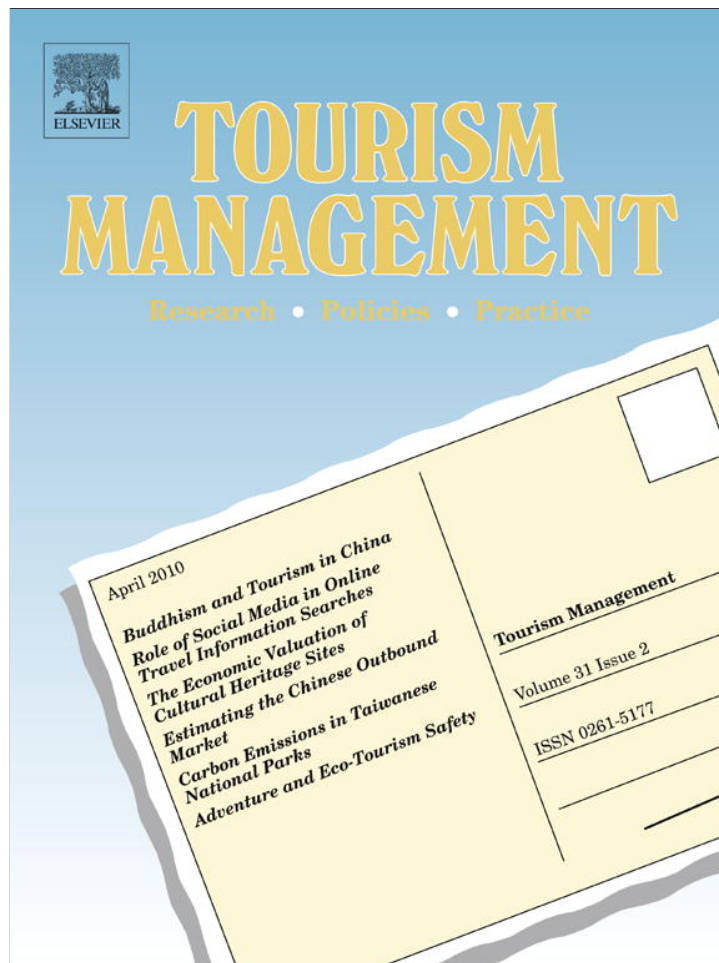


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# Tourism Management

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## Interpreting suboptimal business outcomes in light of the Coase Theorem: Lessons from Sidmouth International Festival

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### ABSTRACT

The management team of the world-famous Sidmouth Festival resigned in 2004, after failing to secure bad-weather underwriting worth £200,000, and amidst widespread fears that the Festival was doomed. While claims of a local economic impact of £5 million are seriously flawed, it is highly likely that the local economy did benefit by at least several times the amount of the required insurance. Failure to capture these net positive benefits is linked to ill-defined property rights, rising transaction costs, incomplete information from unreliable sources, and actual or feared free riding. These conditions prevented the type of efficient bargaining solution in the face of externalities envisioned by the Coase Theorem. Practically all of the problems preventing the ideal Coasean solution could have been addressed by granting key stakeholders' individual ownership rights. Hence, while the Coase solution was not applicable, the Theorem's predictions (or its corollary's predictions) were confirmed.

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### 1. Introduction

This paper examines the reasons why the diverse stakeholders of Sidmouth International Festival in Devon, England (management, performers, ticket-buying public, local authorities, local population, potential sponsors) had failed by mid 2004 to reach an agreement allowing the Festival to continue operating under terms satisfactory to a majority of key stakeholders. Fifty years old in 2004, the Festival was, according to many indicators, arguably the most vibrant and successful folk festival in the UK.<sup>1</sup> However, in 2004 the Festival management announced that a Festival in 2005 could not be guaranteed (Anonymous, 2004; Harry, 2004a; Sidmouth Herald, 2004; Sidmouth International Festival, 2004). The management had been unable to obtain bad-weather underwriting worth £200,000, despite an alleged Festival contribution to the local economy of £5 million (Freeman, 2001; Sidmouth Herald, 2001a; Vance, 2004; [www.seered.co.uk/folk8.htm](http://www.seered.co.uk/folk8.htm)).

Sidmouth Festival, founded by the English Folk Dance and Song Society (EFDSS), started in 1955 with about a hundred fee-paying participants (Schofield, 2004a). That year a surplus was generated.

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<sup>1</sup> The Festival budget increased from £130,000 in 1987, to £750,000 in 2004 (Schofield, 2004a, pp. 145, 216).

The Festival grew gradually. Even in relatively 'bad' years small profits were recorded. From very early on, the Festival played a key role in the revival of British folk (Dommett, 1994; Frampton, 1997). The first non-British artists (from Ireland) performed in Sidmouth in 1963. The word 'International' was added to the title in 1968. The new title was now 'Sidmouth International Folk Festival', a title which would be kept until 2005, when the word 'Festival' was dropped and the event became 'Sidmouth Folk Week' (as we shall see, the 2005 title change was meant as a goodwill gesture towards the local population). In 1968 parallel final shows were also introduced, to accommodate the growing audience sizes. The first instances of official support for the Festival from local authorities and other agencies (including Sidmouth Town Council and Devon County Council) consisted of free accommodation for visiting artists in local schools, performing venues provided free-of-charge, and other minor forms of help. But the Festival was not making profits any longer. Moreover, local complaints against noise and some visitors' alleged bad behaviour were becoming common by 1971. Cheaper season tickets for local residents were introduced in 1977. By 1982, EFDSS was experiencing serious financial difficulties, and Festival spokesmen suggested for the first time that local businesses which benefited from the Festival should consider making contributions to it. In 1985 the Festival consisted of over 300 events and 1000 performers and stewards, and 1500 season tickets were sold. The total audience over eight days was estimated as 30,000–50,000 people. But losses of £10,000 were also incurred (Schofield, 2004a, p. 138).

