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**The Coase Theorem and
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From failure to success as Super-
Ronald saves the world again?**

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**The Coase Theorem and alternative business models of festivals:
From failure to success as Super-Ronald saves the world again?**

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Abstract

We use the Coase Theorem to compare two business models of Sidmouth Festival, the first model failing in 2004 and the second succeeding in 2019. The 2004 approach was in many ways ‘monolithic’, whereas the 2019 one was in some key respects ‘decentralised’. The most important factor in defining failure or success was whether the Coase Theorem assumptions applied or not. The explanation for these different outcomes is related to negative and positive externalities, entitlements and liabilities, transaction costs, transparency and private information, free riding, business sponsorship, and cultural and ideological change. Institutions became more efficient, which is compatible with high transaction costs encouraging Coase bargaining (Robson 2014), or with a ‘super Coase Theorem’ (Dixit & Olson 2000) applying no matter how high transaction costs may be. Our insights are widely applicable to other festivals and similar experiences.

Keywords

Externalities, Property rights, Transaction costs, Pareto-improving bargains, Institutions, Folk, Sidmouth

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Introduction

This article compares the 2004 and 2019 business models of Sidmouth International Folk Festival. These two models are analysed using the same theoretical framework, the Coase Theorem (Coase 1960, 1992; Dixit & Olson 2000; Medema 2017; Mueller 2003), despite the fact that they are different, in many ways each model being the other's mirror image. The 2004 business model presided over the crisis and near demise of the Festival that year. The second business model is behind the Festival's remarkable recovery in 2005 and after, culminating in 2019. The Coase Theorem is possibly one of the most exciting propositions in modern economics, first put forward by Nobel Prize winner Ronald Coase in the 1930s. Using the same conceptual approach to study both models, despite the fact that they are different, generates important insights into both the respective theory, and the consequences of application of these alternative models to Sidmouth in 2004 and 2019. The lessons learned are useful both in the study of many other festival experiences around the world, and in diverse aspects of practical festival management.

Sidmouth is a beautiful seaside town in Devon, South West England. Sidmouth Festival, fifty years old in 2004, was the largest folk festival in Europe (Schofield 2004). Every year, during the first week in August, about 10,000 Festival visitors per day invaded a town of about 15,000 people. The Festival enjoyed immense popularity and vibrancy, and it has been claimed that it made a direct and indirect contribution to the local economy allegedly amounting to about GBP 5 million per year. However, for several years before 2004 the Festival management had been unable to secure from the Festival's many local beneficiaries a bad-weather contingency fund worth GBP 200,000, and in 2004 the management finally resigned (Hiscock & Hojman 2004; Hojman & Hiscock 2010; www.seered.co.uk).

Sidmouth Festival was never problem-free (see a chronology in Table 1). It was originally put together by academics and university students interested in preserving English folk dance and song traditions under threat by trends towards modernisation, urbanisation and globalisation (Saylor nd; Schofield 2004). The Festival was not designed, despite its rapid growth, to make its organisers rich. It was meant to entertain, but also to teach and preserve, which may involve massive subsidising of unprofitable events and activities. This made Sidmouth Festival very different from commercial music festivals (Frey 2000; Saville 2018; Waterman 1998). In surplus years the surpluses were modest, but in bad years (largely determined by bad weather) the losses could be comparatively large, expanding from GBP 500 in 1971, to GBP 5,000 in 1979, GBP 10,000 in 1985, and potentially GBP 200,000 in 2004 and after.

[Table 1 about here]

There were also social and cultural problems. Many Sidmouth residents are high-income old-age pensioners, and multiple objections to the Festival were raised by victims of negative externalities (rubbish, noise, drunks, traffic and parking difficulties, shoplifting) generated by, or attributed to, Festival visitors (Schofield 2004; *Sidmouth Herald* 2001, 2004; www.seered.co.uk). In the early years, Festival visitors, who would typically dress up as Morris men, were not even admitted to the local pubs. The local newspaper is full of readers' letters with horror stories along the lines of 'front gardens used by drunks as toilets' and so on. This antagonism between visiting perpetrators and local victims of negative externalities never disappeared, but in the 1980s a new polarisation emerged, in favour of and against the Festival management headed by Festival Director Steve Heap. Some people not only blamed Heap for all the negative externalities (which were getting worse as the Festival grew in size), but also unfairly accused him of getting rich on Festival profits (the truth is that no one in the Festival management was getting rich, Hojman & Hiscock 2010). There was also a third

antagonism, between the Festival management, which was not able to make the Festival consistently profitable, and local businesses which were doing financially very well out of the Festival visitors (a typical tale of positive externalities), but failed to contribute to its costs and, in particular, contribute to the required GBP 200,000 bad-weather contingency fund.

In 2005, a small group of enthusiasts refused to let the Festival die, and organised a very modest version of it, which they called a 'Folkweek'. This meant both admitting that a full Festival along 2004 lines was impossible, and explicitly embracing the title preferred by locals instead of the grander 'Festival'. The open-air, large-capacity Arena, which had hosted the top artists and generated most of the Festival income, but also exposed the Festival to financial ruin in case of rain, was not used in 2005. No overseas artists were invited, and no full-week season tickets were issued. After 2005, year after year the 'Folkweek' became gradually bigger and more professional. By 2019 there were 867 events in the official programme and the title 'Festival' was formally used again. Full-week season tickets had come back as early as 2008, but the Arena and international artists were gone forever.

This article uses the Coase Theorem to explain both the 2004 failure and the 2019 success.

