride that the festival generates as well as attendance at ticketed and free shows. In addition, however, respondents' current earnings and beliefs about the future job creation potential of the event are also important determinants of willingness to pay, as are, to a limited extent, demographic variables, like age and sex.

## **2.7 Tests for internal validity**

As discussed above, there are a number of ways to test for the validity of WTP responses. Internally, WTP figures should be sensitive to scope and have a negative relationship with household income and "price" or bid amount.

Both studies included a split-sample scope test, referring to a 25% or 50% decrease in festival size – simply defined as fewer shows and fewer visitors. Given the wide range of festival events, it was felt that a more specific description of the exact number of shows on the Main and Fringe, free events and craft market stalls would prove too laborious and

extend the time of the telephone interview by too much. The scope variable, coded as zero for a 25% decrease and one for a 50% decrease in festival size, was not significant in any of the regressions. One could argue that the reasons given for not being willing to pay would not depend on festival size. However, like income, the size of the good should matter to those who are willing to pay something. The Grahamstown scope variable is positive in the combined Tobit model and approaching significance (at the 20% level). The coefficient interpretation shows that if respondents were given the 50% scenario, they were 1.17 times more likely to be willing to pay and that the probability of being willing to pay (holding all else constant) for the 50% scenario was 0.54).<sup>13</sup>

Arrow et al. (1994), in their comments on the NOAA proposed rule on natural resource damage assessment, require WTP responses to be “adequately” responsive to scope, but also point out that is the definition of “adequate” is dependent on the context of the research and ultimately a ‘judgment call’. Factors which would reduce the sensitivity of WTP bids to the scope of the good include such things as risk, that is, whether respondents believe the proposals would be effective (Carson 1997), and the fact that the saved resource might not be considered a perfect substitute for the original resource (Smith and Osborne 1996). Foster and Mourato (2003) also cite Poe et al. (1994) as showing that non-overlapping confidence intervals could lead to an “understatement” of the confidence interval in scope tests.

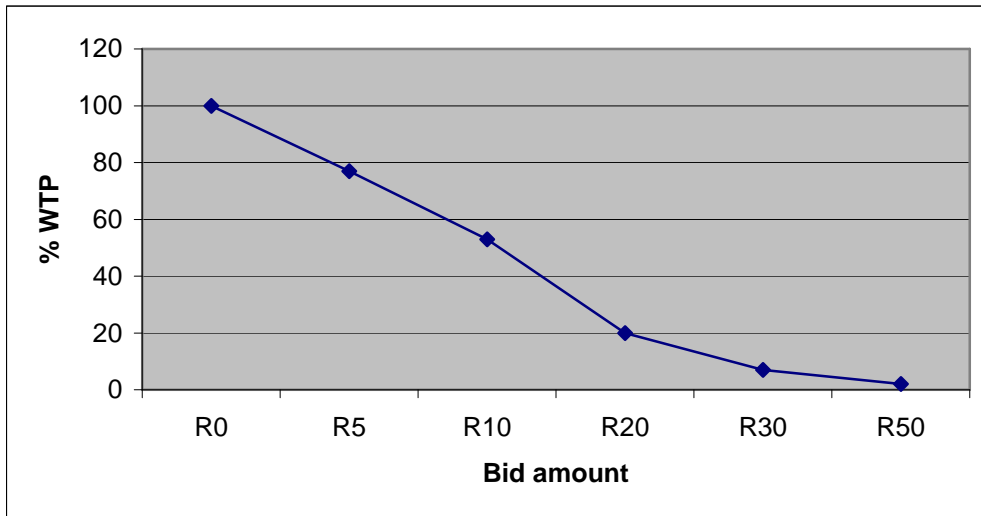
In the case of the NAF, it is quite likely that the somewhat vague description of the change in the size of the good and the relatively small difference between the two sizes (25% and 50%) could be expected to produce a positive, but not significant difference in willingness to pay. In this case, a positive scope coefficient, approaching statistical significance is judged to show a reasonable sensitivity of the data to scope.

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<sup>13</sup> KKNK scope results were mixed and far from significant probably as a result of small sample size and questionnaire design problems.

As discussed in the previous section, all models showed a negative relationship between area (used as a proxy for income) and willingness to pay and the relationship was statistically significant in the Tobit model. Also, household income was shown to be a statistically significant determinant of willingness to pay in the low income areas (a positive relationship as one would expect).

The final internal test regards the price of the good, that is, as bid amounts increase, fewer respondents should be willing to pay the amount, that is, the probability of a “yes” response should decrease. As the following non-parametric data for the NAF shows, as bid amounts increased, the percentage of respondents willing to pay the amount fell.



*Figure 4.3: Percentage of NAF respondents WTP at each bid amount*

In addition to the internal validity tests, NAF results were compared to an earlier study (test for temporal reliability) and the KKNK study conducted in the same year, but at a different, comparable festival. The results of these qualitative comparisons do not show any marked differences that cannot be explained by changing circumstances or the differing nature of the two festivals. The study thus appears to pass all validity tests, suggesting that results are relatively unbiased.

## 2.8 Concluding remarks

The argument that arts sponsorship benefits only the wealthy minority of society has not been well researched, particularly with regard to the positive externalities that the arts generate. By conducting willingness to pay studies at the National Arts Festival in Grahamstown and the Klein Karoo Nationale Kunste Fees in Oudtshoorn, it was shown that, although European-origin people from high income areas attend more ticketed shows and gain more in terms of festival earnings, positive values also accrue to African- and mixed-origin lower income area residents.

Seaman's (2003a) conclusion that one cannot simply sum economic impact and contingent valuation studies to get a "full valuation" is partly borne out by these results. The studies reported on here did not attempt to calculate the total non-market value of the festivals to all interest groups, but only the value of festival externalities to Grahamstown and Oudtshoorn residents.<sup>14</sup> However, there is a strong indication that, for events with significant financial as well as non-market gains, willingness to pay studies are capturing current and expected future financial gains as well. Thus, if one were to try to derive a "full valuation" from willingness to pay and economic impact result, one would have to discount willingness to pay figures for those respondents with current or expected future earnings from the event before adding them to the economic impact figure in order to avoid double counting.

Should the governments of developing countries sponsor the arts? Based on the above data, the answer is yes, because it has been shown that, as well as European-origin high income area residents, African and mixed-origin low income area residents also do attend and value arts events. It is interesting to speculate whether the recent funding changes at the National Arts Festival are to some extent already reflecting these conclusions, in that, as Festival audiences have become more diverse, public funding has increased, while

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<sup>14</sup> It should be noted that the value of the externalities provided by the National Arts Festival obviously extend beyond the local population. However, the study is designed to complement the economic impact figures, which were calculated for the Grahamstown region only.

private funding has waned. Perhaps, rather than trying to “sell” high income festival audiences to private sponsors and advertisers, a much better case can be made for the public funding of arts events on the grounds that they do provide benefits, both market and non-market, to low income groups. Thus, if public funding to arts festivals is withdrawn, resulting in the discontinuation of the events, it will not be primarily the high income area residents, who can afford to travel to larger centers to consume the arts, who will lose most. Rather, the majority of low income residents, who rely on these festivals for both positive cultural externalities and financial gains, and who have no available substitutes, will suffer the greater decrease in their welfare.

A problem with WTP scenarios however, is that, unless the good in question is described in some detail, or a large number of different studies are run, the results are not very informative about exactly which attributes of the composite good respondents value most. In the case of the NAF for example, organizers wanting to increase the participation of African-origin people would need to know what attribute/s of the Festival they should change. First used in transport economics, the stated choice, or choice experiment method is beginning to make an impact on cultural economics and, while few studies of cultural goods have yet been published using this method, it holds great promise, not only in providing a more detailed valuation of the various attributes of a good, but also in controlling for some of the forms of bias detected in WTP studies. Chapter five discusses this method and a study conducted at the NAF in 2003.

## CHAPTER 5:PART I<sup>15</sup>

### CHOICE EXPERIMENT METHODOLOGY AND LITERATURE REVIEW

Chapter 4 has demonstrated that contingent valuation, that is, willingness to pay, techniques can be used to show that events like the NAF do generate significant positive externalities or non-market benefits. However, there is great need for a more detailed analysis of the valuation of such events to different gender and population groups. The relatively new stated preference or choice experiment (CE) method<sup>16</sup> seems to be very useful in this regard. While this method has been used for some time in other branches of economics, it has only recently made its appearance in the cultural economics field. The following chapter discusses the methodology of the choice experiment technique and compares it to the willingness to pay method. Part two presents the results of a study conducted at the 2003 National Arts Festival (NAF) and demonstrates how the results can be used to evaluate the various parts of the Festival to different population groups. It concludes with a cost-benefit analysis (CBA) of the attributes that make up the Festival.

#### 1. METHODOLOGY

Choice experiments were first used in marketing and transportation literature and arose out of conjoint analysis used in these fields (called stated preference methods), but were different from the usual conjoint analysis because respondents were asked to choose between “bundles” of options, not to rate or rank them (Adamowicz *et. al.* 1998:64). In stated choice (SC) experiments customers are presented with sets of alternative combinations of attributes (or characteristics) of a “good” and are asked to choose their most preferred alternative. Choices by customers from sets of alternatives reveal the trade-offs they are willing to make between NAF attributes. Since each individual is asked to choose one alternative from the choice set, Random Utility Theory (RUT) is used to model the choice as a function of the attribute levels.

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<sup>15</sup> I would like to thank Prof Ken Willis of the University of Newcastle upon Tyne for his help with this section.

<sup>16</sup> While willingness to pay studies are also part of stated preference techniques, as opposed to revealed preference methods (like travel-cost or hedonic pricing), the term ‘stated preference’ (SP) has come to be used to refer mainly to choice experiments.

According to Hanley et al. (2001:438) choice modeling (CM) has 4 main alternatives; choice experiments (that provide the most information about attributes and welfare consistent estimates, if they include a status quo option), contingent ranking, contingent rating and paired comparisons. They then identify 6 steps in a choice modeling exercise. Firstly, literature reviews, focus groups and expert consulting is needed for the selection of relevant attributes, one of which is price (to allow WTP calculation). Secondly, pilot surveys are needed for the assignment of feasible, realistic attribute levels. A complete factorial design provides the best information (main effects and interactions) but often results in a very large number of combinations. Fractional factorial designs are more often used, with some loss in estimation power (not all the interactions will be detected). The fourth step is the grouping of profiles into choice sets, then choosing the survey procedure (rankings, ratings or choices) and finally choosing the estimation procedure.

The CE approach was originally developed by Louviere and Hensher (1983) and has a common theoretical framework with dichotomous choice contingent valuation in RUT, which assumes that individuals will make choices based on the attributes and attribute levels (an objective component) along with some degree of randomness (a random component). This random component arises either because of randomness in the preferences of the individual or the fact that the researcher does not have the complete set of information available to the individual. The utility function can be specified as:

$$U_{ij} = V_{ij} + \varepsilon_{ij}$$

where  $V_{ij}$  is a non-stochastic utility function and  $\varepsilon_{ij}$  is a random component. If it is assumed that  $V_{ij}$  is a linear utility function then  $V_{ij} = \mathbf{x}'_{ij}\boldsymbol{\beta}$ . It is assumed that each respondent gains some utility from each attribute, so the choice of one option over another indicates that the utility gained from the chosen option is greater than that from the alternative. The trade-offs made between attributes, leading to the choice of the preferred option, can thus be calculated using statistical techniques (Willis 2002b).

The conditional multinomial logit model (CLM) is derived by placing restrictive assumptions of the random component of the utility: error disturbances are assumed to have a Type 1 extreme value distribution with the distribution function

$$\exp(-\exp(-\varepsilon_{ij}))$$

Selecting an alternative is expressed as

$$U_{ij} > \max_{k \in C_i, k \neq j} U_{ik}$$

From the Type 1 extreme value distribution, the probability of choosing an alternative  $j$  among  $n_i$  choices of individual  $i$

$$\begin{aligned} P_i(j) &= P[\mathbf{x}'_{ij} \beta + \varepsilon_{ij} \geq \max_{k \in C_i} (\mathbf{x}'_{ik} \beta + \varepsilon_{ik})] \\ &= \exp(\mathbf{x}'_{ij} \beta) / \sum_{k \in C_i} \exp(\mathbf{x}'_{ik} \beta) \end{aligned}$$

(Willis and Garrod 1999)

An assumption of the CLM is the independence of irrelevant alternatives (IIA) property, which states that “the relative probabilities of two opinions being selected are unaffected by the introduction or removal of other alternatives” (Hanley et al. 2001:439). IIA assumes all cross-effects are equal, so that if a section of the NAF gains in utility it draws shares from other NAF sections in proportion to the current market share of these sections. Different assumptions about the error term lead to different multinomial logit models. A distribution of  $\varepsilon_{ij}$  that is independent and non-identical leads to a heteroskedastic extreme value (HEV) model; whilst a mixed logit (MXL) permits parameter heterogeneity by allowing the random error components to have different distributions.

The multinomial logit (MNL) model can show differences in taste related to socio-economic variables, which can be included, but (since they remain the same for all choices) only as interaction terms (dummy variables). From the parameters obtained, estimates of WTP for each attribute can be made (Hanley et. al. 2001:439 – 441). The individual’s utility for each attribute (called part-worths) can thus be estimated as well as the value of the program as a whole - simply the sum of all the values of the various attributes (Willis 2002b:643). However, taste can vary amongst people with the same socio-economic variables and the mixed logit model is able to capture this “heterogeneity in taste” (Eggert and Olsson 2004:6). The Washington DC marble monuments study (discussed below) used such a MXL model (statistical method further discussed in Morey and Rossmann 2003).



Estimates of WTP for a change in each attribute can be calculated by estimating the marginal rate of substitution between the particular attribute and the price attribute. This is the rate at which the respondent is willing to trade off money for an increase in the particular NAF activity being examined. The estimate is obtained by dividing the coefficient of the attribute by the price attribute coefficient (Eftec 2002).