EFDSS transferred management of the Festival in 1987 to a team headed by the businessman and folk enthusiast Steve Heap, who would be in charge until 2004. East Devon District Council supported the transfer with underwriting, services and assistance worth £17,500, amounting to slightly over ten percent of the Festival budget. During the 1990s the Festival continued growing, but its financial problems were never solved. Any profits made during good years had to be used eventually to compensate for losses suffered in bad-weather years (Hiscock & Hojman, 2004; [www.seered.co.uk](http://www.seered.co.uk)). The management team headed by Steve Heap finally resigned, immediately after the 2004 Festival. East Devon District Council withdrew its financial support shortly after that. Paradoxically, the weather during Folk Week 2004 was very good and that year a surplus was generated, but unfortunately not large enough to compensate for bad years before and, inevitably, after.

Conceptually, the 2004 failure may be analysed using the Coase Theorem (to be defined in the next section). In examining the reasons for failure, we will explore the role of ill-defined property rights, rising transaction costs, incomplete information from unreliable sources, and attempts at free riding. The discussion will deal with questions of management style, cultural entrepreneurship, corporate sponsorship of the arts, relationships between the Festival and the local community, and the contribution of cultural festivals to generating externalities, and to the local economy and tourism in particular.

There is no generally agreed view as to what, or how much, cultural festivals contribute to the respective local economy (Auld & McArthur, 2003; Brown, Var, & Lee, 2002; Crompton, 1995, 2006; Gazel & Schwer, 1997; Mitchell & Wall, 1989; Nurse, 2002; Seaman, 1987, 2004; Senior & Danson, 1998; Snowball, 2004; Snowball & Antrobus, 2002). The results of a recent study on the impact of British folk festivals (Association of Festival Organisers, AFO, 2004) have been comprehensively challenged by a Sidmouth-based scholar (Wozniak, 2004a, 2004b; see also Long & Perdue, 1990; Wozniak, 2004c).<sup>2</sup> However, even if the impact of the Sidmouth Festival on the local economy was more modest than claimed by its most enthusiastic supporters, still there were economic and non-economic contributions of the Festival that exceeded the required amount of bad-weather insurance.

The next section defines the Coase Theorem and the conditions under which it may or may not apply. Section 3 identifies some of the externalities generated by Sidmouth Festival. Then, Section 4 discusses economic impact multipliers and looks at differences between local businesses in terms of how much they benefited, or expected to benefit, from the Festival. Benefits were concentrated in very different ways from the way the costs were concentrated. Pecuniary and non-pecuniary positive externalities play an important role in the story. This role is examined in Section 5. Section 6 argues that Sidmouth Festival was possibly falling between two stools, unable to become either an urban, multi-firm festival, or a rural, one-company one. The factors that contributed to make a successful Coase bargain gradually more difficult, and eventually impossible, are discussed in Section 7. Section 8 concludes.

<sup>2</sup> The AFO study is based on a methodology developed by the New Economics Foundation. We have seen a publicly available general description of the methodology (Sachs, 2002), but not any precise details of the actual study, or its specific application to Sidmouth. For alternative methodologies, see Breen, Bull, and Walo (2001), Bryan, Hill, Munday, and Roberts (2000), Gursoy, Kim, and Uysal (2004) and Ralston and Stewart (1990). It has been argued that many arts and sports 'impact' and 'economic impact' studies may be worthless because of the commercial motivations of sponsors and unethical attitudes of consultants (Crompton, 1995, 2006; Seaman, 1987).

## 2. The Coase Theorem

The original source of the Coase Theorem is Coase (1960). However, Ronald Coase did not call his insight (which today is recognised as immensely influential) a 'theorem'. This was done later by his Chicago colleague and fellow Nobel laureate George Stigler (Lai, 2007; Lai, Yung, & Ho, 2007). Although there are different versions of the Theorem, the most widely accepted is that 'given zero transaction costs and clearly defined property rights', resource allocation does 'not depend on the way rights and liabilities are assigned'. This allocation 'is always Paretian efficient' (Lai, 2007, p. 342). Many authors have offered reasons why the Coase Theorem predictions are not always observed in the real world. They include distribution effects (Polinsky, 1974), wealth effects (Hovenkamp, 1990; Kennedy, 1981), private information (Farrell, 1987), positive transaction costs (Cheung, 1989; Ellickson, 1989), strategic bargaining (Schwab, 1989), rent-seeking beneficiaries (Hojman, 1994, 2002; Jung, Krutilla, Viscusi, & Boyd, 1995; Rowley & Webb, 2007), parallel negotiations with other constituencies (Cooper, 1995), multiple equilibria (Anderlini & Felli, 2006; Dixit & Olson, 2000), lexicographic preferences (Bernholz, 2004; Cowen, 2004; Plaut, 2004), and so on. Samuelson (1995) has reminded us that the Coase Theorem was unable to stop the American Civil War, and a similar point was made by Hsiung (2003) on the attack on the World Trade Centre twin towers, 9/11. It has also been suggested that some possible interpretations or implications of the Theorem could play roles in undermining property rights (North, 2002; Usher, 1998).

For purposes of this article, the corollary to the Coase Theorem may be more relevant than the Theorem itself. The corollary states that resource allocation is indeed affected by positive transaction costs or uncertain property rights (Hsiung, 1999; Lai & Hung, 2008; Lai & Lorne, 2006a; Parisi, 1995). Many other authors confirm this result, although not all of them use the word 'corollary'. Another interesting perspective emphasises the possibility of Coase bargaining going beyond a mere trading of rights and identification of negative externalities, towards innovation, creativity, a change of mindset, cooperation and 'win-win' strategies, and the turning of negative into positive externalities. This alternative approach, which has been tested in negotiations on sustainable development, could make Coase bargaining more likely to succeed (Yu, Shaw, Fu, & Lai, 2000; Lai & Lorne, 2006a, 2006b). As we shall see, this new perspective on Coase may not have been relevant to Sidmouth in or before 2004, but it may well apply in 2005 and more recently.

Business activity often generates side effects, costs and benefits to third parties, or externalities. If the sum of all private and external benefits exceeds the sum of all private and external costs, then social net benefits are positive and the activity is welfare enhancing.

The Coase Theorem (Coase, 1960, 1988) argues that externalities can be corrected by bargaining among the actors involved. Provided that property rights are well-defined and legally enforceable, and there are no transaction costs, economic efficiency will be achieved. This will be reached by means of private bargaining between the perpetrator and the victim of the externality. Externality problems can lead to efficient results via bargaining among the affected parties, assuming that transaction costs are zero, or negligible compared to the mutual gains at issue. If transaction costs are large (as often happens in the real world), 'economic actors tend to arrange their institutions with an eye to these costs' (Ellickson, 1989, p. 612).