We build on previous work (Hojman & Hiscock 2010) to show how the 2004 problem arose because the basic conditions of the Coase Theorem were not fulfilled. In contrast, success followed the changes introduced by the post-2004 Festival management, because these changes were largely about generating and respecting the conditions needed for the Coase Theorem to apply. The failed Coase bargain proposed by Festival supporters in 2004 was gigantic, with a hopefully monolithic Festival (artists, audiences and management) facing a presumably monolithic town (local residents, local businesses and local authority councils).

In 2019 a 'decentralised' (Medema 2017, 42) network of many small, single-event or slightly larger Coase bargains successfully brought together hundreds of stakeholders of all sizes.

This research combined several research methods. The authors read extensively from

academic sources and journalistic materials on the Festival, and interviewed many stakeholders. We also engaged in participant observation, by attending the Festival in both 2004 and 2019 (the latter during the whole Festival week), and several ‘Folkweeks’ during the intervening years.

Theory: The Coase Theorem

A recent systematic literature review of festival research (Wilson, Arshed, Shaw & Pret 2017) notes that there may not have been sufficient research published on the factors and processes contributing to festivals’ outcomes, and that the field may become richer by further paradigmatic diversity. More emphasis may be needed on funding and on unfavourable aspects, ‘the darker side’, including tensions, contradictions, competing interest groups and negative externalities. This systematic literature review also argues in favour of ‘borrowing concepts and theories from more established social sciences’ and for ‘greater methodological diversity’ (Wilson et al 2017, 206). A similar request has been put forward by Getz (2010), who asks for ‘greater interdisciplinarity’ to bring together discourses of sociology and cultural anthropology, consumer behaviour and economic impact, and festival management. The present article intends to address most of these research gaps. We agree with practically all observers that the potential cultural and economic contribution of Sidmouth Festival is immense, and we use a respected theoretical economics framework to examine conditions for the Festival’s failure and success, which allows us to derive practical management insights and suggestions of general applicability.

Dixit & Olson (2000, 310-311) define the Coase Theorem as follows: ‘If transaction costs are zero, rational parties will necessarily achieve a Pareto-efficient allocation through voluntary transactions or bargaining’. A similar definition by Medema (2017, 1) is: ‘If agents are

rational and the costs of transacting are zero, resources will be allocated efficiently independent of how rights over those resources are initially distributed'. So, should the assumptions of the Coase Theorem apply to 2004 Sidmouth, a hypothetical situation in which local economic actors benefit by GBP 5 million from the Festival, but refuse to provide a GBP 200,000 bad-weather contingency fund, thus choosing to have the Festival killed, would be unconceivable. In addition to rationality, zero transaction costs, and well-defined and enforceable property rights, other assumptions of the Coase Theorem include full information and no free riding (Coase 1992; Farrell 1987; Hodgson, Menard, Shirley & Wang 2015; Mueller 2003). The original examples by Ronald Coase and others use two players only, which by construction makes free riding impossible. However, three or more agents have also been considered by several authors, which makes the Coase Theorem more realistic in some fundamental ways, and more relevant to this article's purposes (Aivazian & Callen 2003; Medema 2017; Robson 2014).

Unless mentioned explicitly, we use 'property rights' in this article as largely having the same meaning as 'institutional conditions', 'legal liabilities', or 'entitlements'. There are differences in the spirit of the law and in legal practice between these concepts (Ayres & Talley 1995a, b; Barzel 2015; Calabresi & Melamed 1972; Kaplow & Shavell 1995), but in most original formulations of the Coase Theorem the distinction is not important. With zero transaction costs, the resource allocation implications are the same. So, if we say that someone has a property right over some asset, very widely defined (from land to clean air), we are also saying that he or she is favoured by the 'institutional' setup or 'legal' environment. He or she is 'entitled' to stop someone else from entering his or her land ('the property rule'), or to prevent someone else from polluting the air, or 'entitled' to expect compensation if the air is being polluted ('the liability rule').

In the real world transaction costs are positive. In Ronald Coase's words (1992, 717), 'I tend to regard the Coase Theorem as a stepping stone on the way to an analysis of an economy with positive transaction costs'. In the case of Sidmouth Festival in 2004, the Festival management is not entitled, or has no right, to stop or exclude others from benefiting from Festival-generated positive externalities, such as more sales by the local businesses, or free non-excludable artistic performances in public spaces (Hojman & Hiscock 2010). As to the many negative externalities that the Festival generates, there may be general confusion as to what the relevant rights are. It may not be clear, defined or agreed whether, or when, the legal entitlement favours the perpetrator (meaning that he or she can do anything he or she wants) or the victim (meaning that he or she can either stop the action generating the negative externality, or receive compensation). Authors agree that a 'liability rule', by which the perpetrator may inflict the polluting activity, but then the victim is entitled to compensation, may be informationally better than a 'property rule', by which the owner may legally just stop the activity. Under the 'liability rule' both players will be forced to disclose private preferences, making a Pareto-improving bargain more likely (Ayres & Talley 1995a, b; Kaplow & Shavell 1995; Medema 2017).

Ronald Coase's (1960, 15) transaction costs include many items: 'In order to carry out a market transaction it is necessary to discover who is it that one wishes to deal with, to inform people that one wishes to deal and on what terms, to conduct negotiations leading up to a bargain, to draw up the contract, to undertake the inspection needed to make sure that the terms of the contract are being observed, and so on'. Fox (2007, 378-9) separates three areas of transaction costs: 'identifying what the relevant prices are', 'negotiating the terms of an exchange', and 'concluding that exchange'. Sometimes 'discovering' is also described as 'search', and 'concluding' would be related to 'monitoring and enforcement'. Fox (2007, 380) shows that transaction costs are not unchangeable but, on the contrary, they may be

affected by information technology, social capital, tradition, reputation and trust. Ellickson (1989, 615) also identifies three types of transaction costs, related to ‘get-together’, ‘decision and execution’, and ‘information’. According to Ayres & Talley (1995a, b), private or asymmetric information constitutes a specially damaging source of transaction costs, which in their view would make the ‘liability rule’, leading to private information disclosure, better than the ‘property rule’. This private information problem applies strongly to Sidmouth Festival in 2004 (Hojman & Hiscock 2010) and, incidentally, this paragraph’s argument shows that property rights and transaction costs are at least sometimes not independent.

