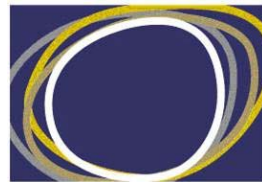




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Measuring the value of culture: a report to the Department for Culture Media and Sport

Dr. Dave O'Brien, AHRC/ESRC Placement Fellow

15 December 2010

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This work was made possible by joint funding from AHRC and ESRC, award number RES-173-27-0202. I am grateful to my steering group at DCMS and all of the individuals and organisations named in appendix 1 for taking the time to share their thoughts on the thorny issue of cultural value.

Measuring Cultural Value would not have been possible without the interest and influence of Harman Sagger at the Department for Culture, Media and Sport, whose consistent engagement with this research did much to shape this placement fellowship. Finally a profound note of thanks is due to all of my colleagues in the Evidence and Analysis unit at Department for Culture, Media and Sport, who made my placement fascinating, challenging and stimulating. It was a pleasure to work with them all. In keeping with standard academic practice, all opinions expressed within the report are my own.

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Executive Summary

The cultural sector faces the conundrum of proving its value in a way that can be understood by decision-makers. As Smith (2010b) has noted, arts and cultural organisations face a ‘cooler climate’ than the one that prevailed during the early 2000s. As a result it will not be enough for arts and culture to resort to claiming to be a unique or special case compared with other government sectors (Matarasso 2009). Since the 1980s the value of the cultural sector has been demonstrated through the lens of ‘impact’, whether economic (e.g. Myerscough 1988) or social (e.g. Matarasso 1997). However in recent years there has been recognition, both within central government and in parts of the publically funded cultural sector, of the need to more clearly articulate the value of culture using methods which fit in with central government’s decision-making. Thus the cultural sector will need to use the tools and concepts of economics to fully state their benefits in the prevailing language of policy appraisal and evaluation (Bakhshi, Freeman and Hitchen, 2009).

Other areas of public policy – most obviously health and the environment – have evolved valuation tools that have entered mainstream policy appraisal, and have raised the quality of public decision-making as a result. We need the same in cultural policy. For this reason, the Department for Culture, Media and Sport (DCMS), along with the Economic and Social Research Council (ESRC) and the Arts and Humanities Research Council (AHRC) initiated this project on *Measuring Cultural Value*. As part of the ESRC/AHRC placement fellowship scheme, DCMS worked with an academic to create a multi-disciplinary literature review of methods for measuring the value of culture. This report gives an overview of this work, including recommendations for the next steps to be taken by DCMS. DCMS’ Culture and Sport Evidence (CASE) programme has already published work in this area (CASE 2010b) and this report compliments CASE with a specific focus on the valuation techniques recommended by HM Treasury’s *Green Book* on policy appraisal and evaluation (HMT 2003).

The *Green Book* stresses the need for Cost Benefit Analysis (CBA) of government decisions. This report therefore considers a range of methods that may be compatible with this approach, in the context of the perceived distance between economics, which is the dominant language of government, and the cultural sector, which operates on a very different set of assumptions and concepts. The report helps to clarify some of these issues by discussing the ideas underpinning the notions of economic and cultural value and by describing the experience of other government departments that have had to deal with problems associated with valuing culture. For ease of use, the main points of the approaches are set out on page 6.

The main focus of the report is a detailed consideration of the economic valuation methods suggested in the *Green Book* as well as considering the subjective

wellbeing/income compensation approach set out in CASE (2010b). The report concludes that stated preference methods, such as contingent valuation, which are explicitly supported by the *Green Book*, should be used for decisions about cultural policy.

This report will therefore be of interest to any part of the cultural sector who have cause to deal with central government, whether directly or via an Arms Length Body (ALB), as well as for policymakers within DCMS. Specifically the discussion within this report is important to any organisation making what central government refer to as a 'business case' for spending, for example on a new building or similar capital project and to policymakers developing new policies for the cultural sector. The cultural sector is a rich, mixed economy, of large organisations with international horizons and commercial aims, through to amateur institutions with a more local focus. However no matter what the size or outlook of an organisation, or its relationship with central government (for example if it is an ALB) the importance of understanding the framework used for central government decisions cannot be overstated.

It is only by fully articulating all forms of the benefits of culture, using the language of public policy and cultural value, that funding decisions can be made that are acceptable to both central government and the cultural sector. This report aims to go some way to bringing both of these constituencies closer together. To further this aim, the report recommends:

- 1) DCMS should create clear guidelines on measuring cultural value based on the economic valuation techniques consistent with the *Green Book*, as described in this report. Whilst central government has produced detailed work on how to use techniques like stated preference valuations, there is so far nothing which is specific to the cultural sector. Thus DCMS should create a handbook which will summarise central government thinking in this area in a form which is accessible to both the cultural sector and those involved in economic evaluation. The aim should be to give clarity on *what* DCMS wants the cultural sector to measure and *how* it wants this measurement carried out. This will help to avoid the longstanding criticisms of data gathering and methodology that have occurred across the cultural sector (Selwood 2002, ACE 2009, CASE 2010a)
- 2) As part of this guidance it is worthwhile for DCMS to develop closer links with academics working in the area of cultural economics. These links will help DCMS to commission a series of practical studies to measure cultural value using the economic valuation techniques discussed in section 5, specifically contingent valuation and choice modelling. These studies would serve as prominent, publically available examples of best practice in this area.
- 3) DCMS should also investigate whether existing datasets could be used alongside economic values generated by recommendation 2) to develop a multi-criteria analysis for culture, of the type found in Transport (DfT 2009)
- 4) The DMCS, AHRC and ESRC should appoint a follow-up fellowship to deliver these recommendations, with a focus on recommendation 1.

Methods	Used to value	Key question answered	Advantages	Drawbacks
Contingent valuation	Economic values including option and non-use values e.g. the economic value of having a museum in a town or city	How can we capture users' and non-users' valuations of culture for use in cost-benefit analysis?	Stated Preference techniques, particularly contingent valuation, are well established within environmental and transport economics, and are recommended by HMT's <i>Green Book</i> . They are used by the Departments for Communities and Local Government; Environment, Food and Rural Affairs; Business, Innovation and Skills; and Transport. Give monetised valuations of the cultural activities and institutions for cost-benefit analysis	Stated preference techniques are complex and expensive to apply There are a range of technical and philosophical critiques of the method
Choice modelling	Economic values including option and non-use values e.g. the value of one policy option, such as longer opening hours, against another, such as a new building	How can we capture users' and non-users' valuations of culture for use in cost-benefit analysis?	Similar advantages to contingent valuation Doesn't directly ask willingness to pay, so avoids some of the criticisms of contingent valuation Useful for understanding values where there is a clear choice of options	Similar issues to contingent valuation Doesn't directly value goods, but rather is used to assess the values of different options and choices
Hedonic pricing	Economic values, excluding option and non-use values e.g. The value of living near to, so being able to use, a theatre	What is the relationship between a good or service and market prices?	Based on market prices with sophisticated techniques to reveal the values associated with a given good or service	Usually based on property prices which are often only spuriously related to goods and services within the cultural sector Rarely used within the cultural sector Doesn't capture non-use and option values
Travel cost	Economic values, excluding option and non-use values e.g. the value of visiting a free gallery	What do people value based on the amount of time they are willing to spend travelling to consume a good or service?	Based on market prices that directly reveal people's preferences for a good or service Has been used to value a range of cultural goods and services and compare those values	May undervalue people who have only short travel time Doesn't capture non-use and option values May require potentially costly primary research

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Subjective wellbeing	Impact of any activity, e.g. taking part in a dance class or visiting a heritage site, understood through the relationship between wellbeing and income	How can we value changes in wellbeing generated by culture?	Avoids many of the criticisms of economic valuation techniques Has been used by DCMS to value engagement with cultural activity	The relationship between income and wellbeing is still not fully understood The method need more research before its findings will rival or replace existing forms of economic valuation
Quality Adjusted Life Years (QALYs)	Value of quality and length of a year of human life e.g. the impact of participation in a community arts group on health	How do we make decisions about resource allocation in healthcare?	Allows an analysis of cost effectiveness for often very different health interventions Bespoke method which avoids the problem of directly valuing human life in monetary terms	Specific to the health sector Subject to debates over technical issues
Non-economic forms of valuation	The impact of cultural activity on individuals and society	How can we value culture without using monetary criteria?	Methods are drawn from the cultural sector Avoid the philosophical objections associated with economic valuation techniques	No one method is agreed None of the methods fit with the <i>Green Book's</i> recommendations
Multi-criteria analysis	Used to make different forms of data commensurable	How can we make judgements using incommensurable forms of data?	Helps to integrate qualitative, quantitative and monetised data Can involve expert judgement on the weighting of criteria	Still requires a measurement of cultural value, so doesn't avoid the difficulties discussed in this report Arguments can occur over the relative weights given to each criterion

1. Introduction

Proving the worth of the cultural sector on its own terms, or what commentators (Rand 2004, Holden, 2004, 2006) have described as the 'intrinsic', as opposed to 'instrumental', value of culture has proved problematic since these issues emerged in light of changes within central government's funding of the arts in the 1980s. A pamphlet by Hasan Bakhshi, Alan Freeman and Graham Hitchen published at the beginning of 2009 called for the relationship between economic valuation tools and intrinsic value to be revisited. In light of this, the Department for Culture, Media and Sport (DCMS), along with the Economic and Social Research Council (ESRC) and the Arts and Humanities Research Council (AHRC), have begun a programme of work to understand the best methods for measuring the value of culture, in the context of government decision-making.

This report should be read in the context of the evolution of work on valuing the cultural sector. Since the 1980s the value of the cultural sector has been demonstrated through the lens of 'impact', whether economic (e.g. Myerscough 1988) or social (e.g. Matarasso 1997). However in recent years there has been recognition, both within central government and in parts of the publically funded cultural sector, of the need to more clearly articulate the value of culture using methods which fit in with central government's decision-making. This has culminated in the development of DCMS's Culture And Sport Evidence (CASE) programme which has begun to develop potential valuation methodologies that can be used in the context of central government decision-making (CASE 2010b). This report compliments CASE with a specific focus on the valuation techniques recommended by HM Treasury's *Green Book* on policy appraisal and evaluation (HMT 2003).

The *Green Book* stresses the need for Cost-Benefit Analysis (CBA) of government decisions and so this report considers a range of methods that maybe compatible with this approach. The report considers the subjective wellbeing/income compensation approach set out in CASE (2010b) and also offers a detailed consideration of the economic valuation methods suggested in the *Green Book* itself, concluding that stated preference methods such as contingent valuation, which are explicitly supported by the *Green Book* should be used for decisions about cultural policy.

This report will therefore be of interest to any part of the cultural sector who have cause to deal with central government, whether directly or via an Arms Length Body (ALB), as well as for policymakers within DCMS. Specifically the discussion within this report is important to any organisation making what central government refer to as a 'business case' for spending, for example on a new building or similar capital project and to policymakers developing new policies for the cultural sector. The cultural sector is a rich, mixed economy, of large organisations with international horizons and commercial aims, through to amateur institutions with a more local focus. However no matter what the size or outlook of an

organisation, or its relationship with central government (for example if it is an ALB) the importance of understanding the framework used for central government decisions cannot be overstated.

In order to make this process clear and to recommend methodologies for valuing culture that fit with the *Green Book*, this report forms part of the first stage of the *Measuring Cultural Value* programme, which has involved discussions across Whitehall, alongside conversations with the cultural sector, academics and consultants. A full list is given in appendix 1. The report used these conversations in conjunction with extensive desk based research to compile the literature review and recommendations contained in the main sections of the report.

The report engages with the problem of valuing culture, suggesting, uncontroversially, that culture is an intangible good that is hard to define (sections 2-4) and goes on to ask how the UK government deals with the problem of valuing similar intangibles, drawing, perhaps more controversially, on techniques from economics that are well established in the fields of environmental and transport policy making.