## **2. A COMPARISON BETWEEN CHOICE EXPERIMENTS AND CONTINGENT VALUATION METHODS**

Choice experiments (CE) have a number of advantages over contingent valuation (or willingness to pay) methods. Firstly, they can describe the good's attributes and the trade-offs between them more accurately than contingent valuation methods (CVM) and one can then value these attributes separately and in combination, thus "they allow the researcher to 'value' attributes as well as situational changes" (Adamowicz *et. al.* 1998:65). Hanley *et. al.* (2001:447-8) agree, adding that, while the same results could be obtained by including a number of CV scenarios with differing attributes in a questionnaire, this is a more "costly and cumbersome" alternative to the CE approach. For example, the WTP for changes in the levels of various attributes of a good could be valued using the using WTP methods, but only by including a number of different scenarios in each questionnaire or by having many different questionnaires. CE is thus better for measuring the marginal values of changes in a particular scenario and may thus be more useful in multidimensional policy design and in setting taxes (Hanley *et. al.* 2001:452).

Secondly, choice experiments, with attributes both higher and lower than the current value, allow one to work out willingness to accept compensation for loss (WTA) without all the endowment effect problems of CV (Adamowicz *et. al.* 1998:66). As discussed in chapter 4, the NOAA panel (1993) recommended that WTA measures should not be used, since such figures are not constrained by the respondent's budget and may be limitless. However, a willingness to accept measure, for example a drop in taxes in exchange for a decline in the provision of some public good, may be very useful in making budgetary allocation decisions.

Adamowicz et al. (1998:71) conducted a study on WTP for the protection of the habitat of woodland caribou using both a CE and willingness to pay studies. After separate analysis, the data sets were combined using a nested logit tree structure. The results show that the two models don't have significantly different error variances or parameters on the marginal utility of income. Also the welfare values from the CE had smaller variances than the CV model.

Hanley et al. (2001:448) and Adamowicz et al. (1996) also point out that, since respondents are focused more on the trade-offs between choices, rather than on willingness to pay, CEs may limit some of the problems, like warm glow, protest bids, strategic behaviour and "yeah saying", found with the CVM, "but this has yet to be demonstrated". Willis and Garrod (1999:75) found that strategic bias and free riding were reduced when using choice experiments to value the low flow alleviation programs of certain UK rivers to recreational users, as compared to using CVM.

While the well-known hypothetical bias in CV studies (discussed in chapter 4) is probably also present in CE studies, since they are a form of dichotomous choice CV, it is possible that one of the advantages of CEs is that they have a "natural internal scope test". While the internal test is weaker than the external one, a study by Foster and Mourato (1999 cited in Hanley *et. al.* 2001:451) found that CEs showed much stronger sensitivity to scope than did a similar CV study.

Willis and Garrod (1999: 75) suggest that, since CEs provide a much more detailed description of the good than CV and present it in a format similar to the price-quantity trade-offs that consumers have to make each day, it could provide a more accurate valuation of the good than the willingness to pay format. Nevertheless, the method is prone to various forms of bias.

### **3. POTENTIAL FORMS OF BIAS IN CHOICE EXPERIMENTS**

#### **3.1 Status quo and endowment effects**

Adamowicz et al. (1998: 73) found that “the utility associated with moving away from the current situation [the good as it exists at present] is negative and significant” and that this shows either status quo or endowment effect bias. Similarly, Willis and Garrod (1999:76), in a study using choice experiments, amongst other methods, to determine the value to the general public of increased flow of certain rivers in the UK, found that over 40% of respondents selected the status quo option, and that the coefficients on the other options were negative and significant, indicating that “there is a negative utility associated with changing from the current situation to one of the other alternatives – this is regardless of any utility respondents may have for the attributes of these choices.”

An explanation for this effect (also found in contingent valuation responses) is that people don’t trust the administration to use the money for the stated purpose or that they have the resources to carry it out. It could also be that when the choice is too complicated, or the respondent is tired, they choose the current situation because they are “unsure about the value of the trade-offs they would be willing to make” or as a form of protest (as with “protest zeros” in CVM) (Adamowicz *et. al.* 1998: 73). Willis and Garrod (1999:78) suggest that respondents might simply have a psychological preference for things as they are, rather than some uncertain future state and that careful pilot testing can detect cases where the current situation is chosen because of confusion over the choice experiment.

Adamowicz et al. (1998:74) note that this form of bias could be avoided simply by not including a status quo option (as in the urban sites case study below). However, this would make welfare analysis difficult, since there would be no “base” to compare changes with. In general, commentators seem to agree that, while a status quo option will probably provide some bias, it is a necessary one if one is to have a starting point from which to calculate changes in welfare.

### **3.2 Complexity and choice consistency**

Hanley et al. (2001:448 – 50) identify a number of other problems with the CE approach. One of the most important is that there is significant evidence that if too many choice options or too many attributes are used, respondents will get tired of undertaking the complex mental task of calculating marginal utilities based on trade-offs and will begin to use heuristics or rules-of-thumb to answer the questions, leading to some seemingly irrational choices and increased random errors. It is thus important to include some consistency checks in CEs and to limit the number and level of attributes included.

The issue of how increases in the complexity of choices facing respondents affects the consistency of their decisions is further explored by Deshazo and Fermo (2001). They find that both the number of attributes and the variation in attribute levels can have a significant effect on “complexity-induced choice inconsistency” that can over or under estimate welfare measured by as much as 30%. In other words, as the choice experiment becomes more elaborate, as they are quickly wont to do, the reliability of the results decreases beyond a certain threshold level.

Abley (2000) suggests that if “simplifying rules of thumb” are used by respondents to make complex choices (for example choosing the choice set with the highest value for their most important attribute without considering other attribute levels) this has implications for the level of information being used by respondents. That is, although the researcher may have provided what she regards as an optimal level of information for making an informed choice (as discussed in chapter 4), the respondent may be disregarding large parts of that information leading to apparently irrational or inconsistent choices. Abley (2000) also sites other cases in which respondents add to or “embellish” the information provided (particularly if it is textual or verbal information) using past experiences and their own knowledge.

Deshazo and Fermo (2001) suggest two ways of controlling for such bias. Firstly, extensive pilot testing, to determine the optimal number of attributes and levels is

required and, secondly, when the results are analysed, they recommend that such problems be identified and controlled for using a heteroskedastic logit model.

De Sarbo et al. (2004) however, suggest that the issue is a more complex one and find that preferences change considerably over the sequence of responses. That is, preferences expressed at the beginning of the survey are not consistent with those made in the last choices. They suggest a model for determining such “change points” but acknowledge that it is unclear which observations reflect true preference.

“It may be that experts and highly involved respondents give their most accurate responses early (before fatigue sets in) and novices and less involved respondents their most useful responses late in the sequence ... after they develop a defined preference structure” (De Sarbo et al. 2004:204).

Adamowicz et al. (1994) however, found evidence that the underlying preferences used to make choices in a hypothetical choice experiment were very similar to those used to make actual decisions. The results of their study on the determinants of choice of recreation site which used both stated and revealed preference data, “lends support to the use of this stated preference technique, at least in the measurement of use values” (Adamowicz et al. 1994:289).

Discussions about the levels and use of information and choice strategies have been a feature of contingent valuation research for some time. For example, in the List and Shogren (1998) and List and Gallet (2001) studies mentioned in chapter 4, it was found that the more respondents knew about the good (experts, or those provided with more information) the less would be the so-called hypothetical bias. The repeated choices that respondents are asked to make in CEs has simply refocused attention on exactly how these hypothetical choices are made and whether they are likely to be consistent or not. CEs have provided a new opportunity to study consumer choices and all commentators agree that much more research is needed in this area.

### 3.3 Individual valuation and summation

In order to calculate overall WTP for a good, one has to assume that the value of the good is equal to the sum of its parts, that is, that there are no substitution effects and that no major utility providing attributes have been left out. This may however, be unrealistic, as in the Yorkshire Dales study, where significant substitution between attributes was detected. Hoehn and Randall (1989) investigated the over-valuation of public goods as a result of using independent valuation and summation (IVS) in CV studies – that is, valuing independent public goods separately and then simply adding their values together. They use an effective intuitive example to explain their theory – that of the valuation of endangered species. Separately valued, each species might show a positive cost/benefit ratio, but, given that there are thousands of endangered species, the collective WTP to protect all of them, obtained by IVS, might leave even the most ardent wildlife supporter feeling fleeced.

Hoehn and Randall (1989:550) conclude that the error occurs at a very basic level – simply that there are limited resources and unlimited wants and that, given our limited productive capacity, this imposes substitution effects on us. They suggest, without much enthusiasm, that sequenced valuations might provide a better alternative, but as Willis (2002b:639) points out, sequencing introduces other problems, as goods valued first, tend to be given higher values than those further down the list.

Perhaps this is one area in which choice experiments, which focus on a number of different attributes at the same time, can definitely solve one of the problems associated with CV. However, as a check, Hanley *et. al.* (2001:449) suggest that a CV study of the whole good should also be included and compared with the additive CE value obtained (as in the Washington monuments study discussed below). Willis (2002b:640) concludes that, “Whilst the simultaneous approach will correctly measure the total benefits of a conservation scheme, the sequential approach is necessary in valuing a multi-attribute good when policy is concerned with identifying further sites or elements to add to the conservation program over time”.

Finally, it has been shown that welfare estimates from CE studies are sensitive to study design. Like CV, information given to respondents in the form of photographs and textual descriptions are not neutral and affect the outcomes. In addition, the method used, for example, choices versus ranks, and the number of choice tasks per respondent, also have significant impacts on the results (Hanley et al. 2001:450).

#### **4. CHOICE EXPERIMENTS AND CULTURAL GOODS**

Whilst contingent valuation techniques have been widely used to value environmental goods (see Navrud and Ready 2002), there are few published applications of choice experiments to the analysis of the conservation and provision of cultural goods. As the method gains in popularity, the quantity is sure to increase and a number of works in progress were presented at the June 2004 Association of Cultural Economics International (ACEI) conference (Ringanti et al.; Ringanti and Nijkamp). The following section reviews the published papers in this area.

One of the earliest (and seminal) choice experiments was conducted by Louviere and Hensher (1983) who examined the effect of attributes and ticket price on attendance at a proposed bicentennial international exposition in Australia. Attributes included cultural exhibits, technological displays, food and drinks from different nationalities, shows and amusements (rides and games) and location. Respondents were asked which exposition they would prefer to attend, given various attribute levels, including variation in ticket price. A “stay at home” option was also included and various demographic variables, like sex, age and household size were recorded.

Using a multinomial logit (MNL) model, the study was thus able to predict what the attendance figures would be given various changes in attribute levels. The demographic information was used to predict what sort of people would attend any particular exposition. For example, larger households and males were less likely to attend than smaller households and women. Younger people were more likely to attend if more shows, amusements and foods and drinks were offered, while older people favored

cultural exhibits more. Although the exposition was never held (hence the results could not be verified) Louviere and Hensher (1983) conclude that choice experiments are a useful way to predict consumer demand for multi-attribute cultural events, particularly in cases where the event is unique and no market data exists.

A more recent study (reported in Garrod and Willis 1999) is that of the Yorkshire Dales – many of which were designated Environmentally Sensitive Areas in 1987. More intensive farming is putting the picturesque Yorkshire countryside under threat. Traditional farming practices, while less efficient, do not have such a detrimental effect on the land, which is characterized by a number of features of historical and cultural importance, like stone walls, field barns, rich hay meadows and broad-leaved woodland.

The Dales study was conducted in two phases. Firstly, a contingent ranking experiment, followed by an open-ended willingness to pay question was used. 300 households in the area and 300 visitors were randomly selected and shown eight paintings of the Dales – each painting showing different land-use alternatives, including the status quo (“today’s landscape”) accompanied by a literary description. Respondents were then asked to rank their top three landscape preferences, followed by the open-ended WTP question for those landscapes and other questions to test the consistency of the stated preferences.

The majority of respondents chose the status quo as their most preferred option, indicating some bias. However, the benefit-cost ratio for “today’s landscape” was four times higher than the cost to the public of maintaining it, so that even taking into account the status-quo bias, the results were still conclusive. Other problems with this phase of the study included large standard errors and no significant difference between the values for various landscape options where they were positive.

In a continuation of this research Santos (1997) used a contingent ranking choice experiment to value the attributes of the Dales (stone walls, field barns, rich hay meadows and broad-leaved woodland) separately. This is important if the attributes are substitutes or complements to one another. Using Cameron’s censored logistic regression



approach, information about WTP for various combinations of attributes was analyzed and WTP for the preservation of each attribute calculated.

The major findings were that stone walls and barns are the most important attributes of the Dales landscape. Woodlands are next most important, followed by flower rich meadows. It was found that there were significant substitution effects between attributes, so that summing the independent valuations of each attribute would overvalue the landscape.

Morey et al. (2002) used a choice experiment to value the preservation of 100 historical marble statues in Washington DC. The damage to the statues is being caused by sulfur dioxide in the air (commonly known as acid rain). Using verbal descriptions, photographs of two of the statues showing their current average state and computer generated images of their possible decay (including the status quo), the survey asked respondents to choose between various levels of treatment, and associated prices, to delay the decay of the statues by various amounts of time. Results showed that there was significant positive WTP for all the treatment options and that passive-use or bequest values are a very important part of the value of the monuments.

A problem with the study was that it did not allow for the possibility that some population groups, in this case young, non-Caucasians, would not wish to preserve the statues at all, in other words, had a negative WTP to preserve them because of the culture and heritage they celebrate. Using a “mixture” model combining multinomial logit (MNL) and random parameters logit (RPL) models, Morey and Rossmann (2003) further analyze the results in terms of sub-populations within the sample to highlight such differences in preference.

An interesting feature of the study was a comparison of the choice experiment results with a WTP question, administered to the same respondents (using a payment card) regarding the maximum WTP for the most comprehensive treatment program. It was found that the choice experiment mean and median WTP values lay between the two

payment card estimates. Morey *et. al.* (2002:23) conclude that, “These results add to the support for use of choice experiments in valuing environmental goods in general, and show the strengths of using this valuation technique for estimating passive-use values”.