By contrast, an externality-generating, but potentially welfare-enhancing activity may not actually take place, because for some reason or reasons a successful Coasean bargain failed to be reached.

Sidmouth Festival in 2004 provides a good example. Assume that the Festival 'beneficiaries' (all those who stand to benefit, in

economic or non-economic ways, directly or indirectly, including all multiplier effects) are different from the ‘victims’ of the Festival’s externalities (traffic congestion, dirt, noise, etc).<sup>3</sup> There will be four possible outcomes, according to whether the property rights, broadly defined (or liability rights, or institutional set-up) favour the beneficiary or the victim, and according to whether the social benefit is greater or smaller than the social cost (see Table 1). If the benefit is smaller than the cost, there will be no Festival and therefore no externalities (see the last row of Table 1). Since the benefit is smaller than the cost, either the potential beneficiary cannot afford to compensate the potential victim, or the potential victim can pay something to the potential beneficiary, so that the latter is better off without the Festival than with it.

But if the benefit is greater than the cost (that is, the Festival is welfare enhancing), the Festival may go ahead, in which case some externalities will be inflicted. One of the two players will have to pay the other. Who pays who depends on the institutional set-up. Whoever pays, the amount that is paid depends on how strongly the beneficiary wants the Festival to go ahead (and how much of it he or she wants), and how much of the externality inflicted upon the victim he or she is prepared to take. Equilibrium, or the social optimum, will be reached at that point at which the decreasing marginal benefit of more Festival and the rising marginal cost from additional amounts of the externality are equal (at this point none of the players will wish to pay any more to the other).

It must be emphasised that the ‘victim’ is not a victim of the Festival, but of some Festival-provoked externality. Even if an individual is hit by an externality, and the institutional set-up is such that he or she has to pay to have less of it inflicted upon him or her, still on balance he or she may be better off as a result of the Festival. For example, during Festival Week a local resident who wants to drive into town may have to pay more for parking, and to walk more between the car park and town, but he or she may also go to some concerts and other Festival activities. On balance, he or she may or may not be better off, and accordingly he or she may be in favour of the Festival or against it. A similar reasoning applies to the economic effects of these parking difficulties on local shops. The fact that a Festival-goer takes the last parking space left in town may not be automatically bad for the local shops. It all depends on, first, whether this Festival-goer will spend more or less locally, than whoever would have taken that parking space if there was no Festival (a local resident); and second, on whether the local resident will take his or her custom permanently elsewhere.

Sidmouth Festival in 2004 is particularly interesting as an application of the Coase Theorem, because Coasean bargaining had been taking place successfully year after year since 1955. Cultural festivals not only generate negative externalities. They are also a source of positive externalities, both pecuniary (such as more business for local bars and restaurants) and non-pecuniary (non-market cultural benefits such as local residents accessing and learning about high-quality artistic performances). Many of Sidmouth Festival’s problems, in the build up towards the 2004 crisis, were related to the fact that some of the key players or stakeholders did not know what to do about, or how to deal with, these positive pecuniary and non-pecuniary externalities.

The failure we are interested in occurs when some key private bargaining between the perpetrators and the victims of Festival-provoked externalities does not take place, or does not reach a successful conclusion. This failure forced the management team to resign in 2004, despite the fact that the Festival’s benefit was

**Table 1**

The Coase Theorem: possible outcomes, according to whether the property rights, broadly defined, favour the beneficiary or the victim, and according to the relative sizes of social benefit and social cost.

	Property rights favour the beneficiary (he or she may go ahead with the Festival if they wish to)	Property rights favour the victim (he or she may cancel the Festival if they wish to)
The social benefit is greater than the social cost	The Festival takes place. The victim pays the beneficiary so that less externality is inflicted	The Festival takes place. The beneficiary compensates the victim for any externality
The social benefit is smaller than the social cost	The Festival does not take place. The potential victim can afford to pay something (‘bribe’) the potential beneficiary, and make him or her better off without the Festival	The Festival does not take place. Had it taken place, the potential beneficiary would not have been able to compensate the potential victim

greater than its cost.<sup>4</sup> Failure may happen for a number of reasons. Among them: 1) transaction costs may be too large; 2) the property rights may be ill defined or difficult to enforce; 3) information may be insufficient; 4) some players may be engaged in trying to have the property rights changed; 5) supporters or opponents of the Festival may be too many or too heterogeneous to organise; or 6) there may be a gap between the not-income-constrained seller’s price, and the income-constrained buyer’s price of the externality (Farrell, 1987; Jung et al, 1995; Richards & Singh, 2000; Robson & Skaperdas, 2002; Shogren & Kask, 1992; see also Cooter, 1989; Samuelson, 1995; Usher, 1998). All of these difficulties or obstacles may be worsened by a particular management style or by other management problems.<sup>5</sup>

A key private bargain or contract failed to be signed, or agreed, in Sidmouth in 2004, between the Festival management, and whoever might have been sufficiently interested in the Festival survival, to supply those additional financial resources (the £200,000 for bad-weather insurance), which were at the time badly needed.<sup>6</sup>

Summarising, the potential Coase bargain in Sidmouth, before, in, and after 2004 can be represented by the following model. There are two types of local residents: those affected by negative externalities (traffic and parking problems, noise, litter, bad behaviour, etc; let us call them type N), and those who benefit culturally from the Festival (type C). There are also two types of local businesses. Some experience net losses as a result of the Festival (type L), as others increase their profits (type P). The Festival budget relies on three sources: tickets bought by visitors to Sidmouth, contributions from type P local businesses, and local government grants. The challenge for the Festival management is always (both before and after 2004, as well as during 2004) to encourage contributions as large as possible from type P businesses and from local government

<sup>4</sup> Not all potential Coase bargains are equally important. For example, possibly the local resident who fails to find a parking space during Festival Week can be safely ignored by the Festival. The fact that this local resident is worse off as a result of the Festival may not be a problem that, by itself, could prevent the Festival from taking place.

