

Working Paper 2006-003

**Economic Impacts of
cultural heritage –
research and
perspectives**

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Abstract

Investment in cultural heritage (and other forms of culture) are often claimed to be beneficial for a local economy, not only in terms of cultural consumption, but also in the form of increased employment and income. This paper addresses some methodological questions regarding economic impacts studies of investments in cultural heritage projects. Different types of direct and indirect impacts are being discussed, especially how these can be calculated. We also give a short overview over some studies of economic impacts of different cultural and/or tourism activities, and the pros and cons of these studies.

Key Words

Economic impact
Culture
Input Output

JEL Classification

R10, Z10

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ECON-Working Paper no. 2006-003, 10. mai 2006, project no. 42512.

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1 Introduction

There is an increasing political focus on cultural heritage, both because of higher public interest in heritage per se and because many see heritage as a means to stimulate economic activity in regions with economic problems. Tourists are increasingly demanding cultural experiences of various sorts. Cultural heritage, both isolated monuments and historical quarters or city centres also serve to attract tourists to various destinations. Moreover, local initiatives such as festivals, concerts and amusement parks are mushrooming and can help attract tourists to the community. Also natural heritage is being utilised for economic purposes through “eco-tourism” and the like.

Economists approach the value of culture from (at least) two different angles: First, economists try to estimate the value of various aspects of culture, e.g. an opera, an art museum or a well preserved middle-age city centre. These are goods that are not traded in an ordinary market, i.e., there exists no market price for them. And should a market price exist it would probably not be equal to the “true” societal value, since cultural goods also can be characterised as public goods and/or as having external effects. Similar to economists’ estimates of the value of unspoilt nature, economists use surveys or other methods to estimate the population’s willingness to pay for cultural events, monuments or buildings.

Another approach for economists is asking the question: What is the positive effect for the local economy (jobs, revenues) from investing in culture, such as festivals, upgrading old houses or building a new museum? The problem here is not to estimate the “true value” of culture, but to estimate potential spillovers in the local economy from investing in culture. It is the latter effects of culture (more particularly cultural heritage) that is the topic of this survey.

Policy-makers increasingly seem to demand estimates of the effects on the local or regional economy of investing in culture. If local economic effects of investing in culture are high, cultural investments could support, or even substitute for, more traditional projects or policies for promoting regional development. Large economic effects of culture might also be an additional argument in favour of

using resources on culture projects, in addition to the utility of “pure” cultural value.

Many studies suggest economic effects of culture on the regional economy, both in terms of generated revenues and employment effects, which for an economist seem to be grossly exaggerated. Studies of economic impact has therefore come under fire and been criticised on methodological grounds, see for instance Ringstad (2005), Guetzkow (2002), or Bille Hansen, Christoffersen and Wanhill (1996). The quality of the criticised studies has varied a lot. One class of studies seem to be rather quick appraisals that often produce (unrealistic) large effects. But there are also a group of more rigorous studies with more realistic estimates. The low quality of some studies has cast the entire area of analysing the economic effects of using the public purse to stimulate culture and other projects into disrepute.

Our view is that because some previous analyses have had low quality and have been subject to misuse in the public debate, there is an added need for sober analysis of the topic. The effects of investing in culture are diverse and vary by site, project and over time. In our opinion there is a need for a clear view of the total impacts of investing in culture, spanning from ticket sales and the like, to the more long term effects that may arise from culture affecting migration decisions or the society’s ability to innovate and to foster optimism and entrepreneurship.

The main premise for this paper, and the research projects it is a part of, is that there exists a need for more knowledge about what additional economic gains can be expected from using public money on culture and in particular on investing in cultural heritage projects.¹

¹ This paper is part of a larger research project about cultural heritage and value creation, where we will use the Norwegian community Røros as a case. Røros is included in the UNESCO World Heritage List. The town center consists of well preserved timber houses. Røros existence relied for centuries on copper mining, but other industry and tertiary sectors are now the basis for the community.

2 Economic impacts of cultural heritage projects

All investment projects have some form of economic impact on society. The magnitude of these impacts will vary depending on several factors, like for instance the type of project and where it is being launched. In this chapter we will discuss the different channels through which the investment affects society, the use and misuse of economic impact studies of cultural related investment projects, and which channels or factors we believe are important when investigating a place like Røros.