Considering techniques to understand individuals' preferences for goods and services, the report recommends DCMS develop guidance and examples for using stated preference techniques (discussed by section 5) to value non-market goods. These techniques offer the best fit with *Green Book* guidance from HM Treasury on valuation (HMT 2003). The report also suggests that using value or benefit transfer techniques, which allow the findings of one economic valuation to be transferred to another case, may prove a useful way to offset the cost and time commitments necessary to carry out stated preference work. Subsequent sections of the report (5.2-7) consider alternative methods of valuation, including revealed preference techniques, Subjective Well Being (SWB), Quality Adjusted Life Years (QALYs) and non-monetary measures of culture. The report suggests that all of these techniques have benefits, but on balance, none offer the potential advantages of stated preference techniques, which are widely used and accepted methods across government.

Although the report suggests techniques from economics are the most useful for government decision-makers wishing to measure and make judgements about cultural value, they must not be used in isolation. First, because valuation must also embrace a cultural discourse if it is to gain the support of the cultural sector and second because the debate over the extent to which economic valuation techniques are able to capture all dimensions of cultural value is still ongoing (Bakhshi and Throsby 2010). The report stresses the need for economic analysis to be placed within robust and detailed narrative accounts of cultural value (section 7.2), or to be included as part of multi-criteria analysis (section 8). Narrative accounts of cultural value are especially important as they provide a framework for our understanding of cultural value, but fail to represent the benefits of culture in a manner that is commensurable with other calls on the public purse. Narrative accounts remind us of the need to make the case for culture in a variety of ways. Political decisions are not merely technocratic exercises in economic valuation, and nor should they be. However, without the data offered by economic valuation techniques the richness of the narratives of cultural value are likely to be less influential.

The process of developing techniques for capturing value all have different histories with the specific departments and associated academic fields. However there are

commonalities across the approaches, whether Quality Adjusted Life Years (QALYs), as adopted by Department for Health (DH), or preference based techniques, as adopted by the Department for Environment, Food and Rural Affairs (DEFRA) and Department for Transport (DfT). Across the narratives of these techniques, gained from academic work and conversations with government officials, was the essential point that clear guidance from central government had been a decisive factor in ensuring the adoption of a given method. Although the techniques themselves encountered considerable debate, for example stated preference techniques were (and are still) subject to extensive discussion within environmental economics, clear guidance from government has meant they are now firmly established methods for capturing differing forms of value for use in policy decision-making. This is discussed in the final section of the report (section 9).

2. The problem of valuing culture

As a starting point, to better understand the problem of value for the cultural sector, it is worth considering why this is such a thorny issue. The problem of value for the cultural sector is rooted in three issues: the meaning of the word ‘culture’, the tensions over making value judgements within the cultural sector and the difficulties of measurement within the cultural sector.

2.1 Understanding the meaning of culture

It is widely accepted that culture is a difficult concept, at once utterly familiar, but also complex and hard to fully pin down. Going back to the Victorian period, culture was associated with the moral betterment and spiritual development that would come from the contemplation of ‘the best which has been thought and said in the world’ (Arnold [1869]1993). However by the 1960s, in the UK, culture came to be associated with a more anthropological understanding, being concerned with the construction and transmission of meaning (McGuigan 2004) where culture is as much a ‘way of life’ (Williams 2010) as it is the artefacts and objects that are constructed as meaningful.

Notwithstanding the debate in the UK, sociology from Germany and France also further complicates the question of how to understand culture. The German Romantics introduced a distinction between *civilization* and *kultur*, which still exists today in the German language (Elias 2000). This distinction contributes to the modern view of ‘culture’ as creative achievement and production of artistic work, in contrast to aristocratic notions of social position expressed in good manners. This gave rise to a number of persistent but problematic themes in the valuation of culture, including the notion of culture as an expression of national achievement, the notion of excellence as an expression of cultural attainment, the notion (Bourdieu 1984) of culture and cultural participation as a signifier of social distinctions, as well as the notion of the relativity and individuality of cultural judgements and preferences. Those writers that have built on Bourdieu’s work (e.g. Bennett *et al* 2009), in particular, illustrate the distinction between ‘high’ and ‘low’ culture which is still important in contemporary debates, as the arts, institutionalised in galleries, theatres and opera houses are consumed by those of higher social status, in contrast to the consumption of popular culture, in the form of television and popular music (although the work of Goldthorpe and Chan 2007 has challenged this).

Thus the problem of defining culture is still a subject for debate and influences policy and media discussions on the subject (Miles and Sullivan, forthcoming, Jones 2010). The complexity of the term is therefore a fundamental part of the reason culture has been such a difficult area to value.

2.2 Making value judgements within the cultural sector

Section 2.1 has noted the difficulty of defining culture, with the potential opposition between 'elite' forms of culture and 'popular' forms of culture as a way of life. This difficulty gives rise to the attendant problem of making judgements within the cultural sector, particularly in the context of funding decisions. For John Tusa, former managing director of the Barbican, aesthetic quality should be the essential category for decision-making:

'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 Saltzburger kugel. Picasso is important because he taught a century new ways of looking at objects and not because his painting in the Bilbao Guggenheim Museum are regenerating an otherwise derelict northern Spanish port. Van Gogh is valued because of the pain or intensity of his images and colours, and not because he made sunflowers and wooden chairs popular. Absolute quality is paramount in attempting a valuation of the arts; all other factors are interesting, useful but secondary. ' (Tusa 1999, cited Reeves 2002:36)

However several authors, most notably Gibson (2008), have noted the relative and socially constructed nature of aesthetic worth (and its obvious relationship with class e.g. Bennett *et al* 2009 and Bourdieu 1984). At the extreme, the relativism inherent in aesthetic judgements presents the impossible and utterly counter-intuitive challenge of commensurability, identified succinctly by Cowan (2006:6):

'It is difficult to decide whether Shakespeare's Hamlet is better than his King Lear and even harder to persuade others of our decision or define what such a ranking would mean. How many Gershwin songs sum up to a Shostakovich symphony? Is a Haydn string quartet better than a Hemmingway short story? How does a Blake poem compare to a modern ballet performance?'

The dilemma identified by Cowan is not just a matter for philosophical discussion. For government in the UK the question of aesthetic judgement is dealt with by arms length bodies, such as the Arts Council, but deciding the funding levels for these organisations requires some way of 'measuring' culture to make funding decisions. An attempt to do this was tried in the form of the McMaster review in 2008, which suggested a peer review system for understanding excellence.

2.3 Measuring culture

There is a longstanding scepticism towards measurement within the cultural sector, captured by Hewison's (2002:85) citation of Missel's (1983) comment that:

'The concept of the arts itself is indefinable, and any attempt to measure it cannot begin to represent its essential quality'

This comment reflects Tusa's assertion that aesthetic quality should be the basis for judgements in the cultural sector. However, since the 1980s, measurement in the cultural sector has been based on the contribution the cultural sector can make to social and economic goals. This form of measurement has been subjected to extensive criticism (e.g. Belfiore 2002, Merli 2002), with Missel's assumption implicit in much of the critique. These critiques are best captured by Selwood's (2002) discussion of the problems associated with

attempting to analyse the cultural sector, as statistics and data on the arts and cultural sector may give *information* but simply fail to *understand* what is valuable about the sector. Selwood was writing about the development of instrumental uses of the culture and the attendant data gathering practices, practices which produced statistics on impact (particularly as part of a contribution to social policy) that lacked robustness. Data was qualitative, anecdotal and bore little relation to the decision-making frameworks used by central government when making investment decisions.

This issue of measurement in the cultural sector is now especially pressing given the context of what Smith (2010b) has called the ‘cooler climate’ facing arts funding. Proving value within the frameworks used by central government is no has traditionally been framed by debate between what Cowan (2006) and Klamer (2004) have understood as those wishing to narrate culture through aesthetics and others seeking to use other methods, most often drawn from economics. Rather the debate is now a matter of survival for the cultural sector (Scott and Soren 2009), in the situation where:

‘the sector is hindered by its failure to clearly articulate its value in a cohesive and meaningful way, as well as by its neglect of the compelling need to establish a system for collecting evidence around a set of agreed indicators that substantiate value claims’ Scott (2009:198)

However, the focus on aesthetics suggested by Tusa and Missel makes it difficult to connect the cultural sector with decision-making frameworks of central government, grounded in economic theory and monetary valuations (HMT 2003). For example the work of Plaza (2010:156), when discussing how to value museums, gives a sense of the distance between the cultural sector and central government’s decision-making framework:

‘It is obvious that the non-market value of museums (meaning, for instance, their artistic, cultural, educational, architectural and prestige value to society) cannot be calculated by means of financial transactions’

With a dilemma summed up by Selwood’s (2010:5) use of Leicester and Sharpe (2010:11):

‘We have found that everyone in the arts and cultural sector is struggling with talk about ‘value’. It is no good trying to relate all the value of arts and culture to monetary valuations, and equally unhelpful to try to justify the arts as some kind of special case, different from all other spending priorities and subject to unique criteria’

There we have the conundrum of funding culture, how best to narrate culture’s value, in terms of *culture* rather than economic or social impact, in the context of a changing funding regime? The cultural sector needs a method to make value commensurable across the ‘mixed economy’ (Smith 2010b) of public, private and voluntary cultural institutions and the range of cultural activities they provide. The following sections suggest such a method, based on a more detailed consideration of the meaning of cultural value and how this concept could be used to make funding decisions within the UK. Thus the report draws on techniques from environmental and transport economics to answer the question posed by both Steele (2004) and Gibson (2008:14):

‘if we consider that to support one person’s or groups’ culture is also to a make a decision not to support another’s, on what basis do we make these decisions?’

Reality of current central govt is a zero sum game. There are not enough funds to go round, so how do we allocate them?

3. Values and Valuation

Running throughout this discussion of cultural value is the need for a focused definition of what ‘value’ means. Just as the word culture can often be unclear and confusing, the term value is subject to similar differences in use and interpretation. Blaug *et al* (2006:23) reflect the various meanings contained within the term ‘value’, whereby:

‘To some it means economic value- how much a product or service is worth relative to other things as indicated by its price. Value can also relate to preferences and satisfaction with a particular service at a specific point in time. Finally, values such as security and integrity derive from moral and ethical debate and will always be hotly contested’

The multifaceted nature of value is a major problem within literature discussing cultural value, because much of the discussion of ‘value’ has focused on what kinds of characteristics of cultural goods and services are seen as valuable, rather than on their measurement. Thus many authors and institutions engaging with the question of cultural value (e.g. Scott 2009, ACE 2007, or McMaster 2008) assert what the values of culture *are*, in terms of ‘the qualities and characteristics seen in things’ (Mason 2002:7).

Value is also used to describe the ‘morals, principles, or ideas that serve as guides to action’ (Mason 2002:7), where value reflects the meaning and importance of cultural activity (Miles and Sullivan 2010, Reeves 2002:35), rather than the economic conception of value. This conception of value employs a similar focus on the characteristics of cultural activity as a way of narrating value. Whilst this section is not proposing any direct criticism of these kinds of approaches, it is useful to be aware of this use of value and values within the literature as a further example of the complexity of discussing cultural value.

Economic uses of value are grounded in individual utility and preference satisfaction as expressed in what people are willing to pay for a good or service (Throsby 2001:19). This is often reflected in market prices, although people may often be willing to pay more than the price for a good or service and the difference between price and willingness to pay is referred to as consumer surplus. Where there is no market for a good or service and therefore no price e.g. in the context of museums free at the point of use in the UK, or the aesthetic value of historic architecture, value can be seen in the opportunity cost of that good or service, whether in terms of willingness to pay money or willingness to give up resources, such as time (Mulgan *et al* 2006). This understanding of value, as the reflection of individual preferences is at the root of the UK government’s conception of value for use in decision-making.