<sup>5</sup> Another potential Coase bargain was that between the Festival and Sidmouth Cricket Club. The latter had been using its grounds as a temporary car park during Festival Week, and charging individual drivers. The Festival management argued that, since the Club was benefiting (by about £4000 per year, Dowell et al., 2004), it should make a contribution towards Festival costs. The Club argued that, since it was providing this essential service, the Festival should compensate the Club, over and above the parking fees that individual drivers paid ([www.seered.co.uk/folk18.htm](http://www.seered.co.uk/folk18.htm)).

<sup>6</sup> A possible ‘solution’, mentioned by several sources, was for 200 local businesses to donate £1000 each, towards the wet weather buffer (Dowell et al., 2004; Schofield, 2004b; *Sidmouth Herald*, 2004).

<sup>3</sup> This assumption is not essential and will be relaxed later on. Typically an individual or a local company could both benefit from the Festival, and suffer from a Festival-provoked negative externality, at the same time.

(the number of tickets sold depends largely on the weather). A successful Coase bargain would have type N local residents and type L local businesses abstaining from exercising their legal rights and entitlements, and political influence on local government, towards creating problems for the Festival. In exchange, these type N local residents and type L local businesses expect to receive, in no particular order, cultural treats, highly subsidised season tickets, cash payments, and the possibility of transforming themselves, from type N to type C for residents, and from type L to type P for businesses.

### 3. Externalities

Many local residents knew about Festival-provoked externalities, and some residents saw themselves as victims. Reference was often made to externalities in the local media and the internet. Examples include the problems to find a parking space in town, loud music in the early hours, private gardens being used as toilets, broken glass and vomit on the beach, and having to pay to enter the main Festival ground during Festival Week (which was open to the public the rest of the year; Luxton, 2003; Harry, 2004b; Wozniak, 2004d; [www.seered.co.uk/folk11.htm](http://www.seered.co.uk/folk11.htm)).<sup>7</sup> Some local residents resented the local authority grants and subsidies to the Festival (Freeman, 2001; Vance, 2004). Others did not like some aspects of the Festival, but reluctantly accepted it as a necessary evil. Some were in two minds. They fondly remembered the old Festival, and complained that more recent ones had fewer free-of-charge events taking place in public spaces (Hunt, 2004; Peters, 2004; [www.seered.co.uk/folk18.htm](http://www.seered.co.uk/folk18.htm)).

There were also externalities affecting local businesses. Some shopkeepers claimed that not only did they fail to sell more, or sold less, during Festival Week, but they had to hire extra staff to deal with increased shoplifting (Wozniak, 2004c). All local residents knew that parking would be more difficult during Festival Week, so many did not even try to go into town. Some of these business losses suffered by local shops may have been permanent.

We do not know (and no one else did) whether the Festival opponents were, or would eventually become, strong enough to prevent the Festival from happening. In this sense there was uncertainty, or ambiguity, which may also be described or interpreted as a problem of ill-defined property rights. Uncertainty made things more difficult for the Festival, and more expensive in money and management time. By emphasising the damages caused by the Festival, its opponents contributed to raising the asking price of these externalities, and the potential gap between seller's price and buyer's price. Opposition to the Festival contributed to increase transaction costs. It also contributed to prevent economic actors from adopting institutions that would minimise such costs (Ellickson, 1989).

Still, as mentioned before, on balance even a victim of a Festival-generated externality may have been better off thanks to the Festival. Therefore, under certain favourable conditions this victim could have become a contributor, together with other individuals or firms, to the £200,000 bad-weather insurance needed in 2004.

### 4. Multipliers and heterogeneous local businesses

There are sharp disagreements about the size of the Festival contribution to the local economy. However, a figure of 65,000 Festival-goers is frequently mentioned, and generally agreed, for

the whole week (Wozniak, 2004c; [www.seered.co.uk/folk6.htm](http://www.seered.co.uk/folk6.htm)). In a typical good year, the Festival had about 10,000 ticket-buying visitors per day (these are 'Festival visitors', but not necessarily visitors to Sidmouth or East Devon; some of them are local residents).

It has been claimed that the Festival contribution to the local economy was £5 million per year. This is possibly an exaggeration (Wozniak, 2004a, 2004b, 2004c). The true figure may be smaller. For example, the largest of the tourist income multipliers in the meta-analysis by Baaijens and Nijkamp (2000, p. 836) is equal to 1.98 (others are as small as 0.35). Applying a 1.98 value to Sidmouth Festival, this gives a total direct expenditure by Festival visitors equal to £2.5 million. Dividing by 65,000, the average daily expenditure per Festival visitor would be slightly over £38. This does not seem excessive. However, the already mentioned AFO study, which included several folk festivals, Sidmouth among them, estimated an average daily expenditure of £25 (in tickets, accommodation and food and drink, AFO, 2004, p. 5). Moreover, our calculation is using sales rather than income (or gross rather than net values), and the total figure of 65,000 Festival visitors includes locals and casuals. Using gross rather than net data (or sales instead of income) and including locals and casuals are both practices which most economists consider inappropriate in serious economic impact analyses (Crompton, 1995, 2006; Hudson, 2001; Seaman, 1987, 2004; Snowball & Antrobus, 2002).

There are no obvious reasons why Sidmouth Festival should generate higher visitor expenditure and multiplier values than other folk festivals in England. A day visitor to Sidmouth may spend little in the local shops, apart from maybe drinks and sandwiches. Some visitors stayed in the Festival camping site, and took all their meals on the Festival grounds. Again, the contribution to the local economy would have been small, as compared with staying in a local hotel and using local restaurants. Those possibly modest amounts which were truly spent by Festival visitors were unlikely to stay ultimately in the local economy. Neither the cost of the Festival ticket, nor whatever visitors spent on train tickets or on petrol, can be claimed to represent in full a contribution to the local economy. Even if the visitor stayed in a hotel, his or her hotel bill may not have been a net contribution to the local economy, since Festival Week (the first week in August) is the middle of the summer holiday season. Possibly the hotel would have been full anyway, even if the Festival did not exist. Several studies have shown that sometimes local infrastructure and other supply constraints may represent an important barrier to higher multiplier effects, or even to positive-sign economic impacts (Crompton, 1995; Seaman, 2004).<sup>8</sup>

The authors' own calculation of the possible economic impact of Sidmouth Festival, according to alternative assumptions, is presented in Table 2, for both Sidmouth (the town only) and the whole East Devon region. We started from the generally accepted number of 10,000 ticket-buying visitors per day, the AFO average daily expenditure estimate of £25 per person, and a 10% proportion of local and casual visitors, also from the AFO report. There is no

<sup>7</sup> Local opposition to the Festival goes back a long way. Local residents who did not like the Festival may not have been a majority, but they were articulate, vociferous and influential (Schofield, 2004a, pp. 49, 66).

