

# EUROPEAN POLICYBRIEF



**RICHERS**  
RENEWAL, INNOVATION AND CHANGE:  
HERITAGE AND EUROPEAN SOCIETY

## RICHERS “RENEWAL, INNOVATION AND CHANGE: HERITAGE AND EUROPEAN SOCIETY”

The Economic and Fiscal Dimension of Cultural Heritage

April 2016

### INTRODUCTION

RICHERS is a research project funded by the European Commission within the 7th Framework Programme in the domain of Socio-economic Sciences and Humanities. Its main objective is to reduce the distance between people and culture, recalibrating the relationship between heritage professionals and heritage users in order to maximize cultural creativity and ensure that the whole European community can benefit from the social and economic potential of cultural heritage (CH).

RICHERS is about change; about the decentring of culture and CH away from institutional structures towards the individual; about the questions which the advent of digital technologies are demanding that we ask and answer in relation to how we understand, collect and make available Europe's CH.

Access to Europe's CH has been supported by governments through policies and funding programs developed to stimulate creative production and social participation. This is because cultural participation is linked to positive social effects, such as improving education and literacy when reading books. This policy brief will focus on the **effects of two forms of government support**: VAT regulation for CH goods and services and direct subsidies to CH organisations.

Though most policies are drawn within a legal or cultural context, fiscal policies can also contribute to increase access to CH, for instance, by lowering the VAT rate for books. Setting special VAT rates for cultural goods and services has been widely criticized as a measure to support cultural participation because of three main reasons: (1) VAT rates cannot target a specific user group (e.g. children); (2) VAT rates cannot target a specific CH good (e.g. novels); and (3) benefits are greater to individuals with high cultural and economic capital. Nevertheless, special VAT rates for CH are an important government tool to stimulate certain consumer behaviour, in this case to pay for a CH good or service.

VAT serves to tax consumption by individuals: the higher the consumption the higher the contribution to government expenditure or, with a reduced VAT rate, the higher the consumption the higher the benefit. A VAT reduction is meant to lower the payment incurred by the individual in a way that is similar way to receiving a direct subsidy by the government. However, fiscal policy and cultural policy follow a different set of guidelines. For example, a novel and a train timetable

are both considered book publications by the guidelines defining VAT, while cultural policy guidelines would only grant a subsidy to the novel. Similarly, e-books are not publications but a service, according to the VAT guidelines, while novels are increasingly being published in digital form and therefore subject to direct government subsidy. In contrast, distribution of film in cinemas makes no distinction between formats (digital or not).

Critics of reduced VAT rates to support culture point to these inefficiencies, as well as to the high costs. It has been estimated that the cost of reduced VAT for books, journals and periodicals in 2009 in the Netherlands was close to €600 million, nearly the entire national budget for arts and culture (€800 million).<sup>1</sup> On the other hand, countries with high VAT rates for culture notice a decline in income due to a decrease in ticket sales. For example, in 2012, Spain experienced a 33% decrease in revenue by performing arts companies after the VAT rate was increased from a reduced to a standard rate. However, in the same period and with the same VAT rate increase, ticket sales in larger cities increased.

Direct government subsidy to the CH sector continues to be of key importance in Europe. The effects can be identified in the number of performing arts companies and venues, in the efforts to digitise CH collections, and in the growing cultural industries. The CH sector has further played an important role in the economy, as can be seen in the growing creative industry sector found in urban centres.<sup>2</sup> However, even though CH organisations and the CH sector have been identified as having enormous potential to contribute to Europe's creative economy, the sector remains absent from the digital landscape, as evidenced by the last ENUMERATE survey, reporting less than 10% of digitised heritage as being available online.

Those who support the digitisation of CH argue that it enables the CH organisation to open up their collections to a global audience and to position their vast collections in the online market of information, feeding innovation in all segments of the economy. This is because information flow and reuse stimulates the exchange of knowledge, in turn facilitating innovation.

In the RICHES project, an analysis has been made of Europe's changing environment, increasingly digital, where CH is produced, distributed and consumed, by considering the economic and fiscal dimension to CH. During this research project a new theoretical model was developed to explore the relation between the characteristics of different European countries and the effects of government support in VAT rates for CH organisations. This policy paper presents the results and outcomes of the research and describes the actions that can be taken to stimulate a CH-rich and CH-engaged European society.