Another choice experiment used to value cultural heritage goods was conducted on an urban cultural site, St Anne’s Square in Belfast by Alberini, Riganti and Longo (2003). The study focused on the value of regenerating this culturally and historically significant square in Belfast, using building height, amount of open space and distribution between residential and retail usage as the variable attributes. Pictures of the square, digitally remastered to show various different attribute levels and an associated once-off cost, as well as a verbal description were shown to respondents (not including a status quo option), who were then asked to choose an option (presented in pairs).

The study included a test designed to evaluate whether people’s responses depended on the historical and cultural content of the site. To this end, respondents were also asked to value a perfectly comparable hypothetical, computer-generated square, using the same attributes as those of St Anne’s. The results of this test showed that respondents did value the attributes differently depending on whether the hypothetical or real square was used.

The results of the St Anne’s Square study showed that the chosen attributes did explain the choices respondents made – generally, people preferred more open space and lower building heights. However, contrary to economic theory, the sign on the price coefficient was positive and significant. The authors suggest various reasons for this anomaly, including that the price may have been interpreted as an indication of the quality of the proposed regeneration.

Finn *et al.* (2003) conducted a study of the value of the programming provided by the Canadian Broadcasting Corporation (CBC) to English and French speaking Canadians. Using both open-ended willingness to pay questions and a choice experiment, distributed via the mail, they were able to draw conclusions about the total value of the CBC, the

relative value of various programming types and the presence or absence of externalities to the two population groups.

An interesting finding was that, while WTP and CE results were similar for use values, respondents indicated a much higher non-use value in the WTP questions than they did in the choice experiment. While no cost-benefit analysis was conducted, they did show that Canadian drama and sports were the most popular programming types and that significant differences in preference exist between French and English language speaking households. They conclude that choice experiments, in conjunction with WTP studies, provide a greatly improved way of obtaining input from citizens of the value of a public broadcaster compared to activist participation in various hearings (Finn et al. 2003).

Finally, Mazzanti (2003) used a choice experiment to value the various attributes of the *Galleria Borghese Museum* in Rome. Mazzanti (2003:600) argues that phases of increasing public funding for cultural heritage in Italy “should be rooted on evaluation and appraisal efforts aimed at assessing what the most valuable options for the development for the cultural sector are”. Attributes chosen were admission charge (three levels), conservation activity (two levels), access policy (two levels) and additional services, including multimedia and audiovisual services and temporary exhibitions (three levels). Respondents were asked to choose between 2 choice sets and a status quo option.

Results for the initial CLM were not significant, however, when socioeconomic factors were included (by segmentation and interaction terms), results improved somewhat. Signs were as expected (negative on price and positive on all other attributes). The results showed that a change in conservation activities and the price coefficient was significant across all models. Older, high-income foreign visitors and those with university degrees were willing to pay most for conservation, while less educated people were more interested in additional services. Access policy was least important. Age and income were positively related to WTP and foreigners were willing to pay more than Italians. Total economic surplus figures were calculated by multiplying mean WTP with the number of paying visitors per year.

Mazzanti (2003:600) concludes that choice experiments “look encouraging” as a way to value cultural heritage resources and to guide policy makers in appropriate expenditure. However, this particular study is rather weak in that the attributes had so few levels that it could be argued that a CV study could have provided the same information and in that adjusted R-squared values were very low for all models (0.067, 0.0076 and 0.074).

The above review shows that, while comparatively few choice experiments have been used to value cultural goods, they have been used successfully in quite a wide variety of cases. These have included once-off cultural events (Louviere and Hensher 1983), cultural heritage, like the Yorkshire Dales (Garrod and Willis 1999), St Anne’s Square (Alberini et al. 2003) and the Washington monuments (Morey et al. 2002) and cultural institutions, like museums (Mazzanti 2003). Most of the studies have been fairly successful and positive about the use of choice experiments in cultural economics. Part 2 of this chapter documents pilot study choice experiment conducted at the 2003 NAF.

## **CHAPTER 5: PART II**

### **THE CHOICE EXPERIMENT AT THE 2003 NATIONAL ARTS FESTIVAL**

#### **1. RESEARCH METHOD**

The Grahamstown choice experiment was conducted during the 2003 National Arts Festival (NAF) in July as a pilot study for using the method more extensively in the future. The first problem was that no composite ticket or entrance fee is available for Festival events. As outlined above, many of the events are free, such as the art exhibitions and street theatre, and of course, anyone can wander around the craft markets. However, the much bigger 2003 economic impact study (400 face-to-face interviews) discussed in chapter 3, showed that 88% of festinos (festival goers) attend at least one show on the Main or Fringe (Snowball & Antrobus 2003). It was therefore decided to use changes in ticket prices as the cost attribute. This is far from ideal as it excludes the opinions of festinos from lower income brackets who cannot afford to go to shows and of day-visitors who are mostly intent on shopping and site seeing. However, it was felt that other price variables, like a Festival tax or levy, would be less realistic and more complex to explain and that, in any case, low-income festinos (who were being honest) would choose the option with the lowest cost involved, regardless of attribute levels – that is, the old problem of willingness, versus ability, to pay.

In order to make the experiment as realistic as possible to respondents, only festinos who had attended at least one show on the Main or Fringe, and were thus more likely to be aware of ticket price and of the nature of the Main and Fringe attributes were interviewed. While most of the attributes making up the Festival are distinct and easily differentiated (for example, the craft market is distinct from free street theatre or art exhibitions), it was felt that Main and Fringe performances needed to be further defined. Respondents were thus given the following short definition before the interview started:

Both the Main and Fringe have a wide variety of shows, including music, dance, theatre, educational lectures and so on, but the Main shows are heavily sponsored and usually include some big productions, like the ballet or symphony orchestra, and some foreign artists. The Fringe

are un-sponsored shows and have to cover costs on their own, so are usually smaller and geared more towards popular tastes.

Respondents were then asked if they felt clear about the differences between the two types of shows. Of the 84 people approached (who also had to be over 18 years old), 78 (92%) answered positively to this question and were interviewed.

Attributes were: Main shows, Fringe shows, free shows and street theatre, art exhibitions and craft markets. Unlike other choice experiments, Festival attributes were not difficult to identify, since such cultural events are naturally divided in various categories. The only part of the NAF not specifically included, which can be found in the programme under Main, was the Winter School and the WordFest – both offering academic lectures. This section of the Festival tends to be small and attracts a very specific audience and including more attributes may have made the task facing respondents too complicated.

Attribute levels were in percentage terms, rather than in number of shows. Although this is less precise, it was felt that percentages gave a better indication of the size of the Festival than absolute numbers would. Except for price, attribute levels varied from 25% less, no change, 25% more to 50% more. Since many shows, particularly those on the Main are so heavily sponsored, ticket price was allowed to vary more widely, from 25% less, no change, 25% more, 50% more to 100% more. A “no change” option was not included in this pilot study, thus avoiding any status quo bias, but would be recommended in further research in order to conduct welfare analysis. The questionnaire is contained in Appendix 2.

Interviews were conducted in public Festival places, like the Settlers’ Monument, at art exhibitions, outside show venues and at the craft markets. Given the transitory nature of Festival visitors, it is very difficult to determine whether the sample accurately reflects festivalgoer makeup. Interviewers were requested to approach people from as many different age and race groups as possible. As mentioned earlier, the larger economic impact study was conducted concurrently and some comparison can be made with this larger sample.

Generally, the choice experiment sample follows the economic impact sample fairly closely, with about 59% of respondents being of European-origin race groups (56% in the economic impact study), 26% of African-origin (as compared to 30%) and the remainder being made up of mixed-origin race groups. Home language groups followed this distribution, the vast majority being English speaking (67%), 22% speaking African languages and about 11% Afrikaans.

As with the larger sample, more than half (56%) of respondents were between 18 and 35 years old, 23% between 36 and 45, 18% between 46 and 60 and only about 3% being older than 60. Slightly more female respondents (55%) than males were recorded. Most respondents came from South Africa (90%), 5% from other African countries and 5% from the UK and USA.

NAF audiences tend to represent the wealthier, better-educated parts of society, as is the case with many cultural events the world over. The vast majority of respondents interviewed (82%) had a gross monthly household income of R7 500 or more, with 44% having income in excess of R15 000 per month. Almost everyone interviewed had finished high school (96%) and 64% of the sample had some tertiary education (mean years of education were 14, median, 15). Consequently, most respondents were employed in either professional, managerial or administrative posts (53%) and many were students (36%).

As expected, fewer day visitors (1.3% as compared to 10%) were recorded in the choice experiment sample than in the economic impact sample. This was expected because many day visitors do not attend shows and, given the price mechanism of the choice experiment (ticket prices), only those who attended at least one show were interviewed, thus disqualifying many day visitors. However, the rest of the choice experiment sample approximated the economic impact sample quite well: about 20% of people staying for 2 to 4 days, 28% for 5 to 6 days, 20% for 7 to 9 days, 31% for 10 or more (including local residents).







Although it is not possible to claim that any sample (particularly not such a small one) from an event like the NAF, with a highly mobile audience, is perfectly representative of all festival goers, it can be concluded that the make-up of the choice experiment sample does not differ markedly from the larger economic impact survey and thus probably represents a reasonable approximation of NAF festinos.

On average, festinos in the choice experiment sample attended 3.4 shows on the Main programme and 4 shows on the Fringe during their stay. 71% attended at least one free show and 68% attended at least one art exhibition. The vast majority of respondents (98%) spent some time at the craft markets, 36% having been 5 or more times. Given these high figures, it is probable that most respondents understood the various attributes identified in the choice experiment. 70% of respondents said that they had found the choice experiment interesting – a further indication that it was taken seriously.

An orthogonal design generated 26 combinations, which were paired and presented with icons in 13 cards as shown on the sample below. Each respondent was given 3 different, randomly selected cards, an example of which is presented in figure 5.1 below.



Figure 5.1: An example of the choice cards used at the NAF

| Changes   | Option 1         | Option 2        |
|---|------------------|-----------------|
| <b>“Main” shows</b><br>                    | <b>50% more</b>  | <b>25% less</b> |
| <b>“Fringe” shows</b><br>                  | <b>25% more</b>  | <b>25% less</b> |
| <b>Free shows &amp; street theatre</b><br> | <b>25% less</b>  | <b>25% more</b> |
| <b>Art exhibitions</b><br>                | <b>50% more</b>  | <b>25% less</b> |
| <b>Craft markets</b><br>                 | <b>50% more</b>  | <b>50% more</b> |
| <b>Ticket price</b><br>                  | <b>100% more</b> | <b>25% more</b> |

## 2. ANALYSIS AND RESULTS

### 2.1 Models and results for combined data

Several models were applied to the data: the usual conditional logit model (CLM), a heteroskedastic extreme value (HEV) model, and a mixed logit (MXL) model. The results are reported in Table 1.

The CLM performed well, with five of the six variables being statistically significant at 5% level or less, and with all coefficients having their expected signs: positive for the attributes and negative for ticket price. The McFadden LRI is 0.18, which is reasonably high compared with goodness of fit measures for many other CLM studies. Moreover, a Hausman test, omitting subsets of the choice set, did not change the parameter estimates significantly. Hence, independence of irrelevant alternatives can be assumed; and thus alternative elements of the NAF are not close substitutes for each other.

Table 5.1: Results for logit models

| Variable: coefficient,<br>std | CLM                    | HEV                    | MXL                   |
|-------------------------------|------------------------|------------------------|-----------------------|
| <b>Main</b>                   | 0.0114<br>(0.0043)***  | 0.0104<br>(0.0041)**   | 0.0153<br>(0.0070)**  |
| <b>Fringe</b>                 | 0.0074<br>(0.0060)     | 0.0063<br>(0.0055)     | 0.0138<br>(0.0140)    |
| <b>Free_M</b>                 | 0.0051<br>(0.0036)***  | 0.0049<br>(0.0033)**   | 0.0032<br>(0.0047)    |
| <b>Free_S</b>                 |                        |                        | -0.0001<br>(0.5796)   |
| <b>Art</b>                    | 0.0082<br>(0.0032)**   | 0.0069<br>(0.0034)     | 0.0091<br>(0.0063)    |
| <b>Craft</b>                  | 0.0102<br>(0.0038)***  | 0.0091<br>(.0038)**    | 0.0118<br>(0.0054)**  |
| <b>Price_M</b>                | -0.0110<br>(0.0026)*** | -0.0107<br>(0.0024)*** | -0.0231<br>(0.0130)** |
| <b>Price_S</b>                |                        |                        | -0.0490<br>(0.0417)   |
| <b>N</b>                      | 234                    | 234                    | 234                   |
| <b>Log-likelihood ratio</b>   | -59.202                | -137.365               | -130.754              |
| <b>McFadden's LRI</b>         | 0.1825                 | Scale2=1.3430          | 0.1939                |

\*\*\* = significant at 1% or less; \*\* = significant at 5% or less; \* = significant at 10% or less.

The HEV model assumes that the utility of alternative  $j$  for each individual  $i$  has heteroskedastic components. The best mixed logit (random parameter) model was one with a uniform distribution. However, while the HEV coefficients are not too dissimilar

to the CLM estimates, the HEV and MXL models did not improve goodness of fit and had fewer statistically significant coefficients.

The CLM shows that the marginal utility from increasing Main events is greater than that derived from increasing other elements of the NAF. Also, utility derived from an increase in Craft and Art events is higher than that from a similar increase in Fringe and Free events.

The odds interpretation of the coefficients is calculated by taking the antilog of the attribute coefficients. Table 5.2 shows the calculations and their interpretations.

