Chapter 28

CULTURAL HERITAGE: ECONOMIC ANALYSIS AND PUBLIC POLICY*

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Abstract

This chapter shows how economic theory and public policy analysis can illuminate decision-making relating to cultural heritage. We argue that from an economic viewpoint the appropriate conceptualisation of heritage is as a capital asset. Regarding heritage as cultural capital invites consideration of sustainability aspects, in parallel with the treatment of natural capital in economic theory, allowing us to derive a sustainability rule for cultural capital accumulation. The application of cost–benefit analysis to heritage investment appraisal is discussed, with particular reference to the assessment of non-market benefits. Turning to policy issues, we examine ways in which governments intervene in heritage markets, with particular attention to listing and other forms of regulation. Questions of institutional design, financing and policy delivery in a multi-jurisdictional framework are discussed, and finally the role of the private sector is considered, with emphasis on the possibility of crowding out and the incentive effects of public policy on private behaviour in the heritage field.

Keywords

cultural capital, sustainable development, non-market benefits, devolution, regulation, fiscal federalism

JEL classification: H59, H77, Q01, Q57, Z11
1. Introduction

There are a number of definitions of cultural heritage, though there is no agreement on a precise specification of how restricted or extensive the concept should be. Indeed, Benhamou (2003, p. 255) suggests that “heritage is a social construction where boundaries are unstable and blurred”. Nevertheless, common to most accounts is the fact that, as its name indicates, heritage is something that is received from the past; although we are accustomed to thinking of heritage as being old, bequeathed to us from generations long since dead, there is no reason why it may not have been inherited from the recent past, indeed from within the present generation. Attaching the term “cultural” to “heritage” signifies that the items of concern have some cultural meaning or significance that is regarded as important. So, for example, Guerzoni (1997, p. 107) defines cultural heritage as “a heterogenous set of goods that, in the course of time and in a process of historicization, comes to be recognised as the conveyor of specific cultural traditions”. Examples of cultural heritage that spring readily to mind include tangible items such as buildings, monuments, sites, artworks, artefacts, etc. and also intangible phenomena such as traditions, customs, memories, ideas, languages, beliefs, etc. The present chapter deals in principle with all of these, though most of our discussion focuses on heritage in its tangible form.¹

Decisions about cultural heritage – what it is, how it should be conserved – are traditionally the province of art historians, conservators, archaeologists, museum directors and similar professionals. When economists raise questions about the criteria on which these decisions are based, their intrusion is often resented.² Yet at its simplest, the maintenance or restoration of heritage requires resources, and resources have opportunity costs. Since resources are limited in supply, choices are necessary: What can be preserved and what cannot? How much renovation or restoration is warranted? Whose preferences should guide conservation decisions? Economics may not be capable of providing a complete answer to these sorts of questions, but it can certainly illustrate the issues and point out some of the consequences of alternative courses of action.

In this chapter we examine first the theoretical underpinnings of an economic analysis of cultural heritage, building on the concept of cultural capital as a distinct form of capital in economics (Section 2). In this analysis heritage is interpreted as a set of assets with particular characteristics that affect the ways in which consumption and investment decisions are made. In particular, regarding heritage as cultural capital naturally invites consideration of sustainability aspects, in parallel with the treatment of natural capital.

¹ For a comprehensive account of the evolution of ideas of heritage over time and space, see Chastel (1986), who notes that the term is also applied to natural and genetic heritage as well as to cultural heritage. He discusses how items of built heritage and their interpretation change as a result of human interventions and with the passage of time.

² Recent forays by economists into the heritage field include Peacock (1995), and the collections of essays edited by Peacock and Rizzo (1994), Schuster, de Monchaux and Riley (1997), Hutter and Rizzo (1997) and Peacock (1998); for an oppositional view from a cultural professional, see Cannon-Brookes (1996).
in economic theory (Section 3). Carrying further the idea of heritage as asset enables us in Section 4 to examine the application of investment appraisal methods to heritage projects. Not surprisingly, the assessment of benefits becomes a critical component of such an exercise. In Sections 5 and 6 we turn to public policy issues, looking at the ways in which governments intervene in heritage markets, and then in Section 7 at the particular financing issues raised in a multiple-jurisdiction framework. Finally, in Section 8, the role of the private sector is considered, with emphasis on the possibility of crowding-out and the incentive effects of public policy on private behaviour in the heritage field.

2. Heritage as capital asset

Heritage items such as a painting by Monet or a historic building can be seen as capital assets: both required investment of physical and human resources in their original manufacture and construction; both will deteriorate over time unless resources are devoted to their maintenance and upkeep; and both give rise to a flow of services over time which may enter the final consumption of individuals directly (e.g. when people view the painting in a museum or visit the historic building), or which may contribute to the production of further goods and services (e.g. when the painting inspires the creation of new artworks or when the historic building is used as a commercial office space). In other words, heritage items can be interpreted as capital assets with the standard characteristics of ordinary physical capital in economics. Recently suggestions have been made that heritage items are members of a class of capital which is distinct from other forms of capital; this class has been called cultural capital3 [Throsby (1999); Ulibarri (2000); Shockley (2004)]. The distinction lies in the type of value that is embodied in these assets and is yielded by the goods and services they produce. A historic building such as Notre Dame Cathedral or the Taj Mahal is not just any building; certainly it has the characteristics of an “ordinary” building as an item of physical capital, but in addition it has historical and other attributes which an “ordinary” building does not have. These attributes can be described as the building’s “cultural value”, and the same type of cultural value can be attributed to the flow of services it provides.