## EVIDENCE AND ANALYSIS

### Fiscal Policy for Cultural Goods

RICHES research on Europe's fiscal policy for cultural goods and CH consumption in the past two decades shows that a reduced VAT rate can contribute to a reduction in price, in turn stimulating consumption. In the case of books, specifically, countries with a higher VAT rate report higher book prices in general, while Europeans spend more on books in countries with a lower VAT rate. When considering country characteristics of wealth, educational level, and population size to analyse the relation between VAT rates for culture and consumer behaviour, the following characteristics emerge:

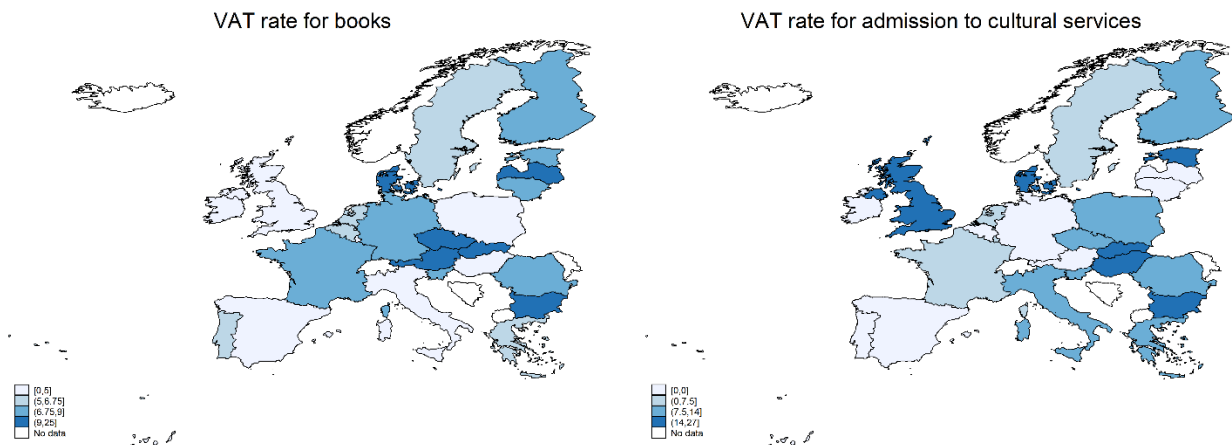
- Standard VAT rates follow a different pattern than VAT rates for culture, the latter being mostly reduced. This suggests there is total autonomy between cultural policy and fiscal policy. This is illustrated in the following maps, showing the VAT rates per country, the darker the area the higher the price for CH.

---

<sup>1</sup> Hemels, 2009.

<sup>2</sup> Feldman, 1999.

- Reduced VAT rates lead to greater benefits for households that are wealthier, that have a higher level of education, and that are located in big cities rich in cultural activities.<sup>3</sup> This demonstrates the limitations of using a reduced VAT for culture.
- Countries with a higher educational level have higher VAT rates for books, newspapers and periodicals. This signals the need for a VAT reduced rate to stimulate literacy.
- Countries with a higher educational level have lower VAT rates for admission to cultural services, performing arts, and services provided by artists. This suggests VAT reduced rates are most effective for affluent populations (affording higher cultural capital).
- Countries with a lower VAT rate for books have a standard (non-reduced) VAT rate for e-books. This indicates a conflicted approach to CH in the digital economy.