There are several channels through which an investment can affect the local economy. Different researchers focus on different channels, and the boundaries between different channels are not always clearcut. Analyses of local economic effects of projects have been done especially for assessing the effects of using state funds for supporting industry in declining regions. The “*economic base model*” has been the basis for such studies. This model distinguishes between base industries, that generate revenues from outside the region through regional export of goods, and other industries that mainly sell their products inside the region, and hence does not generate “new” revenues. The economic effects of investing in base industries are twofold. First, employment in the base industries is generated and second, increased employment and revenues are generated from larger domestic deliveries to the base industry. Such analyses have been made for investment in different industrial projects or sectors, for the “effects of tourism” and for calculating “the effects of” the cultural sector in a local economy.

Within the framework of economic impact analysis one can say that a prerequisite for an investment having a net positive effect for a local economy is that it stimulates base industries. These industries mainly sell their products outside the local economy or sell products to the community that otherwise would have been imported. This will raise exports or reduce imports to the region, thus stimulating the local economy. Supporting an industry that only addresses the local market will only result in a redistribution of income, but not bring in any new income to the economy.

The effects are diverse, they can be measured in different ways, and be assessed with different degree of difficulty. In addition, when analysing effects of cultural heritage or other projects, it is important, but difficult, to define “effect of what”. One must also assess which base industries that are being affected by the cultural heritage, and here tourism is of particular interest. To be useful for decision-makers, the “effect of” should be associated with a decision or an investment project.

We propose below a classification of effects that may or may not be important in investment projects. The fact that earlier analyses have included these effects to a different degree, is an important source for the variety in results.

The effects of investment in culture can be classified as *direct and indirect* effects.

2.1 Direct effects

The *direct effect* of the project is economic impacts from the project itself. For instance, increased capacity or quality in a museum financed by the state, will usually be associated with more jobs in the museum. The effects may be measured as higher employment in the museum. Another approach would be to measure the effect of the support given from the central authorities and from higher entrance fees from external visitors. This second approach illustrates that the limitation of the economy that we assess the effects on, is important. State support can be counted as a positive impact on the local economy, but for a larger region or the whole country this is of course not so since the subsidy is only a redistribution of resources.² In the case of local public subsidies, an increased subsidy to the museum will take place at the expense of other municipal demand, and thus should not be counted as a direct effect.

One should keep in mind that the support given to the project could have been given to any other project, and that some of these projects could have generated larger effects for the community. It is also important that the income from increased entrance fees and the like only should include fees from visitors from

² State support can be justified as an expression of the willingness to pay for conservation of cultural heritage, and hence not necessarily be regarded as an redistribution of income or spending.

outside the region. Increased demand from the region will usually take place at the expense of other local spending. In some cases the project will reduce the propensity of local residents to travel outside the region for cultural experiences, and if that is the case, increased demand from local residents should also be accounted as an effect of the project. For instance, one might imagine that support for a local theatre would make it less attractive to travel to a larger city for seeing theatre performances. Increased local spending should only be included if one can justify that this spending otherwise would have been made outside the community.

The direct effects may be measured in sales, value added or in employment (number of persons or in full time equivalents). Sales numbers tend to be inflated and often hard to interpret. Usually they are large in relation to the local economy, and thus are often (mis)used in public debate. Value added or revenues are more ‘tangible’ variables, as well are the number of employed persons or man-years. Especially in sectors where intermediate inputs are large (such as retail trade), effects measured in sales are often of little meaning for the magnitude of effects.

2.2 Indirect effects

Various types of indirect effects of projects have been assessed and analysed in regional economic analyses of culture and other projects. These may be classified and defined in various ways; we use the classification in Ringstad (2005).

Input output effects

The project needs intermediate inputs, such as energy, transport, food, maintenance etc. These deliveries must partly be imported from outside the region, but can to some extent be met from the local economy. Input-output effects are deliveries of goods and services from the local community to the project.

This demand increases production elsewhere in the local economy. It is important that only local deliveries are included. Increased production in other industries will in turn spur demand for inputs to these industries, and hence we have a long, but diminishing “line” of demand increases. By using an input output model one

can estimate the total effects, but this implies that one has information about the deliveries of input factors in relation to production for all the affected industries.

When calculating input-output effects one also must consider the utilization of the existing capacity, if there already is full utilization then there will be no input-output effects, at least not in a short time perspective, since the demand increase only will displace other production. But if there are idle resources in the local economy the input-output effect will exist.