A Coase Theorem summary, with negative externalities only for simplicity purposes (no positive externalities), is presented in Table 2.

[Table 2 about here]

Sidmouth Festival in 2004

As the Festival grew in size (see Table 1), so did the potential losses to the Festival management, the negative externalities affecting local residents, and the positive externalities benefiting many local businesses (Schofield 2004; www.seered.co.uk). It was only natural for the Festival management to expect that successful local businesses would help to keep the Festival alive, but this did not happen (Hiscock & Hojman 2004; Hojman & Hiscock 2010). Not all local businesses did benefit from the Festival, and in most cases it was impossible to know which businesses did benefit and which did not, or by how much. All the relevant information was private, which increased transaction costs. Some businessmen expected others to pay (so, another problem was free riding). The institutional setup did not help. The Festival management was not legally entitled to force successful businesses, or the respective local authority, to contribute to the Festival finances. What to do about the negative

externalities was hotly disputed. Festival visitors and local residents were socially and culturally different. The Festival management could not believe that the local businesses would refuse the favourable bargain that a successful Festival, properly supported by a bad-weather contingency fund, represented. But many people did not believe that the Festival contribution to the local economy was as large as GBP 5 million, as the Festival management claimed. Exchanges between some of the stakeholders became gradually less friendly, and eventually insulting (Schofield 2004; www.seered.co.uk), which increased transaction costs again.

The required GBP 200,000 bad-weather contingency fund was not a formal insurance premium, to be paid every year. On the contrary, it was just savings which would have been kept untouched (where and under whose responsibility, to be decided), until that year in the future when the weather was so bad that attendance and ticket sales were severely affected. This did not happen every year. But had the contingency fund been available, the Festival would be guaranteed never to suffer huge losses, even if it rained every day during Festival week.

Unfortunately, the suggestion of asking 200 local businesses to contribute one thousand pounds each (www.seered.co.uk) was far from a perfect solution. Inevitably, a relatively small business was likely to complain that, whereas it could just put that money (GBP 1,000) together after a big effort, its competitor or a neighbouring business next door had done infinitely better as a result of the Festival, and therefore it was only fair for them to pay much more than GBP 1,000. Moreover, what about all the other local businesses which were also making substantial profits from the Festival, but were not being asked to contribute to the bad-weather contingency fund, at all? Who are all those free riders who are benefiting, maybe jointly to the tune of five million pounds, and why they do not seem to have been asked to contribute anything?

Even if a local businessperson was happy to contribute to the bad weather fund (by, for example, pledging GBP 1,000 of the required total of GBP 200,000), their contribution would not have solved the problem, in the absence of many other contributions of similar or bigger size. He or she would not know how much other businesses were pledging (unless each of them, or the Festival management, chose to make it public). He or she may not even know whether the target had been reached, or if missed, by how much. Also, this GBP 1,000 contribution would not have given the contributor any rights. In particular, he or she would not have been entitled to check if the money went to the bad weather fund or somewhere else. This is not about dishonesty. It is a structural problem. The institutions, appropriate channels, or even cultural attitudes needed to deal with the process of collecting this money and supervising its proper use did not exist.

Venues and events in 2019

Some of the most visible changes in 2019, in relation to 2004 and before, are that in 2019 there are no open-air Arena concerts and no overseas guests. Also there has been a big increase in individual single-event ticket prices, in relation to the full-week season ticket. For example in 1974-1977 the ratio between the season ticket price and the individual single-event ticket price was 60 (see Table 1). Except for the Arena concerts, all the other single-event ticket prices were so small that the Festival programme did not even bother to mention them (Sidmouth Working Programme 1982). In contrast, the ratio between the season and the single-event tickets in 2019 is no bigger than 30, and maybe as low as 20 (see Tables 1 and 3).

[Table 3 about here]

The largest Festival venue in 2019 is the Ham, a marquee with about 1,100 seats. It is much smaller and less spectacular than the old Arena (which could accommodate up to 5,000 spectators), but at least the audience and artists are protected against the rain. A selection of Festival venues, all of them rain-protected, with their respective capacities, single-event ticket price ranges in 2019, and the number of Festival events which took place in each venue during the 2019 Festival, is presented in Table 3. As to venues other than the Ham, their capacities are even smaller: 280, 250, 80, and so on. The Ham was used 25 times during the 2019 Festival, and other smaller venues were used even more: 38 and 41 times. To some extent multiple use tends to compensate for small capacities, but still the Festival in 2019 has been forced by physical space constraints to make its typical event smaller on average than in 2004.