## European Cultural Organisations

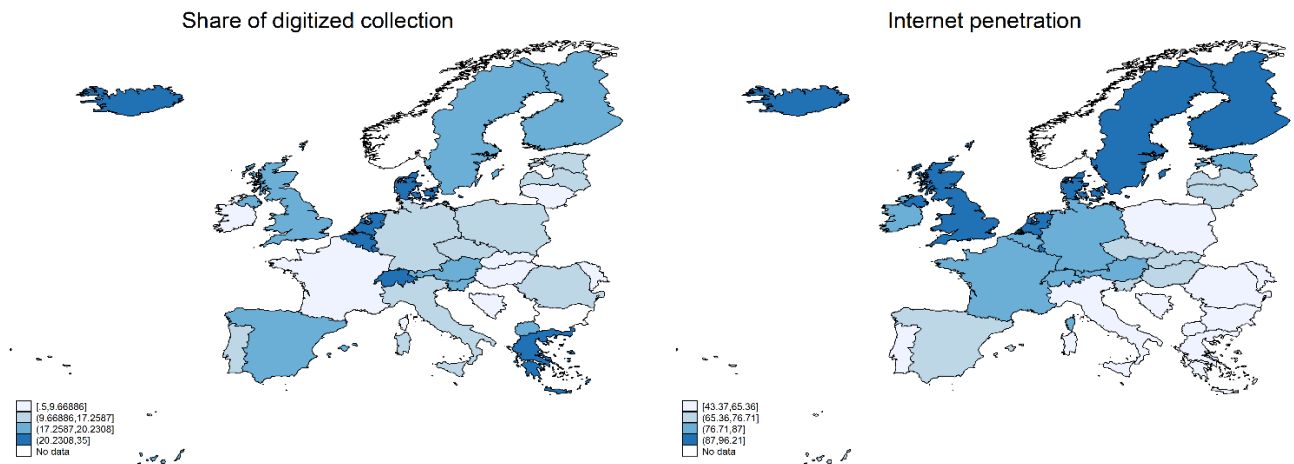
Government support to CH organisations increasingly includes support for the adoption of digital technologies: to support efficiency at work, to increase digital literacy, to foster transparency and to stimulate the economy. CH institutions, however, lag behind other industries in the adoption of digital technologies in their working practice. The share of European CH collections available online continues to be marginal even after 50 years of national and international efforts. When observing the country characteristics of wealth, educational level, population size and Internet access, compared to the characteristics of individual CH organisations, including size of staff and resources, organisational policy and use of collections, the following characteristics emerge:

- CH organisations receiving government support, either through local or national government programs and schemes, have a greater share of digitised collections. This suggests CH organisations remain dependent on subsidies to innovate.
- CH organisations with a higher reliance on incidental costs have a lower digitisation performance. This indicates innovation efforts benefit from a structural source of resources.
- CH organisations with a specialised staff (ICT knowledgeable) are able to advance digitisation and availability of collections while lowering the cost of further digital efforts. This suggests digital literacy reaps long-term benefits.
- CH organisations with a digitisation strategy (sustainability) perform better. This signals the importance of the use of policy to guide efforts at work.
- European CH organisations have digitised 17% of collections, but only a portion is available online (7% of CH collections).<sup>4</sup> See map below, where the darker shade represents greater share of digitisation. This represents a loss of opportunity for the consumer.
- Countries with a higher level of education and digital literacy (access to the internet) have a higher availability of digital content. See map below, where the darker shade represents a higher internet penetration. This indicates a link between (digital) literacy and innovation.

<sup>3</sup> Prieto-Rodriguez, et al., 2005.

<sup>4</sup> ENUMERATE, 2014.

- No other country characteristic shows a significant relation to digitisation of CH content. This reflects a lack of use of an abundant resource and reinforces the urgency to support financially the availability of CH collections online.



## POLICY IMPLICATIONS AND RECOMMENDATIONS

Based on RICHES research, priority needs to be given to the following when considering the future of Europe's CH landscape:

### *Fiscal policy:*

Indirect government support in the form of reduced VAT rates for CH cannot substitute direct government support: it is an expensive and inefficient form of government support. Greater congruence of VAT rates as a tool to stimulate cultural participation and a country's cultural policy are needed. This can be achieved by drawing cultural and fiscal policies and guidelines that accord with each other. A different VAT rate for paper or digital books is incongruent in a digital economy.

**We recommend the use of reduced VAT rates for CH only as a complement to direct support and in agreement with national cultural policies.**

### *Financing digitisation of CH:*

Structural government subsidy to CH organisations and professionals is needed to develop sustainable solutions and to stimulate innovation. Examples include the funding of an e-depot to preserve digital CH. Yet storing is not enough. The financing of CH is pointless when the CH content is locked-up: it must be made accessible in order to stimulate innovation in all sectors of the economy.

**We recommend ensuring structural financing to CH organisations to ensure the building of a digital heritage infrastructure and distribution of all digital CH.**

RICHES' findings identified digital know-how (or digital literacy) as a key ingredient to guide digital efforts efficiently, to lower costs and to increase innovation. The impact in society is already visible in the cultural industries and all sectors of the economy – CH cannot be left behind – it is an essential ingredient to fuel the economy.