*Table 5.2: Odds interpretations of results*

|   | <b>CLM</b>   |
|---|--|
| <b>Main attribute coefficient</b>           | 0.0114***  |
| <b>Main attribute odds interpretation</b>   | An increase of 1% in this attribute increases the probability of respondents choosing this option by 1.01147%  |
| <b>Fringe attribute coefficient</b>         | 0.007358   |
| <b>Fringe attribute odds interpretation</b> | An increase of 1% in this attribute increases the probability of respondents choosing this option by 1.0074%   |
| <b>Free attribute coefficient</b>           | 0.005132   |
| <b>Free attribute odds interpretation</b>   | An increase of 1% in this attribute increases the probability of respondents choosing this option by 1.005145% |
| <b>Art attribute coefficient</b>            | 0.008223*  |
| <b>Art attribute odds interpretation</b>    | An increase of 1% in this attribute increases the probability of respondents choosing this option by 1.00825%  |
| <b>Craft attribute coefficient</b>          | 0.0102***  |
| <b>Craft attribute odds interpretation</b>  | An increase of 1% in this attribute increases the probability of respondents choosing this option by 1.0252%   |
| <b>Price attribute coefficient</b>          | -0.0110***   |
| <b>Price attribute odds interpretation</b>  | An increase of 1% in this attribute decreases the probability of respondents choosing this option by 1.01106%  |

\*\*\* significant at the 1% level

\*\* significant at the 5% level

\* significant at the 10 % level

The implicit price visitors to the NAF are prepared to pay for a unit increase in events in each element of the NAF can also be derived from table 5.1 by dividing the attribute coefficient by the price coefficient. Table 5.3 shows the WTP calculation and interpretation. The CLM suggests that respondents were, on average, willing to pay 10.36% increase in ticket prices for a 10% increase in Main events; and a 9.27% increase

in ticket prices for a 10% increase in craft events. Thus price elasticity for these two sections of the NAF is about one. The implicit marginal values of other sections of the NAF are much lower. For a 10% increase in respective events, increased ticket prices were: 4.76% increase for Free events, 6.69% for Fringe events, and 7.48% for Art events. These events are thus fairly price elastic, that is, festinos require a relatively large increase in the quantity of events in these sections of the NAF for a ticket price increase.

*Table 5.3: WTP for increases in NAF attributes*

| <b>Attribute</b> | <b>Coefficient/Price coefficient</b> | <b>Interpretation</b>  |
|------------------|--------------------------------------|--|
| <b>Main</b>      | 1.036                                | For an increase in Main shows of 10%, respondents were willing to pay 10.36% higher ticket prices. |
| <b>Fringe</b>    | 0.669                                | For a 10% increase in Fringe shows, respondents were WTP 6.69% higher ticket prices                |
| <b>Free</b>      | 0.476                                | For a 10% increase in Free shows, respondents were WTP 4.76% higher ticket prices.                 |
| <b>Art</b>       | 0.748                                | For 10% more art exhibitions, respondents were WTP 7.48% higher ticket prices.                     |
| <b>Crafts</b>    | 0.927                                | For a 10% increase in craft markets, respondents were WTP 9.27% more in ticket prices.             |

## **2.2 Results of the CLM divided by gender and race groups**

Separate CLM regressions were also run for male, female, European origin and African origin race groups. These models performed less well than the combined data models reported on above (partly because of the small sample size). However, in all cases, the signs on the coefficients were as expected and ticket price was negative and statistically significant. The results will be reported as an illustration of how a choice experiment can be used to value various cultural good attributes to different social groups. Results are presented in table 5.4 below.

Table 5.4: CLM results for different social groups

|  | <b>Model 1:<br/>Females</b> | <b>Model 2:<br/>Males</b> | <b>Model 3:<br/>European-origin<br/>race groups</b> | <b>Model 4:<br/>African-<br/>origin race<br/>groups</b> |
|--|-----------------------------|---------------------------|---|---|
| <b>McFadden R-squared</b>  | 0.2583                      | 0.1166                    | 0.2668  | 0.1210  |
| <b>“Main” attribute coefficient</b>                                      | 0.0155*                     | 0.008073                  | 0.007086  | 0.0173*   |
| <b>Rise in ticket price (WTP) for a 10% increase in “Main” attribute</b> | 10.62%                      | 10.2%                     | 4.72%   | 21.33   |
| <b>“Fringe” attribute coefficient</b>                                    | 0.003877                    | 0.0102                    | 0.0151  | 0.001145  |
| <b>Rise in ticket price (WTP) for 10% increase in Fringe shows</b>       | 2.66%                       | 12.89%                    | 10.07%  | 1.41%   |
| <b>“Free” attribute coefficient</b>                                      | 0.002992                    | 0.006436                  | 0.004313  | 0.0118**  |
| <b>Rise in ticket price (WTP) for 10% increase in Free shows</b>         | 2.05%                       | 8.13%                     | 2.88  | 14.55   |
| <b>“Art” attribute coefficient</b>                                       | 0.0111*                     | 0.005206                  | 0.0101*   | 0.04973   |
| <b>Rise in ticket price (WTP) for 10% increase in Art exhibitions</b>    | 7.60%                       | 6.58%                     | 6.73%   | 6.13%   |
| <b>“Craft” attribute coefficient</b>                                     | 0.0140*                     | 0.007459                  | 0.0107  | 0.0112  |
| <b>Rise in ticket price (WTP) for 10% increase in craft market size</b>  | 9.59%                       | 9.42%                     | 7.13%   | 13.81%  |
| <b>“Price” attribute coefficient</b>                                     | -0.0146***                  | -0.007916**               | -0.0150***  | -0.00811**  |
| <b>Total WTP for an increase of 10% in all attributes.</b>               | 32.52%                      | 47.22%                    | 31.08%  | 57.23%  |

\*\*\* significant at the 1% level

\*\* significant at the 5% level

\* significant at the 10 % level

The coefficient for Main shows was significant at the 1% level in the combined CLM model (reported in part ii above) and significant at the 10% level for model 1 (females) and 4 (African origin people). WTP figures (a percentage rise in ticket price for a 10% increase in the attribute) are presented in table 5.4 above. As expected for the highly sponsored Main shows, all groups were willing to pay a fairly substantial amount in increased ticket prices for an increase in these shows. This result does not differ much

between men and women, but is markedly different between European-origin and African- origin people – the latter being willing to pay in excess of four times more (21.3% rise in ticket price) than the former (4.72% rise) for a 10% increase in Main shows.

Given the Euro-centric orientation of some of the biggest shows on the Main program, such as the ballet, symphony concerts and various classical music events, the above results are surprising. However, Festival organizers have increasingly been focusing on African performers in the last few years and this may have influenced the trend. The result is perhaps verified by the increase in African origin festinos (30% in 2003 compared to 22% in 2001) as well as mixed origin race groups (14% in 2003) found in the economic impact study (Snowball and Antrobus 2003). It is an encouraging sign for the New South Africa that the emerging African origin middle-class represented here are becoming integrated into such cultural events and reaffirms the Eastern Cape government's decision to back the NAF.

Marais (2004) suggested that the preference for Main shows by African origin race groups could be explained by their relatively recent participation in the Festival. When faced with such a wide variety of mostly unknown artists, newcomers would probably naturally choose Main shows, because they are selected by the organizers (thus controlled for quality), are in larger, easier to find venues and heavily sponsored (sure to provide good value for money). In contrast, Fringe shows offer a bewildering number and quality of events and may be of a very poor quality. Since it is only in the last 10 years that South Africa has been a democratically ruled country and that an African origin middle class has emerged, most people in this group are still fairly new to the Festival experience. Marais (2004) speculates that it may take a whole generation (another 10 to 15 years) for African origin people to feel as confident and comfortable as their European origin festino counterparts.

As expected, since the Fringe program is much less heavily sponsored and so generates less consumer surplus, the combined CLM model showed a lower WTP for a 10%

increase in these shows of about 6.7%. Females and people of African-origin race groups had a very low WTP. If one considers Main and Fringe events to be, to some extent, competing festival activities, these results make sense, since the two groups with the highest WTP for Main shows have the lowest WTP for Fringe events. Males tended to favour Fringe shows much more than other groups (WTP of nearly 13% increase in ticket price for 10% more shows). Perhaps this can be partly explained by the somewhat racy nature of many of the performances, which also include late-night music and parties.

The coefficient for free shows was only statistically significant in model 4 (African origin people). Except amongst this group, WTP for 10% more free shows and street theatre was fairly low – about 4.7% rise in ticket price. This is easily explained by the fact that only a small number of free shows are provided (on average 4 or 5 per festival), except for an outdoor local music stage that attracts mainly African origin musicians and audiences. Marais (2004) also suggests that there is a cultural element to this result. For many African-origin people the experience of entering a theatre and keeping silent in the dark is unfamiliar, since African cultures have traditionally conducted rituals and cultural celebrations as a community in large indoor spaces or in the open.

The coefficient for art exhibitions was significant at the 10% level, except amongst males and African origin people. Given the two major free festival activities, art exhibition and street theatre, those groups WTP a higher amount for one are WTP less for the other, suggesting particular differences in taste amongst various groups. However, WTP does not vary as much for free shows and street theatre – ranging between a 6.1% and 7.6% rise in ticket prices for 10% more art exhibitions – and is generally higher than for free shows. This is probably partly because there are more art exhibitions currently on offer (32 in 2003), so a 10% rise in this attribute represents a much larger absolute increase in events than it does for free and street theatre (3 more art exhibitions as opposed to 0.5 free shows).

The craft market coefficient is only significant in model 1 (females) although there is not much difference between male and female WTP for this attribute. African origin people

are willing to pay a significantly higher amount (13.8%) than European origin people (7.1%) for an increase of 10% in craft market size.

Although many of the figures are not statistically significant, an idea of the value of various activities to different social groups does emerge. African origin festinos are most interested in Main shows followed by free shows and the craft markets, while their European origin counterparts prefer Fringe shows, then the craft market and art exhibitions. Male festinos like Fringe, Main and free shows most and women prefer Main shows, the craft markets and art exhibitions. The highest overall willingness to pay is amongst visitors from African-origin race groups (57.2% increase in ticket price) and the lowest amongst European-origin people (31.1%). In all cases, however, a significant amount of consumer surplus is indicated, particularly for Main shows and the craft market.

Such information can be useful, not only in designing a festival which will appeal more to targeted groups, but also in lobbying for sponsors and advertisers who may want to reach specific target markets. The information can also be used to calculate whether the proposed 10% increase in each attribute is cost effective.

### **2.3 Spending as an indication of preference**

In chapter 3 it was argued that spending on Festival attributes did not necessarily indicate preference or utility provided by the various activities on offer at the Festival. This is especially the case where one of the major activities (show attendance) is heavily subsidized. A choice experiment study conducted on the activities and spending of visitors to Seoul, Korea (Suh and Gartner 2004) had a very similar result. It was found that the preferred activities of the three tourist groups studied (tourists from Europe, North America and Japan) differed significantly, but that the preferences expressed by each group in the choice experiment did not necessarily correspond to their spending in these areas. For example, tourists from Japan regarded shopping as the most important factor, but the daily shopping expenditure of this group was not the highest.



Suh and Gartner (2004) suggest that the reasons for this result were that Japanese travelers were not being provided with the right kinds of services and products or that they were expressing irrational preferences based on opinions and prejudices. Another alternative could be that, even when the market price is not being distorted by subsidies, as is the case with the NAF, utility or preference does not correlate simply with expenditure. For example, one may derive great pleasure from time spent window-shopping and careful selection of a few goods without spending as much money as someone else who spends less time on shopping and enjoys it less.

A consumer research study conducted at the 2004 NAF produced the following spending figures. The same sort of result as in the Seoul study is observed when compared to the willingness to pay figures presented above.

*Table 5.5: Comparison of spending per person per day at the 2004 NAF<sup>17</sup>*

| <b>Category</b>        | <b>African-origin<br/>visitor spending</b> | <b>European-origin<br/>visitor spending</b> |
|------------------------|--|---|
| <b>Shows</b>           | R44  | R72   |
| <b>Food and drinks</b> | R73  | R72   |
| <b>Shopping</b>        | R78  | R75   |

For example (as can be seen from the figures above) African origin festinos in 2004 had the lowest spending on shows, but (at least in terms of Main shows) the highest marginal utility. Spending on shopping and food and drinks was very similar for African origin and European origin groups and, while African origin marginal utility remains higher in both these categories, it is not nearly as different (in percentage terms) from European origin utilities for these categories.

Spending figures show “revealed preferences” based on actual behaviour and are thus regarded as more robust because they are free from the various forms of hypothetical bias

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<sup>17</sup> While comparison of 2003 choice experiment and 2004 spending figures is obviously not ideal, the 2001 data shows a remarkable similarity, in terms of ranking, to the 2004 data, suggesting that the data is quite stable over time. For example, in both 2001 and 2004 studies, African-origin Festival visitors spent least on shows and most on shopping, while European-origin visitors spent most on shopping in both years.

associated with stated preference techniques (Adamowics et al. 1993). However, it is also possible that spending does not always equate with utility, especially as, in the NAF case, where attribute price does not reflect market price.

## 2.4 Financial cost-benefit analysis of changes to the NAF

NAF organizers have a responsibility to match the provision of NAF elements with visitors' preferences and values for these elements. The marginal costs of provision vary considerably across the elements of the NAF, from Main and Fringe events, to Free and Art events. The NAF organizers estimate the marginal cost of providing one additional Main show is around R167,000; while ticket sales would generate a marginal revenue of around R11,700 per show (in 2003 prices) or R4,200 per performance. Table 5.6 indicates the estimated cost of a 10% change respectively in the quantity of Main, Fringe, Free, and Art shows and performances.