The financial picture also looks different from 2004, when one of the two largest Festival revenue sources was the sales of single-event Arena tickets (the other large revenue source was full-week season tickets). Festival budgets are not publicly available, but the fact that the Festival no longer invites international performers means substantially lower costs. Since there is no financial contribution from the Arena to the Festival budget anymore, each ticketed event, no matter how small, is expected to make a contribution as large as possible towards paying for itself, and if possible to generate a surplus in order to help any Festival activity which does not pay for itself. For example, in 2019 a new book on the Victorian folk researcher Sabine Baring-Gould was presented by its author in the Arts Centre. This was a well-attended, lecture-length, highly professional occasion, followed by questions, and including some songs that many in the audience knew and joined in. One of the two local bookshops had a special stand in the lecture room, selling only this book. The author was possibly delighted to be offered this opportunity, and it is unlikely that he was paid more than travel and other expenses, if anything at all. The Festival paid for the venue, owned by the

local authority, at a highly subsidised rate. Tickets had to be printed and a few volunteer stewards had tea and coffee, but the Festival made a comparatively respectable surplus. The venue was full (80 seats), with many people standing. The ticket price was GBP 12, which suggests a gross revenue of about GBP 1,000. This calculation, as the rest of them in this section, assumes that everyone in the audience bought a single-event ticket immediately before the event. It would not apply if each spectator had bought a week season ticket in advance, in which case the Festival extra revenue associated with this particular event would be zero.

Some events are much larger than this book presentation. The most popular artists perform in the Ham (typical single-event ticket price GBP 20-30, likely gross revenue per event about GBP 30,000, again assuming all single-event tickets and no week season tickets). Almost without exception, each Ham concert is sponsored by a local business. The size of a sponsor's specific contribution to any particular event is not known (although its general contribution to the Festival is approximately known, as explained in the next section). The sponsor's support is rewarded generously with a range of incentives, from advertising opportunities, to high visibility mentions and recommendations to Festival audiences and others, to event tickets (<https://sidmouthfolkfestival.co.uk>). A music events company, Hobgoblin Music, sponsors a Ham afternoon concert every day of the Festival week. Other named sponsors of individual Festival concerts are the local rugby and cricket clubs, a café, a bar, a food shop, several hotels, a estate agent specialising in short-stay self-catering accommodation, the Festival's official brewer, Kia Cars Exeter, the Devon county council, the Sidmouth town council, the Friends of the Festival, and the local churches (Sidmouth Folk Festival 2019).

There are also events which are much smaller than a book presentation. Among the 867 events in the 2019 official Festival programme, about 35 are related to traditional storytelling.

Most of these events are free to spectators, who tend to be also active participants (but there is always a collection). The event leaders are unlikely to be paid anything, but they may receive help towards expenses, or a week season ticket. These events attract small numbers but their loyal audiences keep attending, and telling their own stories, faithfully, day after day. Among the venues in Table 3, the Woodlands Hotel was used for storytelling several times, and Upstairs at Costa Coffee, each time the Festival used this venue. The Woodlands Hotel was also used for other, ticketed events (with ticket prices going up to GBP 12), sometimes with the Hotel itself being a named business sponsor.

With the demise of the Arena in 2004, audiences are now protected against the rain. But unfortunately the Ham may also be affected by floods and hurricane-force winds. This does not happen all the time, but sometimes it does (it happened the last day of the 2019 Festival week). When it happens, ticketed events are switched either to the Manor Pavilion, a 280-seat, all-year-round, solid-built theatre in the centre of town, or to the 250-seat Bulverton marquee, a couple of miles away from town and next to the Festival official car park and camping site. The performances go ahead as scheduled, but with a significant fall in revenue (again assuming that many or all tickets are single-event ones). This also means disappointed customers, since 3 out of 4 potential spectators are unable to enter the new, smaller venue. In 2019, and assuming again that all the spectators had or would have bought single-event tickets, the revenue fall to the Festival associated with this switching (two concerts and two workshops) is about GBP 30,000. Alternatively, the revenue fall would be zero if each spectator had bought a week season ticket in advance.

A rough guess from the authors' participant observation personal experience suggests that about 3 out of 4 spectators have season tickets, and the remaining 1 in 4 buys a single-event ticket. So, if the Festival weather is good, at 2019 prices, the respective single-ticket sales to the audiences in the six venues listed in Table 3 would amount to about GBP 70,000. In

addition to the Table 3 venues, there are about 20 other venues used by the Festival, most of them small (Sidmouth Folk Festival 2019). A very rough approximation to total single-ticket sales (assuming that 1 in 4 ticket sales are single-ticket ones) could be about GBP 100,000. As to full-week season tickets, about 2,000 are sold in a good year, at about GBP 350 (2019 prices, www.seered.co.uk), making a total of GBP 700,000. There are also other minor sources of income, such as collections in all events including free ones, and about GBP 30,000 in local authority grants and related support. There is also business sponsorship, as explained in following sections.

Small, single-event, ‘grand coalition’ Coase bargains in 2019

There are many successful small Coase bargains in Sidmouth in 2019. The typical 2019 Coase bargain is a four-way one, and it is small. It usually applies to one event only. The four agents or players are the artist or performer, the spectators (or spectators / participants), the venue, and the Festival management. All four agents are needed. No successful bargain is possible if one of the four agents is unable or unwilling to join. Paradoxically or confusingly given the comparatively small size of the respective bargain, agreement between all four players makes them a ‘grand coalition’ (Medema 2017, 25). Sometimes there may also be a fifth player, the sponsor. Usually each Festival event is the result of its own Coase bargain, but in some cases the same bargain may apply to two or more events.

Each of the four players approaches the possible bargain with different objectives and commits to different roles or tasks. The artist wishes to perform in front of an audience, and he or she values the prestige associated to being formally invited by the Festival, and appearing in the official Festival programme. Well-known, popular artists (the ‘big names’) receive a substantial fee, but others, as little as travel and related expenses. Performing in a

Festival event may also help the artist to protect intellectual property rights (Breyer 1970; Krueger 2019; Liebowitz & Watt 2006; Perritt 2010). The artist may perform in only one event, or in many. After the 2004 crisis, overseas artists are not invited anymore, unless the costs can be shared because the artist is also performing in several other towns and cities in the context of a multi-event, multiple destination UK-wide tour.