3.1 Central government approaches to valuation and the *Green Book*

HM Treasury (HMT) offers guidance on the evaluation and appraisal necessary for taking decisions to commit resources to a given policy. Thus it is important to understand this guidance to get a sense of the most appropriate methods to measure cultural value and which of these fit most closely with HMT's approach. This guidance is found in the *Green Book on Appraisal and evaluation in central government* (HMT 2003).

The *Green Book* is underpinned by a standard welfare economic position common to much of HMT's guidance (e.g. HMT 2008). Within this framework the objective of policy should be to maximise social welfare, where welfare is the sum of individual utility. Maximising welfare can therefore be understood as the efficient allocation of public resources (HMT 2003:1). Often the market will fail to provide an efficient allocation of resources as, for example, where goods and services have 'public good' characteristics i.e. they 'can be enjoyed by one person without affecting the amount available for others' or it is hard to exclude people from consuming them (Ridge *et al* 2007:15). There may also be market failures associated with externalities generated by market transactions, where a third party incurs costs or derives benefits from a transaction, or lack of information and competition causing a market to operate imperfectly. Market failure is therefore an important circumstance for government intervention. Choosing the policy to correct a market failure requires careful consideration of the benefits to be generated by any given policy.

In order to do this HMT suggest any policy decision should be subject to a cost-benefit analysis (CBA) to ensure that the potential costs of a policy are outweighed by the potential benefits; CBA is understood as

'Analysis which quantifies in monetary terms as many of the costs and benefits of a proposal as feasible, including items for which the market does not provide a satisfactory measure of economic value.' (HMT 2003:4)

The cost-benefit analysis framework requires that as many of the costs and benefits as possible are quantified in terms of monetary values (HMT 2003:4). It is important to note here that money is used as a tool of measurement, a standard by which many different values can be compared and contrasted. For a CBA to be effective HMT recommend that, in so far as is possible, monetary values be attached to all impacts of a proposed policy and that the CBA includes all costs *and benefits* of all of the possible policy options. It is therefore necessary (based on the CBA framework from HMT) to make sure the value of culture can be narrated within a cost-benefit analysis. Existing work by DCMS's CASE programme has identified that government lacks a clear understanding of how best to value the benefits of funding culture (CASE 2010b:4). In addition, as section 2.3 describes, using monetary values to describe the value of arts and culture is fraught with difficulty and is seen as highly undesirable or utterly inappropriate by many commentators.

The usual way of valuing culture has been through an understanding of its social and economic impact. Its economic impact has been used as a way of trying to fit cultural policies into a CBA framework. As a vast range of commentators, (e.g. Cowan 2006:15) have identified, this risks reducing culture to a range of benefits that are provided by other sectors of government intervention and fails to capture the full benefits of culture to individuals, as is required by the *Green Book*. Thus the problem of valuing culture becomes how best to fit the unique aspects of culture, outside of the social and economic impacts, into the economic language of the welfare economic paradigm suggested by the guidance in

the *Green Book*. As a discussion in Clark (2006:62) exemplifies, the need to fit the cultural sector's understanding of value into central government's standard framework for evaluating decisions is simply unavoidable. It is especially unavoidable given the increasing demands on decreasing resources expected across the public sector for the foreseeable future (Selwood 2010).

4 Cultural Value

The previous section stressed the need to make valuations in the cultural sector compatible with the framework outlined in the *Green book*. This section discusses attempts to define cultural value in ways that are useful for decision-making, whilst keeping an awareness of the way that the cultural sector seems to both attract and resist economic analysis (Doyle 2010), for the reasons set out in section 2. The sector concludes by demonstrating that the lack of consensus in the literature over the meaning of cultural value and how to best to measure and capture cultural value suggests the potential of using established economic valuation tools.

4.1 What is cultural value?

Unsurprisingly there is no one definition of cultural value within existing literature on the subject. Just as with 'culture' and 'value' there are a range of perspectives and uses of the term, some of which complement each other, whilst some are seemingly contradictory (Bennett and Belfiore 2008). Despite the lack of consensus on the meaning of the term there have been two uses of the concept that represent the most common uses of 'cultural value'. The first comes from the work of John Holden, from the British think-tank Demos, and is concerned with displaying the intrinsic, instrumental and institutional values of culture. The second is from the work of the Australian economist David Throsby, who seeks to separate cultural values from the type of economic values discussed by section 3.

For Holden (2004, 2006) cultural value can be understood as instrumental value, institutional value and intrinsic value. The three forms of value are interdependent and rely on each other to form an overall picture of cultural value. Instrumental value is generated by the social and economic policy uses of culture, for example to raise exam results or tackle social exclusion. Institutional value refers to the kind of value discussed by Mark Moore's work (1995) on public value, where organisations generate trust or esteem by the way they engage their users. Intrinsic value is that form of value that is unique to the cultural sector and isn't found anywhere else. This type of value is very hard to define, but for Holden is associated with ideas of aesthetic excellence and individual enjoyment. Intrinsic value is therefore highly subjective and is hard to fit into the language of outputs and outcomes associated with Holden's other two types of value.

Holden's value triangle initiated extensive debate (e.g. Selwood *et al* 2005) and has been used by the Heritage Lottery Fund (HLF) as a basis for their evaluation framework. HLF used Holden's ideas for a range of qualitative survey work and to construct narratives of the institutional value their projects create (this type of approach is discussed in section 7). However Holden is very specific in his discussion of intrinsic value and measurement, strongly doubting that it could be measured in a way that would be useful to something like

a CBA. Intrinsic value in this conception is far from the economic value discussed by section 3.

The other influential theorist of cultural value, David Throsby (2001), sees a much closer link between economic value and the intrinsic value of culture, although he still attempts to separate the two. Throsby deconstructs cultural value into aesthetic, spiritual, social, historic, symbolic and authenticity value, each of which contribute to a different facet of the overall value subsisting in a cultural object, institution or experience. Throsby maintains that cultural value is (and can be) separate from economic value as understood as people's preferences expressed by price or willingness to pay, although recent work by Bakhshi and Throsby (2010) has attempted to clarify the relationship suggesting cultural value plays an essential role in determining economic value (particularly with regard to the quality of aesthetic experiences 2010:55) For commentators such as Hewison (2010) Throsby's conception of cultural value closely relates to Holden's intrinsic and institutional values, where cultural value is the basis for any instrumental value.

For Throsby economic valuation will show some parts of cultural value. Indeed:

'a thorough economic evaluation of the market and non-market benefits of an item of heritage will tell us a great deal about the cultural value of the item, because in general the more highly people value things for cultural reasons the more they will be willing to pay for them. Nevertheless it may not tell the whole story, because there are some aspects of cultural value that cannot realistically be rendered in monetary terms.' (Throsby 2006:42)

Economic value cannot fully capture cultural value as there are specific characteristics of cultural value, particularly the social aspects, which cannot be reduced to a monetary form. This position is shared by Klammer's (2002, 2004) work on cultural value, which asserts strongly that this form of value transcends what economic value is capable of capturing. For instance the value of national identity, expressed as a feeling of 'Britishness' or 'Frenchness' (Throsby 2006:42) will be very difficult for individuals to express in any monetary form as they are rooted in shared social experiences, rather than individual utility. Equally there are benefits which conceptually resist monetisation, the often cited example being trust- it fundamentally misunderstands the meaning of trust if one can put a monetary valuation on it (Arrow cited in CASE 2010b:18). Finally Throsby (2001) shares with Holden the belief that there are intrinsic qualities in an object that cannot be understood using the framework of economic valuation. Throsby suggests the need for some form of cultural assessment for decision-making, although he is not clear on the criteria to base this judgement on. Nonetheless an

'independent assessment of cultural value will always be important in informing decision-making in regard to heritage, no matter how thorough an economic assessment is made' (2006:43).

4.2 Critiques of Cultural Value

Throsby's insistence of the need for a complimentary measurement of cultural value is an important insight and has much to offer (particularly as it has been used in recent work by Bakhshi and Throsby 2010). However the basic assumptions underlying the vision of cultural value set out by Holden's understanding of intrinsic value and its corollary in

Throsby's (2001) outline of cultural value has been subject to three forms of critique: First, those authors wishing to deconstruct and reject the notion of any intrinsic value, casting doubt on the usefulness of the concept for decision-making. Second, those who argue that cultural value is included in the economic value of a good or service. Finally there is the related, more pragmatic, critique, especially pertinent given the current policy circumstances, that without using the economic value of culture it will be impossible to show the benefits of culture within CBA (building on the discussion in section 3).

4.2.1 The intrinsic/instrumental division is unhelpful and unclear

Intrinsic value has been the subject of extensive debate and criticism within the field of cultural policy studies and from economists. The essential argument is that all forms of value are socially constructed and therefore it is unsustainable to argue that objects, practices or institutions have intrinsic qualities that subsist within them. Gibson and Pendlebury (2009) make this point when discussing heritage, showing how the reception of a site like Stonehenge has 'a long history of being interpreted in multiple and conflicting ways; interpretations that are often linked to contemporary purposes and needs' that 'fit within a wider ideological and political discourse about whose values should prevail, with competing and conflicting positions' (2009:4), casting doubt on any intrinsic value associated with the monument. This is not to say that culture is without value, but rather that it is always value *for* an individual or group, rather than timeless value outside of human contemplation (ACE 2009:11, Pinnock 2006, Rumbold 2010. Also Eftec 2005 gives a similar discussion of this issue within economic valuations). Jones (2010) has engaged with this problem, describing the distinction between culture, in the wider 'way of life' sense and the infrastructure surrounding culture, which is the institutions facilitating the continuance of culture. For Jones it is important to understand how questions of cultural value are constant subjects of debate throughout human history. Whilst these intrinsic questions are ongoing, the issues of how best to make judgements over the *infrastructure* surrounding culture require more pragmatic solutions (Jones 2010).

Finally intrinsic value has also been subject to question because it depends on an implicit division between intrinsic and instrumental value. Commentators from within the cultural sector (such as Coles 2008) have questioned this division, as it suggests a 'pure' form of cultural engagement where the values identified by Holden can be easily disaggregated. A stronger criticism has come from Gibson (2008:4) who rejects the dichotomy due to the lack of consensus on the meaning of instrumental value and which forms of value, such as a learning outcome, should be classified as instrumental or intrinsic.

4.2.2 Cultural value subsists in economic value

A second and much more crucial critique of the concept of cultural value, particularly as outlined in Throsby's work, is that cultural value subsists in economic value. A range of authors (Pinnock 2009, Eftec 2005, Bedate *et al* 2004, Mason 2002) have suggested that whilst Throsby's idea of a separate form of cultural value is interesting, the value people gain from culture, whether aesthetic, spiritual, symbolic or historical is reflected in culture's economic value, which is price or willingness to pay. In essence this is a form of disciplinary debate between the prevailing assumptions in contemporary economics (the type

underlying the *Green Book*) and other forms of knowledge that do not see values in these terms (as discussed in section 3.1). It is not possible to solve this debate here (or perhaps at all), but rather it is worth considering the consequences of ignoring this economic critique of cultural value.

4.2.3 The pitfalls of ignoring the economic value approach to measuring cultural value

The essential question from this section's discussion of cultural value is therefore whether we accept Throsby's assertion that cultural value exists separate from economic value *for the purposes of valuation for political and economic decisions over scarce resources*. The essence of the debate is summed up by this response to Bakhshi *et al*'s (2009) paper on using economic methods to value culture:

'I know of no economic theory that comes remotely close to expressing the "intrinsic" value of a great performance of Bach's "St Matthew Passion", or for that matter of Bernstein's "West Side Story", or their capacity for enriching, even changing lives.' (Smith 2009, commenting on Bakhshi *et al* 2009)

This type of narrative was also very common in discussions of environmental valuation, that it is simply inappropriate to value an intangible object like the environment using economic value (Pearce 1998).

