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The Bilbao Effect

Beatriz Plaza

When a decaying industrial city in Spain's Basque country decided in the 1990s to spend \$228.3 million on a modern art museum, critics objected to squandering so much public money on something so irrelevant and exclusive. This year is the Guggenheim Museum Bilbao's (GMB) tenth anniversary, sufficient time since its opening to evaluate the museum's effectiveness in reactivating the city's economy.

The museum attracts an average of 800,000 non-Basque visitors a year (compared to less than 100,000 before GMB opened), possibly a world record for any third- or fourth-tier city. Despite attempts to emulate the Bilbao effect elsewhere in the world, very few new museums or galleries outside capital cities have succeeded in getting so many visitors. For example, the National Centre for Popular Music in Sheffield, England, opened in 1999 and projected 400,000 visitors a year. Seven months after opening, just over 100,000 people visited. The museum went bankrupt the same year it opened.

Bilbao did not construct the museum simply for the sake of having an iconic building; this was one answer in a quest to address a number of serious problems. The city suffered an extremely high unemployment rate, up to 25 percent. Traditional industries had become obsolete, and the city center hosted a busy riverport plagued with severe traffic congestion. Other troubles included violence from extremist Basque separatists, urban deterioration, pollution and a poor public transport system.

The city determined to tackle these problems through a holistic plan. It created a new subway line, new drainage and water/air clean-up systems and an airport; residential, leisure and business complexes were built in town, while new river and sea waterfronts, a seaport and industrial and technology parks were built away from the urban center. The icing on the cake was the construction of the Guggenheim Museum Bilbao and additional cultural investments, such as a concert hall and incubator for young artists, to promote art and cultural tourism as a means of diversifying the economy and reducing unemployment.

The primary aim of Bilbao's facelift was to increase the quality of life for the citizens. This did occur in more ways than expected. In fact, approximately nine million people have visited GMB to date. The museum has brought hope to citizens and city officials and has united political parties, trade unions and civic associations in a gigantic urban regeneration still under way.

[PLACE TABLE 1 AND FIGURE 1 ABOUT HERE]

GMB faced some serious financial challenges. Signature architecture is overwhelmingly expensive. The iconic building's budget was \$119.6 million, whereas the total GMB project before opening totaled \$228.3 million. This includes \$12.1 million for architect Frank Gehry, \$6.4 million for executive architect Idom, \$100.8 million to construct the building and surroundings, \$24.7 million to the Solomon R. Guggenheim Foundation in New York, \$9.9 million for the land, \$44.5 million to establish the collection and \$30.3 million for other operative costs before opening.

In today's competition for funds to support facilities that contribute to quality of life, museums do not fare as well as other public investments such as health, education and elder care. A number of iconic museums, such as Santiago Calatrava's new wing at the Milwaukee Art Museum or the KIASMA Helsinki Museum of Contemporary Art by Steven Holl, failed to attract the number of visitors they had initially projected. One reason is that often impact studies overestimate the visitor figures of the future building. It is close to impossible to project such figures accurately, but in order to get a reliable estimate, fledgling museums should consult independent sources, not only the consultants paid to work on the new building.

So, have the public authorities that invested in the Guggenheim recovered their costly investment? According to GMB's official report in 2004, the initial investment of \$183.8 million was recovered within the first six years of the museum's operation. This is an ostensibly daring assertion that needs closer examination.

GMB is an interesting model for those museums that have been set up as economic reactivators. Unlike most museums in Europe, GMB has adopted market-oriented budgeting with parallel commercial activities such as image copyright usage management, cafes, a high-end restaurant and a large museum store **all** aimed at making the museum staff more efficient and sensitive to customers' tastes. Traditionally state-financed European museums have been reluctant to cash on such activities. At GMB, 70 percent of operating costs must be covered by museum revenue and 30 percent by the local government. As a consequence, fulfilling the budgetary predictions implies a commitment to attracting the highest number of visitors possible, normally through special exhibitions. This is the type of museum that generates the largest impact on local economy.

A method called the discounted cash flow (DCF) is used to estimate whether the investment was recovered at the end of the investment period. Revenue from all economic activity generated by GMB is tracked to see whether it surpasses the initial and continuing public investment by the funders (the Basque Government and the Provincial Council of Biscay). If the income surpasses public investment then it can be concluded that GMB is an effective reactivator of the economy.

This method it can be problematic when applied to museums because researchers rarely have access to the institutions' detailed income statements and balance sheets. Another difficulty

arises when a city has several iconic museums in one area, making it difficult to discern which museums are generating tax income from tourism. In London, for example, several museums are within close proximity of each other; it would be impractical to use the DCF approach.

Bilbao, nevertheless, is close to a perfect lab for testing the economic impact of an iconic cultural investment because no other museum is nearby to skew the data. This analysis is limited, however, since it only looks at the yield of net cash flows (all the cash received and paid by the local government). This does not capture the value generated by GMB in terms of, say, aesthetics and cultural value. The DCF method solely explains whether the public sector recovers its investment through tax income. Obviously this issue is vital for those museums hoping to act as economic engines. The recovery of the investment signifies that the museum is in fact reactivating the economy and subsequently generating tax income.