Multiplier effects

Higher local revenues result in increased demand. Parts of this local demand are directed at local goods and services, and in turn give rise to higher revenues in firms that supply these higher local deliveries. This effect is also called the Keynesian effect.

Acceleration effects

In the investment phase, parts of the deliveries are from local suppliers. These increased deliveries in turn give rise to input-output and income multiplier effects. The acceleration effects will be short-term, since they are present only in the investment phase.

Ancillary spending

Visitors to a cultural heritage site (or tourists arriving of other reasons) will spend resources in the region on food, retail goods, accommodation and the like, so called ancillary spending. This will increase the income for firms in these sectors. This increase will in turn give higher inputs, higher employment and higher revenues. In turn they will give rise to “second order” multiplier and input-output effects. A central question here is whether all ancillary spending are additional and attributable to the site.

The degree to which ancillary spending gives rise to higher employment or investment, will depend on the utilization of existing capacity in relation to the magnitude of the rise in demand caused by the project.

Derived effects

An investment strategy for tourism may have derived effects, where it can be argued that the investment strategy to some extent is a cause. At Røros, for example, there are at least three large popular culture/art festivals³ that attract visitors from outside the region; many from the regional capital of Trondheim. It could be argued that these festivals to some extent are caused by the cultural heritage image of Røros. Many of the same people that were active in the heritage rehabilitation efforts have been active in establishing the cultural festivals as well. Exactly what fraction of the regional impacts of these festivals that could be attributed to the heritage investment strategy at Røros is certainly subject to discussion, but zero is probably a bad estimate.

Increased exports of products that are closely related to the site – like local food and craft, might also be a consequence of the culture investment. The effect can be measured by the amount of money tourists spend locally.

In Røros there is an additional derived effect through the export of craftsmen skilled in preservation techniques. Through the rehabilitation process local craftsmen have been trained and gained experience in traditional building techniques and the like, and today some of these are being “exported” to other sites or regions to assist in rehabilitation projects or educate other craftsmen. This is a derived effect that is more or less fully attributable to the heritage strategy.

Gravitation

Investing in culture may give rise to what has been termed gravitation effects. Such effects are processes that make the region more attractive to live in or to

³ Rørosmartnan is a popular culture and trade fair, Vinterfestspillene (a chamber music festival) has a larger “fine art” component and “Det brinner en eld” (There’s a fire burning) is a biennial outdoor theatre show.

establish firms in, or processes that help foster entrepreneurship and innovation, which may result in increased employment and income in the future. The effects are slow to emerge and take time to unfold.

Investing in culture may make it more attractive to live in the region, and thus affect migration to and from the region. In particular it might be important if culture attracted entrepreneurial people with higher education, who could play a role in developing the society. Other effects could be that cultural investments would increase awareness of the region and make it more attractive to invest in. If culture helped to establish the region with a positive image, culture might be used in branding and as a marketing tool.

Thus, gravitation is associated with migration, with firm localization and with branding and marketing. As mentioned, the effects are long term, and often hard to estimate with precision. These factors have seldom been included in impact analyses. Our project at Røros will explicitly deal with this issue and shed some light on the magnitude of this effect.

Even though one might assess the effect of “culture” on migration, it is difficult to assess the effect of one particular project. In the case of Røros, the entire strategy of heritage preservation is the object under study, and is thus quite well suited as object for analysis.

The magnitude of these, both direct and indirect, effects depend on how the study is delimited geographically – and in general the larger the area, the smaller are the effects.

“Non-economic” effects

Other effects that are not necessarily measurable in money value, are positive effects due to stronger *identity* for inhabitants. A stronger identity may not be a target or asset per se, but perhaps only to the extent that it can raise revenues or employment in the region. Identity may also appear in various sorts, and for instance differ with respect to innovativeness or towards entrepreneurial initiatives. A strategy based on cultural heritage would almost by definition be

expected to foster a traditional identity, which might not be particularly fruitful to entrepreneurial activity. One of the challenges in using culture for economic means would be to combine a strong feeling for cultural heritage with an entrepreneurial spirit.