This notion of the cultural value of certain goods and services such as heritage can be set alongside the more familiar concept of their economic value as measured by variables such as price or as assessed by the tools of economic analysis. Let us assume that cultural value can be measured according to a unit of account that plays a role comparable to that of a monetary scale in measuring economic value. Placing these two indicators of value, economic and cultural, side by side for a range of heritage items we

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3 The use of this term in economics differs from the concept widely used in sociology following Bourdieu (1986), where “cultural capital” refers to an individual’s competence in high-status culture within a holistic conception of society. Insofar as Bourdieu’s usage relates to characteristics of human beings, it is very close to the economic concept of human capital [Becker (1964)].
would expect some relationship between them — assets of greater cultural significance would generally be expected to be more highly valued in monetary terms than less significant ones. However, the relationship would not be perfect since contrary cases can be imagined — a remote religious building of little market value but with strong cultural or historical associations, for example. We return to the distinction between economic and cultural value below. For now we can proceed on the basis of these interpretations to define cultural capital formally as an asset that embodies a store of cultural value, separable from whatever economic value it might possess; in combination with other inputs the asset gives rise to a flow of goods and services over time which may also have cultural value (i.e. which are themselves cultural goods and services).

As noted above, heritage items can be tangible or intangible. Whilst the definition of tangible heritage in the above terms might be simple enough, the identification of intangible cultural heritage is more elusive. The recently formulated UN Convention for Safeguarding of the Intangible Cultural Heritage (2003) defines it as

“The practices, representations, expressions, knowledge, skills — as well as the instruments, objects, artefacts and cultural spaces associated therewith — that communities, groups and, in some cases, individuals recognise as part of their cultural heritage. This intangible cultural heritage, transmitted from generation to generation is constantly recreated by communities and groups in response to their environment, their interaction with nature and their history...” [UNESCO (2003, p. 2)]

Like any capital item, cultural capital (whether tangible or intangible) can be represented both as a stock of assets and as a flow of capital services over time. The value of the capital may be assessed in terms of its asset value at a given point in time or as the value of the flow of services to which it gives rise. Either way, the particular characteristic of cultural capital is that it embodies or gives rise to two types of value, economic and cultural.

Despite the apparent precision of these definitions of cultural heritage, two problems arise in applying them to the real world. First, if cultural heritage as a capital asset is distinguished from other forms of asset by its possession of a specific type of value, whose assessment of that value is to count and how is it to be measured? Formal statements of what should be regarded as heritage that are contained in conventions such as the UNESCO Convention for the Protection of the World Cultural and Natural Heritage [UNESCO (1972)], the Burra Charter [Australia ICOMOS (1999)], and the Intangible Heritage Convention referred to above do indeed rely on an appeal to notions of cultural significance, and go so far as to suggest criteria against which significance might be judged; nevertheless they remain imprecise as to the metrics that could be used and how they could be applied. As a result, the definitional problem is generally resolved in practice by looking for consensus judgements amongst a relevant group of experts, stakeholders or policy-makers, whose assessment of cultural value, however imprecisely expressed, is taken as decisive. Whether it is representative or not of society’s cultural perceptions is an open question, as will be examined further in a later section.
The second problem is that in some situations what is regarded as cultural heritage is not so much a well-defined item but rather an assorted collection of goods that were never thought of as having any particular importance at the time they were produced [Peacock (1995)]. This relates to the notion of “material culture” or “material heritage” as identified, for example, by anthropologists. What constitutes heritage in this context is no longer an objective fact but rather a social and cultural construct that is likely to change over time.

3. Cultural capital, natural capital and sustainability

3.1. Natural and cultural capital: Some similarities

The concept of cultural capital bears some similarities to that of natural capital as it has developed within ecological economics over the last decade or so [El Sarafy (1991); Costanza and Daly (1992); Jansson et al. (1994)]. That is, cultural capital which has been inherited from the past can be seen to have something in common with natural resources, which have also been provided to us as an endowment; natural resources have come from the beneficence of nature, cultural capital has arisen from the creative activities of human kind. Both can be interpreted as imposing a duty of care on the present generation, the essence of the sustainability problem to be discussed further below. Further, a similarity can be seen between the function of natural ecosystems in supporting and maintaining the “natural balance” and the function of what might be referred to as “cultural ecosystems” in supporting and maintaining the cultural life and vitality of human civilisation. Finally, the notion of diversity, so important in the natural world, has an equally significant role to play within cultural systems. It is a characteristic of most cultural goods that they are unique, and this applies particularly to cultural heritage, both tangible and intangible. It can be suggested that cultural diversity is at least as far-reaching as is diversity in nature, and perhaps more so. Hence much of the analysis of biodiversity might be applicable to a consideration of cultural heritage.4