In folk festivals the spectators, our second, collective agent in this four-way bargain, may also be active participants. They want an 'experience', which is qualitatively different from, and much more than, just a service (Manthiou, Lee, Tang & Chiang 2014; Morgan 2006). Some spectators have travelled long distances and they intend to attend several, or many, Sidmouth Festival events (this is of course the case of anyone who bought a season ticket). As compared with 2004 or before, in 2019 there are many more festivals in the UK competing for the same spectators (Finkel 2009; Saville 2018).

The third agent in this small, single-event Coase bargain, the venue, may be making its premises available to the Festival for more than just one event. In 2019, Sidmouth Festival used Upstairs at Costa Coffee only seven times, but the Woodlands Hotel was used for 41 events (on average six Festival events per day, Sidmouth Folk Festival 2019). Sometimes, but not always, the venue has also agreed to become the named sponsor of some events (this is the case of the Woodlands Hotel in 2019). Thus, the exact nature of the negotiation between a venue and the Festival management does not follow a general pattern, but it is tailor-made according to several factors.

Player number four, the Festival management, brings the other three agents (or four agents if this particular event has a sponsor) together, and it deals with marketing, organisation, and all the effects of negative externalities. Without the Festival management, the other three or four players in this bargain, who are the potential members of this grand coalition, would have

never come together. A key Festival management role is to make the relevant transaction costs associated with this particular small event (transaction costs which would be huge in the Festival management absence) as close as possible to zero. Because of everything it does, mostly quietly, the Festival management could be described as an ‘almost-invisible hand’. The Festival management is in 2019, among other things, a transaction costs minimiser. It may still be, as it was in 2004, a discoverer and promoter of new talent, but it is not a massive subsidiser of new talent any longer.

This small, single-event, ‘grand-coalition’, 4- or 5-way Coase bargain is not self-contained. It is not independent from the rest of the world. Negative externalities may be generated by both the event spectators (rubbish, no parking spaces) and the event artist (late night loud music). The small, single-event Coase bargain’s grand coalition relies on the Festival management to address these negative externalities, but this happens somewhere else, at a different, more aggregate level, possibly at Festival level. The Festival management in 2019 addresses negative externalities in several ways. For example, extra wheelie bins are located in strategic positions, and additional rubbish collections take place, which is done by the local authority councils at agreed lower costs to the Festival. Local residents are offered cheaper season tickets. Festival visitors and performers are repeatedly exhorted to understand and be sympathetic towards relevant aspects of the local resident culture. When the law or the agreed practice protects the victim of the negative externality against the perpetrator, a ‘liability rule’ applies, not a ‘property rule’ (Ayres & Talley 1995a, b; Kaplow & Shavell 1995; Medema 2017). The victim cannot stop the action generating the externality, but he or she is entitled to compensation. This forces both sides to disclose private information, making Pareto-improving bargains more likely. Some authors have identified the theoretical conditions under which a Coase bargain with three or more agents and two or more

externality sources may lead to an outcome of repeated or endless re-contracting, but such conditions do not apply here (Aivazian & Callen 2003; Medema 2017; Robson 2014).

Business sponsors

Business sponsors of the Festival are a key party of the picture in 2019. Local businesses are reminded again and again by the Festival management of how important the Festival presence is for local business profits. Possibly some, or many, local businessmen already knew this in 2004, but there was no point in contributing anything yourself to the Festival finances, if no one else did. In contrast, in 2019 large numbers of local businesses, including those who possibly benefit most from the Festival, are official sponsors. In 2019, in sharp contrast with 2004, every sponsor is mentioned in the Festival programme and related literature, in the social media, and during the sponsored event, and therefore everyone, including visitors, learn about it. So there may be some shame, reputation cost, face loss or credibility damage for a business which is believed to benefit hugely from the Festival, but it is generally seen as not being a sponsor, especially since most or all of the other local businesses and competitors which also benefit are actually sponsors. The Festival management also tries hard to remind audiences, all the time and everywhere, to spend their money in the businesses which are Festival sponsors or supporters, and avoid those businesses which are not.

Sidmouth local businesses are highly heterogenous. Each of them needs its own, unique, individually designed bargain. There are five levels of official Festival sponsorship, from Bronze (up to GBP 750) all the way to Platinum (GBP 4,750 to GBP 6,000), all of them offering ample publicity opportunities and other rewards. There are also two higher sponsorship levels, with amounts to be agreed, which involve sponsorship of one of the major

Festival venues. The Festival management recommends each sponsor to contribute about 20 percent of the respective business' Festival-generated extra profit (<https://sidmouthfolkfestival.co.uk>). This system allows each business which benefits from the Festival to contribute to the Festival survival as they see fit, without acknowledging publicly how much each business makes in Festival-related extra profits. Neither the Festival management nor anyone else need to know how small or large an individual business' Festival-generated extra profits are. About 20 local businesses are sponsors. A rough estimate of their joint contribution would be at least GBP 40,000, but in fact it could easily be twice as much. There are also 'donors', and a separate business supporter scheme for smaller contributions, which basically gives the business supporter a special poster to exhibit in its shop window (again inviting Festival visitors to shop here rather than somewhere else). Local businesses accept, explicitly or implicitly, that they are favoured by positive externalities, and their sponsorships and other support to the Festival are steps in the direction of internalisation.