Eftec (2005) deal with this type of objection directly, in a discussion of how to value heritage. If culture has intrinsic value, then *by definition* this value cannot be measured, as it is intrinsic to the object. We therefore can't say if one object has more or less value than another as intrinsic value cannot, by definition, be measured (this was the dilemma identified by Cowan in section 2.2). If we are unable to make comparisons then how do we know how (and by what amount) to allocate the scarce resources of government spending?

Much of the writing discussed in this report questions the efficacy of valuing culture in terms of its impact, whether social or economic. There is broad consensus that this way of valuing culture has not been effective in making the case for culture. Thus the question of valuing culture becomes how best to make the case for culture within the framework of central government decision-making. As this framework is based in economic value it makes sense to develop Eftec's (2005) discussion of the importance of using economic valuation to represent culture within CBA and to make judgements over spending decisions. For Mourato and Mazzanti (2002:68) the use of economic valuation and the limits of a non-economic approach to culture have powerful political consequences:

'If the alternative to economic valuation is to put cultural heritage value equal or close to zero, the cultural sector would, as a result, be severely damaged. Ignoring economic preferences can lead to undervaluing and under pricing of cultural assets. This, directly and indirectly, reduces the amount of financial resources available to cultural institutions relative to other public priorities'

5 Economic valuation methods

The previous sections have described and discussed the issues associated with cultural value, leading to the necessity of finding a technique which can value culture in the economic terms suggested in the *Green Book*. The following sections suggest a range of options, concentrating on preference based techniques. These techniques are shown to have a range of positive aspects, particularly as they are well established valuation techniques within the transport and environmental sectors. However their drawbacks, particularly their cost along with the philosophical and methodological assumptions underlying their application must be kept in mind.

5.1 Stated preference techniques

Key question

How can we capture users' and non-users' valuations of culture for use in cost-benefit analysis?

Main benefits of these techniques

Stated Preference techniques, particularly contingent valuation, are well established within environmental and transport economics, are recommended by HMT's *Green Book* and are used by Departments for Communities and Local Government; Environment, Food and Rural Affairs; Business, Innovation and Skills; and Transport.

Give monetised valuations of the cultural activities and institutions for cost-benefit analysis

Aggregation across individuals is straightforward as units of measurement are in money.

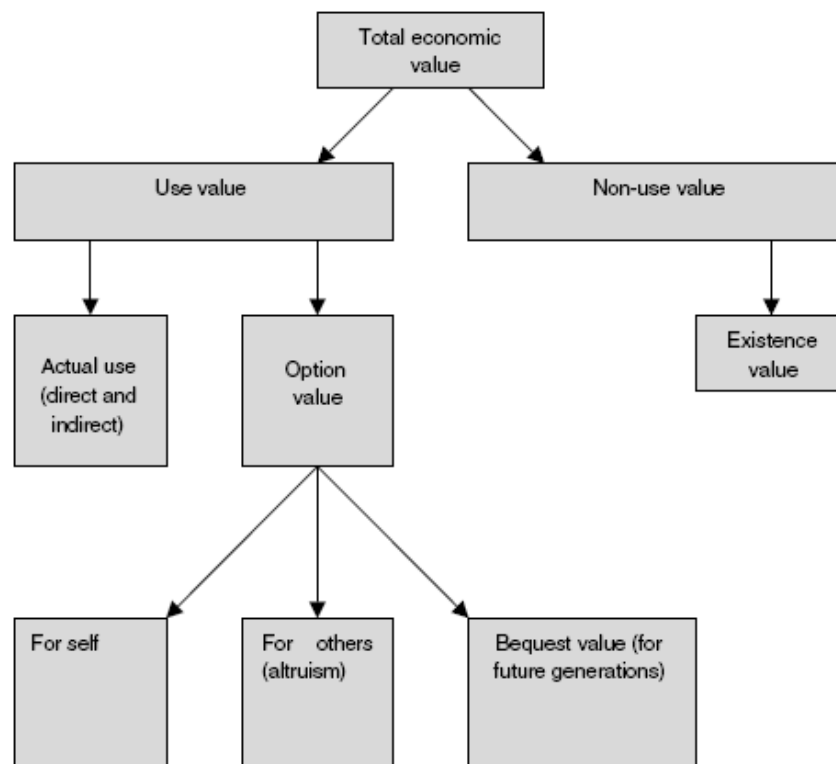
Main drawbacks

Stated preference techniques are complex and expensive (in terms of both time and money) to apply

There are a range of technical and philosophical critiques of these methods e.g. that monetary valuations are potentially affected by the way questions are asked and the methods of payment suggested when data is gathered.

Where there is no market price for a good, economists have developed a range of techniques to understand economic value. Stated preference techniques aim to capture the *total* economic value of a good or a service by asking people to state their preferences within a hypothetical market for a good or service. This conception of total economic value is made up of several constituent parts, broadly divided into use and non-use value (figure 1).

Figure 1: Total Economic value



Pearce *et al* 2002

Use values are often reflected in market prices and in the willingness to pay for a good or service on offer in a market (the difference between the price and willingness to pay is the consumer surplus). However much of the cultural sector is currently free at the point of use (for example museums, galleries or public art) or tickets are subsidised, so use value, or any consumer surplus, cannot fully captured as there is not indicator in the form of a price. This is further complicated because even when value is revealed, this may be deferred in time and captured by persons other than the original producer, as with works of art that rise in commercial value during the life of the artist. Related to this deferred type of value is the economic value generated by having the option of engaging with a cultural good or service, whether for others in the present (altruistic value), or for oneself or others in the future (bequest value). Finally there is the value people get from the existence of a cultural good or service, despite not using or engaging with it. Non-use value is particularly important within the cultural sector, as it includes some of the important benefits generated

by culture (Ridge *et al* 2007:21). Thus measurement of non-use value aims to capture benefits such as the pride people feel towards a local cultural organisation or the importance people attach to the existence of heritage, despite it not being a subject of direct interest to them.

Stated preference techniques are commonly used within the environmental and transport sectors, becoming established after the Exxon Valdez disaster in 1989, when the USA's National Oceanic and Atmospheric Administration (NOAA) set up a panel, including Nobel laureate economists, to explore the appropriateness of using contingent valuation to tackle questions of value with regard to the environment. This work (Arrow *et al* 1993) formed the basis for best practice guidelines on CVM studies, as well as being the starting point for the extensive use of the methods within environmental valuation studies (Noonan 2003). The technique is now recommended by a range of UK government departments (e.g. DEFRA, DfT, BIS) and HMT's *Green Book* framework recommends using formal guidance set out in Pearce *et al*'s (2002) *Economic valuation with stated preference techniques*. This set of guidance covers many of the issues set out in sections 3 and 4.1.1.1-2, whilst detailing the benefits of using stated preference techniques to elicit economic valuations for intangible goods or services. Alongside the guidance there are a range of uses by DEFRA, including to estimate the value of changes in environmental features in damaged areas in England (Eftec 2005) and to value the benefits of biodiversity (Christie *et al* 2004), along with work by DfT to value environmental impacts of transport (Eftec 2009).

Pearce *et al*'s (2002:30-34) guidance is clear on the need for choosing appropriate valuation techniques. For those goods and services which require users' and non-users' valuations to be included in an estimate of the value of a good or service, stated preference techniques are the only well established set of tools for capturing these values. Whilst user values for intangible and non-market goods can be captured by revealed preference methods (discussed by section 5.2) the problem of estimating non-user values can only be dealt with by stated preference methodologies.

5.1.1 Contingent valuation

The most common form of stated preference technique is contingent valuation, which has been used extensively for environmental valuation (Eftec 2006:30). However this literature is voluminous and a review is beyond the scope of this report. The report bases its discussion of these techniques on summaries by Bateman *et al* (2002) and the literature using these techniques to value goods and services provided by the cultural sector. There has been growing interest in using contingent valuation within the cultural sector (Towse 2007), based on the similarities between the problem of valuing environmental goods and services and the problem of valuing culture (Noonan 2002, 2003). Indeed recent work developing the metaphor of the cultural sector as an ecology (O'Connor 2004, Jones 2010) is a useful illustration of these similarities.

Contingent valuation is based on understanding what people would be willing to pay for a particular good or service, for example library provision or visiting a ballet performance. The techniques are based on constructing a hypothetical market for the non-market goods to be valued and then attaching prices to them by asking people directly about their willingness to pay or willingness to accept compensation for it. The method is

summarised in Mourato *et al*'s (2000) discussion of how to apply contingent valuation to heritage:

'The aim of a contingent valuation study is to elicit individuals' preferences, in monetary terms, for changes in the quantity or quality of a non-market good or service, such as the recorded heritage. By means of an appropriately designed questionnaire, a contingent market is designed where the good or service in question can be traded.

The hypothetical market defines the good itself, in the case the recorded heritage, the institutional context in which it would be provided and the way it would be financed. A random sample of people is the asked directly to express their maximum willingness to pay (or minimum willingness to accept) for a change in the level of provision of the good or service' (2000:89).

This outlines the stages that make up the contingent valuation, stages where it is important to carefully develop the valuation question and the hypothetical market. The stages detailed by Pearce *et al* (2002:53) include making sure the purpose of the survey is made clear to respondents, understanding their general attitudes towards the good or service to be valued, understanding the respondents social and economic characteristics and exploring their current use (or non-use) of the good or service before valuation is discussed.

Expert opinion is important in the development of a contingent valuation (de la Torre and Mason 2002:3), as expertise with regard to the good or service to be valued is essential for the formulation of the valuation question and the context for the valuation (Mason 2002:14, Mourato 2000, Eftec 2005).

Once these stages are complete a valuation can occur. Placing a value on a good or service during a contingent valuation is a difficult task and requires well thought-out, well developed and very detailed questions to avoid the elicitation of 'meaningless' answers (Pearce *et al* 2002:49). Thus the valuation scenario, in which the hypothetical willingness to pay or willingness to accept will be elicited, must involve a clearly defined good or service, a clearly defined way of delivering this good or service, it must detail the institution responsible for this delivery and the way payment will (hypothetically) be collected. Crucially Pearce *et al* (2002:49) stress the importance of the elicitation method, particularly as this aspect of contingent valuation has been subject to the most scrutiny within the economics literature.

Currently contingent valuation has been used to value a range of cultural goods and services including, but not exclusive to:

- Local football club (Barlow 2008)
- Canadian Broadcasting Corporation (Finn *et al* 2003)
- Irish public broadcasting (Delaney and O'Toole 2006)
- A Finnish Museum (Tohmo 2004)
- Benefits of hosting the Olympic Games (Eftec 2005)
- Durham Cathedral (Willis 1994).
- World Heritage site in Vietnam (Tuan and Navrud 2008)
- Danish Theatre (Hansen 1997)

However contingent valuation has not been widely adopted for valuing culture in the UK and where it has been used, work has focused on the historic environment (Eftec 2005). However there have been two major studies within the Museums, Libraries and Archives (MLA) sector, a valuation of the British Library and a valuation of Bolton's museums, libraries and archives service.

Most useful for this context is Jura's (2005) valuation of Bolton's museums, libraries and archives. The work built on Spectrum's work for the British Library, which used contingent valuation to estimate that the British Library's services provided £363 million of value to both users and non-users, as compared to its £83 million of grant-in-aid. Using contingent valuation allowed Jura to value both the costs and benefits of the MLA service to the local community in Bolton, showing how both users and non-users of the service valued this provision at £10.4 million, as compared with public funding of £6.5 million.