A parallel between natural and cultural capital of particular significance in the heritage context is the way in which the long-term management of both types of capital can be cast in terms of the principles of sustainable development. When applied to natural capital, sustainable development implies management of natural resources in a way that provides for the needs of the present generation without compromising the capacity of future generations to meet their own needs,5 i.e. the principle of intergenerational equity. Another key element of sustainability in natural capital management

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5 This “definition” of sustainable development is a paraphrase of that proposed in the Brundtland Report [WCED (1987 p. 43)].
is the precautionary principle which argues for a risk-averse stance in decision-making when irreversible consequences such as species loss are in prospect. Both of these principles are relevant to cultural sustainability. Because the stock of cultural capital, both tangible and intangible, embodies the culture we have inherited from our forebears and which we hand on to future generations, it is inevitable that questions of intergenerational equity are raised; heritage decision-making is constantly faced with the long-term implications of strategies for conservation, preservation, restoration and re-use of buildings and sites. Similarly the precautionary principle can be invoked when demolition of a historic building is threatened; once gone, such unique cultural heritage cannot be replaced.6

3.2. Sustainability paradigms

A key aspect of sustainability is the maintenance of capital stocks. In terms of physical capital, if a country’s aggregate consumption is less than or equal to its net domestic product, it must be at least maintaining its total capital stock, and can therefore be defined as following a sustainable development path. If the capital stock referred to is extended to include natural, human and cultural capital as well as physical capital, the question arises as to whether different types of capital can simply be aggregated, such that a decline in the level of one type of capital can be compensated for by an increase in another. In other words, this raises the issue of substitutability between forms of capital. The contrasting positions in regard to the substitutability between natural and other forms of capital can be seen in two standard texts, Dasgupta and Heal (1979) representing a strictly neoclassical (substitutable) approach, and Pearce and Turner (1990) who put the non-substitutability case.

In the long-running debate about the issue of capital substitutability, two essential paradigms for sustainable development have emerged [Neumayer (2003)]. The first, which can be called “weak sustainability”, derives from the original work of Robert Solow and John Hartwick. In a series of papers [Solow (1974a, 1974b); Hartwick (1977, 1978)] they investigated the question of investing the rents from exhaustible resources in the presence of concern for intergenerational equity.8 In its simplest form this model portrays an economy in which the competitive rents from current use of the exhaustible resource are reinvested in human-made capital goods, enabling society to maintain a constant consumption stream; the accumulation of physical capital exactly offsets the decline in natural capital. As is apparent, this model assumes that natural and human-made capital are perfect substitutes in the production of consumption goods and in the direct provision of utility for both present and future generations. Hence it is the aggregate capital stock that matters and not how it is comprised; in other words, it doesn’t

6 Similar concerns may be expressed about intangible heritage such as languages or customs that may disappear if not maintained.
7 The following discussion draws on material treated more fully in Throsby (2005).
8 See also Solow (1986; 1994) and Hartwick (1995).
matter if the present generation uses up exhaustible resources as long as sufficient new physical capital can be provided to future generations by way of compensation.

The other paradigm is that of “strong sustainability” which regards natural capital as being strictly non-substitutable for human-made capital, a view deriving in part from the unique life-supporting properties of global air, land and water systems. Proponents of strong sustainability argue that no other form of capital is capable of providing the basic functions that make human, animal and plant life possible [Barbier et al. (1994)]. Moreover, some forms of natural capital cannot be reconstructed once they are destroyed; for example, the destruction of biodiversity is a loss of natural capital that cannot be reversed, and even climate change could result in ecosystem damage that is irreversible. In other words, the strong sustainability paradigm assumes that the functions of natural capital cannot be replicated no matter how spectacular future technological advances might be.

Particular interest has been focussed on the specification of optimal development paths for an economy under the different paradigms. This requires some means of measuring whether or not a given path is sustainable according to the assumed criteria [Victor (1991)]. An effort in this direction is provided by Pearce and Atkinson (1993), who propose a sustainability indicator $Z$ for a weakly sustainable development path where the economy is defined as sustainable if it saves more than the combined depreciation on man-made and natural capital, i.e. $Z > 0$ if and only if

$$ S > (\delta_M + \delta_N). $$

where $S$ is savings, $\delta$ is depreciation, with the subscripts $M$ and $N$ indicating man-made and natural capital, respectively. Pearce and Atkinson proceed to estimate the indicator empirically for a range of countries, concluding that “even on a weak sustainability rule many countries are not likely to pass a sustainability test” (p. 105).9

How do these sustainability paradigms apply to cultural capital? Here it has to be recognised that cultural capital gives rise by definition to two sorts of value: economic and cultural. It is clear that provision of many of the economic functions of cultural capital is readily imaginable through substitution by physical capital; for example the services of shelter, amenity etc. provided by a historic building could as well be provided by another structure without cultural content. However, since by definition cultural capital is distinguished from physical capital by its embodiment and production of cultural value, there would be expected to be zero substitutability between cultural and physical capital in respect of its cultural output, since no other form of capital is capable of providing this sort of value; the new building cannot replicate the historical content of the old.10

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9 For further discussion of this model and of valuation problems more generally, see Pearce (1993), especially pp. 44–53.