Counteracting effects

An analysis of economic impacts of cultural heritage or other investment projects or strategies, must at least *consider the importance of* possible costs to the local economy that are not internalised in the project. Three factors are often mentioned:

- Displacement effects
- Wear and tear caused by tourists or visitors to the site
- The need for increased infrastructure investments.

The *displacement effects* may be the most important ones. They are of different sorts. First, it might be so-called product market displacement (Bille Hansen, Christoffersen and Wanhill, 1996). This refers for example to the fact that tourists that otherwise would have been at the site in the absence of the project, are “crowded out” because hotels are full or the like. This effect has been assessed in analyses of music festivals, with a large number of visitors in a short time (Hervik, Bræin and Bryn, 2003). A proper analysis requires that one assess the magnitude of this effect.

Impact analyses are often “demand-driven”, i.e. assuming that changes in demand are accommodated by an equally large increase in supply. In regions with unemployment and spare capacity, this is a reasonable assumption. In Røros, it is probably justified to assume few or none labour market induced displacement, also because reduced net migration out of the region can be expected in a more long term perspective. In a region with low unemployment, a culture project will raise labour demand. That might either increase wages so that employment elsewhere in the local economy would decline, or it would stimulate migration to the region. Regions with low unemployment are usually larger cities with net immigration, and a culture investment project might thus exacerbate regional imbalances. Displacement could also happen through property markets. If a

culture project occupies an attractive area, and other firms' profitability is reduced because of that, there will be a displacement effect. In cultural heritage policy, it is probably of importance to check if this could be an important cost to the local economy of investing in a particular heritage project.

Wear and tear may negatively affect the heritage itself, which would threaten the sustainability of combining tourism and preservation. The magnitude of the wear and tear effect could be estimated as a first approximation with the costs of corrective measures such as increased rehabilitation or maintenance costs.

Finally, investing in culture and tourism may raise *infrastructure costs*. A substantial increase in tourism as a consequence of a cultural heritage investment strategy may give rise to increased demand for services that is usually provided by the authorities, free of charge. Examples may be roads, parking houses and the like. Need for more staff at the tourist office is another example of higher costs for the local public authorities that are caused by the project, but on the other hand this can be counted as a positive employment effect.

An often encountered problem in impact studies is one of complexity. If the region has many attractions, it will be difficult for tourists to say whether they visit the place because of this or that attraction; it is the package of attractions that is important. It is thus preferable to analyse a community where the cultural heritage is the only attraction and more or less the only reason why tourists visit the place. Røros is such a place.

3 Quantitative studies

3.1 Introduction

The type of culture of which effects are measured, and the type of local economy that the effects apply to, vary among studies. Thus transferability of the results to other sites is a problem. Many studies analyse “impact of tourism” on relatively small regional economies (e.g. Dybedal, 2003a, b). Effects are often measured in employment and value added, but frequently effects are also measured in sales. There is thus not a particular investment project or investment strategy that is the

object of analysis, but rather “what would have happened if the tourists had not come to the region”. Such analyses seldom ask whether local labour and capital that are attributed to tourism would have been utilised elsewhere in the economy in the absence of the “prime mover”, in these cases the tourist industry. This will tend to overstate the effects, or at least to make a meaningful discussion based on the results difficult.

Effects of “the arts” range from analysing the effect of rock concerts (Gazel and Schwer, 1997) to museums in larger urban agglomerations (Frey and Pommerehne, 1989). The Guggenheim Museum in Bilbao, Spain regularly undertakes impact analyses of the effects of the museum on the local economy. The diversity of analyses illustrates that both characteristics of the site and of the culture project impacts the local economy, are very different in the analyses that have been made.

3.2 Economic impact analyses

Like “the arts” *cultural heritage projects* have been analysed in order to assess the regional economic impacts. The scope and quality of studies dealing with cultural heritage have varied, just like the earlier mentioned studies of cultural projects. Some studies have produced large impacts, but have also received strong criticism on methodological grounds. It seems that the popularity of such studies internationally is waning; see Klamer and Zuidhof (1998), and van Puffelen (1996). The low quality of some studies may have threatened to destroy meaningful discourse over the issue of economic effects from cultural heritage investments, as some reported effects seem enormously out of proportion with any reasonable assessment. van Puffelen (1996) seems so disillusioned of the use of impact studies, that he recommends such studies not be made. We agree with Ringstad (2005) who argues that badly performed and presented studies of economic impacts of art and cultural heritage should not be used as arguments against well performed studies.