**We recommend nurturing digital literacy in all domains of society, including CH organisations and professionals.**

## RESEARCH PARAMETERS

Results are drawn from a combination of document analysis of previous research on the subject and of policy documents, together with a quantitative analysis of statistical data available at European level. Quantitative analysis was performed in the following three steps: we first focused on the fiscal policy developments across Europe for the past two decades to identify the potential benefits or caveats of using VAT as a fiscal instrument to support cultural policy. We examined the correlates of VAT rates across EU Member States in time, and the relations between VAT and prices, and expenditure.<sup>5</sup> Results reveal the impact of taxation on the heritage market. Second, we analysed the current heritage market and its response to the adoption of digital technology in order to single out the conditions that support or inhibit innovation. Results reveal the impact of public support on the heritage market. For that, we studied the level of digitisation, the adoption of a digitisation policy and the use of heritage collections.<sup>6</sup> Results are reported in detail in the RICHES deliverable D5.3 Fiscal and Economic Issues in the Digital Age.

The quantitative analysis is based on the following eight datasets: (1) the VAT rates applied in the EU Member States covering the period from 1993 to 2014 (Taxations and Customs Union); (2) data on prices of cultural goods for the period 2003 to 2013 (ERICarts Compendium of Cultural Policies and Trends); (3) socio-demographic statistics for the period from 1993 to 2013, including population size, GDP per capita and educational attainment (Eurostat); (4) the political orientation (World Bank); (5) the state of digitisation at European heritage institutions in 2013 (ENUMERATE); (6) individual use of the Internet in 2013 (ITU); (7) collection exhibitions and museum visitor numbers from 1911 to 2010 (annual reports and TMS collections management system from the Dutch National Museum of World Cultures); and (8) online views to individual images (Wikimedia Foundation).

## PROJECT IDENTITY

### PROJECT NAME

RICHES: Renewal, Innovation and Change: Heritage and European Society

---

### COORDINATOR

COVENTRY UNIVERSITY (COVUNI)  
Coventry, United Kingdom  
Neil Forbes, Project Coordinator, [n.forbes@coventry.ac.uk](mailto:n.forbes@coventry.ac.uk)

---

### CONSORTIUM

HANSESTADT ROSTOCK (ROSTOCK)  
Rostock, Germany  
STICHTING NATIONAAL MUSEUM VAN WERELDCULTUREN (RMV LEIDEN)  
Leiden, The Netherlands  
STICHTING WAAG SOCIETY (WAAG)  
Amsterdam, The Netherlands  
THE UNIVERSITY OF EXETER (UNEXE)

---

<sup>5</sup> Borowiecki and Navarrete, 2015a.

<sup>6</sup> Borowiecki and Navarrete, 2015b.

Exeter, United Kingdom  
PROMOTER SRL (PROMOTER)  
Pisa, Italy  
FUNDACIO PRIVADA I2CAT, INTERNET I INNOVACIO DIGITAL A CATALUNYA (I2CAT)  
Barcelona, Spain  
SYDDANSK UNIVERSITET (SDU)  
Odense, Denmark  
STIFTUNG PREUSSISCHER KULTURBESITZ (SPK)  
Berlin, Germany  
TURKIYE CUMHURİYETİ KÜLTÜR VE TURİZM BAKANLIĞI (KYGM)  
Ankara, Turkey

---

#### FUNDING SCHEME

FP7 Framework Programme for Research of the European Union  
SSH.2013.5.2-2 Transmitting and benefiting from cultural heritage in Europe

---

#### DURATION

December 2013 - May 2016 (30 months)

---

#### BUDGET

EU contribution: 2,432,356 €

---

#### WEBSITE

RICHES website: <http://www.riches-project.eu/>  
RICHES resources website: <http://resources.riches-project.eu/>  
RICHES blog on Digital Meets Culture: <http://www.digitalmeetsculture.net/riches/>

---

#### FOR MORE INFORMATION

Contact RICHES project by writing to [info@riches-project.eu](mailto:info@riches-project.eu)  
Contact: Neil Forbes, Project Coordinator, [n.forbes@coventry.ac.uk](mailto:n.forbes@coventry.ac.uk)  
Contact: Tim Hammerton, Project Manager, [thammerton@cad.coventry.ac.uk](mailto:thammerton@cad.coventry.ac.uk)  
Contact: Antonella Fresa, Communication Manager, [fresa@promoter.it](mailto:fresa@promoter.it)  
Contact: Valentina Bachi, Project Assistant, [bachi@promoter.it](mailto:bachi@promoter.it)  
Use the hashtag #richesEU to join the RICHES Project community on Twitter.  
Subscribe to the RICHES Project YouTube channel: [www.youtube.com/richesEU](http://www.youtube.com/richesEU)

