

Copenhagen, 3. July 2012

How to strategically use the EU support programmes, including Structural Funds, to foster the potential of culture for local, regional and national development and the spillover effects on the wider economy

Lise Lyck
Centre Director
Center for Tourism and Culture Management
Copenhagen Business School
Solbjerg Plads 3
DK-2000 Frederiksberg
E-mail: ll.tcm@cbs.dk

**Presented at the International Arts Professionals Summer School, Brussels (July 2-6, 2012).
Arranged by University of Kent and ENCATC**

Introduction

This article presents core questions and problems related to the role of culture in society, to culture policy and it outlines some instruments, models and practices that can be applied to promote culture.

The intention of the article is to function as a platform for discussion of the role of culture in the society and of financing cultural activities.

As this is a big field to cover this article intends to only focus on core questions and on outlining drafts for solutions: In other words the purpose of the article is to function as an appetizer and as a driver for discussion of dealing with culture activities in the public and the private sector, looking at it from an EU perspective, national perspective and a regional/local perspective.

An additional purpose is to focus on the field seen in relation to economic business cycles with special attention to recession and economic and financial downturn developments.

Core questions and problems

Culture as absorption vs. culture as a production factor

Discussions on culture and economics have for the past many years, and are still today, to a high degree concentrated on two opposite perceptions:

- Is culture mainly an expenditure (consumption)? This perception implies that culture is a part of private and public consumption and thereby contributing to absorption.
- Is culture a production factor? This perception implies that culture is a necessary input to create output (production) in the society.

The first perception is the most widespread. As a consequence of this perception, economic and financial downturns imply savings and cut downs of cultural expenditures. It is seen by the lowering of public expenditures and investments in culture and in difficulties of attracting consumers to spend money on many kinds of events and attractions based on experience economy. This is especially the case for events and experience economy based attractions, where no tradition or ritual has been developed that have created a fixed position in the consumer pattern for spending.

The second perception is developed in relation to concepts as cultural capital (Throsby, D, 2001) and social capital (Putman, R.D. 1993, Potras, A, 1998 referring to Bourdieu, Lorry and Coleman). Culture considered as a production factor has also been a core element in the development of instrumental experience economy, stressing culture as an instrument to create economic growth (Pine & Gilmore, 1999).

This perception of culture is also found in detached studies for instance, applying input-output analyses to demonstrate the economic value of spending money on culture to create economic growth. In Denmark for example, I have made a study on the economic impact of theatres (Lyck, Sfandla & Jensen, 2007) showing that the economic outcome of public subsidies to theaters have the same impact on economic growth as public subsidies spent by entrepreneurs in the manufacturing and service corporations. Other studies of culture based on the perception of culture being a production factor are found in other countries, but as far as I know, there does not exist a full overview or a reading on this kind of studies.

The concept of culture

Culture can be defined and perceived in a narrow sense (fine art) or in a broader perspective including almost everything in daily life. Fine art is expensive to produce and the demand is relatively small, which is why state subsidies are normally necessary to have this kind of culture to survive. The background for this is among other theories explained by “Baumol’s cost disease” (Baumol, W.J., 1967, Brooks, A.C. 2006).

Since the 1960’s when the middle class grew in many countries and the traditional difference between labor force and capitalists evaded, more weight was devoted to the broader concept of culture. This was combined with the principle of willingness-to-pay. It resulted in a new policy of giving subsidies to a broader concept of culture and also gave room for sports to be included in the cultural field in many countries.

The development since the 1960’s has also loosened the relation to religion and education and that lessons learned cultural discussion implies that enlightenment have lower priority than previously and that the secular dimension of culture has gained an increased weighting in the cultural area.

The dimension of religion versus secularity in culture is still a strong factor in the culture discussion, especially at the global level, but also to a certain degree in the EU countries.

Culture in relation to business cycles

Business cycles influence the way that money is spent on culture as well as the kinds of culture that the money is spent on. Concerning the amount spent, it is as already mentioned dependent on the perception of culture as absorption versus culture as an input factor. During a recession and economic downturn fine art is normally still receiving subsidies from the state, however, with a tendency to lower the amount or to keep it stable. Other forms of culture subsidies are normally reduced to a much lower level, resulting in large difficulties in continuing the current cultural activities.

The kind of cultural activities supported are also influenced by the business cycles. During recession priority is given to culture activities that are flexible especially in the sense that they can be initiated or stopped without heavy economic consequences. This is why many new activities start as festivals as they can take place without too high fixed costs. It is also easier for the public sector to support new upstarts of festivals as they are considered as a reversible cost without a fixed position in the public budget over time. It can be argued that festivals are a sort of try-and-error activity, implying that only successful festivals will have a long life.

The dependency of culture in relation to business cycles is of course a big issue where only the main problems is mentioned here. In practice it calls for different business models used in the cultural field allowing cultural business models to mirror the relation to the business cycle dependency. In the book: Celebrate to prosper (Lyck, L, Long, P & Grige, A.X., 2012) some of the aspects are analyzed.