Strauss and Lord (2001) calculate regional economic effects of increased tourism following from investment in 13 heritage sites in Pennsylvania, USA. The analysis quantifies effects on local economy revenues in the investment phase and

direct and indirect revenues from increased tourism. Regional economic multipliers are calculated with an input-output model, based on data from tourist surveys. According to the article, an investment of 88 million USD resulted in a 289 million USD gain through tourist-related impacts during a 13 year period, in the form of direct impacts of 169 million and indirect impacts of 121 million USD.

There are *two important problems* with this analysis. First, all increases in the number of tourists since a reference year are attributed to the investment. In a situation of increasing overall economic activity in the US, one might expect an increase in the number of tourists even in the absence of these investments. This tends to overstate the effects. Second, all impacts are measured by sales and not in increased value added or employment, which also tends to overstate the effects.

Similar problems are present with analyses of tourism in Norway as well. Based on tourist surveys and regional input output models, Dybedal (2003a and b) has analysed regional economic “effects of tourism” in Norwegian counties. Based on regional national accounts data for tourism, a regional input output model is used to assess the effects of removing this demand component. The model accounts for differences in the counties’ import shares of different goods and services. It does not account for direct and indirect investment deliveries. A result from these studies is that indirect effects at county level is of an order of magnitude of 30-40 per cent of the direct impacts, measured in sales.

In Norway there have been undertaken few studies of the local economic effects of cultural festivals. Ericsson and Vaagland (2002) assess effects on the local economy of *cultural festivals in Lillehammer*. They have utilised a survey among attendants, asking whether they live in the region and the amount of spending during the festival. Input-output and income multipliers were calculated “ad hoc” without a formal regional economic model. Because most of the attendants were from the community, the regional multiplier was small. The effects were modest, and in addition the festivals were dependant on public support to survive.

Spilling (1990) calculates effects on the local economy of a *music festival in the city of Notodden*, Norway. He assesses “first round” effects on sales in the local

economy based on interviews, accounts and a survey among festival attendants. No indirect multiplier or input-output effects are calculated.

Hervik et al. (2003) analyses effects on the regional economy of *culture festivals in “Møre og Romsdal”*, a county in Western Norway. Based on assessments of local input coefficients, they estimate direct and indirect effect of the festivals. They estimate multiplier effects of personnel costs, effects of purchases of goods and services (input-output effects) and increased local demand from increased number of attendants from outside the region, as well as increased domestic demand (and reduced imports) from the local population. The share of attendants from outside the region is estimated from ticket sales, and amounts spent on accommodation and other purchases are also estimated by the authors, based on accounts and interviews. No surveys were undertaken. They assume that 20 per cent of sales are profits and 30 per cent are wages (both are local revenues). The rest are purchases of goods and services, of which a fraction is imported. The effects are calculated for the county. Total effects of Molde Jazz festival were calculated at 85 million NOK, while total revenues of the festival were estimated at 17 million NOK. Indirect value added effects caused by visitors from outside the region was estimated at 16 million NOK, i.e. of the same order of magnitude as the total festival revenues. The authors believe that smaller festivals, which to a larger extent attract a local audience, will have far less positive effect on the local economy. The report also contains a sponsor survey where respondents assess the effects on local identity and the region’s attractiveness as a lively region. Sponsors’ did not think their direct profitability increased much during the festival, but thought that the festival strengthens local identity.

According to Ashworth and Tunbridge (2000), historic urban tourism is usually organised in a grid of historical towns, or as a centre for regional tourism. They say that a key question in assessing the economic impacts is whether increased cultural tourism requires additional *infrastructure investment*, which do not in themselves generate revenues. If that is the case, it should be included on the cost side in the calculations. The need for the local public sector to finance and undertake investments in order to support heritage-based tourism has not been addressed explicitly in the studies reported in this survey.

Flognfeldt (1998) states that most visitors to small places are on a *round trip*, where they usually stay at a new place every night. Therefore most visits on activities take place during the day. That makes it difficult to use hotel statistics to assess numbers on day activities.