10 This is not to say that new buildings cannot themselves be regarded as cultural capital; see further the discussion below on investment in capital creation.
3.3. Sustainability of cultural capital

We turn now to the possibility of specifying sustainable development paths for cultural capital, taking account of its particular characteristics. For simplicity we assume a quasi-strong form of sustainability by defining it in terms of the cultural capital stock only, thus ruling out questions of substitutability with other types of capital. A possible model is summarised as follows.

Assume a closed economy which possess a stock of cultural capital $K$ with an aggregate value to society of $V = V(K^e, K^c)$ where $K^e$ is the economic valuation of the capital stock at a given point in time, measured in financial terms, and $K^c$ is the cultural valuation of the stock measured according to some agreed system of units reflecting the significance or worth to society of the cultural asset. During any time period, $K$ produces a flow of income $y$ measured in both monetary-value and cultural-value terms. So, for example, if the capital assets in question are artworks in a museum, or historic buildings or sites, these income flows might be generated by displaying the artworks for people to look at, or by opening the buildings and sites to tourists. In each case a stream of monetary income is generated which accrues to the immediate owners of the asset in question; at the same time a stream of “cultural income” is also generated, some of which accrues to society at large as public-good benefits arising from the existence of these items of the cultural capital stock.

Assume that production takes place according to the following one-period production functions:

$$y^e = F^e(X, K^e), \quad (2a)$$
$$y^c = F^c(X, K^c), \quad (2b)$$

where $X$ is a vector of other inputs (labour, operating capital, etc.) whose level is determined by the policy-maker, and where the functions $F$, for convenience, have the usual properties of constant returns to scale and diminishing marginal product.

We assume $y^c$ is completely consumed in the period in which it is produced, whereas $y^e$ can be allocated to current consumption ($C$) or to investment ($I$) in the maintenance of $K$, the existing capital stock. Then

$$y^e = C + I. \quad (3)$$

For given $X$ we can write

$$y^e = rK^e, \quad (4)$$

where $r$ is interpreted as the economic rate of return on the capital stock. For simplicity, let us assume that all the income is re-invested, hence

$$I = rK^e. \quad (5)$$

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11 For simplicity, we omit time subscripts throughout.
12 For the present we ignore the possibility of investment in new capital stock (see further below).
Similarly, for given $X$ we can write

$$y^c = \alpha K^c,$$  \(6\)

where $\alpha$ is defined as a “cultural appreciation parameter” measuring the extent to which members of society, in a given time period, understand and appreciate the significance or importance of $K$. (Thus for a society that cared nothing for its cultural assets, $\alpha = 0$ and no cultural income would accrue.)

From the viewpoint of sustainability, we are interested in the rate of change in the capital stock from one period to the next, measured in both economic and cultural value terms. Changes over time in the level of $K^e$ are caused by several different factors:

- exogenous influences affecting the price of the stock (e.g. for an art museum’s collection, these influences arise as a result of movements in the art market);
- depreciation caused by wear and tear (e.g. from damage to a cultural site caused by tourists) or by catastrophic events (e.g. war);
- conservation or restoration investment undertaken with the aim of maintaining the asset in good condition.

Let the first of these factors be measured by $m$, the rate of price appreciation (which could be negative) and let the second be measured by $d$, the rate of depreciation (always negative). The third factor is simply $I$ as defined above. Without further ado we can write

$$\dot{K}^e = m - d + r$$  \(7\)

and note that economic sustainability of the capital stock, defined as $\dot{K}^e \geq 0$, will require

$$(m + r) \geq d.$$  \(8\)

Before turning to sustainability in the cultural value of the capital stock, we note the following assumption. We assume that the rate of change of the appreciation parameter $\alpha$ is a function of the level of “cultural income” forthcoming in any period. In other words, the greater are the cultural benefits flowing from a given stock of cultural capital, the faster will the community’s cultural appreciation grow. In simpler words, the more people attend art museums, visit heritage sites, perform traditional cultural ceremonies, etc., the more “switched on” will the community become to their own cultural inheritance. Correspondingly, the less these benefits are realised, the smaller will $\alpha$ become. In fact it is quite possible for $\alpha$ to be negative, that is, for cultural appreciation to decay if cultural participation falls below a given level. Specifically, let us assume there is a critical level of the flow of cultural value in a given time period, $\hat{y}^c$ below which $\alpha$ falls below zero, i.e. we assume

$$\dot{\alpha} > 0 \text{ if } y^c > \hat{y}^c, \quad \dot{\alpha} = 0 \text{ if } y^c = \hat{y}^c \text{ and } \dot{\alpha} < 0 \text{ if } y^c < \hat{y}^c.$$ 

Recall that we are assuming a closed economy, so the imposition of foreign cultural influences does not arise.
Now we can define the factors affecting the level of $K^c$ in a given time period. We assume two factors are relevant:

- the rate of change of $\alpha$ as discussed above; and
- the amount of maintenance investment $I$.

The reason for including the second of these factors should be readily apparent – at least some components of the cultural value of historic buildings, artworks, etc. will decline if they are neglected and allowed to fall into disrepair (i.e. if $I = 0$).