*Table 5.6: Estimated costs and benefits of a marginal 10% increase in the provision of different events at NAF. (SA Rand, 2003 prices).*

| <b>Marginal (10%) change in</b> | <b>Shows</b> | <b>Performances</b> | <b>Cost</b>            | <b>WTP</b> |
|---------------------------------|--------------|---------------------|------------------------|------------|
| <b>Main</b>                     | 18           | 50                  | 3,000,000              | 579,536    |
| <b>Fringe</b>                   | 17           | 129                 | 90,000                 | 441,347    |
| <b>Free</b>                     | 1            |                     | 80,000                 | 159,791    |
| <b>Art</b>                      | 3            |                     | 360,000                | 251,100    |
| <b>Craft</b>                    |              | 26 stalls           | <sup>a</sup> Very high | 311,190    |

<sup>a</sup>. It is difficult to estimate the marginal cost of the additional craft market stalls, since the Village Green is currently at capacity. Expanding it further would thus involve huge fixed costs in terms of additional marques, electricity and water points, toilet facilities and so on. Conversely the marginal cost saving in reducing the number of stalls would be very small for this event.

The CLM can be used to estimate WTP for changes in different elements of the NAF. For a 10% increase in Main events, festinos would be willing to pay a 10.36% increase in ticket prices. This would generate an extra R347,780 on existing ticket sales for Main and Fringe events, plus R231,756 for new tickets sold for the additional 18 shows (50 performances) that a 10% increase in the Main event programme would entail. This

gives R579,536 as the increase in marginal benefits. Since the marginal cost of increasing the Main programme is R3 million, clearly any expansion in the Main event programme is not justified.

The benefits of increasing Fringe events by 10% are R224,580 on existing tickets, plus R216,767 from new ticket sales from the increased number of Fringe events. This gives an increase in marginal benefits of R441,347. But since the costs of increasing the Fringe are only R90,000, an increase in this element of the NAF is justified in terms of financial cost-benefit analysis (FCBA).

Festinos would be willing to pay an extra R251,100 for a 10% increase in Art exhibitions; R311,190 for a 10% increase in Craft market size; and R159,791 for a 10% increase in Free events. Since a 10% increase in Free events has a marginal cost of only R80,000, this, along with an expansion in the Fringe, is also justified in FCBA. However, a 10% increase in the Art element, would generate benefits of R251,100 but incur a public subsidy cost of R360,000. The linear nature of the cost and benefit functions suggests further expansion in the Fringe and Free elements would be sanctioned in FCBA terms. However, such a continued expansion is unlikely to be justified forever because the marginal costs rise and the marginal benefits of the Fringe and Free elements decline as the NAF expands.

The linear CLM assumes symmetry in terms of marginal additions or losses of Main, Fringe, Free, and Art events around the status quo provision. Thus, a 10.36% reduction in ticket prices would compensate for a 10% reduction in the quantity of Main events provided. A 10% reduction in the number of Main events, saving R3 million would only involve a loss in benefits of R315,133. This indicates that there is scope for increasing benefits by reducing the number of Main events on offer. A similar argument can be made for reducing the number of Art events. However, any reduction in Fringe and Free events would reduce benefits more than costs.

### 3. SHORTCOMINGS OF THE STUDY AND CONCLUSIONS

As previously mentioned, the use of ticket price as the price attribute for the whole festival is not ideal, since some of the shows are free, as is entrance to the craft market and the art exhibitions. This also limits the study to those festinos who have actually bought tickets, unlike the WTP study reported on in the previous chapter.

Another criticism of using this data in the cost-benefit analysis above is that the price elasticity of demand is assumed to be perfectly inelastic, so that a 10% rise in ticket prices would not result in a significant fall in demand for tickets. While it is acknowledged that this may be somewhat unrealistic, there is some evidence that the assumption is not completely incorrect. The larger economic impact survey asked those respondents who had bought some tickets if they would have bought the same number of tickets if the price had been 10%, 25% and 50% higher. Table 5.7 below presents the results, based on interviews with the 312 respondents who had attended at least one ticketed show.

*Table 5.7: Percentage of respondents who would still have bought the same number of tickets if price had increased*

| <b>Price increase</b>        | <b>Number of responses</b> | <b>% YES responses</b> |
|------------------------------|----------------------------|------------------------|
| <b>10% increase in price</b> | 247                        | 79.167                 |
| <b>20% increase in price</b> | 136                        | 43.59                  |
| <b>50% increase in price</b> | 74                         | 23.718                 |

Thus, it was found that nearly 80% of respondents would have bought the same number of tickets, even if the price had been 10% higher. The response is not unexpected, since the festival, particularly the Main program, is highly sponsored. Comparisons between festival show prices and market prices reveal that market prices are, on average, about 48% higher than those at the festival (as discussed in chapter 2), which helps to explain the relative price inelasticity.

In conclusion, it is argued that CEs provide a useful technique to estimate the benefits provided by various elements or attributes of complex bundles of cultural goods embodied in arts festivals. The CLM of the South African NAF performs well in valuing

Festival attributes, and also provides some interesting insights into the value that different gender and ethnic groups place on these different attributes.

The results of the CBA suggest that less public funding support should be provided to shows on the Main programme and Art exhibitions, but that Fringe and Free events should be expanded. However, any decision on changes to the level of subsidy to the NAF would also need to consider other local economy benefits from the festival and the preferences of previously excluded cultural groups. For example, changes that decreased the number of African-origin festinos would not be in line with Festival aims, or encourage further government support. If the number of Main shows was reduced, and this decreased the probability (numbers) of (visitors) attending the NAF, then it might reasonably be assumed that this money (accommodation, food, and other expenditure from these visitors) would be lost to the Grahamstown regional economy.

As argued in chapter 3, economic impact is an important reason for public funding of the Festival, given that the Eastern Cape is one of South Africa's poorest provinces. Likewise, chapter 4 showed that current and future expected economic benefits are a very important reasons for local residents' support of the Festival – especially the poorer African-origin population. Thus, like the other methods discussed, choice experiments are put forward, not as a definitive answer to cultural good valuation, but as a useful additional method to consider within a specific context. Chapter 6 discusses ways in which the four methods discussed (qualitative/historical, economic impact, willingness to pay and choice experiments) can be combined to form a composite value of the NAF and concludes the thesis.

## CHAPTER 6

### COMBINING VALUATION METHODS AND CONCLUSIONS

“Beauty is rarely soft or consolatory. Quite the contrary. Genuine beauty is always quite alarming”.

I looked at Camilla, her face bright in the sun, and thought of that line from the *Iliad* I love so much, about Pallas Athene and the terrible eyes shining.

(*The Secret History* by Donna Tart 1992:44)

This thesis set out to explore ways in which culture, as represented by the National Arts Festival, can be valued. Originally grounded in the field of economics and, more specifically, cultural economics, I quickly found the subject matter spilling over into all sorts of other fields, like philosophy, cultural studies, sociology, history and even theology. And this is not a bad thing. Rather, to my mind, it represents a gradual, but definite move in economic theory towards a far more qualitative, pluralistic and interdisciplinary approach.

Anderson (1993:xiii) argues that to limit ourselves to the one measure of value provided by the market (that is, price) is an ultimately impoverishing choice.

“We don’t respond to what we value merely with desire or pleasure, but with love, admiration, honor, respect, affection and awe as well. This allows us to see how goods can be plural, how they can differ in kind or quality: they differ not only in *how much* we should value them, but in *how* we should value them.”

She agrees with Klammer (2004b) and Throsby (2001) that values are socially constructed and determined through conversation and social interaction – talking about the reasons for our value judgments helps others to see and appreciate them too. The idea of utility or want satisfaction as being the ultimate measure of such values is simply not pluralistic enough to describe how we respond to things we value.

Economics makes free and frequent use of the word “good” to mean a desirable object – something that provides utility. The ancient Greek word, καλός (kalos) means good, but also beautiful – an unalterable link in the ancient Greek mind, so that it was at first

Table 6.1: *Methods of valuing cultural goods*

| Method                        | What does it measure?   | Advantages  | Disadvantages   |
|-------------------------------|---|---|---|
| <b>Qualitative/historical</b> | Historical social and political importance  | Provides a context and long-term view<br>Does not rely on one monetary measure, but allows for a greater variety of indicators<br>Addresses the importance of art and culture specifically.   | No generally agreed-upon indicators yet available;<br>Is a subjective measure that may be contested more than other methods;<br>Does not result in one, easily comparable figure.   |
| <b>Economic impact</b>        | Incremental monetary effects on real GDP of the region, tax revenues, jobs and personal income.                       | Provides one monetary figure that is easy to communicate and use in public funding advocacy (monetary figure fits into a budget).<br>Is useful in comparing the return on investment of taxpayers and making comparisons between various projects.<br>The cultural institution or event does not need to be qualitatively valued, avoiding reference to what may be politically sensitive issues. | Method is not as “scientific” and objective as it seems and is open to many forms of methodological bias.<br>The figures themselves are open to misrepresentation.<br>Financial impact by itself is not a very effective argument for public funding.<br>Does not take into account the aims of the cultural workers or their products. |
| <b>Willingness to pay</b>     | The monetary value of use and non-use values generated by the event, specifically those values external to the market | Method takes into account non-market values that are usually more closely related to the goals of cultural workers.<br>Can confirm/deny the existence of externalities to various groups.<br>Only way to measure non-use values.<br>Results in one monetary figure that can easily be communicated and combined with economic impact figures.   | Numerous methodological problems as a result of the hypothetical nature of the questions.<br>May be double-counting the financial benefits recorded in economic impact.<br>Values the good as a whole, not the part-worth attributes.   |
| <b>Choice experiments</b>     | The monetary value of use and non-use values generated by the event (as above)  | Has the same advantages as the WTP method as well as:<br>Possible methodological improvements (e.g. built in scope test and possible reduction of hypothetical bias)<br>Each attribute of the good valued separately.<br>Willingness to accept as well as WTP can be measured.  | Still plagued by some methodological problems<br>Can result in extremely complex choice tasks and associated problems<br>Respondents have to have quite detailed information about each attribute (some evidence that CE is better at measuring use than non-use values).   |

inconceivable that a good person would be ugly or vice versa. This link has persisted in modern times, but like the students in *The Secret History*, we may find ourselves trembling before beauty or “good”, not enjoying or wanting it all, but nevertheless valuing it.

What makes valuing culture or cultural expressions even more problematic is that our value judgments are largely based on the understanding of what is good and bad, things which are generated by the culture itself. If one understands culture and art as a way of making meaning, of understanding and interpreting reality, then it must be of ultimate value to us. But how to measure it? In some ways, it is rather like trying to open a box with the crowbar that is inside it.

This thesis has drawn on economic theory, both qualitative and quantitative, to try to value a cultural event. It is acknowledged early on that the market, while providing some useful guidance for policy makers, is not sufficient in the case of cultural goods with large externalities. It is also stressed that, out of a particular context, even non-market valuations are not much good. G. K. Chesterton, writing in 1901, also acknowledges this in his essay entitled, “A defence of nonsense”. He argues that, while art does not have to have a direct relationship or reference to its context, it nevertheless draws inspiration from it. “The principle of *art for art’s sake* is a very good principle if it means that there is a vital distinction between the earth and the tree that has its roots in the earth; but it is a very bad principle if it means that the tree could grow just as well with its roots in the air” (1935:126).

The best way of valuing such cultural goods as the NAF would thus seem to consist of a combination of valuation techniques that can give as holistic a picture as possible. Table 6.1 above summarizes the four measurement techniques applied to the NAF, what they are supposed to measure and their strengths and weaknesses.



So, what is the value of the NAF and is the recent increase in government support justified?

From a political economy and an historical point of view, the NAF can be said to have played quite an important role in providing a pressure valve for political resistance particularly during the height of the apartheid era. Despite a very negative view on the depth of the Festival committee's commitment to diversity by Grundy (1993), by 1985 Festival programs were including performances from many diverse cultural groups. This has continued to be the case in the New South Africa although market considerations and lack of funding are a constraining factor. Festival audiences have also become steadily more racially diverse and chapter 2 argued that building new cultural capital, through programs like the Arts Encounter and the Studio Project, may be one of the most important roles for the Festival in the absence of the large, state funded arts councils.

Other cultural indicators by which to judge the value of the NAF are: its role in maintaining South Africa's diverse cultural capital, its value as an outlet for political and social comment and its role in the valuation or "valorization" (Klamer 2002) of new works by artists, agents and audiences. Chapter 2 suggests that evaluating the Festival using such cultural indicators can show its historical progression and the changes that may have occurred over time. This may be especially important when considering the value of cultural events or products in developing countries that have undergone some important social and/or political change. However, until more consensus is reached on which cultural indicators to use and how to measure them, this sort of analysis will remain highly qualitative and will thus need to be supplemented by quantitative data if it is to be used in making policy decisions.

Throsby (2001) points out that public policy has come to be dominated by economic policy and its major goal of efficiency. Within this framework, the economic (meaning financial) impact of the NAF is a very important consideration when lobbying for public funds, particularly in the context of a developing country. Despite some vehement criticism of the method, both from methodological and conceptual points of view, there is

some evidence (in the case of the NAF and others) that economic impact figures can be used to great effect in motivating for public funds for the arts.

The economic impact of the NAF to the Grahamstown economy was shown to be R33 million (about \$5 080 000 at an exchange rate of R6.50 to the dollar) for 2003 and about R35.5 million (\$5 500 000) for 2004. In real terms (2000 prices) this shows a growth of nearly 6% - much better than the South African average real GDP growth rate of 2% for 2003 (SARB Quarterly Bulletin 2003). This figure also represents a very good return on government support of around R2.5 million a year.

Problems with using this figure for arts advocacy are firstly that it represents increased *sales* or spending as a result of the Festival, not increased income. Also, leakages from the Grahamstown area, as with most small towns, are likely to be very large (both in the direct and indirect phases), thus decreasing the net impact that sponsors and other interested parties might hope for. Being a seasonal event of short duration, it also does not generate many additional jobs and a number of these are taken up by students from outside the region, or by people who are already employed. Nevertheless, there is no doubt that there is some trickle-down effect and that the region would be considerably financially worse-off without the Festival.