<sup>8</sup> It is not clear where the £5 million claim comes from. All we know is that it is at least partly based on the New Economics Foundation methodology behind the AFO study (AFO, 2004; Sachs, 2002). It may not apply in this particular case, but some researchers have found that sometimes the artificially inflated 'economic impact' suggested by a bad, misleading methodology may be up to twenty times larger than the true economic impact (Crompton, 2006; Hudson, 2001; Seaman, 2004). According to Hudson (2001, p. 22), these exercises are 'usually not published in reputed journals and listed in easily accessible databases on user-friendly CD-ROMs. Instead, they are published for a very specific purpose, cited time and again by the local media and the respective lobby groups keen to sway public opinion, and then they disappear'.

**Table 2**  
Economic impact of Sidmouth Festival, according to different assumptions.

Key assumptions (in all cases: 10,000 visitors per day, daily expenditure £25 per person)	On Sidmouth (the town only) (multiplier value: 1.2)	On East Devon region (multiplier value: 2.0)
Gross impact, including locals and casuals	£2.1 million	£3.5 million
Net impact (33% of gross), including locals and casuals	£0.7 million	£1.2 million
(same as above but net defined as 75% of gross)	£1.6 million	£2.6 million
Net impact (33% of gross), excluding locals and casuals (10%)	£0.6 million	£1.1 million
(same as above but net defined as 75% of gross)	£1.4 million	£2.4 million

relevant information about the relation between gross sales and net income. We calculated alternative economic impacts using first gross and then net. For the ratio between them, we assumed first that net represented 33% of gross, and then 75%. These are likely to be extreme ratios and the true one is possibly somewhere between them. As to multiplier values, we used 1.2 for Sidmouth (which is compatible with a population as small as 13,000) and 2.0 for East Devon (the largest value among those mentioned by Baaijens & Nijkamp, 2000). The standard practice in the most respected studies is to look at net income excluding expenditure by locals and casuals. In our case, these estimates of economic impact range between £0.6 million and £1.4 million for Sidmouth, and between £1.1 million and £2.4 million for East Devon (depending on whether the small or large net-to-gross ratio is used).

It is straightforward to estimate alternative possible economic impacts with different multiplier values. For example, multiplier values equal to 1.4 and 3.3, respectively, are mentioned by Hudson (2001, p. 31), the former as the lower end of what is considered the normal range. The latter is the maximum value we have found in the academic literature (Hudson, 2001, p. 32). These multiplier values are both higher than those mentioned by Snowball and Antrobus (2002) and higher than ten out of eleven multiplier values mentioned by Baaijens and Nijkamp (2000). Still, using the Hudson values would not make much difference. Taking 1.4 as the multiplier value, instead of 1.2, for Sidmouth would increase the respective Table 2 results by less than 20 percent. Even assuming an extremely high multiplier value, 3.3 (the highest that anyone could suggest realistically), the economic impact of Sidmouth Festival on the whole of the East Devon region (net income and excluding locals and casuals) would be only £4.0 million. The only way the £5 million claim could be defended would be by using a much higher, and completely unrealistic, multiplier, or by using gross sales rather than net income. Not even including locals and casuals in the calculation (but still going for net rather than gross, and using a realistic multiplier value) would generate an economic impact figure close to £5 million.

On the other hand, whereas the Festival contribution to the local economy was not £5 million, it was substantially larger than the £200,000 underwriting required in 2004. There were also important non-market aspects (both locally and nationally), including cultural ones, such as the Festival contribution to the British public getting to know folk music and, linked to that, understanding their own cultural roots, and those of many other nations; and the Festival's sheer entertainment value. Other non-market contributions were those Festival activities which were either free or not profitable, and therefore had to be subsidised by other, more popular Festival events.

The distribution of Festival-generated benefits was very different from the distribution of costs. Some local businesses did benefit from the Festival more than others. A useful indication of who expected to benefit, and who did not, or not so much, is the advertisers in the Festival supplement produced by the local newspaper. Table 3 compares advertisers in the Sidmouth Festival supplement of the *Sidmouth Herald*, with the respective supplement for the Honiton Agricultural Show in the respective local newspaper. Honiton is only ten miles away from Sidmouth, and the Festival and the Show take place during the same week. Table 3 is illuminating in that advertisers in both supplements are addressing potential customers in the same geographical area and at the same time, but these potential customers seem to be very different.

Local businesses which advertised to Sidmouth Festival visitors, but not to Honiton Show ones, include antiques, camping supplies, other festivals and similar holiday activities, laundry and dry cleaning, musical instruments, photography and video, T-shirt and mug printing, a supermarket and taxis. Those businesses which advertised to Honiton but not to Sidmouth include building materials and timber supplies, car dealerships, chartered surveyors and estate agents, cooking classes, a country park, curtains, household electronics, fuels, hampers, flying lessons, a golf club, a motel, a housing association, an independent school, a pet refuge, a saddlery and a veterinary practice. Many more pubs and restaurants advertise to (the one-week long) Sidmouth Festival visitors than to (the one-day) Honiton Show ones. Advertisers in the Sidmouth supplement seem to be addressing a rather narrow range of visitors and holidaymakers, whereas advertisers in the Honiton supplement address local residents who may be considering engaging in major purchases. Also, the adverts suggest that

**Table 3**  
Sidmouth International Festival and Honiton Agricultural Show: number of advertisers in the respective local papers' special supplements.<sup>a</sup>

Activity	Sidmouth	Honiton
Antiques	1	
Building materials, timber supplies		2
Camping supplies	1	
Car dealerships		2
Chartered surveyors, estate agents		2
Clothing, shoes, accessories	3	1
Cooking classes		1
Country park		1
Curtains		1
Delicatessen	1	1
Electronic household goods		1
Fuels		2
Hampers		1
Festivals, shows, sport activities	6	
Flying lessons		1
Garages	3	3
Golf club		1
Hotel/motel		1
Housing association		1
Independent school		1
Laundry and dry cleaning	1	
Musical instruments	2	
Pet refuge		1
Photography, video	2	
Printing (T-shirts, mugs)	1	
Pubs/restaurants	9	1
Saddlery		1
Sports shops	1	
Supermarket	1	
Taxis	1	
Veterinary practice		1
<b>Total</b>	<b>33</b> (in 16 pages)	<b>27</b> (in 7 pages)

<sup>a</sup> *Sidmouth Herald*, 30 July 2004; *Pulman's Weekly News*, 28 July 2004.

potential customers in Honiton typically seem to be in a higher income bracket than visitors to Sidmouth.