Jura's work is of particular interest as it illustrates the benefits and problems of adopting stated preference valuation techniques. On the one hand the figures produced were robust and useful for cost-benefit analysis of the returns generated by public funding of the museums, libraries and archives in Bolton. Indeed a key conclusion of Jura's study was that contingent valuation was appropriate to value a local museums, libraries and archives service. However the methodology was subject to the range of interrelated problems, philosophical as well as practical and technical, detailed in the critiques discussed below.

5.1.1.1 Philosophical critiques of contingent valuation

Contingent valuation shares the theoretical assumptions which underpin the *Green Book's* notion of economic value. Throsby, in a (2003:276) discussion of contingent valuation summarises these assumptions as:

'A model of an economy comprised of individual decision makers who behave rationally in striving to maximise their own utility in the face of known constraints. It is assumed that preference systems between goods are well behaved, that individuals are the best judges of their own welfare, that each individual carries equal weight in the aggregation of preferences, and that the social welfare function contains no arguments other than the welfare of the individuals of which society is composed'

As previous sections have show there are many who feel this type of valuation, based on the above assumptions, is simply not appropriate in the cultural sector. This is summed up by Fourcade's (2010:15) recent commentary on economic evaluation, which suggests techniques such as contingent valuation can never capture the essence of the object they purport to value because:

'They imagine a market or goods whose defining economic condition is not to have a market'

For critics like Klamer (2004), the act of valuing culture through the lens of individual utility may alter its nature, missing the essential value of culture, leading to erroneous conclusions and policy decisions. Snowball and Webb (2008) develop this line of critique in a similar way to Throsby's ideas discussed in section 4, by positing that the social aspects of

culture cannot be understood by individual utility theory, particularly when benefits may take a long time to manifest themselves.

Klamer (2004) and Fourcade (2010:13) build on this criticism, suggesting it is a fallacy to assume individual preferences can be aggregated to give total social values. Fundamentally the aggregation of individual utility misses the social nature of preference formation and the counter-intuitive depiction of a good or service (in Fourcade's discussion the natural environment) as an object that could be purchased by individuals acting independently from one another.

This objection to the method draws on the latest work in behavioural economics (Dolan *et al* 2010), which questions the idea that people fit the traditional model of rational, utility maximising individuals. The critiques of behavioural economics show how behavioural norms, demands for fairness in process as well as outcome and the bounded rationality that people employ to make judgements can all contribute to an undermining of the valuations elicited in contingent valuation surveys.

Finally there is the nature of the judgement being made by a contingent valuation survey and its transfer to political decision-making. As Gray (2008) and Pinnock (2009:362) both discuss, people are citizens as well as consumers and a different logic may apply to the decisions they make with regard to their willingness to pay for a good or service as a consumer and their support for funding as a citizen (Eftec 2005:12, Mulgan *et al* 2006:63). Contingent valuation therefore runs the risk of reducing political decisions to technocratic questions for cost-benefit analysis, distorting the democratic nature of political decisions.

5.1.1.2 Practical and technical critiques of contingent valuation

Practical critiques of contingent valuation centre on how the method is applied. The method is costly, requires expertise to implement and if done poorly can produce potentially misleading results (Pearce *et al* 2002:29). Existing work with contingent valuation is therefore highly variable in quality (Noonan 2003) and there are a lack of studies and data in the UK from which to draw 'best practice'.

This lack of best practice guidance specifically for the cultural sector is an especially important issue due to the difficulty associated with applying contingent valuation correctly. As Newton (2007) and Ravenscroft (2010) argue people are rarely asked to make valuation judgements for non-market goods, so the questions and the context for valuation have to be well researched and developed by those with expertise in the method (Eftec 2005).

When applied poorly, results from contingent valuation are subject to several technical problems that directly affect the final monetary figure produced by the method. Studies can be influenced by the format of the question (known as elicitation effects, Munro 2007), whereby studies which give more information often generate higher willingness to pay values (Information effects). Values can also be influenced by the method of payment, whether cash or tax increases. When asked to make a value judgement individuals will tend to concentrate on the object to be valued, meaning they give more importance to a good or service than they normally would, because they have been asked about it (focusing effects, Smith and Sach 2009, Dolan and White 2007). There are also critiques about the potential failure of contingent valuations to correspond to the assumptions of economic theory, whereby willingness to accept figures are often higher than willingness to pay (Eftec

2005:16); that willingness to pay doesn't increase relative to the increase in the level of good or service (known as insensitivity to scope); and that the sum of the willingness to pay for parts or individual characteristics of a good or service is often higher than an overall valuation for the good or service itself. Finally people may give a willingness to pay of zero for a range of reasons, possibly in protest at being asked the question, or may overstate their true valuation of a good or service to derive a warm glow from being seen to value something they think is socially acceptable to care about (Hackl and Prukner 2005).

5.1.2 Choice modelling/conjoint analysis

One way of moving beyond the problems of contingent valuation comes in the form of choice modelling, also known as conjoint analysis. This is the other main form of stated preference technique. Choice modelling is based on describing the attributes and characteristics of a good or service and varying the levels of attribute offered by prospective policy options (Pearce *et al* 2002:54). Individuals are not directly asked for their willingness to pay, but rather their valuations are derived from their responses to a choice of options. The options usually include a financial value, as a price or taxation level, to produce a monetised valuation of individual's preferences for particular attributes or characteristics of a good (Provins 2008). This technique is especially appropriate if a policy maker seeks to understand the value of particular or individual characteristics of a good and how that characteristic relates to others, for example staffing levels at a museum in relation to opening hours.

Choice modelling has come to prominence more recently than contingent valuation and is seen by some (particularly Snowball 2008) as a more effective technique than contingent valuation. For Snowball (2008) many of the technical and practical criticisms of contingent valuation are avoided by choice modelling, particularly in the way strategic behaviour and protest zeros are avoided by the presentation of clear choices, rather than directly asking willingness to pay (Tuan and Navrud 2008). The method has recently been used in research by the University of Newcastle to value a variety of cultural and heritage goods, including museum and gallery layout (Kinghorn and Willis 2007), cultural capital generated by museums and galleries (Kinghorn and Willis 2008) and Hadrian's wall (Willis 2009). It has also been used to make policy recommendations to the British Museum (Aposolakis and Jaffry 2010).

However the method is still subject to the same philosophical objections as contingent valuation and has similar constraints, due to the cost and expertise needed to apply the method correctly. This has led Choi (2009) to suggest similar cautionary notes as those applied to contingent valuation, whilst suggesting the use of the method when seeking to value specific characteristics of a good or service.

5.2 Revealed preference techniques

The other approaches to capturing preference based valuations are based on what people actually do in real markets. These revealed preference techniques can be split into two categories 1) hedonic methods and 2) travel cost methods. Both techniques are based in inferring valuations based on the preferences people show in real world situations. Hence the preferences are revealed by analysis of existing behaviour, as opposed to asking people

to state their preferences in hypothetical situations, which is the basis for the techniques discussed in section (5.1).

Both of these methods have been used to value cultural goods and services and provide a useful compliment to stated preference techniques. Notwithstanding their advantages, they cannot capture non-use and option values, which, as section 5.1 has discussed, are highly important aspects of cultural value.

5.2.1 Hedonic pricing

Key question:
 What is the relationship between a good or service and market prices?

Main benefits:
 Based on market prices with sophisticated techniques to reveal the values associated with a given good or service

Main drawbacks:
 Usually based on property prices which are often only spuriously related to goods and services within the cultural sector
 Rarely used within the cultural sector
 Usually used to only capture use value

Hedonic pricing is a revealed preference method that looks at the influence of a good/service on price. The total value of a good is broken down into constituent parts, to see to what extent individual aspects of the good or service contribute to the overall value. The usual market value is based on the property market and environmental economics work in this area has become highly sophisticated at revealing the relationship between property price and specific characteristics, for example the effect of living near parks or green spaces (Smith 2010a).

Mulgan *et al* (2006) in work for the Commission for the Built Environment (CABE) explored the usefulness of the method for valuing good design in the urban environment, a similarly intangible and contested idea to culture. Mulgan *et al* (2006) found that although the method gave robust data and was not subject to as many philosophical and methodological objections as stated preference techniques, there were several difficulties associated with the method, including the difficulty of isolating a single variable in overall house prices, particularly aesthetic considerations, the differences between valuing property for publicly funded spaces as opposed to private property as well as standard criticism of revealed preference methods, such as the absence of non-use values.

In addition, although Steele (2004) has suggested it might be possible to apply hedonic pricing techniques to understand the value of film (based on Cinema locations), there have been very few uses of this method to value the arts and only limited take up of the method to value cultural heritage. The most recent example, which is the first such study in Europe, comes from Ruijgrok (2006) who estimated that 15% of two Dutch towns' property prices were based on historic characteristics of the buildings. However this study still employed the contingent valuation technique to capture the non-use and option values of historic environments in the case study areas.

5.2.2 Travel cost method

Key question:

What do people value based on the amount of time they are willing to spend travelling to consume a good or service?

Main benefits:

Based on market prices that directly reveal people's preferences for a good or service
Has been used to value a range of cultural goods and services and compare those values

Main drawbacks :

May undervalue people who have only short travel time
Doesn't capture non-use and option values
May require potentially costly primary research

The other main revealed preference method is travel cost. This works with similar assumptions to the hedonic pricing method, whereby the value people attach to a given good or service can be revealed by an analysis of their preferences. In the travel cost method the market behaviour is the amount of time people are willing to spend travelling to consume a good or service. Monetary values can be inferred based on an agreed cost, for example using Department for Transport's estimates of time and fuel costs (Forrest *et al* 2000).

As with hedonic pricing methods, travel cost avoids the problems of creating a hypothetical market for a good or service, thus avoiding the usual criticisms of stated preference methodologies. However the method has several drawbacks, including practical issues, such as requiring similar primary research of the type used by stated preference surveys. The fundamental objection to this method is its underlying presumption that time and cost of travel accurately reveals people's preferences. For Forest *et al* (2000) this may cause distortions in the values produced by the method, as it may either overestimate value

(because people enjoy their journey or the journey is part of the experience, thus not really reflecting the opportunity cost of travel) or underestimate values (by missing the value held by people who do not have to travel far to consume a good or service Mulgan *et al* 2006).

Travel Cost has been used to value a range of different activities and institutions across the cultural sector, including Scottish Museums (Baker *et al* 1998). Alberini and Longo (2006) used the method to value heritage sites in Armenia, showing they generate significant use values, a similar finding to Fonseca and Rebelo's (2010) recent work on valuing the world heritage site status of the Alto Douro wine region in Portugal. Travel cost has also been used for making comparisons of values, including four different cultural goods in Spain (including a festival and historic village) (Bedate *et al* 2004). Comparative travel cost work was also the aim of Boter *et al* (2005), who used the method to compare and contrast value of Dutch museums, with the aim of using findings for government decision-making. Although they found the method was an effective at generating comparative valuations, it was based on a specific Dutch database of museum users, so difficult to replicate in UK.

Most relevant to the UK context was work by Forrest *et al* (2000), which attempted to make the case for regional theatre subsidies based on an application of the travel cost methodology, showing how subsidies in Manchester were justified when compared with the values generated from the travel costs of patrons.

5.3 Benefit and value transfer

The practical demands, particularly in terms of costs, associated with preference-based measurement techniques have given rise to a methodology for carrying over the values gathered by primary research in one case to other situations with similar characteristics. This is known as value or benefit transfer. It has been used in environmental valuation as the main way of getting beyond cost issues associated with understanding people's willingness to pay. However because of the lack of studies using economic valuation for the cultural sector it has not been used to measure cultural value.