EU-, national- and regional level of the cultural field

The level and form of the cultural activities depends on the government and governance structure as well as on strategies pursued at the different territorial levels. In other words the political dimension and perception of the role of culture is of immense importance and is reflected in the activities that are applied.

At the EU level the main perception of culture has been that culture is absorption. The EU economy has for many years been based on the Mundell-Fleming¹ economic models for economic development.

¹ The Mundell–Fleming model, also known as the IS-LM-BoP model, is an economic model that was first set forth (independently) by Robert Mundell and Marcus Fleming. (Mundell, 1963, Fleming, 1962) The model is an extension of the IS-LM Model. Whereas the traditional IS-LM Model deals with economy under autarky (or a closed economy), the Mundell–Fleming model describes an open economy.

Those models have been the main economic curriculum at most universities for many years and have been the background for the EU treaties. The essence is that they are based on free movement of capital and on a common interest rate implying that monetary policy is considered a technicality. This is why the European Central Bank (ECB) was constructed as a technical body only having the responsibility for a stable price level in the countries. The ECB was not allowed to take national considerations when executing their work. This perception of monetary policy as a technicality was further developed in the establishment of the Euro i.e. a common exchange rate for the member countries. It allowed only two instruments for the politicians to deal with to solve economic problems, namely fiscal policy and labor market policy. The models were based on free capital movements, on standard homogeneous state behavior in relation to economic responsibility in the fiscal policy and in adjustments of the labor market. Furthermore, they were based on cultural diversity governed by a common state framework and a common behavior of the politicians treating economy and culture in a homogeneous responsible way.

However, today it seems evident that those assumptions are not in line with the economic and cultural situation in the single EU countries and in EU seen as an entity. The rules of the EU Stability and Growth Pact are not met. State debt is a severe problem in many EU countries. The new financial pact and the idea of an EU bank union related to the ECB are new instruments, but it is questionable if those instruments can create trust and progress for the EU member countries. The unemployment is in many countries extremely high and the proposals on further public savings cannot solve the problems. The solidarity among the European member states and their populations is too low to allow for a transfer of income from richer to poorer member countries. We see a divide between the southern and northern member countries. In other words the economic conditions are not promising.

The national perspectives are seen in the political attitudes towards the EU and towards domestic cultural agents and institutions. As mentioned a main difference is seen in the relation to the state being southern or northern. The southern states are less devoted to savings and to labor market changes, while the northern countries demand influence on the budgets and economic policies of the southern countries in order to be willing to finance further activities in the southern states.

Domestically the states are restrictive in their financing of cultural activities especially if it is not the core cultural status activities. In total it means that government money for cultural purposes is hard to achieve.

The Mundell–Fleming model portrays the short-run relationship between an economy's nominal exchange rate, interest rate, and output (in contrast to the closed-economy IS-LM model, which focuses only on the relationship between the interest rate and output). The Mundell–Fleming model has been used to argue that an economy cannot simultaneously maintain a fixed exchange rate, free capital movement, and an independent monetary policy. This principle is frequently called the "impossible trinity," "unholy trinity," "irreconcilable trinity," "inconsistent trinity" or the "Mundell–Fleming trilemma."

At the regional level money is also scarce. However, if activities can be seen in a governance perspective and if cultural activities can be undertaken as public-private activities and furthermore, if the activities are reversible it is still possible to achieve money for cultural activities in most states.

Solutions

It is of course difficult to identify solutions in general, but some guidance for solutions can be given:

1. It is important to identify evidence on culture as a production factor leading to economic growth. It could be in form of an EU project with participation of the EU member countries in order to identify and calculate consequences of money given culture considered as an investment in economic growth.
2. Promotion of cultural programmes as for instance culture capital or cultural cities of Europe. Those programmes have big economic spillover effects and can contribute to creation of viable structures within culture. A very good example of this is when Copenhagen became cultural capital in 1996. The municipality decided to double the amount given to culture. It resulted in a heavy increase in tourism and in citizens' satisfaction as well as in structures that have been viable until today.
3. Make use of structural funds in EU. It should be done in big projects involving many EU countries. The purpose should be in line with the EU policy of Europe being the world tourism destination nr. 1 (Brussels, 30.6.2010, COM(2010) 352 final).
4. Increase the financial support of the Europe for Citizens Programme 2014-2020. The replacement of the programme running to 2013 is decided but the Multiannual Financial Framework from 2014-2020 is currently under discussion, but unfortunately it seems without the needed increase in financial support.
5. Improve statistics on culture, both the financial data and the manpower data.
6. Specify the concept of culture.
7. Relate cultural policy and instruments to positions in the business cycle.
Explore instruments that are flexible and reversible as for instance festivals. (Other topics could be different kind of markets, where suppliers and demanders meet each other directly)
8. Study different experience economy models and the learnings of using them².
9. Promotion of cultural exchange programmes to create solidarity.
10. The most comprehensive change will be a shift of the EU model away from the Mundell-Fleming model to a new model that must be based on the prevailing conditions for the economy of the European member states.
 - a. It can be a more "Euroland" model based on the German ideas, i.e. a model less based on integration and more based on assimilation.