Another problem is that, when one examines who is benefiting financially from the event, it quickly becomes clear that the wealthier, European-origin residents are gaining far more in terms of money than the poorer African-origin residents who need it most. From an equity point of view, therefore, using economic impact figures to argue for public support is rather problematic. Another big problem is that, by using such valuation methods, arts proponents are not focusing on the attributes of the good that they themselves value – the purpose of the arts – usually not related to generating financial profits. These values, often external to the market, could be argued to be much more central to arts valuation and, as pointed out by a number of commentators, they cannot be valued by using only market data.

This is especially the case since, as Klammer and others point out, market values for art works tend to be unstable over time. Schneider and Pommerehne (1983) and also Baumol (1986) showed this early on in the development of cultural economics. Examining data from arts markets over several centuries, they both came to the conclusion that, while the price of art works is partly determined by the forces of supply and demand, there is no equilibrium price level and “their prices can float more or less aimlessly” (Baumol 1986:10), especially as the study time period lengthens. While this criticism applies to all short-term studies, including stated preference techniques, contingent valuation has gone some way towards solving the problems of using purely market data to value the arts.

Contingent valuation techniques can include stated preference methods (like willingness to pay and choice experiments) as well as revealed preference methods (like travel-cost and hedonic pricing techniques). Only stated preference methods, however, can measure non-use as well as use values and it is these methods that this thesis has focused on. As with economic impact analysis, however, there are major methodological and conceptual problems with such hypothetical measurement techniques, although the huge proliferation of especially WTP studies indicates a general acceptance of the method, at least at a functional level.

While the WTP studies conducted at the NAF produced figures far below those of the economic impact surveys (R2.8 million or \$431 000 to avoid a 25% reduction in Festival size), they have been very successful in examining the non-market benefits to various sectors of the population of Grahamstown. Unlike the financial benefits, which accrue mostly to the wealthier residents, the WTP study showed that significant positive non-market benefits do flow from the Festival and that they accrue to both low and high income area residents.

Until recently, WTP and economic impact figures were simply added together to produce an overall value of the good (that is, market + non-market value = total value). However, as Seaman (2003a) points out, there are two problems with this. Firstly, the WTP measure is often (as in the NAF case) a partial measure, for example the willingness to

pay to avoid a percentage reduction (25% in the NAF case) or increase in the size of the event. Because of substitution effects, simply multiplying WTP by four to estimate the total non market value of a 100% reduction in the Festival is not feasible. It is thus fairly meaningless to add the WTP for a partial reduction in Festival size to the total financial impact figure.

The second problem, suggested by Seaman (2003a) and explored in this thesis, is that the WTP figure may also be capturing some of the current or future expected financial benefits that the cultural event provides. Simply adding the two figures would thus represent double counting of Festival value. The problem is particularly evident amongst low-income residents, and any combination of WTP and economic impact data would need to discount the WTP figure to take this into account.

The choice experiment conducted in 2003 was a pilot study for further research and aimed to address the question of how various social and ethnic groups value the differing attributes of the NAF. While having some of the same methodological problems as the WTP studies, CEs do seem to offer additional useful information on how different parts of the Festival are valued, rather than the overall valuation resulting from one WTP question. It is also possible that they can improve on the methodology of WTP studies in terms of providing an internal scope test and greater insight into how respondents make decisions.

Although many of the results for the CLMs split by race and gender groups were not significant (probably as a result of small sample size), they were able to show some indication of the differences in taste between African and European origin festival goers and between males and females. The combined CLM performed well and showed that (on cost/benefit grounds) more Free and Fringe shows should be offered, while there should be a reduction in Main shows and Art exhibitions. However, it is pointed out that, since African origin festival visitors are most interested in Main shows, there are equity grounds for continuing to fund them at their previous level. A reduction in Main shows

(seen to be the main attraction) could also lead to a decline in visitor numbers and thus economic impact.

To answer the research question then, it appears that the NAF has considerable value in terms of its historical and ongoing contribution in maintaining and building cultural capital in South Africa. It has a positive economic impact on the Grahamstown economy and provides considerable non-market benefits to all residents, including previously excluded Africa-origin people. While not measured in this research, it is also likely that non-use benefits are enjoyed by a wider group of South African residents, particularly given the extensive media coverage of the event and its development into a truly “National” festival, including a variety of art forms from various ethnic groups. As far as the make-up or attributes of Festival are concerned, the choice experiment indicates that all the attributes are valued positively by festival goers and that increasing the number of Fringe and Free shows on offer would increase the utility of visitors. The Festival also seems to have had some success in diversifying its audience to include a greater number of African-origin visitors.

Throsby (2001) concludes *Economics and Culture* by arguing that effective cultural policy decisions will need to take into account both economic and cultural values. He recognizes that it may be very difficult to convince policy makers, used to focusing only on efficiency maximization, that qualitative data also needs to be taken into account. However, the recent shift in welfare economics (and other branches, like environmental economics) away from purely material indicators of human development is an indication that such a shift may not be too far away. “The re-conceptualizing of development in human terms brings culture from the periphery of development thinking and places it in center stage” (Throsby 2001:67). It is likely to play an increasingly important part in the policy decisions of developing countries in particular.

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## APPENDIX 1A

### Klein Karoo Naionale Kunstefees (KKNK): Version 1

|  |  |   |
|--|--|---|
| <b>Call number:</b> _____                      | <b>Area:</b> 1 <input type="checkbox"/> township | 2 <input type="checkbox"/> other          |
| <b>Call rating:</b>                            |  |   |
| 1 <input type="checkbox"/> call answered       | 2 <input type="checkbox"/> call terminated       | 3 <input type="checkbox"/> call completed |
| 4 <input type="checkbox"/> no reply            | 5 <input type="checkbox"/> line busy             | 6 <input type="checkbox"/> call back      |
| 7 <input type="checkbox"/> number disconnected | 8 <input type="checkbox"/> other: _____          |   |

**A** Good evening. My name is \_\_\_\_\_ and I am phoning to ask some questions about the Festival. This is part of a National Research Foundation study of three arts festivals in South Africa. Rhodes University economics department is running the Oudtshoorn section. Can you spare about 10 minutes, or should I phone back later?

☐ IF NOW → **B**

**A1** ☐ NO (to now and phone back): Is there anyone else who is 18 and older and might be willing to talk to me?

☐ NO: Thanks for your help. Goodbye.

☐ YES: [interviewer starts again]

**A2** ☐ IF NO TO “NOW”: When would be a good time to phone you? \_\_\_\_\_

**B** Thank you! Are you more than 18 years old?

☐ IF YES → **C**

**B1** IF NO: Thanks for your help, but 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 household, 18 or older, who might be willing to talk to me?

☐ IF YES: [interviewer starts again]

☐ IF NO: Thanks then, goodbye [interview tries at least 1 call-back].

**C** Which language would you like to use? [if not obvious]

1 ☐ English      2 ☐ Afrikaans

#### 1. Opinion

Firstly, I'd like to know what you think of the Festival as a whole. I am talking about ticketed and free and street events. I'm going to ask about live theatre, dance and music and also art exhibitions, films and the craft markets. OK?

Firstly, I have a few statements that I'd like to hear your opinion on. In each case, please tell me if you agree, disagree or don't know.

- 1.1 The festival gives **all** the people of Oudtshoorn a sense of pride  
1 ☐ agree      2 ☐ disagree      3 ☐ don't know
- 1.2 The arts offered at the festival harm society and cause trouble because they are too critical of our way of life.  
1 ☐ agree      2 ☐ disagree      3 ☐ don't know
- 1.3 The festival should be kept going so that people or their children have the choice of attending it in the future.  
1 ☐ agree      2 ☐ disagree      3 ☐ don't know

- 1.4 The shows and events at the festival are useful in educating the community.  
1 ☐ agree      2 ☐ disagree      3 ☐ don't know
- 1.5 The government should not sponsor the festival because there are many more important things to spend our tax money on.  
1 ☐ agree    2 ☐ disagree      3 ☐ don't know

## 2. Attendance

- 2.1 Did you go to the festival this year? 1 ☐ Yes Q2.3 2 ☐ No  
→
- IF NO
- 2.2 Did you go to the festival last year? 1 ☐ Yes Q 2.3 2 ☐ No Q4 →  
→
- 2.3 About how many, if any, of the following events at the festival did you go to this year [last year]?
- 2.4 Free live theatre shows or a street shows: \_\_\_\_\_
- 2.5 Plays (on Main or Fringe) that you had to buy tickets for: \_\_\_\_\_
- 2.7 Music events (on Main or Fringe): \_\_\_\_\_
- 2.8 Art exhibitions: \_\_\_\_\_ -
- 2.9 Films: \_\_\_\_\_
- 2.10 At this last festival, (or the 2002 festival) about how much time did you spend looking around or shopping at the craft markets?
- PROMPT: 1 ☐ none 2 ☐ 1 or 2 hours 3 ☐ 3 to 5 hours  
4 ☐ more than 5 hours

Next I would like to ask about your festival spending. Please estimate about how much you spent on the following festival activities:

FOR THOSE WITH TICKET SPENDING > ZERO

- 1 ☐ Yes → 3.3                      2 ☐ No → 3.4
- 3.3 About how much did you spend on shopping at the craft market?  
R \_\_\_\_\_
- 3.4 Eating out at festival/local restaurants during the festival including drinks?  
R \_\_\_\_\_
- 3.5 Would you say that you spent more during festival time that you normally do?  
1 ☐ Yes                      2 ☐ No                      3 ☐ Don't know

3.6 IF YES

If there was no festival, do you think that you would have spent the money outside the Oudtshoorn area (for example on a beach holiday) or would you probably have stayed at home and spent it here anyway?

- 1 ☐ Spent here                      2 ☐ Spent outside Oudtshoorn  
3 ☐ Don't know                      4 ☐ Not spent (saved)

4. Earnings

Next are some questions about how you benefit financially from the festival, or how you would like to benefit from it. Please remember that your name won't be attached to any of this information – our aim is to work out how Oudtshoorn people benefit from the festival.

- 4.1 Did you run a bed and breakfast or other kind of **accommodation** for festival visitors this year?  
1 ☐ Yes                      2 ☐ No                      Q 4.3                      →

IF YES

- 4.2 How much did you earn from festival accommodation overall in 2003? R\_\_\_\_\_

IF NO

- 4.3 What stopped you from letting out your house or some rooms?  
1 ☐ no space                      2 ☐ family/friends coming                      3 ☐ don't like the idea/not interested  
4 ☐ other: \_\_\_\_\_

- 4.4 Did you run a **stall** at the festival craft market this year?  
1 ☐ Yes                      2 ☐ No                      → 4.7

IF YES

- 4.5 What sort of stall was it?  
1 ☐ food                      2 ☐ crafts/art                      3 ☐ informal trader                      4 ☐ other: \_\_\_\_\_
- 4.6 How much profit did you make from that? R\_\_\_\_\_

- 4.7 Were you involved in any of the **festival performances** as an actor or dancer or other type of performer?  
1 ☐ Yes                      2 ☐ No                      Q4.9                      →

IF YES

- 4.8 How much did you earn from that? R\_\_\_\_\_

- 4.9 Did you have any other kind of **job at the festival** other than your usual work, this year? This can include overtime work during the festival. 1 ☐ Yes                      2 ☐ No                      Q4.12

IF YES

4.10 What kind of job was it?

- 1 ☐ technician/set builder                      2 ☐ security                      3 ☐ ticket sales/marketing  
4 ☐ other: \_\_\_\_\_

- 4.11 How much extra money did you earn from this? R\_\_\_\_\_

- 4.12 Did you try to find a job at the festival this year?                      1 ☐ Yes                      2 ☐ No  
IF YES

- 4.13 Why do you think you couldn't find one?  
1 ☐ too few available                      2 ☐ don't have correct skills  
3 ☐ have to know someone                      4 ☐ didn't try hard enough  
5 ☐ other: \_\_\_\_\_

ONLY ASK THOSE WHO HAVE SOME EARNINGS FROM FEST.

(No earnings → Q5)

- 4.14 What does your household mainly spend your festival earnings on?

1 ☐ food, transport and other monthly expenses      2 ☐ festival events

**5 WTP**

Thanks very much. The next section is about measuring the value of the festival to you through your willingness to pay tax to support it. As you might know, arts festivals, like schools and hospitals, don't make enough profit to survive on their own and rely quite heavily on sponsorship from private companies or the government. Government funding comes from the taxes that we pay – income tax and indirect taxes, like VAT.

In developing countries, like South Africa, there are many things that government funds need to be spent on and some of them are regarded as more important than arts festivals. Some private sponsors also feel that their money is better spent on, for example, sports or wildlife conservation. This means that there would be less money available for the festival in the future and that there would be fewer shows and less visitors.

- 5.1      Supposing no change to your total monthly taxes would you be willing to allow R10/R20/R30 per month of the taxes you already pay to be spent on the festival if this would prevent the festival from getting 25%/50% smaller next year? This means that there would be less money available for other government projects. [NO PROMPT]  
1 ☐ Yes                      2 ☐ No                      3 ☐ Don't know
- 5.2      Now suppose that you would have to pay the extra R10/R20/R30 out of your monthly income. That means you wouldn't have the R10/R20/R30 each month to spend on other things that you normally buy, like food, transport or entertainment. Considering your monthly expenses, would you be willing to pay R10/R20/R30 a month if this would prevent the festival from getting 25%/50% smaller?  
1 ☐ Yes                      2 ☐ No
- 5.3      What is the maximum amount that you would be willing to pay per month to prevent the festival from getting 25%/50% smaller? R\_\_\_\_\_
- 5.4      On a scale of 1 to 10, where 10 is very sure and 1 is not at all sure, how sure are you that you have accurately shown your willingness to pay to support the festival?  
1 2 3 4 5 6 7 8 9 10                      d ☐ don't know

**ASK FOR THOSE WITH POSITIVE WTP**

5.5      Why are you willing to pay to support the festival? [NO PROMPT, can mark more than one]

- 1 ☐ job opportunities  
2 ☐ education  
3 ☐ attracts tourists  
4 ☐ community pride  
5 ☐ I like to support a good cause/makes me feel good to support local arts  
6 ☐ future generation's benefit  
7 ☐ economic benefit to the town  
8 ☐ I go to lots of the shows/ enjoy attending  
9 ☐ I earn money from the festival  
10 ☐ Other:\_\_\_\_\_

5.6      Which of the reasons you have mentioned is the most important ? [interviewer may use above numbers]\_\_\_\_\_

**ASK FOR THOSE WITH NO/DON'T KNOW WTP**

5.7      Why are you not willing to pay to support the festival?

- 1 ☐ income constraints  
2 ☐ don't believe that the government will really use the money for the festival  
3 ☐ it doesn't matter much if the festival gets smaller

- 4 ☐ other more important things to spend government money on  
 5 ☐ already pay taxes, don't think taxes should be higher  
 6 ☐ only users should pay  
 7 ☐ only wealthy people benefit from the festival  
 8 ☐ the festival doesn't provide enough jobs for people who need them  
 9 ☐ other \_\_\_\_\_

## 6. Demographics

Finally, I d just like to know some details about you. Please remember that you name isn't attached to any of this information. Your phone number was selected at random from the phone book and none of the information you provide will be used for anything other than this research.

