

PROJECT REPORT
INSTITUTE OF TECHNOLOGY AND
REGIONAL POLICY

*ART AND ECONOMICS – GRAZ 2003
CULTURAL CAPITAL OF EUROPE. AN
ANALYSIS OF THE ECONOMIC IMPACTS*

Summary

JOANNEUM RESEARCH

INSTITUTE OF TECHNOLOGY AND REGIONAL POLICY

ART AND ECONOMICS – GRAZ 2003 CULTURAL CAPITAL OF EUROPE. AN ANALYSIS OF THE ECONOMIC IMPACTS

*COMMISSIONED BY GRAZ 2003 – KULTURHAUPTSTADT
EUROPAS ORGANISATIONS GMBH AND THE CITY OF GRAZ*

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SUMMARY

Non-recurring tangible (measurable) effects emerging from Graz 2003 are due to infrastructure investment, expenditures by the organising authority, as well as visitors spending. The aforementioned expenditure categories sum up to a total of 121,7 mio. €. About 89 mio. € of the total sum will be directly spent in Styria, the region under consideration. Via so-called multiplier effects these direct expenditures are further increased, since the provision of the goods and services entails additional intermediate demand in the region and abroad.

Table: Non-recurring Total Effects of Graz 2003 on the Styrian Economy

	Output Mio €	Value Added Mio €	Employment
Σ 1999-2004	120,2	62,7	1229

Source: Simulations with STYR-I-O

About 60% of these effects will accrue to the central region of Graz. The total effects of Graz 2003 furthermore induce fiscal flows of about 36 mio. €. Based on the Austrian tax system these flows will mainly benefit the federal government and only around 9% will be allotted to regional authorities.

Taking into account the operation of new facilities (such as the *Kunsthau*s) and the additional advertising effect of Graz 2003 it is estimated that overnight stays will permanently increase by 4% as compared to a base scenario without the effects of Graz 2003. Including multiplier effects, this will result in the following long term impacts of Graz 2003 on the Styrian economy.

Table: Long Term Annual Impacts of Graz 2003 in 2004 and thereafter

Annual Effects	Output Mio. €	Value Added Mio. €	Employment
Starting 2004	14,2	4,8	127

Source: Simulations with STYR-I-O

Besides the tangible effects also **intangible effects** - such as advertising or image effects, impacts on the quality of life, or competence and network effects - play an important role in assessing Graz 2003. Those effects are especially important in the case of Graz, since internationality and recognition are currently among the main weak spots of the city and hence a high impact can be expected in this regard.

However, intangible effects can not be generated by the program of Graz 2003 alone. First, the actually occurring impacts of the structural investment projects will be of importance. It will furthermore be crucial to which extent actions aiming at the transformation of the initial intangible effects into long term impacts succeed.

ABRIDGED VERSION

The present study deals with the regional economic impacts of the Cultural Capital of Europe event in Graz in 2003. The economic assessment of such initiatives is frequently demanded today, often due to the public subsidisation of the projects.

Graz 2003, like any other economic activity, induces changes in employment and regional value added by enhancing investment in infrastructure and by generating expenditure of both the organising authority as well as visitors. The stimulated fiscal flows are an additional example of the tangible, i.e. measurable, effects of a cultural event. While the present study aims at assessing these effects quantitatively, the sole concentration on these issues would fail to include another set of important impacts – the so-called intangible effects. Intangible effects, like the increase in the city's image, the advertising effect, or quite generally the quality of life in the respective region can be severely affected by cultural activities like Graz 2003 and must hence be considered as well. The present study is basically ex-ante in nature, even though it rests upon quite reliable data in various respects. However, as far as the long term impacts are concerned a set of assumptions were necessary to generate the relevant impact scenarios.

The quantitative results of the study are presented in terms of changes in regional figures such as employment, value added and output, which are furthermore disaggregated to various industries of the underlying regional economy. *Output* measures the firms' actual production and is based on sales revenues which are corrected for changes in inventory stocks. *Value added* is computed as the difference between output and intermediate demand (the latter are e.g. goods purchased for further processing). The most important components of Value Added are wages and salaries as well as profits. The *employment* figures are to be interpreted as the number of employment contracts, which means that they reflect the average mix of part time and full time employment in each industry.