---

#### FURTHER READING

Bakhshi, Hasan and David Throsby (2012) 'New Technologies in cultural institutions: theory, evidence and policy implications' in *International Journal of Cultural Policy*. 18(2):205-222.  
Barrell, Ray and Martin Weale (2009) 'The Economics of a Reduction in VAT' in *Fiscal Studies*. 30(1):17-30.  
Belastingdienst (2014) Tarieven en vrijstellingen. Available at [http://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/btw/tarieven\\_en\\_vrijstellingen/](http://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/btw/tarieven_en_vrijstellingen/) (accessed 24 September 2014).  
Benhamou, Françoise (2015) 'Fair use and fair competition for digitised cultural goods: the case of eBooks' in *Journal of Cultural Economics*. Published online 4 March 2015.  
Blundell, Richard (2009) 'Assessing the Temporary VAT Cut Policy in the UK' in *Fiscal Studies*,



30(1):31-38.

- Borowiecki, Karol J. (2013) '[Geographic clustering and productivity: an instrumental variable approach for classical composers](#)' in *Journal of Urban Economics*. 73(1):94-110.
- Borowiecki, Karol J. and Trilce Navarrete (2015a) 'Fiscal and Economic Aspects of Book Consumption in the European Union' in *ACEI Working Paper*. AWP-2-2015.
- Borowiecki, Karol J. and Trilce Navarrete (2015b) 'Digitization of Heritage Collections as Indicator of Innovation' in *ACEI Working Paper*. AWP-8-2015.
- Camarero, Carmen, Ma. Jose Garrido and Eva Vicente (2011) 'How cultural organisations' size and funding influence innovation and performance: the case of museums' in *Journal of Cultural Economics*. 35(4):247-266.
- Campbell, Lisa (2013) 'EU lines up e-book VAT debate' in *The Bookseller*. Published 21 October 2013. Available at <http://www.thebookseller.com/news/eu-lines-e-book-vat-debate>.
- Canoy, Marcel, Jan C. van Ours and Frederick van der Ploeg (2006) 'The Economics of Books' in Victor Ginsburgh, and David Throsby (eds.) *Handbook of the Economics of Art and Culture*. Amsterdam: Elsevier BV, pp. 721-761.
- Carbonnier, Clement (2005) 'Is Tax Shifting Asymmetric? Evidence from the French VAT reforms, 1995-2000' in *PSE Working Papers*. N2005-34.
- Castañer, Xavier and Lorenzo Campos (2002) 'The Determinants of Artistic Innovation: Bringing in the Role of Organisations' in *Journal of Cultural Economics*. 26(1):29-52.
- CE (Copenhagen Economics) (2007) *Study on reduced VAT applied to goods and services in the member states of the European Union. Final Report*. 21 June 2007. Denmark.
- Colbjørnsen, Terje (2014) 'What is the VAT? The policies and practices of value added tax on ebooks in Europe' in *International Journal of Cultural Policy*. Published online 7 April 2014.
- Compendium (2015) *Price Levels on Cultural Goods and Services (2003-2013)*. Consulted on January 2015 from <http://www.culturalpolicies.net/web/statistics-markets.php>.
- European Commission Taxation and Customs Union (1993-2015) *VAT Rates Applied in the Member States of the European Union*. Brussels. Ref. taxud.c.1(1993-2015)134284.5 3 [RICHES Deliverable.docx](#)
- EC, European Commission (2006) *Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax*. L347/1.
- EC (2013) *Summary Report of The Outcome of the Public Consultation on the Review of Existing Legislation on VAT Reduced Rates*. Brussels. Ref. Ares(2013)685959-12/04/2013.
- EC (2014) *Report of the Commission Expert Group on Taxation of the Digital Economy*. Taxation and Customs Union. Brussels: EC.
- EC (2014) *Towards and integrated approach to cultural heritage for Europe*. Brussels: EC.
- ENUMERATE (2014) 'ENUMERATE Core Survey 2 (2014) full dataset'. Accessed on 7 December 2014 at <http://enumeratedataplatform.digibis.com/>.
- Eurostat (2011) *Cultural Statistics Pocketbook*. Luxembourg: Publications Office of the European Union.
- Eurostat (2014) *Taxation trends in the European Union*. Consulted in November 2014 from [http://ec.europa.eu/taxation\\_customs/resources/documents/taxation/gen\\_info/economic\\_analysis/tax\\_structures/2014/report.pdf](http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2014/report.pdf).
- Eurostat (2015) *Community Survey on ICT usage in households and by individuals*. Consulted in November 2014 from [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc\\_ci\\_in\\_h&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=isoc_ci_in_h&lang=en).
- Feld, Alan, Michael O'Hare and Mark Schuster (1983) *Patrons Despite Themselves: Taxpayers and Tax Policy*. New York: New York University Press.
- Feldman, Maryann (1999) 'The New Economics of Innovation, Spillovers and Agglomeration: A Review of Empirical Studies' in *Economics of Innovation and New Technology*. 8(1-2):5-25.
- Franssen, Thomas and Olav Velthuis (2014) 'Making materiality matter: a sociological analysis of prices on the Dutch fiction book market, 1980-2009' in *Socio-Economic Review*. Published online 8 August 2014, pp. 1-24.
- Gesko, Martin (2013) 'Factors influencing the microeconomic and fiscal effects of the reduced VAT on books' in *European Financial Systems 2013. Proceedings of the 10<sup>th</sup> International Scientific Conference*. Brno: Masaryk University, pp. 99-106. Available at [http://is.muni.cz/do/econ/soubory/konference/efs/Sbornik\\_2013.pdf](http://is.muni.cz/do/econ/soubory/konference/efs/Sbornik_2013.pdf).
- Hemels, Sigrid (2009) 'Influence of Different Purposes of Value Added Tax and Personal Income Tax