6.1 How old are you? \_\_\_\_\_

6.2 What is your home language?  
 1 ☐ Xhosa      2 ☐ Afrikaans      3 ☐ English      4 ☐ other: \_\_\_\_\_

Only to be asked if not obvious from language [Ask if ANY doubt]

6.3 What is your race group?  
 1 ☐ black 2 ☐ coloured      3 ☐ white 4 ☐ Indian      5 ☐ other: \_\_\_\_\_

6.4 Are you male or female? 1 ☐ male 2 ☐ female

6.5 How many years of education have you had? [MAY PROMPT] \_\_\_\_\_

Primary school up to grade 7 (std 5) = 7 years

Standard 6 (grade 8) = 8 years

Standard 8 (grade 10) = 10 years

Matric (grade 12) = 12 years

1 university degree = 15 years

2 degrees = 16 years

Diploma = school (12) + diploma duration

6.6 What is your job at the moment? [MAY PROMPT]  
 [INTERVIEWER: Write actual job, then classify: \_\_\_\_\_]

- 1 ☐ professional (doctor, business person, lecturer, teacher)  
 2 ☐ white collar worker (secretary, clerk, shop assistant agent)  
 3 ☐ service person (police, army, navy, air force, nurse)  
 4 ☐ blue collar worker (builder cook, cleaner, security guard, labourer)  
 5 ☐ student  
 6 ☐ housewife  
 7 ☐ retired  
 8 ☐ unemployed

6.7 What is the monthly income for your whole household, after tax, not counting any money that you earn from the festival? \_\_\_\_\_

6.8 How many people are in your household? \_\_\_\_\_

- 7 Thanks very much for your time and help. Before we finish, is there anything else about the Festival that you would like to tell us?

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INTERVIEWER COMMENTS:

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## APPENDIX 1B

### Klein Karoo Naionale Kunstefees (KKNK): Version 2

|  |  |   |
|--|--|---|
| <b>Call number:</b> _____                      | <b>Area:</b> 1 <input type="checkbox"/> township | 2 <input type="checkbox"/> other          |
| <b>Call rating:</b>                            |  |   |
| 1 <input type="checkbox"/> call answered       | 2 <input type="checkbox"/> call terminated       | 3 <input type="checkbox"/> call completed |
| 4 <input type="checkbox"/> no reply            | 5 <input type="checkbox"/> line busy             | 6 <input type="checkbox"/> call back      |
| 7 <input type="checkbox"/> number disconnected | 8 <input type="checkbox"/> other: _____          |   |

**A** Good evening. My name is \_\_\_\_\_ and I am phoning to ask some questions about the Festival. This is part of a National Research Foundation study of three arts festivals in South Africa. Rhodes University economics department is running the Oudtshoorn section. Can you spare about 10 minutes, or should I phone back later?

☐ IF NOW → **B**

**A1** ☐ NO (to now and phone back): Is there anyone else who is 18 and older and might be willing to talk to me?

☐ NO: Thanks for your help. Goodbye.

☐ YES: [interviewer starts again]

**A2** ☐ IF NO TO "NOW": When would be a good time to phone you? \_\_\_\_\_

**B** Thank you! Are you more than 18 years old?

☐ IF YES → **C**

**B1** IF NO: Thanks for your help, but 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 household, 18 or older, who might be willing to talk to me?

☐ IF YES: [interviewer starts again]

☐ IF NO: Thanks then, goodbye [interview tries at least 1 call-back].

**C** Which language would you like to use? [if not obvious]

1 ☐ English      2 ☐ Afrikaans

#### 1. Opinion



Firstly, I'd like to know what you think of the Festival as a whole. I am talking about ticketed and free and street events. I'm going to ask about live theatre, dance and music and also art exhibitions, films and the craft markets. OK?

Firstly, I have a few statements that I'd like to hear your opinion on. In each case, please tell me if you agree, disagree or don't know.

- 1.1 The festival gives **all** the people of Oudtshoorn a sense of pride  
1 ☐ agree      2 ☐ disagree      3 ☐ don't know
- 1.2 The arts offered at the festival harm society and cause trouble because they are too critical of our way of life.  
1 ☐ agree      2 ☐ disagree      3 ☐ don't know
- 1.3 The festival should be kept going so that people or their children have the choice of attending it in the future.  
1 ☐ agree      2 ☐ disagree      3 ☐ don't know
- 1.4 The shows and events at the festival are useful in educating the community.  
1 ☐ agree      2 ☐ disagree      3 ☐ don't know
- 1.5 The festival only benefits those people who actually go to the ticketed shows (that is, shows you have to pay to go to).  
1 ☐ agree      2 ☐ disagree      3 ☐ don't know

Thanks!

## 2. Attendance

Now some questions about your attendance at Festival.

- 2.1 Did you go to the festival this year? 1 ☐ Yes      Q2.3      2 ☐ No  
→
- IF NO
- 2.2 Did you go to the festival last year? 1 ☐ Yes      Q 2.3      2 ☐ No      Q4 →  
→
- 2.3 How many shows did you go to at this year's (last year's) festival that you had to buy tickets for?  
\_\_\_\_\_
- 2.4 How many free shows, including street theatre and art exhibitions, did you go to at this year's (last year's) festival? \_\_\_\_\_
- 2.5 At this last festival, (or the 2002 festival) about how much time did you spend looking around or shopping at the craft markets?  
PROMPT: 1 ☐ none    2 ☐ 1 or 2 hours    3 ☐ 3 to 5 hours  
4 ☐ more than 5 hours

## 3. Spending

Next I would like to ask about your festival spending. Please estimate about how much you spent on the following festival activities:

- 3.1 Shows on the main and fringe (including any films): R\_\_\_\_\_

FOR THOSE WITH TICKET SPENDING > ZERO

- 3.2 If the ticket prices had been 10%/20%/50% higher, so a R30 ticket would have cost R33/R36/R45, would you still have gone to the same number of shows?  
1 ☐ Yes →      3.3      2 ☐ No →      3.4

- 3.3 About how much did you spend on shopping at the craft market?  
R\_\_\_\_\_
- 3.4 Eating out at festival/local restaurants during the festival including drinks?  
R\_\_\_\_\_

- 3.5 Would you say that you spent more during festival time that you normally do?  
1 ☐ Yes                      2 ☐ No                      3 ☐ Don't know

3.6 IF YES

If there was no festival, do you think that you would have spent the money outside the Oudtshoorn area (for example on a beach holiday) or would you probably have stayed at home and spent it here anyway?

- 1 ☐ Spent here                      2 ☐ Spent outside Oudtshoorn  
3 ☐ Don't know                      4 ☐ Not spent (saved)

#### 4. Earnings

Next are some questions about how you benefit financially from the festival, or how you would like to benefit from it. Please remember that your name won't be attached to any of this information – our aim is to work out how Oudtshoorn people benefit from the festival.

- 4.1 Did you earn any money because of the festival? For example, by providing accommodation, running a stall, or working overtime at your normal job                      1 ☐ Yes                      0 ☐ No  
IF NO → Q 5  
IF YES

- 4.2 What sort of work was it?  
1 ☐ accommodation                      2 ☐ food stall                      3 ☐ arts & crafts                      4 ☐ overtime  
5 ☐ other: \_\_\_\_\_

- 4.3 How much did you earn from this? R\_\_\_\_\_

ONLY ASK THOSE WHO HAVE SOME EARNINGS FROM FEST.

- 4.4 What does your household mainly spend your festival earnings on?  
1 ☐ food, transport and other monthly expenses                      2 ☐ festival events

#### 5 WTP

Thanks very much. The next section is about measuring the value of the festival to you through your willingness to pay tax to support it. As you might know, arts festivals, like schools and hospitals, don't make enough profit to survive on their own and rely quite heavily on sponsorship from private companies or the government. Government funding comes from the taxes that we pay – income tax and indirect taxes, like VAT.

In developing countries, like South Africa, there are many things that government funds need to be spent on and some of them are regarded as more important than arts festivals. Some private sponsors also feel that their money is better spent on, for example, sports or wildlife conservation. This means that there would be less money available for the festival in the future and that there would be fewer shows and less visitors.

- 5.1 Taking into account your normal monthly income, would you be willing to pay R10/R20/R30 a month in extra taxes to prevent the festival from getting 25%/50% smaller?. That means you wouldn't have the R10/R20/R30 each month to spend on other things that you normally buy, like food, transport or entertainment.  
1 ☐ Yes                      2 ☐ No                      3 ☐ Don't know

- 5.3 What is the maximum amount that you would be willing to pay per month to prevent the festival from getting 25%/50% smaller? R\_\_\_\_\_
- 5.4 How sure are you that your answers have shown your accurate willingness to pay to support the festival?  
**PROMPT:** 0 ☐ not at all sure      2 ☐ fairly sure      3 ☐ very sure      4 ☐ don't know

**ASK FOR THOSE WITH POSITIVE WTP**

- 5.5 Why are you willing to pay to support the festival? [NO PROMPT, can mark more than one]
- 1 ☐ job opportunities
  - 2 ☐ education
  - 3 ☐ attracts tourists
  - 4 ☐ community pride
  - 5 ☐ I like to support a good cause/makes me feel good to support local arts
  - 6 ☐ future generation's benefit
  - 7 ☐ economic benefit to the town
  - 8 ☐ I go to lots of the shows/ enjoy attending
  - 9 ☐ I earn money from the festival
  - 10 ☐ Other: \_\_\_\_\_

- 5.6 Which of the reasons you have mentioned is the most important ? [interviewer may use above numbers] \_\_\_\_\_

**ASK FOR THOSE WITH NO/DON'T KNOW WTP**

- 5.7 Why are you not willing to pay to support the festival?
- 1 ☐ income constraints
  - 2 ☐ don't believe that the government will really use the money for the festival
  - 3 ☐ it doesn't matter much if the festival gets smaller
  - 4 ☐ other more important things to spend government money on
  - 5 ☐ already pay taxes, don't think taxes should be higher
  - 6 ☐ only users should pay
  - 7 ☐ only wealthy people benefit from the festival
  - 8 ☐ the festival doesn't provide enough jobs for people who need them
  - 9 ☐ other \_\_\_\_\_

**6. Demographics**

Finally, I d just like to know some details about you. Please remember that you name isn't attached to any of this information. Your phone number was selected at random from the phone book and none of the information you provide will be used for anything other than this research.

6.1 How old are you? \_\_\_\_\_

6.2 What is your home language?  
 1 ☐ Xhosa      2 ☐ Afrikaans      3 ☐ English      4 ☐ other: \_\_\_\_\_

Only to be asked if not obvious from language [Ask if ANY doubt]

6.3 What is your race group?  
 1 ☐ black 2 ☐ coloured      3 ☐ white 4 ☐ Indian      5 ☐ other: \_\_\_\_\_

6.4 Are you male or female? 1 ☐ male 2 ☐ female

6.5 How many years of education have you had? [MAY PROMPT] \_\_\_\_\_

Primary school up to grade 7 (std 5) = 7 years

Standard 6 (grade 8) = 8 years

Standard 8 (grade 10) = 10 years

Matric (grade 12) = 12 years

1 university degree = 15 years

2 degrees = 16 years

Diploma = school (12) + diploma duration

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

[INTERVIEWER: Write actual job, then classify:\_\_\_\_\_]

1 ☐ professional (doctor, business person, lecturer, teacher)

2 ☐ white collar worker (secretary, clerk, shop assistant agent)

3 ☐ service person (police, army, navy, air force, nurse)

4 ☐ blue collar worker (builder cook, cleaner, security guard, labourer)

5 ☐ student

6 ☐ housewife

7 ☐ retired

8 ☐ unemployed

6.7 What is the monthly income for your whole household, after tax, not counting any money that you earn from the festival? \_\_\_\_\_

6.8 How many people are in your household? \_\_\_\_\_

7 Thanks very much for your time and help. Before we finish, is there anything else about the Festival that you would like to tell us?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

INTERVIEWER COMMENTS:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

## APPENDIX 1C

### NATIONAL ARTS FESTIVAL

|  |  |   |
|--|--|---|
| <b>Call number:</b> _____                      | <b>Area:</b> 1 <input type="checkbox"/> township | 2 <input type="checkbox"/> other          |
| <b>Call rating:</b>                            |  |   |
| 1 <input type="checkbox"/> call answered       | 2 <input type="checkbox"/> call terminated       | 3 <input type="checkbox"/> call completed |
| 4 <input type="checkbox"/> no reply            | 5 <input type="checkbox"/> line busy             | 6 <input type="checkbox"/> call back      |
| 7 <input type="checkbox"/> number disconnected | 8 <input type="checkbox"/> other: _____          |   |

**A** Good evening. My name is \_\_\_\_\_ from Rhodes. We are doing a survey to find out what Grahamstown people think of the festival. Would you be prepared to spend about 10 minutes answering some questions?

☐ IF NOW → **B**

**A1** ☐ NO (to now and phone back): Is there anyone else who is 18 and older and might be willing to talk to me?

☐ NO: Thanks for your help. Goodbye.