Bille Hansen, Cristoffersen and Wanhill (1996) illustrate the importance of taking account of investment resources' alternative use, and of attracting out-of-region visitors. They compare *two cultural heritage investment projects in Denmark*; one large in the city of Odense (HC Andersen house) and one smaller project (upgrading an old textile factory). Both projects are compared with a “normal” government project, and the regional economic consequences were estimated with a regional input-output model. One important assumption was that local taxes had been increased to finance all increases in government expenditure associated with the projects. One finding was that the small project (textile factory) had economic consequences of similar magnitude as an average government project. The economic effects of the larger and more prestigious project (HC Andersens' house) were larger. The reason for the difference was that the smaller project largely catered for the local population, while the larger project attracted many visitors from outside the region, thus producing increased “export” revenues. The results point to an important aspect of culture as local economic engine; the attraction must be large or interesting enough to attract visitors from outside the region if positive regional economic impacts are to be expected.

3.3 Migration

There is little empirical research on the importance of culture for migration. Rubenowitz and Rubenowitz (1990) have analysed the importance of a varied cultural scene in a community for migration motives in Sweden. Inhabitants were asked about the importance of various factors for where they wanted to live. To be near family and work were (of course) most important, as well as leisure possibilities. Around 30 per cent answer that cultural activities are important. Design and types of answer question the degree of validity of the analysis for the importance of cultural heritage for migration.

Wikhall (2002) analyses whether culture affects migration decisions, based on a survey towards groups of highly educated people in Sweden (the groups believed to be the most geographically mobile). The respondents were asked what would be most important for determining place of location *assumed* they were to move to another municipality. Wikhall concludes that although labour market variables may be gradually less important for choice of region, these factors still are very important. She finds that a well developed cultural infrastructure is important for many, but whether this includes cultural heritage is not discussed. Probably other aspects of culture dominate, but these variables can be very case-specific. The relevance for cultural heritage or for methods may not be so great.

Garvill et al. (2002) analyse migration motives, but do not explicitly address culture as migration motive. They find that job possibilities become less important as motive for migration over time, and that education becomes more important. Whether place characteristics such as culture, built environment and the like – perhaps through strengthened place identity - has an importance for migration, is not analysed.

4 Qualitative studies

The increasing interest in utilising the pure economic benefits of heritage, have spurred numerous reports on culture as a driver in the local economy, with special emphasis on cultural heritage. In Norway and especially in Sweden, both central and local heritage authorities have published several reports on the topic “cultural heritage and regional economy”, see for instance Nilsson et al. (2002), Nypan (2003) and The Swedish National Heritage Board (2003). The reports are often theoretical discussions of the type of effects that could be expected from investing in culture, in some cases based on case studies – “good examples” of local initiatives. Few of the studies assess the economic effects of the investments. The reports are usually made by representatives from the “cultural heritage sector”. Some reports discuss integrating culture in regional partnerships, a policy framework that is increasingly popular in the EU, and also in Norway.

A paper by Weissglass et al. (2002) seems to give a representative comprehensive overview of research and analyses of the Swedish heritage sector. It puts on a broad perspective and discusses types of effects of cultural heritage on local and regional societies.

One important channel whereby culture benefits economic development, is through strengthened local or regional identity, and through making places more attractive to live in. Paju (2002) remarks that whether identity is good or bad for growth, will depend on the type of identity being stimulated (inward- or outward-looking). Recent interest in the importance of the “creative class” and industrial clusters may have relevance to the effects of local identity based on traditions and cultural heritage. It may attract persons with strong interest in the issue, but whether these people are innovative for creating business and jobs, is not evident.

5 Conclusions

The survey of concepts and research on the effects of culture on a regional economy has shown that political debate has been influenced by exaggerated effects of the economic effects of culture, including cultural heritage. Analyses that have not taken proper account of all effects, but for instance focused on the positive effects, are an important reason for this situation.

We still believe that both political decision makers, and private firms need more, and more balanced knowledge about the likely effects of using public funds for supporting cultural heritage projects in various parts of the country. One difficulty is to find out what we want to measure the effect of. In a given situation, a local or state government body will face the question of whether or not to support a cultural festival or the like. But this is not the issue in our analysis of Røros. Instead we are looking at the effects of investment or development strategies in cities or regions with a potential for attracting visitors through cultural heritage, and reaping other effects from tourism. In order to analyse that, Røros is regarded as a useful case. For example, few other factors than the cultural heritage values attract tourists to Røros, perhaps with the exception of the cultural festivals that

we have argued partly could be seen as an effect of the heritage investment strategy.

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