Accordingly we can write

$$\dot{K}^c = f(\dot{\alpha}, I),$$

(9)

where $f'(\dot{\alpha}) > 0$ and $f''(I) > 0$. We can now specify that cultural sustainability will require $\dot{K}^c \geq 0$. We note that implementation of this sustainability rule would require knowledge of the function $f$ in (9) and in turn the critical value of $\hat{y}^c$.

It can be argued from a cultural viewpoint that it is cultural sustainability that matters in this economy. If this is so, the problem can be framed as follows. For a given initial stock of $K$ with economic and cultural value of $K^e$ and $K^c$, respectively, the decision problem is to choose $X$ and $I$ such that the cultural sustainability condition holds. In other words, in any given period society would need to allocate a sufficient level of resources to utilising its cultural capital stock rather than to other (non-cultural) purposes, and would need to re-invest a sufficient level of the financial income stream so generated in the conservation and maintenance of the stock, in order to ensure no deterioration in the cultural value of the stock in the next period.

Finally we turn to the matter of new investment in cultural capital. This refers to such actions as the creation of artworks, the construction of new buildings that may someday be regarded as “historic” and having particular cultural value, the cultivation of emerging cultural traditions that in due course will be handed on to the next generation, etc. Here it might be noted that the parallel with natural capital begins to break down. These forms of new cultural capital are not like renewable resources which have an inherent capacity for self-regeneration. They have to be created by deliberate production processes.

The incorporation of this new cultural investment into the above sustainability model raises the question of substitutability within forms of cultural capital. For example, is new cultural capital substitutable for old? If so, the loss of heritage items via destruction or neglect could be compensated for by the creation of new cultural assets. Alternatively, to what extent is new art capable of delivering the same level of cultural benefits as old art? And even if new art can produce the same level of benefits in some quantitative sense, there are likely to be qualitative differences in the types of value created. Furthermore cultures are not static, and some degree of decay and renewal may in any case occur, and indeed may be regarded as desirable as a means of maintaining cultural vitality over time.

Thus, whilst in principle there may be no formal difficulty in simply allowing for increments in the capital stock arising from new investment to be included in the above model, the specification of the cultural value yielded by the new capital goods presents
some problems. At one level these problems are no different from those of measuring cultural value elsewhere in the model; however, uncertainties surrounding evaluation criteria in contemporary culture may make measurement even more difficult than in the case of inherited cultural capital, when at least judgements have had time to mature and some consensus can be seen to have been reached. Moreover, there is a further problem with the introduction of new investment into the system – the difficulty of identifying how much of new artistic and cultural output will in fact add to the capital stock. In the case of built heritage, for example, a recognition of cultural significance may take some time to evolve – who is to know which modern building, large or small, will be regarded as culturally important in fifty or one-hundred years’ time?\footnote{Some contemporary architecture seems to acquire heritage status almost instantaneously, especially buildings devoted to some cultural purpose, such as the Bilbao Guggenheim Museum, the Getty Center in Los Angeles and the Sydney Opera House.} In regard to artworks, the transience of contemporary art presents a similar problem, since much currently produced art will sink without trace; only a very small proportion of works produced at any given time are likely to survive to become part of longer-term capital accumulation. In these circumstances, it is probably appropriate to regard a certain proportion – perhaps a majority – of contemporary art as consumption goods, or at least as investment goods that are fully amortised in the current period.

Overall, the approach adopted in specifying a sustainable development path in this model raises again the well-known debate about whether the intergenerational aspects of sustainable development are a matter of efficiency in intertemporal resource allocation, or whether they are matters of fairness or equity in the present generation’s treatment of its successors. It might be observed that the admission of cultural value as an additional element in the picture does not change the basic propositions involved. The preservation of cultural capital for the benefit of future generations can be just as much a question of efficiency or equity in the allocation of resources producing \textit{cultural} benefits as it is in the case of resources producing only economic return.

Finally, it can be noted that while the theoretical concept of a culturally sustainable development path defined according to explicit criteria may be an appealing one, it remains operationally constrained until robust value-assessment methods can be devised. A step in this direction might be to seek aggregate cultural indicators providing a first approximation to levels and changes in the cultural capital stock, along the same lines as Pearce and Atkinson (1993) did for natural capital. Of course this is more easily said than done; efforts to construct cultural indicators have some particular problems of their own [McKinley (1998), Pattanaik (1998)], and quantification is especially difficult because of the unavailability of suitable data on cultural resources for any country, let alone on an internationally comparable basis between countries. Nevertheless there are some hopeful signs that the documentation and measurement of cultural heritage stocks will benefit from current progress amongst official statistical agencies in improving the collection of cultural statistics more generally.
4. Investment appraisal procedures applied to cultural heritage projects

We turn now to some consequences for economic analysis arising from the specification of heritage as cultural capital. In particular, we can ask how far we can go in applying conventional asset management techniques and investment theory to the assessment of cultural heritage, and how in particular the non-market benefits of heritage can be included in the analysis.