² It can for instance be the models presented by Pine & Gilmore (1999) or the Experience Wheel made by Lise Lyck (2010)

- b. It can also be a model based on a heterogeneous membership concept implying more national adjustment. In this respect it can be mentioned that the Danish model of following the Euro without being a member has made national current adjustment of the economic policy needed and in this way contributed to a responsible economic policy among the politicians. It could be claimed that such mechanisms could be developed to improve the economic discipline among politicians also in other EU states.
- c. A new economic model paying more attention to innovation based on core strengths in the different EU countries

Conclusion

The article stresses the need for more precise knowledge on culture and spillover effects from culture. It also stresses the need for a more realistic approach to the European economy and to models of which the policies are based upon. It involves a series of political questions that has to be dealt with and it will take time to renew processes and content and areas of political cooperation in the EU. However, the time has come for a change. Based on this perception some solutions are outlined in a drafted version and the main problem about the use of economic business models in Europe is presented. The development in the years after 2000 clearly demonstrates that culture has had a too low priority in the European cooperation in order to secure a more prosperous economic and social development for Europe.

A post-scriptum on strategy

Strategy includes directions/answers in relation to *what, why, who, when and how* a vision can be achieved.

The vision behind this article is achievement of economic growth, employment and welfare in the EU member states.

What: Change the area for economic policy in the EU giving culture a higher priority

Why: The basic conditions for the Mundell-Fleming model used in the EU economic policy are not present and cannot be present for many years ahead. It is seen in the enormous differences in interest rates found among the EU member states, in the unemployment rates and in the imbalances in all the markets in the EU.

Who: The main change can only be taken by the politicians and as the countries are democracies, the politicians need their voters accept for such a policy. The national freedom to act is low, but at a regional level there are some options based on governance and on public-private activities.

When: Changes are needed both at the short and at the medium perspective, i.e. both within 5 and 10 years.

How: The needed changes can only take place with new agreement on the political goals and those goals have to be supported by the voters. As a first step some of the existing arrangements in form of use of the EU support programmes including The Structural Funds must be applied especially within the cultural area. Furthermore, solidarity programmes must be improved if the Euro membership countries shall continue to have a common future.

References

- Baumol, W.J. (1967): *Performing arts: the permanent crisis*, Business Horizons, Autumn, 47-50.
- Brooks, A.C. (2006): *None-profit firms in the performing arts*, Handbook of the economics of art and culture edited by Gintsburgh, V.A. & Throsby, D., Chapter 15, North-Holland 2006
- European Commission (2010): Communication from the commission to the European Parliament, The Council, The European Economic and Social Committee and the Committee of Regions, *Europe, the world's No 1 tourist destination – a new political framework for tourism in Europe*, Brussels, 30.6.2010, COM(2010) 352 final
- European Council (2012): 9095/1/12
- European Council (2011): Europe for Citizens Programme and its prolongation from 2014-2020
- Fleming, J. Marcus (1962): Domestic financial policies under fixed and floating exchange rates. *IMF Staff Papers* 9: 369–379. Reprinted in Cooper, Richard N., ed. (1969). *International Finance*. New York: Penguin Books.
- Lyck, L, Sfandla, C, Jensen, A (2007): *Analyse: De københavnske teatres effekt*, Frederiksberg, Center for Tourism and Culture Manamgent
- Lyck, L, Long, P and Grige, A.X. eds. (2012): *Celebrate to prosper*, Frederiksberg Bogtrykkeri, Denmark 2012, ISBN: 978-87-92019-16-5
- Lyck, Lise (2010): “*Experience Economy as an Instrument to Create Economic Profitability*” Guest Lecture at Örebro University.
- Mundell, Robert A. (1963). "Capital mobility and stabilization policy under fixed and flexible exchange rates". *Canadian Journal of Economic and Political Science* 29 (4): 475–485.DOI:10.2307/139336. Reprinted in Mundell, Robert A. (1968). *International Economics*. New York: Macmillan.
- Pine, Joseph & Gilmore, James H. (1999): “*The experience Economy*”, Harvard School press
- Putman, R.D. (1993): “*The prosperous community: social capital and public life*”, Public Island Press, Vol. 13, Issue 4, p.35-42
- Portas, A. (1998): “*Social capital: Its origins and applications in modern sociology*”, Annual review of sociology, Vol.24. p.1-24
- Throsby, David (2001): “*Economics and culture*”, Cambridge University Press, Cambridge, UK