Two of the town's sports clubs, the rugby and cricket clubs, are good examples of 2019 sponsorship in practice. Neither of them had contributed anything to the Festival in 2004, despite making large gains from selling parking spaces to Festival visitors. The Cricket Club, which allegedly made about GBP 4,000 from this parking in 2004, went as far as claiming that in fact the Festival management should compensate them for damage to their lawns (www.seered.co.uk). The Rugby Club had a different, slightly less antagonistic approach. In 2006 they contributed, for the first time ever, GBP 1,000 to the Folkweek (which was not called Festival anymore), out of their GBP 11,000 Folkweek parking revenue (*Sidmouth Herald* 2006). Then by 2019, and in sharp contrast with their 2004 attitude, the Cricket Club has become a Festival donor and the supporter of one Festival event (as compared with a sponsor, a donor gives a more modest amount and has a lower profile). The Rugby Club,

which has been consistently more generous towards the Festival than the Cricket Club, is in 2019 a Diamond Sponsor (contributing between GBP 2,500 and GBP 4,750) and it also supports one event.

This example shows dramatic change in business attitudes towards the Festival between 2004 and 2019. It also shows that the 2019 Festival management is very flexible in terms of the conditions agreed with each individual business. Each individual sponsorship agreement is tailor-made. All of these 2019 sponsorship agreements are comparatively small-scale but successful welfare-improving bargains, which would not have happened in 2004.

Table 4 lists a summary of changes between 2004 and 2019.

[Table 4 about here]

Ideological and cultural change: from polarisation to cooperation

In 2004, Sidmouth Festival was being crippled by two different sources of high transaction costs. The first was the presence of widespread instances of private information that generated prohibitively high transaction costs (Ayres & Talley 1995a, b), and which the prevailing structure of property rights, legal liabilities or institutional entitlements was unable to address. The second problem was high and increasing transaction costs being created and gradually worsened by acrimony between potential stakeholders (Medema 2017, 54), people publicly calling each other ‘riff-raff’, ‘profiteers’, or worse (Schofield 2004; www.seered.co.uk). Entitlements were not exchanged, but insults were. When rationality no longer rules (Elster 1998), bargaining degenerates towards ‘posturing, pandering, bluffing, brinkmanship’ (Vermeule 2010, 1428).

In contrast, in 2019 the local businesses which benefit from the Festival want to help the Festival, and they want to be seen helping it. This is a massive cultural and ideological change. The mood has changed. It took deliberate efforts and education campaigns over many years to achieve it, and it was possibly helped by the change in the personalities involved (<https://sidmouthfolkfestival.co.uk/sponsorship>; Sidmouth Folk Festival 2019; www.sidmouthfolkweek.co.uk). The pre-2004 acrimony is gone, and a favourable attitude towards a partnership that benefits everybody, or almost everybody, is in. People have learned, they have been convinced, and they are happy, or at least prepared, to go along with it. ‘Human psychology and social evolution explain the emergence of stable equilibria’ (Hovenkamp 2011, 86). The 2019 Sidmouth equilibrium is rational, but it is not emotion-free (Elster 1998). It is just that positive emotions are allowed, or encouraged, to prevail over negative ones. This may be precisely the opposite from what was going on in 2004.

A central aspect of the 2019 Sidmouth Festival business model is that, whatever the Festival management does, it cannot appear to be having large surpluses. Doing that could antagonise, in no particular order, the local residents, the local authority councils, audiences, and potential business sponsors. A small Festival surplus, which would contribute to gradually building up a small bad-weather contingency fund, is both acceptable and expected. But such required fund is smaller than in 2004, because in 2019 no ticketed events take place in the open air or are threatened by rain. Large Festival surpluses could simply bring things back to the bad old days of 2004. There is always a danger of this happening. Some observers complained in 2019 that the money devoted by the local councils to grants to the Festival, about GBP 30,000, would be better spent in many other urgent local needs (www.seered.co.uk). This repeats a view that had been already expressed twenty years before (Hiscock & Hojman 2004, 7). Also, if Festival surpluses are large, potential business sponsors could convincingly argue that their contributions are not really needed.

The exact numbers for 2019 are not known, but with over 2,000 full-week season tickets sold at GBP 350 each, plus about GBP 30,000 in grants and GBP 40,000 from sponsors, the approximate grand total for the Festival revenue would be about GBP 770,000 (without counting single-event tickets, which could possibly generate another GBP 100,000). Possibly the total Festival costs are lower than in 2004 (GBP 750,000), since no international artists are invited. The only way the Festival management is able to keep its surpluses low, is by inviting stars, top names, very expensive top quality artists. These artists contribute to the Festival's prestige and to higher season ticket sales, but they also play an essential role in making the Festival accounts look reasonably healthy, rather than amazingly and embarrassingly rich. A top priority for the 2019 Festival management is to keep the local authority grants and local business sponsorships coming, not because these moneys are really needed, but because grants and sponsors convey a positive message about favourable attitudes in two of the Festival's most important local stakeholders. The new 2019 equilibrium, which is based on cultural and ideological attitudes of cooperation and goodwill, needs to be carefully preserved, nursed and further developed. As the English folk saying goes, trust arrives on foot but leaves on horseback.

Discussion

The fact that there has been a remarkable recovery of Sidmouth Festival in the 15-year period to 2019, with explicit financial support from the local business community, suggests that, whatever doubts independent, impartial observers may have had about the alleged GBP 5 million Festival contribution to the local economy in 2004 (Hojman & Hiscock 2010; www.seered.co.uk), the net social impact of the Festival is positive in 2019. Otherwise the substantial contribution by corporate sponsors and other business supporters to the Festival in

2019 would not exist. The exact size of the extra business profits generated by the Festival is not known, but if some local businesses are jointly contributing at least GBP 40,000, their Festival-generated extra profits are likely to be many times that amount. This applies only to those local businesses which contribute to the Festival, but there are also other local businesses which do not (so, there are still some local businesses free riding in 2019).