Guidance on this technique again comes from Defra (Eftec 2010) and can also be supplemented by Navrud's (2010) recent work in this area. The application of one set of values to another policy question can be done in two ways, by taking an average of the economic valuation (the mean willingness-to-pay) from the original study site or by taking the willingness-to-pay function (i.e. what factors influenced the valuation) from the original site (Eftec 2005). The technique is dependent on having very robust data from the original case study and rests on the fundamental assumption that there is a high degree of similarity between the original and new policy contexts. For example, for heritage objects that are totally unique and have no substitutes value transfer will not be appropriate (Eftec 2005:15). Where there are many similarities, for example library provision in towns with similar geographic, demographic and socio-economic characteristics benefits transfer may be possible.

However there is currently little scope to use this method in the cultural sector because of the lack of high quality economic valuations studies to base any transfer on (Eftec 2005:79, CASE 2010b). In heritage Provins *et al* (2008) only identified 30 studies suitable to form the basis of a value transfer. Even where studies are robust, researchers have found what Plaza has referred to as 'enormous' variations in the monetary values

produced by using this method (Plaza 2010:156). Brown (2004) found errors ranging from 3.65% to 110.8% for the valuation of heritage sites in the UK and, more recently, Tuan *et al* (2009) found errors of 46-129% in cultural heritage transfers between South East Asian nations.

As a result much more work is needed to produce a solid foundation of good quality economic valuations ranging across the wide scope of circumstances within which the cultural sector operates before any attempts can be made to take advantage of the positives offered by transferring values between case studies.

5.4 Conclusion

This section has given an overview of the two main methods used to measure the economic value associated with culture, methods based either on stated or revealed preferences. As section 4 has suggested, along with work such as Bakshi and Throsby 2010, the economic value measured by these methods will go most of the way to capturing the benefits generated by culture, even if they may miss some residual social or cultural forms of value (Throsby 2001). As Throsby (2003:280) acknowledges:

‘The preferences of individuals for a cultural good are likely to be formed by many of the same attributes of the good as contribute to its cultural value, suggesting that the economic value of the good as defined above is likely to be closely related to its cultural value in many cases. But....the relationship will not be perfect’

Notwithstanding the closeness of this relationship, there is an essential caveat with these techniques which has been implicit in all of the criticisms discussed in this section. The technical and practical issues, particularly associated with stated preference techniques, are the subject of ongoing debate but their potential effects are being gradually removed by methodological innovation (Hackl and Prukner 2005) and consensus on best practice (Eftec 2005). The major philosophical critiques are unsolvable as they rest on the question of whether one accepts the paradigm of economic valuation currently employed by central government in the UK. Many in the arts and cultural sector, along with some in the field of economics (e.g. Diamond and Hausman 1994), are highly critical of this perspective and its associated methods. Nevertheless a similar debate occurred within environmental economics, although clear guidance and a commitment to adopting preference-based measurement by DEFRA and DfT, in light of the *Green Book* framework, has resulted in the widespread adoption of the method to value transport and environmental goods (Smith and Sachs 2009:864).

The cultural sector will, arguably, require stronger and clearer guidance on leadership from DCMS and its associated Arms Length Bodies, such as the Arts Council as to which methods are the best fit for which situations. Currently, as this section has illustrated, the techniques are under-used in valuing the cultural sector in the UK (CASE 2010, MLA 2008) and this will probably remain the case until DCMS states its preference for the type of evaluation method it favours, as was the case with the use of these methods by other government departments (discussed in section 9). Given the benefits offered by preference-based techniques and the applications demonstrated by studies such as Jura’s (2005) work on valuing MLA services in Bolton, it is worth DCMS supporting further work in this field to fully explore the options offered by these already established methods.

Overall there is a certain necessity surrounding preference-based techniques, summed up by two comments from the debates which surrounded contingent valuation as it emerged as a viable method for capturing value within the cultural sector. As Mourato and Mazzanti (2002:66) assert:

‘While economic valuation critics have been quick to find fault with the technique, they have been very slow to present better and viable alternatives to economic evaluation. Alternative non-economic approaches at the moment are either incipient or nonexistent. Even if these alternative tools were readily identifiable, the question would still remain of how to integrate them in a logical, credible and workable way.’

Although much work has been done within the cultural sector to respond to this criticism, section 7 illustrates the continued lack of consensus and range of alternative methods for this type of valuation. Therefore:

‘Contingent valuation will continue to be used in spite of the obvious weaknesses of survey techniques, until someone comes up with an alternative method powerful enough to displace it.’ (Epstein 2003:260)

6 Wellbeing and health approaches to valuation

This section outlines two methods which offer alternatives to the economic methods of valuation discussed above. The methods are those based on measures of subjective wellbeing, recently used by DCMS to value cultural engagement (DCMS 2010) and QALYs, a method used to judge cost effectiveness in the health sector.

6.1 Subjective wellbeing and income compensation

Key question

How can we value changes in wellbeing generated by culture?

Main benefits

Involves inferring value from the relationship between wellbeing and income, thus avoiding asking people their willingness to pay

Is starting to be used to value engagement with cultural activity e.g. DCMS' CASE work

Gives the monetised values required by the *Green Book*

Using this method may potentially cost less than stated preference techniques

Main drawbacks

The determinants of wellbeing are far from fully understood. This makes it hard to disentangle the effects of culture from the many other factors that affect it

In terms of monetising wellbeing, a particular issue is that the relationship between income and wellbeing, which is used to assign monetary values in this approach, is not fully understood

Aggregating across individuals' subjective wellbeing may be problematic

The method requires high levels of expertise to implement

The method needs more research before its findings will rival or replace existing forms of economic valuation

DCMS has recently completed a study of the value generated by engagement in culture as part of the Culture And Sport Evidence Programme (CASE). CASE's work is based on the use of wellbeing to value culture. CASE's research begins from the same starting point as the discussion in section 4, whereby government intervention in culture is limited by lack of understanding of the economic value of culture, in CASE's research the value of engagement in cultural activity (CASE 2010b:5). CASE identified the same problems discussed by section 5's outline of criticisms of existing economic techniques and suggests the use of a new methodology for valuing engagement, based on people's subjective wellbeing (SWB).

The SWB approach has developed as an alternative to the techniques discussed in section 5 and has generated much debate and interest over the last 10 years. The method is an emerging approach to valuation, based on the global interest in wellbeing from a range of governments and institutions (e.g. HMT 2008, Stiglitz *et al* 2009). Allin (2007:46) has noted the difficulties of defining wellbeing, that 'there is no single definition of wellbeing. The terms wellbeing, quality of life, happiness, life satisfaction and welfare are often used interchangeably' and that 'wellbeing can at best be viewed as a multidimensional, shifting concept' (2007:49). Despite this definitional issue there are now a range of recognised survey techniques aiming to capture people's descriptions of their own wellbeing.

Surveys understand SWB as 'an individual's self-assessment of their own wellbeing' (Allin 2007:46), a self assessment that is usually elicited through numeric or qualitative scales (Van Hoorn 2007). Individuals are asked to estimate their wellbeing on scales of 1-10, 1-7, or by stating life satisfaction from 'not at all satisfied' to 'completely satisfied'. Thus SWB surveys capture peoples' experiences directly, rather than requiring a proxy such as their willingness to pay (Van Hoorn 2007). Valuations are derived by understanding the impact of an event or activity on wellbeing and then understanding the amount of income that would be required to achieve the same change in wellbeing, known as income compensation. There are a range of studies employing this method that have valued health and environmental problems such as air quality (Levinson 2009, Welsch 2006). When used by CASE (CASE 2010b:34) to value engagement in culture, SWB valuations found (not withstanding the initial expenditure to engage with those aspects of culture that are not free at the point of use):

- Doing sport at least once a week has an income compensation value of £11,000 per household, per year
- Going to a cinema at least once a week has an income compensation value of £9000 per household, per year
- Going to a concert at least once a week has an income compensation value of £9000¹ per household, per year

¹ It is important to note that these figures are per household, per year and not for individuals and they differ from contingent valuation estimates, which measure individual utility. Dolan and Metcalfe (2008) have compared SWB valuations with contingent valuation figures to value a regeneration programme, which showed suggested contingent valuation estimates at just under half of SWB valuations. However the relationship between SWB and contingent valuation still requires further research before it is fully understood

The SWB approach has much to offer, particularly as it deals with real world behaviour and avoids the problems associated with eliciting preferences within hypothetical markets (CASE 2010b). However it has been subject to a range of criticisms, some philosophical and some technical. Philosophical problems confronting SWB and income compensation valuations focus on the problems associated with defining and measuring wellbeing, where definitions vary between individuals and across nations (HMT 2008:10). Dolan and White (2007) have expanded on these issues, discussing the inherent relativity of wellbeing and the associated technical issue of capturing complex judgements about wellbeing 'on the spot'. HMT's (2008:64) discussion paper on wellbeing also suggests there are arguments against grounding measures of value in wellbeing as a result of general arguments against policy decisions based on wellbeing evidence. Individual SWB may be incompatible with wider social objectives and there is an argument that governments should consider promoting capabilities that allow people to make choices, as opposed to the potential paternalism underlying the promotion of wellbeing. However HMT concluded that consideration of SWB is compatible with their aims.

Aside from the cost of producing SWB valuations, the major technical issue focuses on valuation based on income compensation. Dolan and White (2007) recognise the need for more research on the exact nature of the relationship between income and wellbeing, a position supported by HMT (2008:29). The need for further work on the relationship between income and SWB, to produce reliable monetised valuations is compounded in the cultural sector by a lack of clear evidence on the relationship between engagement and outcomes (also discussed by section 7). Whilst Jones (2010) and Miles and Sullivan (forthcoming) have raised doubts about simply increasing engagement as the aim of DCMS interventions, Clift *et al* (2009) describe how we still don't understand the relationship between engaging in cultural activity and any benefits ascribed to that engagement, a problem pointed out by Galloway's (2008) review, which found very strong correlations for impact from cultural engagement, but a lack of robust data akin to that from the health sector. This problem is ongoing, as shown in CASE (2010a)'s discussion of the absence of randomised control trials on the relationship between engagement and impact in the cultural sector.

The problem of the relationship between income and SWB and the relationship between engagement and outcome in culture means much more work is needed before SWB valuations will have the same level of take-up as existing forms of economic valuation. That is not to dismiss the methods, as in future it is likely that the valuations will be much more robust as a result of ongoing research. Currently, Dolan and Metcalfe (2008:25) point out:

'Research on generating monetary values for non-market goods from SWB is still in its infancy and is literally thirty years behind that of generating goods from revealed and stated preferences'

6.2 Quality Adjusted Life Years (QALYs)

Key question

How do we make decisions about resource allocation in healthcare?

Main benefits

Allow an analysis of cost effectiveness for often very different health interventions

The health sector faces the problem common to all government departments of how to allocate scarce resources to very worthy causes (Williams 1994). As a result, a specific mechanism to understand the cost-effectiveness of policy options, particularly medical interventions, has been developed within health economics: the Quality Adjusted Life Year (QALY). The QALY is based on a measurement of the outcome of interventions in terms of both the quality and length of life gained (NICE 2008). The QALY provides a common unit of output for health interventions (Smith and Richardson 2005), so differing and often disparate medical practices, techniques and technologies can be compared based on their cost effectiveness (as opposed to the cost-benefit framework associated with preference-based techniques).