While the Guggenheim Museum Bilbao was a costly venture, its return on investment (not including the value of the permanent art collection) was complete as early as seven years after opening. Figures show that since the museum's opening, the city has received an average of 779,028 new yearly overnight stays and has created 907 new full-time jobs. GMB earns around \$39.9 million annually for the Basque treasury.

The Basques, however, will not recover the approximately \$374 million in initial and continuing investments, which includes the amount spent on purchasing the museum's permanent collection, until 2010 or at the latest, 2014. If the Guggenheim were sold at the end of 2017, the profit amount would depend on both the value of the iconic building and, equally importantly, the permanent collection.

In the end, we are talking about highly costly public investments that must generate either a clear social or economic return on investment. The Guggenheim Museum Bilbao was a very risky project, but it is on the right track to being worth the huge risk and investment.

References

Plaza, B. (2006): The return on investment of the Guggenheim Museum Bilbao. *International Journal of Urban and Regional Research* 30(2): 452-467.

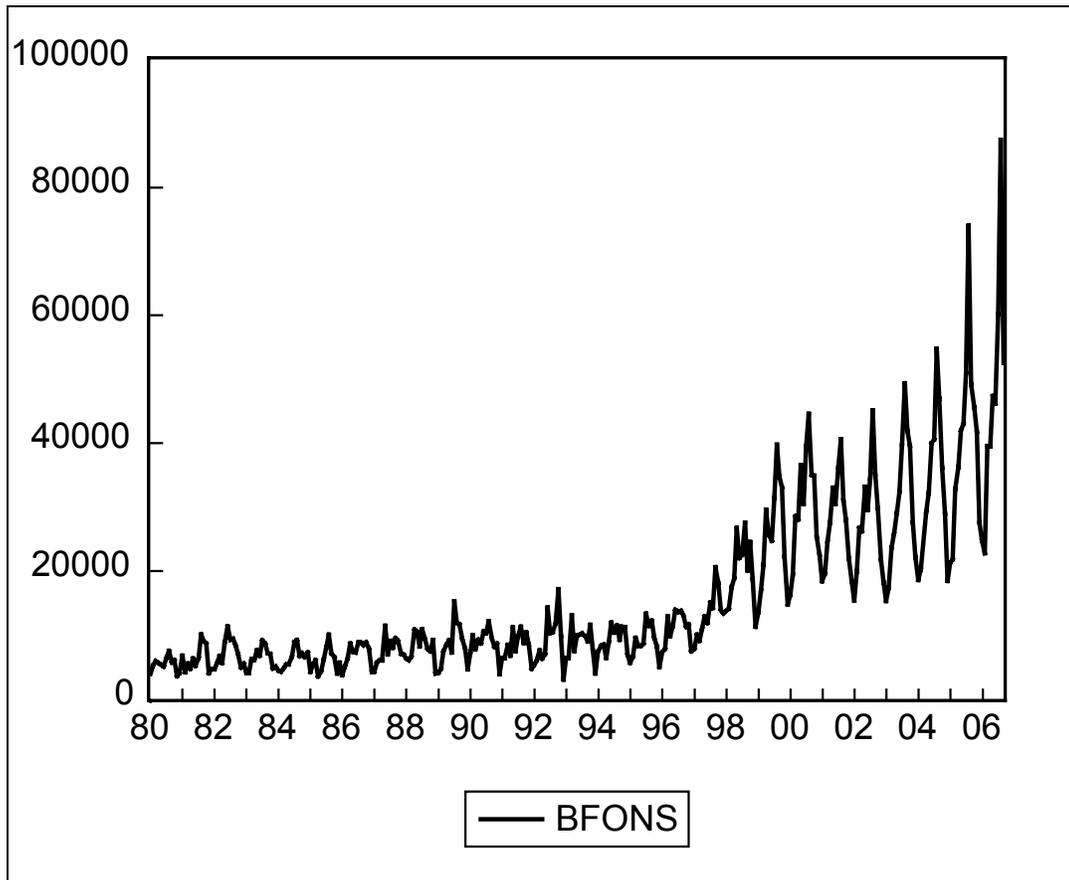
—*Beatriz Plaza, economics professor at the University of the Basque Country in Bilbao, Spain. For a full list of academic works and statistical updates regarding Bilbao and its regeneration, see www.scholars-on-bilbao.info. All figures have been converted from euros at current exchange rates.*

**Table 1: Number of Visitors to Guggenheim Museum Bilbao
(annual data from 1997 to 2006)**

Years	Number of Visitors to Guggenheim Museum Bilbao
1997 (October–December)	259,234
1998	1,307,065
1999	1,109,495
2000	948,875
2001	930,000
2002	851,628
2003	869,022
2004	909,144
2005	950,000
2006	1,008,774
TOTAL	9,143,237
Number of months opened	111
Average monthly	82,372
Non-Basque Country Visitors (80%)	65,897

Source: Guggenheim Museum Bilbao.

Figure 1: Overnight Stays of Foreign Visitors in the Biscay Province (monthly data from January 1980 to September 2006)



Source: Instituto Nacional de Estadística (INE).

Note: The Guggenheim Museum Bilbao opened its doors in October 1997. Bilbao is the capital city of the Biscay province of the Basque Country (Spain).