The study aims at assessing the regional economic impacts of Graz 2003

Both tangible (value added, employment, fiscal flows) and intangible (advertising and image effects, quality of life) effects are considered

Results are presented in terms of changes in regional output, value added, and employment, which are further disaggregated by industries

Measurable (tangible) economic effects

Increased expenditure by public institutions as well as tourists

Public expenditure which can directly be attributed the Graz 2003 event sum up to an net amount of about 56 Mio. €. This includes projects like the *Kunsthhaus Graz*, the construction of the *Helmut-List-Hall* (which enters the simulations with 50% of total cost, since this is the amount directly attributable to Graz 2003), the modification of the *Theatro* for the *Project Pop Culture* (PPC), the founding of the *Kindermuseum* in the Augarten, den reconstruction of the *Literaturhaus*, the modernisation of facades subsidised by an special donation to the respective fund of the City of Graz, as well as the adaptation of the *Hauptbrücke*.

The budget of the Graz 2003 GmbH amounts to about 57 Mio. €, which both finances more than 80 projects (among those is the *Murinsel*) and covers the organisational expenditures of the company itself.

It is estimated that the Graz 2003 event will lead to an increase in overnight stays of about 10% in Styria which amounts to 8,7 Mio. € of additional revenues for the local economy.

The aforementioned expenditure categories sum up to a total of 121,7 Mio. €. About 89 Mio. € of the total sum will be directly spent in Styria. Via so-called multiplier effects these direct expenditures are further increased, since the provision of the goods and services entails additional intermediate demand in the region and abroad. The enumerated effects are non-recurring and accrue to the time span of 1998 to 2004. The following table provides an overview over the total effects after taking the multiplier effects into account.

Table: Total Effects of Graz 2003 on the Styrian Economy

	Output Mio €	Value Added Mio €	Employment
Σ 1999-2004	120,2	62,7	1229

Source: Simulations with STYR-I-O

A closer look at the distribution of the effects among the different industries reveals that the construction industry as well as the service sector profit most. Among the service sector it is Other Business Activities (mostly due to the planning of infrastructure investments), Distribution (increased incomes), Hotels and Restaurants (visitors' spending) and also Cultural Activities (via the expenditure of the Graz 2003 GmbH on the various projects) themselves who gain most.

Expenditure on infrastructure, expenditure of the organising authority as well as tourist spending amounts to a total of 121,7 Mio.€, of which 89 Mio.€ will be directly spent in Styria

Multiplier effects further increase the impact

The central region of Graz (i.e. the districts Graz and Graz-Umgebung) will account for about 60 % of the total effects accruing in Styria, that is, about 38 mio. € of additional value added and more than 700 employment contracts.

The central region of Graz will account for 60% of the overall effects in Styria

Apart from the tangible effects *directly* linked to Graz 2003, the study also presents a quantitative assessment of a bunch of activities only *indirectly* related to the event. Such an indirect relation is e.g. established, when an independently planned project was realised more quickly due to the existence of Graz 2003. Projects brought forward under such circumstances include the new *Stadthalle*, the construction of the *Dom im Berg* and of the *Schlossberg elevator*, the planning an erection of the *Schlossbergcafé*, the facelifting and reconstruction of the *Hauptplatz*, construction activities at the *riverbank of the Mur*, the adaptation of the *Forum Stadtpark*, the new *feeder road* to the Graz airport as well as its *new tower*, the building of the *subterranean garage* under the Karmeliterplatz/Pfauengarten, the reconstruction of the *railway station*, renovations taking place at the *Old University* as well as the adaptation of the *Volkskundemuseum*.

Those infrastructure investments sum up to a total of about 120 Mio. €, due between 1999 and 2004. It must be stressed, however, that the regional economic impacts of those projects will not be attributed to the Graz 2003 event directly. Accounting for these projects rather aims at providing an idea of the impacts of the manifold activities taking place in the city of Graz as a whole, even though they are only indirectly attributable to Graz 2003 itself.

Indirectly linked investment projects result in 75 Mio. € of additional value added and more than 1200 employment contracts in Styria between 1999 and 2004

Considering again the resulting multiplier effects, these second group of indirectly linked projects generate almost 75 Mio. € of Value Added and more than 1200 employment contracts in the Styrian economy.

As mentioned before, the effects discussed so far are non-recurring, taking place between 1998 and 2004. From the operation of the Kunsthauus and the induced lasting increase in the number of tourists visiting the region it can be proceeded on the assumption that Graz 2003 will generate positive economic impacts even in the years to follow the event itself.

Long Term Impacts

Based on comparable data as well as visitor surveys conducted by the *steirischer herbst*, the impacts of the Kunsthauus in Graz were estimated to induce +2,7 % in overnight stays in Styria (see Fritz et al. 2001/JOANNEUM RESEARCH). Taking an additional impact of the advertising effect into account, a long term increase in tourist visits of around +4% against the base scenario excluding the Graz 2003 event as well as the Kunsthauus appears to a realistic assumption. The following table depicts the resulting long term impacts on the Styrian economy, which will be present in every year from 2004 onwards.