Empirical work underpinning the QALY explores the values people attach to health states, such as living with a disability or a chronic illness, compared with the risk any treatment may have of causing death. Various health states are then classified on a scale of perfect health (1 QALY) to death (0), with various classification scales now in use, such as the Health Utilities Index or EQ-5D (Smith *et al* 2009). People are asked, when confronted with a state of ill-health, to rate the risk of death they would support in order to have longer and better quality life, in the form of questions about how willing individuals are to risk specific health states or time for improved health (Known as the standard gamble question, Weinstein *et al* 2009, and time trade-offs, Nord *et al* 2009)

The most often cited use of the QALY is by the UK's National Institute for Clinical Excellence (NICE) (Garrison 2009), who use the ratio of QALYs produced by an intervention to that interventions cost to make decisions about which interventions to recommend (NICE 2008) (although the exact financial worth of a QALY is subject to debate e.g. Mason *et al* 2008). It should be noted that NICE use cost-effectiveness analysis, rather than a CBA framework, but this is still compatible with the *Green Book*. There have been many debates over the QALY within the health sector, with criticisms of both the application (Kind *et al* 2009) and the assumptions underpinning the QALY (Haydock 1992). Technical issues include who is asked to make judgements on health states and the extent to which the value of a QALY differs according to age (Nord *et al* 2009)

There are two ways the QALY may prove useful for DCMS's measurements of cultural value, as a practical technique and as a case study in the development of a valuation technique.

As Weatherly *et al* (2009) have noted it may be possible to develop a QALY for understanding the impact of education or crime. However this requires much more research. Education and criminal justice are sectors where there is a much better developed understanding of causality (and even correlation) between interventions and outcomes. With regard to culture the literature suggests more work is needed on practices like arts therapy and arts-as-medicine (Clift *et al* 2009 Galloway 2008) due to complexity of cause and effect, differences across the range of art forms and the context of application (Clift *et al* 2009:13).

A more critical issue comes when any attempt is made to directly transpose the QALY framework into the cultural sector. The QALY is based on an assumption of perfect health having a QALY value of 1 and death a QALY value of 0. It is difficult to see how this could be used within the cultural sector. Health, in the QALY framework, is straightforwardly value-weighted length of life. Indeed as Weinstein *et al* (2009:5) discuss 'in using QALYs we assume that a major objective of decision-makers is to maximise health or health improvement across the population subject to resource constraints'. The fundamental issue here is that not only is it difficult to conceive of some form of 'perfect' cultural engagement (a cultural QALY of 1) but it contradicts both the arms-length principle of cultural provision in the UK (Gray 2006) and would extend the considerable criticism of the assumptions of the government's aim of encouraging, let alone maximising, participation in DCMS funded forms of cultural activity (Gibson 2008, Miles and Sullivan, forthcoming).

The main usefulness of the QALY comes from Kirkdale *et al* (2010) who stress the need for leadership on valuation methods. When the QALY was introduced into the UK health decisions in 1999 there was considerable debate within government and academia over its appropriateness and viability. Strong leadership embedded the QALY as the key evaluation instrument for judging the cost effectiveness of health interventions. Although cost-effectiveness is not the same judgement as a CBA it is worth noting the importance of a clear choice of method and guidance on the subject for getting a given governmental sector to adopt the proposed technique (as discussed in section 9).

7 Methods from the cultural sector

Key question

How can we value culture in ways that intuitively appeal to the cultural sector?

Main benefits

Methods are drawn from the cultural sector

Avoid the philosophical objections associated with economic valuation techniques

Main drawbacks

No one method is agreed

No common unit of account, so results cannot be aggregated

None of the methods fit with the *Green Book's* recommendations and so can't be used as part of cost-benefit analysis

Much of this report has focused on the need for valuation methods that fit the *Green Book's* view of value, which is to say methods for measuring economic value. However there are a range of existing methods within the cultural sector that attempt to capture cultural value in non-monetary terms. As the following section demonstrates, these methods can provide the narrative framework to contextualise economic estimates of cultural value. These methods also partially respond to the accusation that economic valuation reduces dilemmas over resource allocation to technocratic, rather than political, decisions. The major problem with these methods is they do not directly fit with the framework set out in the *Green Book*, as they do not offer monetised estimates of cultural value. Moreover there is no consensus on method, meaning there is a proliferation of approaches, particularly those methods seeking to demonstrate the value of the outcomes in the cultural sector. Finally, as the recent CASE review (2010a) has indicated, much of the research on the cultural sector is not of a standard useful for government decision-making. In general these methods fall broadly into two categories: 1) those that seek to understand cultural value based on the outcomes of cultural policies, practices and provision and 2) those that offer frameworks for narrating cultural value.

7.1 Outcomes based methods

There are a plethora of methods for valuing culture currently used within the cultural sector, with no consensus on any one methodology or standardised set of

questions. Some approaches focus on qualitative narratives of individual's engagement with culture (e.g. Scott 2009, Bradley *et al* 2009), others on quantitative understandings of cultural participation and engagement (e.g. DCMS' taking part survey) or use a combination of both methods (e.g. Bennett *et al* 2009). Value in these methods is explicitly not economic value, but is rather grounded in the meaning of culture for individuals and communities and the levels of their participation.

What unites these methods is that they all seek to *evaluate* the activities of cultural institutions or programmes and then construct a case for the value of culture based on those evaluations. One of the most prominent examples of this approach come from the museums, libraries and archives sector where the Museums, Libraries and Archives council (MLA) have developed a range of outcomes indicators that can be applied across the sector (Hooper-Greenhill 2004). These generic indicators gather data on the learning (Generic Learning Outcomes) and social (Generic Social Outcomes) outcomes of engagement with MLA institutions and activities, showing how the benefits of engagement with culture can be measured to assert value. This approach is also seen in the Improvement and Development Agency's (IDeA)' approach to demonstrating returns on cultural investments to local government. Tellingly these methods fall foul of the same issues identified by Selwood in her 2002 critique of the gathering of cultural statistics, for example the over production of data which is not directly used in policy making and lacks robustness when compared to other forms of evidence gathered for use in other areas of policy. For those methods based on judging the impact of cultural engagement it seems there has been little progress over the past decade of evaluation and research, leading Selwood (2010:4) to quote a member of the National Museums Directors Conference, that "in terms of actual evidence of cultural impact, there is not a lot".

The major trend within this area of research over the past five years has come in response to the idea of intrinsic value. The debate over the intrinsic value of culture has seen interest develop in attempting to directly measure the aspects of culture identified by Holden as 'intrinsic' (2004, 2006) value and that make up Throsby's (2001) concept of cultural value. These techniques are most closely associated with the work of American consultants WolfBrown and build on Rand's *Gifts of the Muse* (2004), whereby intrinsic value can be measured by understanding people's captivation, the meanings they draw from cultural engagement and the extent of any social or shared experience. The debate in the United States over intrinsic value led Brown (2007) to the familiar assertion made across the cultural sector in the UK, that:

'Benefits not dollars are the real outputs of nonprofit arts organisations, and financial audits paint an incomplete picture of organisational performance. To complete the picture, we need a widely accepted method of assessing the benefits created'.

Brown's solution to this problem developed a series of attitudinal surveys for arts and cultural programmes focusing on capturing the benefits to an audience in terms of their levels of captivation, intellectual stimulation, the emotional resonance of the work, its spiritual value, the novelty of the work and the impact of the work on people's connections with others in the audience (Brown and Novak 2007:9). These attitudinal scores are then compared with survey data on the individual's readiness to receive. Similar attitudinal scales have been employed by Bakhshi, Mateos-Garcia and Throsby (2010) in a study of innovation in the National Theatre, as well as being recommended in NEF's *capturing the audience*

experience work (NEF 2008). The most recent work using these techniques, by Bakhshi and Throsby (2010), has attempted to link attitudinal research with economic value and suggests, with further development, these types of survey will be essential in providing the context for understanding cultural value using the economic techniques discussed in section 5.

However, the key caveat underpinning all of these similar impact studies is summed up by Brown and Novak (2007:21)

‘Impact scores reflect the unique symbiosis between artist and audience at a particular location at a particular moment in time and should not be used as a means of evaluating or comparing artists or the worthiness of their performance’

These methods therefore share the same issue with all of the approaches discussed in this section, in that they do not solve the dilemma articulated by the quote from Cowan in section 2, of how to compare between artists and art forms for funding purposes. But as Clark and Maer (2008:51) admit, in a discussion of the Heritage Lottery Fund’s evaluation framework:

‘an intriguing question here is whether the cultural value framework can also be turned into the assessment of applications- to what extent can the knowledge gained in evaluation be used to help the Fund assess value for money?’

When looking at return on investment, for example using the framework of social return on investment developed by NEF for use in the Third Sector and explored by MLA (2008), it is certainly possible to understand the extent to which funding is cost effective in delivering against output targets. However, as discussed by Eftec (2005), this approach has only limited use when making *comparative* funding decisions, particularly across different forms of culture. The methods described in the section serve to illustrate and illuminate the impact a given performance or cultural experience has on its audience. They do not offer a straightforward solution to the problem of representing the benefits of culture within the CBA framework of the *Green Book*.

7.2 Narrative methods

The other approach common within the cultural sector has been to narrate the value of culture, using a variety of frameworks (e.g. ACE 2007, Rumbold 2010, McMaster 2008 or English Heritage’s Conservation principles 2008), which can then serve as the starting point for the type of research discussed in section 7.1. The approaches link to Hewison’s position (2006:28), which states intrinsic value has to be articulated, not measured. The best developed of these narrative methods comes from the UK Film Council’s work on measuring cultural impact (UKFC 2009).

The method is based on two collections of British films, 200 films chosen at random and 200 chosen by experts. Then each film was ‘marked’ (UKFC 2009) according to its cultural impact, here seen in terms of its influence on British culture, its box office and DVD performance, level of citations/quotations in media and culture, its notoriety or levels of censorship, and whether the film captured a ‘zeitgeist’ moment or reflected broader, longer term changes in British society. The method is highly qualitative, reflecting hermeneutic judgements on film of both experts and the public. The main strength of the method is that

it produces a robust narrative of cultural value that is exactly the form of measurement Throsby (2001) was calling for. This style of narrating cultural value is important as it allows us to make sense and contextualise economic valuations. As Towse (2010) has noted the prevailing orthodoxy of current economics does not focus on the reasons for preferences, choices and utility, but rather seeks to collect data on these areas from individuals. Narratives of cultural value help us to understand the meaning behind economic value and are thus an essential part of any decision over resource allocation. However they offer little in the way of commensurable data for a cost-benefit analysis and so are problematic for decision-makers seeking to do policy appraisal and evaluation within the framework of the *Green Book*.

8 Multi-criteria analysis

Key question:

How can we make judgements using incommensurable forms of data?

Main benefits

Helps to integrate qualitative, quantitative and monetised data

Can involve expert judgement on the weighting of criteria

Main drawbacks:

Still requires a measurement of cultural value, so doesn't avoid the difficulties shown in previous sections

Arguments can occur over the relative weights given to each criterion

Section 7 suggested the need to respond to the prevailing way of thinking about cultural value in the cultural sector and understanding the need for narratives of value as well as monetised data. The question remains of how to integrate the conception of cultural value, often based on aesthetic judgements or attitudinal surveys, found in the cultural sector with data on the economic valuation of culture. Although Bakhsi and Throsby (2010) have created one such framework it has yet to receive HMT approval and it is unknown to what extent it will be taken up within the cultural sector. Therefore, before concluding, it is instructive to consider a decision-making tool suggested in the *Green Book* that can be used to integrate different forms of data into a structure that makes information commensurable. This technique is multi-criteria analysis and is currently used by Department for Communities and Local Government (CLG) to solve some of the difficult issues that occur when making decisions. CLG guidance (2009:20) gives an outline of the technique:

‘Multi-criteria analysis establishes preferences between options by reference to an explicit set of objectives that the decision-making body has identified, and for which it has established measurable criteria to assess the extent to which the objectives have been achieved’

The technique involves weighting then scoring individual aspects making up a decision, using software to produce ratings for each decision option, including the option of doing nothing (CLG 2009). MCA is commonly used for decisions with regard to the built environment (Mulgan *et al* 2006:31) and is recommended by Department of Transport in

the New Approach to Transport Appraisal (DfT 2009). This form of MCA integrates factors such as environmental impact, in terms of carbon emissions, with transport times and intangible values, such as the importance of heritage.