Despite plenty of evidence of success in 2019, there are still some unresolved problems. One of them is that the ‘decentralised’ approach does not work equally well in all markets. For example, the number of ‘approved’, ‘official’ or ‘invited’ dancing teams is relatively small, as compared with 2004 and before. These teams perform both in ticketed events and in free-of-charge public spaces. They are not paid but get help with their expenses, and they represent a significant cost to the Festival budget. On the other hand, audiences like and expect them. Their free performances in public places are for many visitors what Sidmouth Festival is (or folk festivals in general are) all about.

The ‘decentralised’ approach may also fail when dealing with merchandise. Souvenir sales were significant in the mid 1980s (see Table 1), but the supply of, for example, CDs and Festival t-shirts in 2019 is modest and insufficient. If a brewer fails to sell all of its beer at the Festival, it may always take it and sell it somewhere else. But this cannot be done with a Festival t-shirt. A small-scale entrepreneur who made the mistake of printing too many t-shirts will have to sell them very cheaply in the last few days of the Festival, or keep them for a whole year until the next Festival.

Sometimes the Festival management may over-compensate for this problem, by allowing a supplier a monopoly or quasi-monopoly over Festival sales (from food or drink to musical instruments). This is far from a satisfactory solution, since it leads to companies competing for the role of ‘the’ Festival monopolist (so, they become rent seekers). This policy makes

firms compete, not to give the consumer the best deal, but to beat other firms at becoming the monopolist chosen by the Festival management.

A related problem is the question of loyalty, which is sometimes in contradiction with market competition. The Festival management must make firms compete for Festival business. But loyalty is also expected, possibly in both directions. There may, or may not, be conflicts or resentment if a supplier which offered the best deal in year 1, is not selected again in year 2. For example, in 2019 a first brewer, Wickwar, is the official beer supplier to the Festival. A second brewer, Branscombe, is selling its beers in pubs nearby, and it is also a Festival event sponsor in 2019. A third brewer, Otter, is allowed to sell one of its beers in the Festival venues, despite not being the official brewer. Finally, a fourth brewer, O'Hanlon, which had been a Festival business supporter some years ago, is not anywhere to be seen in 2019. A similar example refers to bookshops. Of the two bookshops in Sidmouth, the one with a stand in the book presentation, mentioned above, is not the one that had been a Festival business supporter some years ago. This latter bookshop is not present in the Festival at all in 2019.

But most of these instances of market failure in 2019 are minor and should not distract us from the general picture, which is one of almost unqualified success.

Conclusions

Our research results confirm that the Coase Theorem, when applied to Sidmouth Festival in 2004 and 2019, is an effective analytical instrument, in terms of identifying the conditions for Festival failure or success. The Coase Theorem has correctly performed for us the task we asked of it. As to substantive results, our research tells us, first, that a successful Sidmouth Festival is possible in 2019, and second, what are the conditions needed for such success to

materialise. If a large, all-embracing, ‘monolithic’ Coase bargain is impossible, it makes sense to create the conditions for a network of ‘decentralised’, small, successful welfare-improving bargains to emerge. This requires property right changes to minimise transaction costs, towards internalising both negative and positive externalities. Such process would be helped by cultural and ideological change in the direction of cooperation, compromise and goodwill.

It is not ‘despite’, but precisely ‘because’ the 2004 and 2019 business models of Sidmouth Festival are very different, that analysing and comparing them is so rewarding. Using the same theoretical framework has deepened our understanding of the applicability of the Coase Theorem in the real world, a world of positive transaction costs. Applying the Coase Theorem makes it possible for us to understand better the Festival in both 2004 and 2019. It also makes it possible to see how enriching the Coase Theorem is as a theoretical tool under two very different sets of real world conditions. It should be highly rewarding to apply the Coase Theorem to the study of many other festivals around the world.

The Sidmouth Festival story is a story of learning, compromise, and institutional evolution. Between 2004 and 2019 better institutions were needed, and eventually better institutions emerged, which raises important questions for future research. We are not claiming that in general, or always, or usually, better institutions will emerge as they are needed (for careful, suitably qualified versions of this claim see Medema 2017; Palfrey & Srivastava 1989; Vermeule 2010). We would only argue that our research results on the case of Sidmouth Festival between 2004 and 2019 are not in contradiction with the view that, sometimes, better institutions may emerge, as and when they are needed. Such a claim is not the same, but it may possibly be related to the view that ‘transaction costs can encourage Coasean bargaining’ (Robson 2014). Very high transaction costs in the 2004 Sidmouth Festival may have contributed to make many small successful Coase bargains possible in 2019. There is

also the possibility of a ‘super Coase Theorem’, according to which, ‘if the Coase theorem is true, so is a “super Coase Theorem”, namely that rational parties will necessarily achieve a Pareto-efficient allocation through voluntary transactions or bargaining, no matter how high transaction costs might be’ (Dixit & Olson 2000, 311). Again, we would not claim that our results on Sidmouth confirm this, but on the other hand they do not contradict it.

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www.seered.co.uk.