on an Effective and Efficient Use of Tax Incentives: Taking Tax Incentives for the Arts and Culture as an Example” in Michael Lang, Peter Melz and Eleonor Kristoffersson, (eds.) *Value Added Tax and Direct Taxation. Similarities and Differences*. Amsterdam: IBFD.

- Hjorth-Andersen, Christian (2000) ‘A model of the Danish book market’ in *Journal of Cultural Economics*. 24(1):27-43.
- ITU (International Telecommunications Union) (2014) *Measuring the Information Society Report*. Geneva: ITU.
- Keefer, Philip (2012) *DPI2010. Database of Political Institutions: Changes and Variable Definitions*. Development Research Group, World Bank.
- Linklater, Emma (2014) ‘Neutrality of VAT Rates Under European Law: All Books are Created Equal, but Some are More Equal than Others?’ in *Publishing Research Quarterly*. 20(3):300-312.
- MvF (Ministerie van Financien) (2014) *Evaluatie verhoging btw-tarief podiumhunsten*. Letter AFP/2014/289 with annex. The Hague.
- Navarrete, Trilce (2013) ‘Digital Cultural Heritage’ in Rizzo and Mignosa (eds.) *Handbook on the Economics of Cultural Heritage*. Cheltenham: Edward Elgar, pp. 251-271.
- Navarrete, Trilce and Karol J. Borowiecki (2015) ‘Change in access after digitisation: ethnographic collections in Wikipedia’ in *ACEI Working Paper*. AWP-2015.
- O’Hagan, John (2012) ‘Tax Expenditures: Pervasive, ‘Hidden’ and Undesirable Subsidies to the Arts?’ in *Homo Oeconomicus*, 29(2):95-118.
- O’Hagan, John (2003) ‘Tax concessions’ in Ruth Towse (ed.) *A Handbook of Cultural Economics*. Cheltenham: Edward Elgar.
- Prieto-Rodriguez, Juan, Desiderio Romero-Jordan and Jose Felix Sanz-Sanz (2005) ‘Is a Tax Cut on Cultural Goods Consumption Actually Desirable? A Microsimulation Analysis applied to Spain’ in *Fiscal Studies*. 26(4):549-576.
- Ringstad, Vidar and Knut Løyland (2006) ‘The demand for books estimated by means of consumer survey data’ in *Journal of Cultural Economics*. 30(2):141-155.
- Schuster, Mark (2006) ‘Tax Incentives in Cultural Policy’ in Victor Ginsburgh, and David Throsby (eds.), *Handbook of the Economics of Art and Culture*. Elsevier BV: Amsterdam, pp. 1253-1298.
- Statistics Netherlands (2015) *Consumentenprijzen; prijsindex 2006 = 100*. Available from [statline.cbs.nl](http://statline.cbs.nl).
- Stroeker, Natascha and Rene Vogels (2014) *Survey Report on Digitisation in European Cultural Heriaga Institutions 2014*. Zoetermeer: Panteia.