DCMS could develop a similar MCA framework for cultural decisions. However MCA does not solve the problem of measuring cultural value, as it requires a method that can produce this data. Cultural value evidence for a specific decision could then be scored and weighted along with other factors such as participation rates, environmental impacts and audience numbers. This form of decision-making would aid transparency within cultural sector decisions and militate against the critiques of just basing decisions on economic data.

9 Choosing a method: the need for central government guidance

This report has presented a range of ways of capturing cultural value, discussing their usefulness for decisions, such as funding for capital projects, which require the kind of appraisal described in the *Green Book*. Before offering recommendations for the next steps for the *Measuring Cultural Value* programme, the report concludes with two simple, yet essential, questions: why have the methods discussed within the report been adopted by government departments? And why, in particular, have stated preference techniques been recommended by the *Green Book*?

The second question is the more straightforward of the two and has been covered by the discussion of economic valuation techniques in section 5. Economic valuation techniques, using both stated and revealed preferences, are currently the methods recognised by mainstream economists for capturing non-market values and thus fit with the *Green Book* framework. As section 6 has indicated, developments in subjective wellbeing, using the relationship with wellbeing and income to derive monetary values, are still in the early stages of development. Although HMT has indicated a general interest in wellbeing (HMT 2008) it is not known at this time whether the subjective wellbeing/income compensation method will be endorsed in future editions of the *Green Book*.

The take up of economic valuation methods by individual departments is a more complex issue, particularly as the relationship between methodological developments and the policy process is far from straightforward (Nutley *et al* 2007). Notwithstanding that caveat, it is possible to understand the need for departmental leadership and guidance by considering narratives of the uptake of stated preference techniques within central government policies on the environment and transport.

One of the key aims for the *Measuring Cultural Value* fellowship was to consult with other government departments to understand the process of developing and using valuation methodologies. Discussions with civil servants from DfT and DEFRA suggested that departmental leadership had been crucial in the process of establishing stated preference techniques for environmental and transport evaluation. Discussions supported the narratives put forward in Hanley and Spash (1993), Pearce (1998, 20002) and Hanley (2001), identifying a combination of external factors shaping the context for departmental leadership on methodology.

Although Pearce's (1998) and Hanley's (2001) discussions are focused on the development and use of cost-benefit analysis since the 1980s, their findings cover the use of stated preference techniques within the CBA framework. The uptake of CBA is important as the technique insists on monetary values for both costs and benefits. A range of factors were influential in creating the need for such techniques, including the insistence on

efficiency in central government beginning in the 1980s, the rise of environmental concerns within public policy discussions and the then European Community's interest in quantifying environmental costs and benefits for their directives. Although CBA had been used in transport (with varying degrees of success and criticism) since the 1960s, Pearce (1998) identifies various milestones on the road to DEFRA's (and HMT's) current endorsement of stated preference techniques that all occurred in the 1990s, particularly associated with deregulation in central government and the growing concern for the environment to be reflected in the taxation system.

The creation of the Department for Environment, Transport and the Regions (DETR) in 1997 was a crucial moment for the use of CBA. DETR responded to various pieces of legislation and regulation insisting on the need for monetising the environmental costs and benefits of policy (Pearce 1998) and attempted to integrate the varying use of economic valuation across the new department's policy area, where some departments and agencies were routinely using the technique e.g. the Health and Safety Executive (Pearce 1998:92) but with 'substantial ambivalence' within other departments and agencies.

Overcoming this ambivalence was dependent on clear guidance and strong leadership from central government. This came in the form of guidance on using stated preference techniques (Pearce and Ozdemiroglu 2002) and the adoption of the New Approach to Transport Appraisal (NATA), a form of multi-criteria analysis for integrating economic valuation with environmental impacts. NATA has recently been updated (DfT 2009), illustrating the continued commitment to economic valuation in the field of transport appraisal.

Although Pearce (1998) suggests the sheer scale of work on valuation from within the field of environmental economics may have made it difficult for central government to avoid some use of valuation techniques, it is important to note how the development of guidelines (Pearce *et al* 2001) by the renamed Department for Transport, Local Government and the Regions (DTLR) reflects the same issues facing the cultural sector today. Objections to the uptake of economic valuation for environmental policy making included disputing the appropriateness of the neo-classical economic framework for environmental issues, that the natural world has intrinsic value independent of individuals' preferences, that using money to value the environment 'debases' it, suggesting it could be traded like any other commodity, alongside a range of technical and practical objections to employing economic approaches (Pearce 1998:96). Whilst this report is not suggesting that central government's leadership overcame *all* opposition to the use of economic techniques for environmental valuation, rather the same potential objections to the use of stated preference techniques for valuing culture were raised against the use of these techniques for environmental valuation and central government leadership helped to embed economic valuation within environmental and transport decision-making (e.g. DEFRA 2010).

A similar narrative is also found in the development of the QALY, albeit with a larger role for the medical profession in the discussions over the uptake of cost-effectiveness analysis and the use of QALYs. By the mid-1980s considerable debate had begun in the UK as to the best way to allocate resources within publically funded healthcare (Stanton 2005), often with the medical profession and economists holding contradictory positions on how best to solve this difficult question (Stanton 2005). The crucial moment for the uptake of the QALY comes with the creation of National Institute for Clinical Excellence (NICE) in 1999,

establishing central government's commitment to using cost effectiveness analysis for the appraisal of new medical technologies and treatments (Buxton 2006).

It is striking to note how the same objections to the application of economic valuation techniques to cultural questions were raised against the QALY, particularly against the idea of 'pricing' individual lives (Syrett 2003). The QALY is a clear example of how central government leadership overcame these objections (Kirkdale *et al* 2010), as the establishment of NICE was linked to the use of the QALY. It is therefore essential that the same process, of clear leadership from central government, coupled with transparency within the decision-making process, happens for cultural policy in the UK.

10 Conclusion and recommendations

This report has given an overview of the debate currently associated with cultural value. Cultural value is a complex and difficult term, with no cross-disciplinary consensus on how best to measure or narrate it. The report has described the debates around cultural value and suggested how the division between intrinsic and instrumental uses of culture, which are the basis for much discussion of cultural value, is potentially unhelpful and misleading. As a result the report has adopted a pragmatic approach to the question of cultural value, placing problems of measurement in the context of guidance from HM Treasury's *Green Book*.

An overview of existing measures of cultural value suggests that, whilst no one method is without drawbacks, existing economic valuation techniques are currently the only ones supported by the *Green Book*. Whilst subjective wellbeing/income compensation methods may become part of the *Green Book's* recommendations in future, the other methods for valuing culture outlined in this report either require extensive research before they could be used for practical policy applications, or simply do not fit the *Green Book* guidance.

Economic valuation methods are currently under-used within the cultural sector and so require a strong lead from DCMS if it wishes to pursue the potential offered by this form of valuation. Without clear guidance and an explicit commitment from DCMS, economic valuation methods will not become a standard approach to measuring cultural value, particularly because of the suspicion of economic methods within the cultural sector. Any consideration of the recent history of British cultural policy suggests that data gathering and evidence has been subject to a confusing and contradictory set of competing methodologies for proving the value of culture. The essential conclusion of this report is that DCMS has the potential to rectify this issue by producing detailed guidance on measuring cultural value with stated preference techniques, making it clear that this will be the standard approach to valuation for central government's consideration of policy for the cultural sector.

Overall the report recommends:

- 1) DCMS should create clear guidelines on measuring cultural value based on the *Green Book*-consistent economic valuation techniques described in this report. Whilst central government has produced detailed work on how to use techniques like stated preference valuations, there is so far nothing which is specific to the cultural sector. Thus DCMS should create a handbook which will summarise central government thinking in this area in a form which is accessible to both the cultural sector and those involved in economic evaluation. The aim should be to give clarity on *what* DCMS wants the cultural sector to measure and *how* it wants this measurement carried out. This will help to avoid the longstanding criticisms of data

gathering and methodology that have occurred across the cultural sector (Selwood 2002, ACE 2009, CASE 2010b)

- 2) As part of this guidance it is worthwhile for DCMS to develop closer links with academics working in the area of cultural economics. These links will help DCMS to commission a series of practical studies to measure cultural value using the economic valuation techniques discussed in section 5, specifically contingent valuation and choice modelling. These studies would serve as prominent, publically available examples of best practice in this area.
- 3) DCMS should also investigate whether existing datasets could be used alongside economic values generated by recommendation 2) to develop a multi-criteria analysis for culture, of the type found in Transport (DfT 2009)
- 4) The DMCS, AHRC and ESRC should appoint a follow-up fellowship to deliver these recommendations, with a focus on recommendation 1.

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Appendices

Appendix 1: List of organisations and individuals consulted

Martyn Allison	Improvement and Development Agency
Alex Apostolakis	University of Portsmouth
Andy Barlow	Salford University
Tim Baker	BakerRichards
Eleonora Belfiore	University of Warwick
Kate Bellamy	National Museum Directors Conference
Franco Bianchini	Leeds Metropolitan University
Bryan Biggs	Liverpool Bluecoat
Roy Boyne	Durham University
Adam Brown	Substance
Alan Brown	WolfBrown
Catherine Bunting	Arts Council England
Peter Campbell	University of Liverpool
Laura Clayton	English Heritage
Marc Collett	Burns Collett
Tamsin Cox	DHA Communications
William Davies	University of Oxford
Jane Dawson	Impacts08
Benedict Dellot	Royal Society for the encouragement of the Arts
Paul Dolan	London School of Economics

Measuring the value of culture: a report to the Department for Culture Media and Sport

Tabitha Elwes	Value Partners
Susan Galloway	University of Glasgow
Lisanne Gibson	Leicester University
Abigail Gilmore	University of Manchester
Clive Gray	DeMontford University
Jennifer Guy	All About Audiences
Lucy Heady	New Philanthropy Capital
Robert Hewison	Demos
John Holden	Demos
Calvin Jones	Cardiff Business School
Sam Jones	Demos
Belinda Kidd	Liverpool Philharmonic
Chris Land	University of Essex
Tomke Lask	University of Liverpool
Gareth Maeer	Heritage Lottery Fund
Kevin Marsh	Matrix Consultants
Francois Matarasso	Consultant
Jim McGuigan	Loughborough University
Ailbhe McNabola	Museums, Libraries and Archives Council
Ruth Melville	Impacts08
Paola Merli	University of Nottingham
Robert Metcalfe	University of Oxford
Andrew Miles	University of Manchester
Munira Mirza	Greater London Authority
Gerri Moriarty	Consultant
Andrew Newman	University of Newcastle
Julie Newton	University of Cardiff

Kate Oakley	City University
Justin O'Connor	Queensland University of Technology
Shepley Orr	University College London
Ece Ozdemiroglu	Eftec
Clive Parkinson	Manchester Metropolitan University
Sara Pythian-Adams	University of Liverpool
Andrew Pinnock	University of Southampton
Andy Pratt	Kings College London
Neil Ravenscroft	Brighton University
Kate Rumbold	University of Birmingham
Carol Scott	Carol Scott Associates
Sara Selwood	Sara Selwood Associates
Javier Stanziola	University of Leeds
David Steel	UK Film Council
Alice Sullivan	Institute for Education
Martin Thompson	Impacts08
David Throsby	Macquarie University
Ruth Towse	Bournemouth University
Polly Vizard	London School of Economics
Andy Warby	New Economics Foundation
Ken Willis	University of Newcastle
Kerry Wilson	Liverpool John Moores
Christopher Yates	British Museum

Appendix 2: List of government departments consulted

Cabinet Office

Department for Communities and Local Government

Department for Health

Department for Transport

Department for Work and Pensions

HM Treasury

Office for National Statistics

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department for
**culture, media
and sport**

2-4 Cockspur Street
London SW1Y 5DH
www.culture.gov.uk