4.1. Cost–benefit analysis applied to heritage decisions

As is well known, there are several methods for evaluating capital investment decisions, including the payback method (how long does it take for the asset’s earnings to repay its initial capital cost?), the benefit–cost ratio and net present value method (do aggregate net benefits, suitably discounted, exceed the capital cost?), and the internal rate of return method (what discount rate just matches aggregate discounted net benefits with the initial capital cost?). There seems no reason why these methods could not in principle be applied to the appraisal of cultural capital. As we have already observed, heritage items have an existing asset value, require real resources in their maintenance, and yield flows of benefits into the future. Thus the evaluation of a heritage project involving, say, restoration of a site or of an artwork could aim to identify all the market and non-market benefits and costs involved, and then use one or other of these techniques to compare investment in this project with other competing heritage projects or with other (non-heritage) alternative investment opportunities. It is important to repeat, however, that since cultural capital is distinguished from ordinary physical capital by the cultural value it generates, evaluation methods applied to heritage projects, if they are to be comprehensive and account for the particularly cultural nature of the asset in question, should be focussed on both the economic and the cultural value of the projects under study.

How is this to be achieved? The economic calculus is straightforward: the future time stream of net benefits generated by the project, discounted to the present, can be readily compared with the project’s initial investment cost, i.e. the project is economically viable if

\[ \sum_t \frac{(b_{mt} + b_{nt} - c_t)}{(1 + i)^t} > I, \]

where

- \( b_{mt} \) are market (private-good) benefits yielded by the project in period \( t \) \((t = 1, \ldots, T)\);
- \( b_{nt} \) are non-market (public-good) benefits yielded by the project in period \( t \);
- \( c_t \) is operating cost of the project in period \( t \);
- \( I \) is project investment cost;
- \( i \) is rate of discount.
Both the market benefits and the operating costs, together with the initial investment cost, can be assessed as for any other investment project from known or assumed financial data.¹⁵ The estimation of the non-market benefit component of Equation (10) is discussed in the following section.

4.2. Estimation of the non-market benefits of heritage

Demand for those aspects of cultural heritage that are recognised as non-rival and non-excludable public goods can be ascribed to three sources. First, individuals may value the existence of a given item of cultural heritage, even though they may not consume the services of that item directly themselves. Second, they may have an option demand, i.e. a desire to keep open the possibility that they might consume the asset’s services at some time in the future. Third, the asset may have bequest value, insofar as people wish to bequeath the asset to future generations. These values are sometimes described as non-use or passive-use values, in contrast to the active-use values enjoyed by those directly consuming the services of the asset themselves (reflected in \( b_{mt} \) in Equation (10)).

Measurement of the non-market demands for cultural heritage has made significant advances in recent years. Cultural economists have been able to take advantage of the extensive theoretical, methodological and empirical research that has gone into the evaluation of environmental amenities.¹⁶ Methods used can be classified into revealed preference and stated preference approaches. Amongst the techniques relying on observation of market behaviour (revealed preference), hedonic pricing methods have some potential in the heritage field, but their use is limited to situations where a reasonably wide spread of market data can be found. So, for example, the influence of heritage values on property prices, including the effects of listing, might be able to be assessed by these means. An illustration is the study by Moorhouse and Smith (1994), who investigated the influence of architectural styles on the prices of nineteenth century terrace houses in Boston. Another application is that of Chanel, Gerard-Varet and Ginsburgh (1996) who used hedonic methods to analyse the auction prices of artworks. Despite the validity of such studies in terms of what they set out to do, they suffer from the fact that they essentially measure private individual benefit rather than wider public-good effects.

An alternative revealed preference approach is to use the travel cost method. Individuals are presumed to reveal how much they value the benefits provided by an environmental or cultural site by the amount they are prepared to pay in making the journey to visit it. Studies have been carried out on visitors to particular sites, asking

¹⁵ Note that \( T \) might be unusually large in the case of heritage, since it may be expected to last indefinitely; however, of course, at any reasonable discount rate benefits in the remote future are effectively reduced to zero in present value terms.

¹⁶ For an overview of environmental valuation see, for example, Braden and Kolstad (1991), Freeman (1993), Grafton et al. (2004, Chapters 8–10).
how much time they spent travelling to it, what financial outlays were involved, how many times they have visited, etc. From the results for many respondents, a demand function for the benefits of the site can be established from which, amongst other things, an estimate of consumers’ surplus can be derived. However, there are a number of difficulties with this approach. Not all sites require a lot of travelling to visit them, and often multiple purposes are involved in the trip: for example, how does one allocate the cost of visiting Florence between the Duomo, the Uffizi, and Santa Croce? Furthermore, even if reasonable estimates can be made by these methods, they relate more to direct use value rather than to non-use values. Thus, the application of travel cost methods to the estimation of the non-market benefits of heritage would appear to be limited.

Because of the difficulties of finding appropriate market data, assessment of the non-market benefits of cultural heritage has concentrated overwhelmingly on stated preference methods using discrete choice modelling or contingent valuation methodology (CVM). These approaches involve asking people their willingness to pay (WTP) for the benefits received, or their willingness to accept compensation for their loss (WTA). The asking may take place under quasi-experimental conditions, or more commonly may be administered through sample surveys of individuals drawn from the population of those experiencing the benefit in question. Thus, for instance, the non-use value of a local heritage site might be assessed using CVM by means of a survey of a sample of residents of the area. The survey might be conducted by telephone, mail or personal interview. The effects of various sources of bias such as the free-rider problem, the embedding effect, etc. can be reduced or eliminated by careful experimental design. Respondents might be asked hypothetically to indicate the maximum financial contribution they would make to a fund to support the site, or they might be asked whether or not they would contribute a fixed amount to such a fund. Either way an analyst could use the results to estimate a hypothetical demand function for the non-use benefits of the site in question.