Another helpful indication of those local businesses which did benefit, or expected to benefit, more than others from the Festival is the list of Festival sponsors. In 2004, the Festival Guide listed 15 sponsors, 7 fireworks sponsors, 4 grant donors, and 19 patrons (a total of 45). It is not clear how each of these categories was defined, but several of the local businesses in this list are also among the advertisers in the *Sidmouth Herald* Festival supplement. The list suggests that many of these local businesses tended to support the Festival because they benefited from the Festival themselves. They were interested in the Festival survival. But as a publicity exercise it may not have been a great investment. They do not seem to be getting much extra visibility.<sup>9</sup>

### 5. New market opportunities and cultural benefits

Almost inevitably, any private economic activity affects market results for other companies, positively or negatively (pecuniary externalities). Cultural activities also generate other non-market cultural benefits, or non-pecuniary externalities (Hojman, 2006; Scott, 1999a, 1999b; Seaman, 1987; Snowball, 2004; Snowball & Antrobus, 2001, 2002). Sidmouth Festival was no exception. Many local and visiting businesses, of every possible description and size, took advantage of Festival-generated new market opportunities. The list includes, for example, buskers performing by the seafront and Festival-Week visiting traders. Permanent local businesses and shops benefiting directly from the Festival include ice cream stalls, newsagents, bookshops, restaurants and pubs, hotels, and sports clubs (Cricket Club, Rugby Club and Sailing Club). Many others benefited indirectly (Dowell, Schofield, Spoerer, & Upton, 2004; Schofield, 2004a; *Sidmouth Herald*, 2001a, 2001b).

Positive and negative pecuniary and non-pecuniary externalities, in every direction, are unavoidable. They are an essential aspect of everyday economic life. They are present in all successful Coase bargains. This is especially so in cultural activities. Everything that is usually described as a non-market cultural benefit (as opposed to an economic benefit) is by definition a positive non-pecuniary externality. Non-market cultural benefits from Sidmouth Festival were often mentioned by Festival supporters (Anonymous, 2004; Dowell et al, 2004; Schofield, 2004a; *Sidmouth Herald*, 2001b).

The problem with positive pecuniary externalities in the present context is that something that is a positive pecuniary externality favouring company B may also be seen as a 'leakage' by company A. Company A may be so successful that it attracts a very large number of customers to its showroom. Company B's showroom is just next door to A's. Some of A's customers may take a look at B and decide to buy something from B, as well as, or instead of, A. This (a positive pecuniary externality favouring B) is no good for A, which may take a very negative view of it, decide to call it a 'leakage', and do as much as possible to stop it.

Sidmouth was full of examples of these 'new market opportunities', or 'leakages', or 'positive pecuniary externalities', with the Festival management almost always playing the role of Company A. In 2001, the Festival management complained that: 'The only people making a profit are the businesses in the town ... they take

a lot of money and we get nothing. It is one way traffic'. And: 'What disturbs [the Festival management] is that while [it] is paying for acts to perform, hiring of marquees, equipment and the like, others are cashing in on the event'. Or: '[the Festival management's] patience has run out on profiteers in the town who milk the event and do not plough anything back'. And: 'visitors could believe that they had seen the Festival by driving in, paying the council or sports clubs to park, visiting shops, pubs, cafes and restaurants where prices are inflated and then soaking up the free entertainment on the Esplanade, the Market Square and in the pubs ... They can't "do" the Festival without actually buying a ticket'. And again: 'we are being ripped off by local business, which are making a packet' (*Sidmouth Herald*, 2001a, 2001b; Vance, 2004).<sup>10</sup>

### 6. Urban or rural? One or many firms?

Successful summer festivals in the UK come in two different forms. Some of them are associated with a particular city. They are urban. Edinburgh Festival and Liverpool's Matthew Street Festival are good examples. They are 'owned', or 'run', by the respective local authority, but only in the sense that this authority pays for services such as generic publicity, cleaning and police, and maybe it takes care of licence provision and some basic upkeeping of standards. The local authority is interested in using the Festival in order to promote the city, to present it in a good light, to 'sell' it, but itself making a profit is not one of its roles. In contrast, generating massive new market opportunities, or positive pecuniary externalities, for the local private sector is definitely one of its roles. The supply of accommodation, food and cultural events is left to many private firms and cultural entrepreneurs. Some of these firms and entrepreneurs make a profit, and others do not. The ultimate objective of the local authority in this urban, multi-firm festival is to present the city as a desirable destination for tourism and investment flows. Arguably this has been successfully achieved by Edinburgh or New Orleans. 'Edinburgh Festival' itself is not a single festival, but about four festivals taking place at approximately the same time (Anonymous, 1994; Chacko & Schaffer, 1993; Prentice & Andersen, 2003).

An alternative model of successful summer Festival is organised in an isolated area, such as rural fields, or an old, disused airport ('in the middle of nowhere'). Typical English examples are Bromyard, Glastonbury and Towersey. This type of Festival is run by a single private entity (which may be a private firm, a non-profit company, or a charity). Visitors may have to pay an entrance fee to access the Festival grounds. Because of geographical isolation, there is no alternative entertainment to that provided by the Festival organisers, or alternative sources of food, drink and accommodation. Isolation also means that some externalities potentially affecting local residents, such as noise and traffic congestion, may be minimised.