Table 1

Sidmouth Festival: A chronology

Year	Comment
1955	The Festival is founded by the English Folk Dance & Song Society, EFDSS. Full-week season tickets are GBP 4 for a couple. About 100 people attend, generating a GBP 240 surplus
1957	Top seaside hotel charges GBP 7 per person per week, all meals included
1962	The Festival total income is GBP 500. The single-event ticket, including a coffee, is 5 pence (GBP 0.05)
1963	Hostel accommodation for visitors at GBP 5 per week full board. The all-week ticket is GBP 2.25
1964	First overseas team, starting a lasting pattern of foreign artists paying for their flights as the Festival pays for food and accommodation. The all-week season ticket price falls to GBP 1. Single-event ticket prices including coffee are 10 pence
1965	3,000 Festival programmes are printed
1968	Storytelling is introduced for the first time in an English folk festival

1969	1,400 full-week (season-ticket) visitors
1970	The Arena, a 5,000 spectators plus open-air amphitheatre is opened
1971	The Festival makes a loss of GBP 500 (including EFDSS expenses). An anti-noise petition by local residents describes Festival visitors as ‘riff-raff’
1972	Morris dancing is open to women
1974	Single-event ticket is 20 pence
1975	Festival turnover is GBP 17,500
1976	Festival sold out: 1,400 season tickets
1977	The season ticket costs GBP 12 (with a discount applied to local residents)
1979	The same top seaside hotel (as in 1957) charges GBP 7 per day. The Festival losses over GBP 5,000
1982	Overseas guest groups from seven countries (Bulgaria, Denmark, Eire, Hungary, Sicily, Spain, Turkey), 270 events plus 110 workshops. Full-week season tickets (sold out) are GBP 44. The programme does not include single-event ticket

	prices for individual events (compare with 2019). Festival visitors are warned not to be nasty to volunteer stewards
1985	The Festival (30,000-50,000 spectators, 1,500 season tickets, 1,000 performers and stewards, over 300 events, and a GBP 116,500 turnover) makes a loss of GBP 10,000. Separate merchandise sales amount to GBP 14,500
1987	Festival under new management, headed by Steve Heap. GBP 17,500 in underwriting and other support from East Devon District Council. The Festival budget is GBP 130,000 and the Festival loss is only GBP 334. The 'Typhoo Tea Dance' is possibly the first example of corporate sponsorship
1995	A one-pound charge for entrance to the Arena grounds is introduced (separate from the Arena show ticket)
1997	A contingency fund accumulated over several years is wiped out by bad weather
1998	Good weather but low ticket sales. The Festival makes a loss (possibly because of the previous year problems)
2001	The Festival Director publicly describes local businessmen as 'profiteers' ... 'who milk the event and do not plough anything back' ... 'they take a lot of money and we get nothing ...'

2004	Top seaside hotels charge GBP 60 per person per day. Largest Festival ever and last one under Steve Heap, 8 year-round full-time workers and 500 volunteer stewards. Total costs estimated at GBP 750,000. Contribution by East Devon District Council is GBP 60,000. Week season ticket is GBP 179, a rise over 25 percent since 2000. About 2,000-2,400 tickets sold. Bad weather contingency fund (which proved impossible to put together) is GBP 200,000
2005	Small version of the Festival (no Arena, no week season ticket, no overseas artists), new name ('Folkweek'), and GBP 20,000 profit
2008	Week season ticket is GBP 136 (early bird)
2009	Week season ticket is GBP 160. Estimated full-week total cost for a couple is about GBP 1,000. Contributions from several local authority sources amount to GBP 30,000
2011	(Early bird) week season ticket is GBP 226
2016	Week season ticket is GBP 308
2019	Name change again, from 'Folkweek' back to 'Festival'. 867 events in the official programme. Week season ticket is GBP 350. Single-event ticket prices for all 867 events are included in the programme (compare with 1982)

Sources: Schofield 2004; Sidmouth Working Programme 1982; www.seered.co.uk.

Table 2

Negative externalities and the Coase Theorem: the outcome depends on whether the law favours the victim or the perpetrator, and on whether the net impact on social welfare is positive or negative (a ‘liability rule’, not a ‘property rule’, is assumed, Medema 2017, 63)

	The law protects the victim	The law favours the perpetrator
The social benefit (which is received by the perpetrator only) is greater than the social cost (which punishes the victim only)	The Festival takes place, but the perpetrator has to negotiate with and eventually compensate the victim	The Festival goes ahead, and no compensation is paid
The social benefit is less than the social cost	No Festival, because it would not have generated a surplus sufficiently large to pay an acceptable negotiated compensation	No Festival if the victim can afford to negotiate towards paying (‘bribing’) the perpetrator to make him or her desist, in which case they will respectively negotiate and desist

Table 3

A sample of 2019 Festival venues: capacity, single-event ticket price range, number of events

Venue	Seats; single-event ticket prices; number of events
The Ham	1100 seats; GBP 12-34 (plus one free concert); used 25 times
Manor Pavilion	280 seats; GBP 6-18 (plus some free events); 26 events
The Bulverton	250 seats; GBP 6-26 (including four free meetings); 38 events
Arts Centre	80 seats; GBP 4-12 (and some free meetings); 27 events
Woodlands Hotel	40 seats; GBP 6-12 (and several free meetings); 41 events
Upstairs at Costa Coffee	30 seats; all meetings free of charge; 7 events

Table 4

A comparison of Festival business models, 2004 and 2019

2004	2019
International	Not international
Plenty of free riding among both spectators and local businesses	Fewer free riders
Large open-air Arena concerts (profitable in good weather) subsidise almost everything else	Most small events are expected to be profitable, subsidies only in special cases
Need for bad-weather contingency fund	No need because there are no open-air Arena concerts
Large negative externalities	Multiple but simple and inexpensive attempts at dealing with negative externalities
No relevant property rights exist, or they are under dispute	Single-event sponsorship and other business support generate (small-scale but appropriate) entitlements

Large, rising, crippling transaction costs	The Festival management makes transactions (including single-event transactions) possible by minimising transaction costs
Concentrated management	Management decentralised and low profile (an 'almost-invisible hand')
Large unfulfilled information needs; most of the relevant information is private	Smaller information needs; the Festival management does not need to claim a positive Festival economic impact
Polarisation and explicit antagonism	Ideological and cultural change towards goodwill and cooperation; high-profile sponsorship by local businesses
Single, large, all-inclusive, 'monolithic', unachievable proposed Coase bargain	Hundreds of small successful Coase bargains