The use of CVM was given some endorsement by the findings of an expert panel appointed by the US National Oceanic and Atmospheric Administration to review the applicability of the technique in determining liability claims following the Exxon Valdez oil spill in Alaska in 1989. The panel, co-chaired by Kenneth Arrow and Robert Solow, and including Edward Leamer, Roy Radner, Paul Portney and Howard Schuman, found that “CV studies can produce estimates reliable enough to be the starting point of a judicial process of damage assessment, including lost passive-use values” [Arrow et al. (1993)], provided that they are carefully carried out, with due attention paid to the biases and other problems affecting the technique.

Overall, it can be said that since the non-use values from cultural heritage are very similar in kind to those arising from environmental amenity, the fact that many successful applications of CVM in the environmental sphere have now been carried out augurs well for the further application of these same techniques in the heritage field.

4.3. Cost–benefit analysis and cultural value

The above procedures can provide a comprehensive evaluation of the economic effects (including both market and non-market effects) of this investment project. But we noted above that a further step is required if a full account of the cultural benefits and costs of the project is to be provided, i.e. a form of cultural cost–benefit analysis in which the cultural value created by the project is the subject of appraisal. How is this to be done? In principle there is no reason why an approach similar to that shown in (10) above could not be applied also to the cultural value component of this investment. The project is expected to yield a flow of cultural benefits into the future; indeed it is the prospect of this flow, more than of the economic return, that is likely to have given rise to the project in the first place. Furthermore, cultural benefits can accrue both to individuals (as rival excludable benefits) and to society at large (as non-rival non-excludable benefits), suggesting that a division into private and public components is just as relevant to the assessment of cultural value as it is for economic effects. Moreover, it is reasonable to suggest that a unit of cultural benefit at some time in the future is worth less to the project’s stakeholders than a unit now, making some form of discounting of future benefit streams appropriate.

But the problem remains of how these benefits are to be measured. Given the multi-dimensional character of cultural value, it can be suggested that the only sensible way to evaluate it will be via a disaggregation into its component elements. Throsby (2001) has suggested that, for cultural heritage, those elements might include

- **aesthetic value**: beauty, harmony;
- **spiritual value**: understanding, enlightenment, insight;
- **social value**: connection with others, a sense of identity;
- **historical value**: connection with the past;
- **symbolic value**: objects or sites as repositories or conveyors of meaning;
- **authenticity value**: integrity, uniqueness.

It may be possible to assign cardinal or ordinal scores to these components and aggregate them into a simple index according to given assumptions. If so, the flow of cultural benefits from alternative projects might be able to be compared. A limited step in this direction is provided by the example of Nijkamp (1995), who put together a composite index of different characteristics of historic urban districts evaluated according to a range of criteria. Alternatively, this set of characteristics can be placed in a broader context of public policy-making where the cultural value of the arts and culture is seen as a valid reason in its own right for government intervention [Holden (2004)].

Nevertheless, it has to be recognised that comprehensive and replicable methods for assessing cultural value in these terms remain to be developed and applied. In the meantime, evaluation procedures derived from economic analysis have much to offer. Even if

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18 See also Ellis (2003) and the RAND Corporation report by McCarthy et al. (2004) which identifies the intrinsic benefits of the arts as a neglected area in contemporary policy-making with its stress on the instrumental (economic) benefits of culture; for a multi-disciplinary collection of essays on aspects of cultural value see contributions to Hutter and Throsby (2006).
they cannot capture those elements of cultural value that are not expressible in monetary terms, or that cannot be factored out to individual utilities [Throsby (2003)], they can at least provide important insights into the value of cultural heritage to individuals and to society, and make an important contribution to heritage policy-making, an area that we turn to in the following sections of this chapter.

5. Public intervention in heritage markets

Following the conventional normative approach of welfare economics, a long-sighted government adopting a public interest stance is assumed to provide efficient remedies for market failure through the use of the different tools of government intervention. In the case of heritage, market failure is presumed to arise through the existence of public goods, externalities, asymmetrical information, etc. and these arguments are usually put forward to justify public intervention aimed at avoiding under-provision of heritage services.