Impacts induced by infrastructure projects (e.g. the Kunsthauus) as well as advertising and image effects justify a scenario of a permanent increase in overnight stays by 4%

Table: Long Term annual impacts of Graz 2003 in 2004 and thereafter

Annual Effects	Output Mio. €	Value Added Mio. €	Employment
Starting 2004	14,2	4,8	127

Under this assumption an additional 127 employment contracts are permanently created

Source: Simulations with STYR-I-O

One time fiscal effects

As far as the fiscal effects are concerned, Graz 2003 induces a total sum of tax flows of 36 mio. €. Given the Austrian tax system, this amount will mostly benefit the federal budget, while 1 Mio. € will go to the Styrian government and another 2 mio. € of flows will go to Styrian district authorities (of which again the city of Graz acquires almost the entire amount).

About 3 Mio. € - out of a total of 36 Mio. € - of fiscal flows will return to Styria

Table: Fiscal effects of Graz 2003

	Sum Mio. €	Government of Styria Mio. €	Styrian District Authorities Mio. €
Σ 1999-2004	36,0	1,0	2,0
In %	100%	3%	6%

Source: Simulations with STYR-I-O

Intangible Effects

Besides tangible effects also intangible effects such as advertising or image effects, impacts on the quality of life, or competence and network effects play an important role in assessing the overall impacts of Graz 2003.

High level cultural activities affect quality of life and are hence a parameter in determining the so called **soft location factors**. The positive connotations of a Cultural City of Europe event aim at those factors. Graz 2003 offers the possibility to enhance image effects arising from being Cultural Capital of Europe, since the title can be used in promoting the perception of the region. It must be stressed, however, that image and advertising effects will be transformed into soft location factors only if they are not limited to temporary and singular initiatives.

„Enabling“-Effect: Complex projects - whose completion is subject to increased pressure - enhance the consensus and decision abilities within the political process. In the case of Graz this manifests itself in finally realising of a number of projects that were long discussed or planned before.

Advertising Effects: Organising an Cultural Capital of Europe event can achieve powerful advertising effects in international press and media. While being limited to a relatively short period of time those effects can be exceptionally strong.

Image Effects: As opposed to the temporarily limited advertising effects image effects can have a lasting impact on the perception of Graz as a place for living, as well as its cultural and business activities. While those effects can either be generated or aggravated by Graz 2003, their long term impact will not be secured by the cultural activities in 2003 alone.

Competence and Network Effects: Preparing and organising a mega-event such as Graz 2003 entails the production of knowledge and competence in both the organising authority itself as well as other involved institutions. Especially the competence effects might be lost by closing down the organising authority without implementing an substitute aimed at preserving the generated knowledge.

Even though the enumerated effects cannot be assessed quantitatively, it can be said that for the city of Graz expenditure directed towards cultural activities can mainly be justified by those intangible effects, since:

An urban region such as Graz is increasingly dependent on a high standard of living and an respective image in order to attract and preserve the necessary human capital. Cultural activities are hence an important asset in competing for the scarce work force of highly qualified persons.

Intangible effects generated by cultural activities are of major importance especially for an urban region such as Graz, which aims at international recognition

Apart from advertising and image effects especially competence and network effects as well as the impacts on the quality of life in Graz have to be taken into consideration

Internationality and recognition are currently among the main weak spots of the city of Graz and hence a high impact can be expected especially in this regard.

The emphasis on quality of life and cultural activities are complementary to the perception as a region known mainly for its industrial production capabilities.

It follows that cultural investment is of importance for urban areas in general and for Graz in particular in order to secure a diversified place for living and to enhance the international perception. Graz 2003 offers potential possibilities in this regard.

However, these effects can not be generated by the program of Graz 2003 alone. Besides the actual impacts of the structural investment projects the extent to which the generated initial effects can be transformed into long term impacts will be of special importance. These will be determined by:

The long term impacts of Graz 2003 will in largely depend on the sustained value of the generated intangible effects

The actual impact of operating the Kunsthaus, which will largely depend on the intensity and manner of playing the new house, especially as far as the international recognition of the city of Graz is concerned.

The once-off impacts arising from advertising effects can best be transformed into long term results if the external appearance of the city of Graz is concentrated and used effectively (*cultural umbrella brand name*). Mainly organisational and marketing-related questions are addressed in this regard.

Sustaining the competence effects acquired might prove difficult if the Graz 2003 GmbH goes out of business without substitute. A coordinating institution should be considered, which manages cultural and scientific events and thereby also secures the obtained knowledge.