Sidmouth Festival did not belong to either of these categories. It was possibly falling between two stools. As a Festival it was 'urban', generating plenty of externalities for local residents, and having to compete with alternative suppliers of food, accommodation and entertainment. However, the urban environment provided by Sidmouth was not sufficiently large. The advantages enjoyed by large cities such as Edinburgh, Liverpool or New Orleans (the possibility

<sup>9</sup> After reading Oakes (2003) on sponsor recall tests, the authors of this article performed our own self-administered test. Between the two of us, we could recall only a small number of Festival sponsors/donors/patrons: the laundry and dry cleaners, a local video company, a 'folk-and-roots' magazine, a brewery, a supermarket, a pub, the Festival's stage electrics suppliers, the BBC, and East Devon District Council.

<sup>10</sup> There is a long tradition of Sidmouth Festival organisers complaining about local businesses. Schofield (2004a, p. 126) offers an example from 1982. As mentioned before (see Note 7), some local residents and local businesses opposed the Festival and treated Festival-goers with contempt from the very beginning. For a perceptive analysis of historical tensions between different approaches to English folk, see Dommett (1994).

of spreading externalities thin, the attraction to potential visitors of many alternative cultural activities), were not present in Sidmouth. Also, Sidmouth Festival was owned by a single private (not-for-profit) company but, differently from the situation in Bromyard, Glastonbury or Towersey, this company had to fight against other local firms for customers, and at the same time it had to request financial support from these same firms. Moreover, Sidmouth Festival was generating plenty of extra business for local companies, but it was unable to claim, or was unsuccessful at claiming, commensurate subsidies from local or national government, or sufficient financial support from those local businesses being favoured. Some crucial differences between the Sidmouth and Towersey festivals (both run by the same group until 2004) are presented in Table 4.

When Sidmouth Festival started in 1955, it had many characteristics of a typical rural, one-company festival. However, fifty years later, in 2004, the only possible future for Sidmouth may have been to become an urban, multi-firm festival. Accepting this is equivalent to accepting that Festival-generated pecuniary and non-pecuniary externalities, including new market opportunities for many companies, were not only inevitable, but possibly even desirable.

## 7. NO Coasean bargain: the Theorem confirmed

There was no successful Coase bargain in Sidmouth in 2004, because of ill-defined property rights, rising transaction costs, incomplete or private information from unreliable sources, and attempted or feared free riding. Uncertainty or ambiguity, both institutional and political, meant that strictly speaking externality victims were not legally entitled to stop the Festival, although in practice they could have stopped it, had they been or become sufficiently influential. Ill-defined property rights are apparent in that, had the 2004 proposal to ask 200 local businesses contributions of £1000 each prospered (see Note 6), such contributions would not have entitled the donors to anything. Not even to get their £1000 back, in the event that other potential donors failed to come forward. These £1000 contributions could have gone towards costs incurred in 2004, and still there would be no guarantee that

**Table 4**  
Sidmouth International Festival and Towersey Village Festival: a comparison of key variables.

	Sidmouth	Towersey
Ticket-buying public	65,000	5000
Environment	Urban	Rural
Local residents	13,000	400
Local businesses	Several hundred	A handful
Local attitude	Ambivalent (or sharply divided)	Accommodating or supportive
Type of public	Mostly day visitors	Mostly full weekend ticket holders
Alternative local attractions	Beach, promenade, gardens, town, independent cultural events	None
All festival activities within easy walking distance	No	Yes
Length of festival	A week	Bank holiday weekend
Alternative accommodation to festival's own camping homes	Hotels, bed-and-breakfasts, own	Practically none
Artists' origins and costs	Wide range, including international and expensive	Local, regional and national, inexpensive
Artists' career stage	Wide range, including mature	Young, or 'early'
Artists' accommodation	Multiple premises, expensive and difficult to arrange	Camping

a Festival would take place in 2005. Not being a listed company or a registered charity, the Festival was not obliged to make its accounts or other information available to the general public.

This negative impact of ill-defined property rights applies not only to the 200 times £1000 proposal, but to all potential contributions under the institutional arrangements in place in 2004. Even if a local business was benefiting from the Festival as much as the Cricket Club (£4000, see Note 5), it could have been suboptimal or irrational for this local business to contribute to the £200,000 underwriting request. Hypothetically, if the Festival management really believed that local businesses were making a total of £5 million from the Festival, there was no reason why this management could not come back to the same local businesses the following year with a new request of financial support.<sup>11</sup>

There is also here a problem of moral hazard. If any hypothetical Festival management knows that it can turn repeatedly to a financial backer and make claims against a standing underwriting promise, this will encourage management to engage in highly risky activities that it would never have considered, had it had to underwrite them itself.

Issues including rising transactions costs, incomplete information from unreliable sources, and free riding, may be explored by going back to the £5 million claim. We have already explained that this claim is possibly an overstatement. But the fact is that some Festival supporters continued saying that the Festival contribution to the local economy was indeed £5 million until the 2004 Festival, and after.

Inevitably, the £5 million claim was bound to alienate local businesses. Paradoxically, alienation would follow regardless of whether local businesses believed the claim or not (although for different reasons and in different ways). For those local businessmen who did not believe the claim, the Festival management failure to dissociate itself from the claim damaged credibility and trust. But for those local businessmen who believed the claim, this raised problems of free riding and fairness. The combination of the £5 million claim with the £200,000 wet weather underwriting request is in practice an open invitation to free ride, and to suspect free riding by others. Consider again the proposal of 200 local businesses contributing £1000 each (see Note 6). If the Festival management asks me to contribute, why should I, given that others, some of whom are possibly benefiting from the Festival much more than me, are not contributing?<sup>12</sup> With hindsight, it appears as if the £5 million claim may have been an attempt to impress naïve local or national government officials. But this was extremely costly, and it did not work. You do not like, or it is much more difficult, to do business with fools, or with people who are deliberately trying to deceive you. The prospects for cooperation between local businesses and the Festival suffered, and transaction costs increased.