☐ YES: [interviewer starts again]

**A2** ☐ IF NO TO “NOW”: When would be a good time to phone you? \_\_\_\_\_

**B** Thank you! Are you more than 18 years old?

☐ IF YES → **C**

**B1** IF NO: Thanks for your help, but 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 household, 18 or older, who might be willing to talk to me?

☐ IF YES: [interviewer starts again]

☐ IF NO: Thanks then, goodbye [interview tries at least 1 call-back].

**C** Which language would you like to use? [if not obvious]

0 ☐ English      1 ☐ Xhosa

#### 1. Opinion

Firstly, I'd like to know what you think of the Festival as a whole. Please tell me if you agree or disagree with the following statements:

- 1.1 The festival gives **all** the people of Grahamstown a sense of pride  
1 ☐ agree 0 ☐ disagree      2 ☐ don't know
- 1.2 The arts offered at the festival harm society and cause trouble because they are too critical of our way of life.  
0 ☐ agree      1 ☐ disagree      2 ☐ don't know
- 1.3 The festival should be kept going so that people or their children have the choice of attending it in the future.  
1 ☐ agree 0 ☐ disagree      2 ☐ don't know
- 1.4 The shows and events at the festival are useful in educating the community.  
1 ☐ agree 0 ☐ disagree      2 ☐ don't know

1.5 The festival only benefits the people who go to the shows you have to buy tickets for.

0 ☐ agree

1 ☐ disagree

2 ☐ don't know

Thanks!

## 2. Attendance & Spending

2.1 Did you go to the festival this year? 1 ☐ Yes Q2.3 → 0 ☐ No

IF NO

2.2 Did you go to the festival last year? 1 ☐ Yes Q 2.3 → 0 ☐ No Q4 →

2.5 How many shows did you go to at this year's (last year's) festival that you had to buy tickets for?  
\_\_\_\_\_

FOR THOSE WHO ATTENDED AT LEAST ONE:

2.6 About how much did you spend on these tickets? \_\_\_\_\_

FOR THOSE WITH TICKET SPENDING > ZERO

2.5 If the ticket prices had been 10% higher, so a R30 ticket would have cost R33, would you still have gone to the same number of shows?

1 ☐ Yes → 2.6 0 ☐ No → 2.7

2.6 If the ticket prices had been 20% / 50% higher, so a R30 ticket would have cost R36 / R45, would you still have gone to the same number of shows?

1 ☐ Yes

0 ☐ No

2.7 How many free shows, including art exhibitions, street theatre and Sundowner concerts, did you go to? \_\_\_\_\_

2.8 At this last festival, (or the 2002 festival) about how many times did you visit the craft markets?  
\_\_\_\_\_

2.9 About how much did you spend on shopping at the craft market? R\_\_\_\_\_

2.10 About how much did you spend on eating out at festival/local restaurants during the festival including drinks? R\_\_\_\_\_

2.11 Would you say that you spent more during festival time than you normally do?

1 ☐ Yes

0 ☐ No

2 ☐ Don't know

2.12 IF YES

If there was no festival, do you think that you would have spent the money outside the Grahamstown area (for example on a beach holiday) or would you probably have stayed at home and spent it here anyway?

1 ☐ Spent here

0 ☐ Spent outside Grahamstown

2 ☐ Don't know

3 ☐ Not spent (saved)

## 3. Earnings

3.1 Did you earn any money because of the festival? For example, by providing accommodation, running a stall, or working overtime at your normal job 1 ☐ Yes 0 ☐ No

Q 5



IF YES

3.2 What sort of work was it?

- 1 ☐ accommodation      2 ☐ food stall      3 ☐ arts & crafts      4 ☐ overtime  
5 ☐ other: \_\_\_\_\_

3.3 How much did you earn from this? R\_\_\_\_\_

ONLY ASK THOSE WHO HAVE SOME EARNINGS FROM FEST.

3.4 What does your household mainly spend your festival earnings on?

- 1 ☐ food, transport and other monthly expenses      2 ☐ festival events

#### 4 WTP

Thanks very much. The next section is about measuring the value of the festival to you through your willingness to pay to support it. As you might know, arts festivals, like schools and hospitals, don't make enough profit to survive on their own and rely quite heavily on sponsorship from private companies and the government. Government funding comes from the taxes that we pay – income tax and indirect taxes, like VAT.

In developing countries, like South Africa, there are many things that government funds need to be spent on and some of them are regarded as more important than arts festivals. Some private sponsors also feel that their money is better spent on, for example, sports or wildlife conservation. This means that there would be less money available for the festival in the future and that there would be fewer shows and fewer visitors.

I am now going to ask you if you would be willing to pay some amount per month to support the festival. The amount I mention may sound ridiculously low or high to you. It isn't a price, but just a starting point and you can choose a higher or lower amount. OK?

4.1 Would you be willing to pay an extra R10 out of your monthly income to stop the festival from getting 25%/50% smaller? That means you wouldn't have the R10 each month to spend on other things that you normally buy, like food, transport or entertainment.  
1 ☐ Yes      0 ☐ No      3 ☐ don't know

**IF YES: Bid up to maximum amount**

4.2 Would you be willing to pay R20 a month? 1 ☐ Yes 0 ☐ No

4.3 Would you be willing to pay R30 a month to stop the festival from getting 25%/ 50% smaller?  
1 ☐ Yes      0 ☐ No

4.4 Would you be willing to pay R50 a month? 1 ☐ Yes 0 ☐ No

4.5 What is the maximum amount that you would be willing to pay per month to prevent the festival from getting 25%/50% smaller? R\_\_\_\_\_

**IF NO: Bid down**

4.6 Would you be willing to pay R5 a month? 1 ☐ Yes 0 ☐ No

4.7 Would you be willing to pay any amount of money per month to prevent the festival from getting 25%/50% smaller? R\_\_\_\_\_

**For all:**

4.8 How sure are you that your answers have shown your accurate willingness to pay to support the festival?

**PROMPT:** 0 ☐ not at all sure      2 ☐ fairly sure      1 ☐ very sure

**FOR THOSE WITH POSITIVE WTP**

**4.9 Why are you willing to pay to support the festival?**

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**If more than one reason in 4.8:**

4.10 Which of the reasons you have mentioned is the most important?

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**FOR THOSE WITH NO/DON'T KNOW WTP**

4.11 Why are you not willing to pay to support the festival?

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**If income constraints:**

4.12 Would you be willing to donate 2 hours of your time, per month to supporting the festival?

1 ☐ Yes      0 ☐ No

**5. Demographics**

Finally, I d just like to know some details about you. Please remember that you name isn't attached to any of this information. Your phone number was selected at random from the phone book and none of the information you provide will be used for anything other than this research.

5.1 How old are you? \_\_\_\_\_

5.2 What is your home language?

1 ☐ Xhosa      2 ☐ Afrikaans      0 ☐ English      3 ☐ other: \_\_\_\_\_

Only to be asked if not obvious from language [Ask if ANY doubt]

5.3 What is your race group?

1 ☐ black 2 ☐ coloured      0 ☐ white      3 ☐ Indian      4 ☐ other: \_\_\_\_\_

5.4 Are you male or female? 1 ☐ male 0 ☐ female

5.5 How many years of education have you had? [MAY PROMPT] \_\_\_\_\_

Primary school up to grade 7 (std 5) = 7 years

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Matric (grade 12) = 12 years

1 university degree = 15 years

2 degrees = 16 years

Diploma = school (12) + diploma duration

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



[INTERVIEWER: Write actual job, then classify:\_\_\_\_\_]

- 1 ☐ professional (doctor, business person, lecturer, teacher)
- 2 ☐ white collar worker (secretary, clerk, shop assistant agent)
- 3 ☐ service person (police, army, navy, air force, nurse)
- 4 ☐ blue collar worker (builder cook, cleaner, security guard, labourer)
- 5 ☐ student
- 6 ☐ housewife
- 7 ☐ retired
- 8 ☐ unemployed

5.7      What is the normal monthly income for your whole household, after tax? \_\_\_\_\_

5.8      How many people are in your household? \_\_\_\_\_

6          Thanks very much for your time and help. Before we finish, is there anything else about the Festival that you would like to tell us?

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INTERVIEWER COMMENTS:

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## APPENDIX 2

### KKNK Statistical models

| Variable                         | Logit<br>(n= 86)             |           | OLS<br>(n= 86)              |           | Log-linear <sup>18</sup><br>(n= 86) |           |
|----------------------------------|------------------------------|-----------|-----------------------------|-----------|-------------------------------------|-----------|
|                                  | Coefficient                  | Std Error | Coefficient                 | Std Error | Coefficient                         | Std Error |
| C                                | -0.741756                    | 1.619311  | 4.931282                    | 9.019191  | 1.188690                            | 0.709269  |
| Area                             | 0.979779                     | 0.781664  | -9.647869*                  | 5.326526  | -0.137425                           | 0.306674  |
| Attendfree                       | 0.114768                     | 0.109845  | 0.276111                    | 0.404270  | 0.035167                            | 0.035486  |
| Tickets                          | 0.073458                     | 0.240169  | 1.001254                    | 1.710594  | 0.011365                            | 0.087374  |
| Earnam                           | -0.000856                    | 0.001076  | -0.000229                   | 0.000281  | 8.69E-06                            | 1.49E-05  |
| Jobs                             | 64.27402*                    | 37.72439  | 14.02876***                 | 4.570504  | 1.257057***                         | 0.243092  |
| Opinion                          | 0.649286*                    | 0.375153  | 2.665865*                   | 1.556787  | 0.291140*                           | 0.152572  |
| Age                              | -<br>0.059767**              | 0.022613  | -0.135164                   | 0.098999  | -<br>0.022908***                    | 0.006623  |
| Sex                              | 0.445230                     | 0.726077  | 5.302269                    | 4.841909  | 0.361303                            | 0.280659  |
| Scope                            | -0.732751                    | 0.732821  | 5.779166                    | 6.116456  | -0.202452                           | 0.309936  |
| Goodness of fit                  | 0.4891 (Mc-Fadden R-squared) |           | 0.2094 (Adjusted R-Squared) |           | 0.3861 (Adjusted R-squared)         |           |
| Significance Statistic           | 51.5552 (LR stat)            |           | 3.5021 (F stat)             |           | 6.9406 (F stat)                     |           |
| Probability of Significance Stat | 5.49E-08                     |           | 0.0011                      |           | 0.0000                              |           |

OLS and Log-Linear results checked for heteroskedasticity (detected using White's (1980) test) and standard errors corrected.

For the Logit and Tobit models, Quasi-maximum likelihood covariences and standard errors computed using the Bollerslev and Wooldridge (1992) method.

Attendfree: addition of the number of free shows and hours spent at or visits to the craft market

Tickets: number of ticketed shows attended

Earnam: amount in Rands earned as a direct result of the festival

Jobs: 1 if financial or economic gain mentioned as a reason for WTP, 0 otherwise

Opinion: a score from the opinion questions, scoring 1 for a positive opinion answer and 0 otherwise

Area: 1 if low income area, 0 otherwise

Age: Age of the respondent in years

Sex: 1 if male, 0 otherwise

Scope: 1 if 50% decrease scenario, 0 if 25% scenario

<sup>18</sup> In order to include zero responses, a constant (one) was added to the dependent variable. Since the log of a constant is zero, this did not bias results.

### NAF: OLS, Log-linear and logit results

| Variable                         | OLS               |           | Log-Linear        |           | Logit             |           |
|----------------------------------|-------------------|-----------|-------------------|-----------|-------------------|-----------|
|                                  | Coefficient       | Std Error | Coefficient       | Std Error | Coefficient       | Std Error |
| C                                | -0.123896         | 4.191056  | 0.943888**        | 0.402756  | -0.543600         | 1.239399  |
| Area                             | -4.214696**       | 1.832684  | -0.55226***       | 0.183783  | -0.783268         | 0.572649  |
| Attendfree                       | 0.221438          | 0.177896  | 0.035703*         | 0.020979  | 0.094416          | 0.073418  |
| Tickets                          | 1.304990          | 0.829048  | 0.078361*         | 0.041758  | 0.132564          | 0.120817  |
| Earnam                           | 0.001213***       | 0.000146  | 2.43E-05***       | 3.33E-06  | 0.000994*         | 0.000589  |
| Jobs                             | 2.815136***       | 1.069349  | 0.658852***       | 0.134971  | 2.345946***       | 0.547347  |
| Opinion                          | 2.074084***       | 0.664042  | 0.271639***       | 0.068273  | 0.672019***       | 0.185418  |
| Age                              | -0.026357         | 0.040032  | -0.009278**       | 0.004372  | -1.178927**       | 0.478676  |
| Sex                              | -1.330536         | 1.642906  | -0.297392*        | 0.165560  | -0.031251**       | 0.014099  |
| Scope                            | 1.960236          | 1.627307  | 0.156940          | 0.161019  | 0.480596          | 0.514424  |
| R-squared                        | 0.5533 (adjusted) |           | 0.2952 (adjusted) |           | 0.3129 (McFadden) |           |
| Significance statistic           | 27.2881 (F stat)  |           | 9.8900 (F stat)   |           | 63.1293           |           |
| Probability of significance stat | 0.0000            |           | 0.0000            |           | 3.33E-10          |           |

OLS and Log-Linear results checked for heteroskedasticity (detected using White's (1980) test) and standard errors corrected.

For the Tobit model, Quasi-maximum likelihood covariances and standard errors computed using the Bollerslev and Wooldridge (1992) method.

Attendfree: addition of the number of free shows and hours spent at or visits to the craft market

Tickets: number of ticketed shows attended

Earnam: amount in Rands earned as a direct result of the festival

Jobs: 1 if financial or economic gain mentioned as a reason for WTP, 0 otherwise

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Age: Age of the respondent in years

Sex: 1 if male, 0 otherwise

Scope: 1 if 50% decrease scenario, 0 if 25% scenario