



Economics without tears

Daniel Anderson

Destination à la carte

A colleague recently handed me an article cut from the Weekend FT magazine. It was the 'dear economist' piece where readers write in with their economics problems. In this case, the troubled reader was asking why the cost of the weekly meal he shares with friends was inexorably rising every week. The four friends, it seems, have a weekly ritual where they share a meal and split the bill – but with every week that passes the bill seems to increase. What's going on?

The columnist rightly recognised this as a 'tragedy of the commons'. This is a phenomenon that occurs when sharing the cost of something collectively reduces the marginal cost to any individual, but – over the long term – incentivises every individual to consume more, which either exhausts a limited resource, or drives up the cost of the project.

The phenomenon gets its name from a very simple model that plays out as follows. Imagine a pasture open to all of the herdsmen in a village. Up to a point, all of the herdsmen benefit from the 'freedom of the commons'. But underlying this stability is a dangerous set of incentives. For each herdsman is faced, explicitly or implicitly, with a trade-off. If I buy an extra cow, all of the benefit accrues to me. But the cost of that extra cow (the additional grazing on the common pasture) is shared by all of us. The benefit so outweighs the cost that, as a rational person, I am naturally inclined to buy the extra cow. And another, and another. But this is the same conclusion reached by every other rational herdsman sharing the pasture.

Everyone is systematically inclined to increase their herd without limit – in a world with limited resources. With a frightening inevitability, the 'freedom of the commons' leads towards the ruin of all who depend on it. Hence the tragedy.

Now take this lesson back to the situation in the restaurant. Intuitively, you may feel that the difference in value between the chicken and the veal is about £2.00. Say the veal actually costs £5.00 more than the chicken. Then, if you were paying your own way, you would stick with the chicken. However, when you split the bill four ways, the marginal cost of ordering the veal instead of the chicken is actually £1.25, so you are actually better off with the more expensive dish (75p better off, to be precise). Of course, everyone else is making similar decisions, so the net effect is an increase in the overall bill.

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The underlying problem is that whilst they are paying collectively at the end of the meal, they are all ordering and consuming as individuals. The collective aim of keeping the cost down is undermined by the consumption decisions of individuals all trying to increase their utility.

Isn't this a terrific analogy, my colleague asked, of the way new destinations are funded?

It's a good point and it got me thinking. In fact, most new destinations depend on a pluralistic approach to funding – i.e. a cocktail of Lottery, RDA, City Council, European, and Central Government grants. And it's true that this process has a tendency to drive up the capital cost of projects which have to deliver a whole host of agendas. They need to create jobs, catalyse regeneration, benefit the local community, and entertain and educate at the same time. Would you believe it – some of them even have objectives of their own!

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The result is much the same as that which the four friends at the restaurant experience. The marginal cost (and risk) of continuously adding to the project is distributed amongst a range of organisations, so the demands on the destination tend to increase – and so does the bill.

Which is why we often end up with bland, bloated projects that become a huge ongoing burden. Instead of having a little attraction of local relevance, we've now got a massive, iconic, attention-grabbing attraction of national significance. And somebody has to fill it and manage it with content and programming of commensurate scale and quality.

It's astonishing to hear some destination developers arguing that they never intended for their original concept to grow into a large-scale,

attraction – but that's what they ended up with by the time they were through meeting the demands of their financial masters.

The exceptions that prove the rule – the Edens, the Baltics, the Tate Moderns – are often characterised by the strength of the individuals leading them. It is often something as idiosyncratic as an individual visionary which is needed to protect a project from the 'tragedy of the commons'. Tim Smit, by all accounts a master at dealing with funding agencies, could bend to their demands, but not break. He knew that there were times in the creation of Eden when he had to put a set of keys down on the table, throw his hands up and say, 'here's the keys to the dome, fellas. Do it yourselves if you want to'.

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Contrast that with another story about an attraction that was – in the words of more than one insider – one of the most unique ideas ever conceived. Something truly outstanding that would attract punters from all over the UK and tourists from all over the world. It was edgy, challenging, thought-provoking. And by the time it came through the crucible of the funding process, it had become (drum roll please) ... the Earth Centre in Doncaster. Now, I've got nothing against the Earth Centre, but let's be honest – when you hear the original vision described in those terms, you can't help thinking that something must have happened along the way. My money is on the 'tragedy of the commons'.

Sadly, the model as described isn't even 'tragic' enough to explain what

really happens in the world of destinations. The restaurant analogy comes up short in one critical way. In the restaurant model, the 'tragedy of the commons' systematically leads to everyone paying more than expected. But the additional cost to 'society' is partially offset by every individual within that society gaining higher utility in the short term. Which is an overly complicated way of saying, 'at least it was good while it lasted'.

In the destination sector, however, the people ordering the meal (the funders) aren't normally the ones eating it (the consumer). The added marginal cost that each organisation layers onto the project is rarely accompanied by a marginal benefit to the consumer. So a more realistic analogy would be the following.

You and three friends give £50 each to four other people (say, a City Councillor, an HLF assessor, a European Commissioner, and an officer of the RDA) and ask them to go to the restaurant and order a meal on your behalf. You can imagine the scene. It's destination à la carte.

HLF: 'I'll have the large museum as a main, with education and learning on top and an outreach programme on the side. How do you make it? Does it have anything commercial in it? Because I can't have anything commercial!'

City Councillor: 'Do you have anything iconic? I'm dying for something really iconic. I don't really care what it is or what's in it, but I want it to look spectacular on the plate.'

RDA: 'I can live with the museum, I suppose. Does it come with research facilities and a set of business incubators? If not, I'll have those on the side. On second thought, don't bother. You see the region sitting over there? I'll just have what she's having.'

EC: 'I'm not really fussed about what I have, but I don't really want to

eat it here, at this nice table by the window. Can we have it over there, at the table by the bathroom door? It's really not fair that nobody ever sits at that table.'

City Councillor: 'How about wine? Shall we share a nice bottle of Régénération?'

HLF: 'Hmmm, that's good, but it doesn't really go with my Museum. How about the Inclusion Sociale?'

RDA: 'Let's just get them both. And how about a portion of jobs that we can all share. How many FTEs in a portion? We'll take four.'

You get the point, I'm sure.

The destination developer, in this scenario, is presumably the chef, desperately trying to meet everyone's specific dietary requirements, whilst pretending to be more of an artisan than a short-order cook. He might be offended by the clientele, but more often than not he will do what he can. There's a good chance that if he makes a good impression with this crowd, he might later get a better job, in another restaurant with a bigger kitchen.

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And that, dear consumer, is what you end up with. An overblown meal that you didn't order, don't want and can't finish and it's served on an old plate at the table by the bathroom door. And not only did you pay for it in the first place, but when the cheque comes, you're likely to find that you need to chip in an extra £20! Now that's tragic...

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