Possibly the Sidmouth Festival management knew by 2004 that the Festival was, gradually but inevitably, becoming an urban, multi-firm Festival. It was impossible to prevent the Festival from generating positive externalities, or to stop anyone from being favoured by them, or to force beneficiaries to make contributions to the Festival by way of 'compensation'. However, the local mass media sometimes presented the Festival management as fighting this reality, and therefore as antagonising at least some local

<sup>11</sup> More generally, all positive pecuniary externalities, or cases of festival transitions from rural, one-company ones to urban, multi-firm ones, may also be interpreted (at least by company A, which is the one being damaged by these 'leakages') as examples of ill-defined property rights.

<sup>12</sup> In the eyes of someone who is approached and asked for financial support, things would have looked even worse, had the claim been £10 million, instead of £5 million. The greater the claim, if you believe it, the more unbalanced and unfair the situation looks.



businesses, consumers and local authorities. Sometimes the management was unfairly portrayed as unreasonable, mean, petty, vindictive or bloody-minded. The mass media may have made Coase bargaining in Sidmouth more difficult to succeed, by presenting some views of and statements by the key players as controversial, confrontational or inflammatory. This increased transaction costs again. You do not like, or it is more difficult, to do business with someone who has insulted you publicly, or who is full of contempt for you. It is also another example of incomplete information and unreliable sources.

Under these circumstances, no Coasean trading of rights was possible anymore. It was no longer a question of making everyone happy with a little bit more or a little bit less of the Festival. According to the media, internet and other sources, the only thing being traded was insults and abuse. This was an 'all-or-nothing' question: the Festival surviving, or the Festival being killed by its enemies. The relevant theoretical references mention psychological reactions and moral impacts (Kennedy, 1981), extremists and value systems (Hsiung, 2003), refusal to negotiate and hatred (Cowen, 2004), supreme values, terror and lexicographic preferences (Bernholz, 2004; Plaut, 2004), and mutual malevolence (Rowley & Webb, 2007).

## 8. Conclusions and perspectives

In the mid 1950s, Sidmouth may have been a good place to start a folk festival (Schofield, 2004a). But many of its crucial advantages became serious disadvantages in the 21st century. Paradoxically, Festival-generated positive externalities (largely pecuniary, but also non-pecuniary) seem to have been more of a problem than negative externalities. The Festival supporters' repeated emphasising of the cultural, as opposed to the economic benefits of the Festival, was in sharp contradiction with its need to balance the books.

The Festival, as organised and run until 2004, was welfare enhancing. However, no successful Coasean bargaining could be completed between the Festival management and whoever may have been sufficiently interested in the Festival survival to contribute £200,000 towards bad-weather insurance. Therefore the Festival in its 'old', 2004 form could not continue in 2005. This is a fascinating confirmation of the Coase Theorem. The reasons for failure are multiple. They include uncertainty and instability (regarding property rights, the amounts of money involved, and who experienced a net benefit and who did not); a moral hazard problem; a large number of agents (the free rider problem); a wide variance in terms of agent-specific benefits and costs; and private and asymmetric information about these benefits and costs. Possibly there was also a problem of hysteresis, or path dependence: making a negative public comment about another stakeholder was followed by an even nastier response, and so on. At some point the key players became prisoners of everything that had happened, or had been said in the past.

Many, if not practically all of these problems could have been solved by adopting institutions that minimise transaction costs (Ellickson, 1989). This means reducing uncertainties and ambiguities by generating new entitlements and property rights and making them perfectly explicit. In particular (and especially in the absence of massive annual injections of government money), any potential financial backer should be offered full individual ownership rights or other appropriate entitlements. This could have been done individually to many entrepreneurs, mostly small and micro ones, thus fully embracing the concept of Sidmouth as an urban, multi-firm festival. The theoretical support for this type of approach is strong (Hansmann, 1981; LeClair & Gordon, 2000; O'Hagan & Harvey, 2000; Oakes, 2003). This solution has been recommended explicitly before, shortly after the 2004 crisis (Hiscock & Hojman, 2004).

Between 2005 and 2008, the Festival under new management has been gradually moving in that direction. After the 2006 event, Sidmouth Rugby Club gave the Festival organisers £1000 out of £11,000 the Club had raised from parking charges during Festival Week (*Sidmouth Herald*, 2006). By 2008, the total number of sponsors, donors, programme advertisers and fireworks sponsors had reached about 90, twice as many as in 2004 (*Sidmouth Folk Week*, 2008; *Sidmouth Herald*, 2008). Businessmen friendly to the Festival had organised themselves in a Supporters Club. Club membership was prominently announced in shop windows and shop entrances during Folk Week. Some individual businesses were sponsoring specific individual concerts. Even seafront traders had to buy the right to set up their stalls in individually allocated plots. Everything was about new property rights and new entitlements. You supported the Festival, made a contribution, and therefore you were entitled to something in return. Every effort was devoted to discouraging free riding. There were also deliberate attempts by the new management at keeping the Festival relatively small, to avoid further antagonising of victims of negative externalities (size mattered again, it was no longer an 'all-or-nothing' question). Even the title was changed. The word 'Festival' was dropped. The official title became 'Sidmouth Folk Week', which is the expression used by local residents. There are many examples here of attempts at innovation, creative negotiation, 'win-win' cooperation and a change of mindset (Yu et al., 2000; Lai & Lorne, 2006a, 2006b).

The 2008 solution to the 2004 crisis is not unique. No one knows for how long the 2008 arrangements will continue operating satisfactorily. When they stop doing so, and provided that the Festival is still welfare enhancing, another solution is likely to be found, which again will aim to minimise transaction costs. For example, maybe in that hypothetical future solution the Rugby Club will give the Festival much more than £1 in £11 raised from parking charges. Hypothetically there are many possible solutions (this is a 'multiple equilibria' story). All of them:

- a) would exploit the considerable amount of goodwill that Sidmouth Festival still inspires, in Sidmouth and elsewhere;
- b) would aim to preserve the Festival's prestige and artistic integrity;
- c) would channel the interest of some local businesses to commit themselves financially to the Festival, would allow them to commit by exactly the amount they want, would protect these commitments, and would reward them accordingly;
- d) would take advantage of the Festival's potential to become commercially sustainable; and
- e) would introduce and test a new model of organisation and entrepreneurship in the arts, which, if eventually successful, could be applied much more widely, in the UK and elsewhere.

Most important, and whatever happens, the real world can ignore the Coase Theorem (or its corollary), but it may well be actually working according to it.

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