Government action to correct for market failure in the heritage area can follow different patterns involving direct or indirect intervention and using instruments with monetary or non-monetary content. Public spending, taxation and regulation are the tools usually adopted to promote heritage conservation, together with other wider instruments such as education, which can be used to spread information and improve citizens’ awareness. These tools are summarised in the following table:

<table>
<thead>
<tr>
<th>Type</th>
<th>Monetary</th>
<th>Non-monetary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>Public expenditure</td>
<td>Hard regulation</td>
</tr>
<tr>
<td>Indirect</td>
<td>Tax expenditure</td>
<td>Soft regulation</td>
</tr>
</tbody>
</table>

*Public expenditure* involves both direct funding for the maintenance, operation and restoration of publicly-owned heritage and museums, and subsidies to private and not-for-profit entities. *Tax expenditure* refers to the provision of tax incentives to private individuals or firms who spend money on maintaining or restoring their own heritage properties or who donate funds to heritage causes. There is a crucial difference between direct and indirect financial support; in the former case decisions regarding the size and the composition of heritage support (for instance, which monument should be restored or which form of art should be supported) are taken by the public decision-maker, while in the case of indirect financial support through the tax system, funding decisions are private and the policy outcome is likely to differ. Frey (2003), looking at the overall arts sector (including performing and visual arts) argues in this respect that private decisions might support a broader range of artistic activities than public

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19 See further Chapter 36 by Schuster in this volume.
ones, including those activities that are more controversial and experimental, since public decision-makers tend to shy away from scandalising public opinion. However, this might not be the case when dealing with heritage; private decisions might be driven by the prestige of the monument or the institution gaining support, thus directing intervention toward well-known objects and institutions. Moreover, any comparison depends also on the functioning of the public decision-making process, whether it is supply-oriented or demand-oriented and how powerful is lobbying in influencing it, as will be discussed further below.

Regulation refers to restrictions or modifications imposed on the activities of economic agents in line with government policy objectives. In the heritage case, regulation is aimed at controlling the stock of heritage, its size and its quality. Following Throsby (1997, 2001) we can distinguish hard and soft regulation; the former involves enforceable acts, such as listing, permissions, authorisations, demolition orders, standards and penalties for non-compliance, while the latter consists of non-enforceable directives (charters, codes of practice, guidelines, etc.) implemented by agreement and not involving penalties. In the heritage field regulation has certain advantages compared to other government tools. Its adoption or removal takes less time than is required for other forms of public intervention such as subsidies or tax expenditures, and therefore it allows for a greater timeliness of public action. Flexibility, in fact, can be extremely useful in heritage to cope with the necessity for quick decisions and to avoid the infinite costs linked to irreversible decisions; such flexibility might be exercised, for example, in the rapid imposition of an order preventing the demolition of a listed building until such time as a full evaluation of the consequences has been undertaken.

However, some specific problems arise when regulation is applied to the heritage field. First, the identification of the scope and the range of intervention is a matter of discretion to a greater extent than in other fields of public policy because the definition of heritage is not straightforward. Moreover, such discretion varies according to the different types of heritage. For outstanding heritage with characteristics of uniqueness, such as items on the World Heritage List, no discretion problems arise and any decision about conservation comes of necessity under the scrutiny of public opinion. On the other hand, for minor heritage the extent of regulation as well as the type of intervention to be carried out might be by no means so clear-cut. In such a case, the identification of the scope of intervention is a matter for discussion based, for example, on evaluations made by hired experts who are well informed but may have contrasting views on orders of priority. As a consequence, the type of expert (archaeologist, art historian and so on) involved in this kind of decision, and the features of the decision-making process, are likely to be quite important in determining the size and the composition of the stock of cultural heritage, as well as the type of conservation that can take place.

Listing of heritage, whether based on local, national or international significance, is a regulatory instrument existing in most countries. Lists can be a useful source of

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20 On whether governments might prefer to avoid supporting arts which can give rise to controversies, see Zolberg (2000).
information concerning the social value of heritage and might offer the opportunity for voluntary collective action to preserve the listed items [Schuster (2004)]. However, whether the provision of information in this way is of itself an effective tool to stimulate individuals’ and groups’ concern for heritage is an open question. Indeed, there is little evidence in this respect, apart from observations of the stimulus exerted by the UNESCO World Heritage List in leading to improvements in visitor facilities and in cultivating regional and national pride. In practice listing, especially when coupled with other government actions, is not neutral. It affects prices as well as market decisions and may have relevant distributional implications because of the costs and benefits it generates.

The economic impact of regulation on the heritage market varies also according to the types of costs it imposes. In addition to the administrative and bureaucratic costs related to the drawing up of regulatory legislation and the monitoring of its effective implementation, regulation generates compliance costs imposed on all those private and public actors who have to comply with the prescriptions. Some of these costs can be foreseen in advance because they are closely connected to the conservation task (for instance, the requirement to use special materials and qualified operators to ensure quality of maintenance or restoration works); others are subject to a high degree of uncertainty as a consequence of the regulator’s decisions. In the latter case, a modification to a building allowed by urban planning authorities might not be permitted by the heritage regulator [Rizzo (2003)]. Moreover, whenever heritage involves a combination of different styles and historical periods, as often happens in Italy, any discovery made while the work is in progress may reduce the scope for planned use. In such a situation the heritage authority may give priority to the preservation of the new discovery and as a consequence will interrupt the work and/or will impose changes compatible with the new discovery [Pignataro and Rizzo (1997)]. Finally, there are the indirect costs imposed on any activity that interferes with heritage; for instance, [Peacock (1995)] refers to the considerable hidden costs imposed by planning regulations, for example, those requiring the diversion of roads to protect archaeological sites. As will be pointed out below, these costs should not be disregarded and indeed some form of evaluation of the economic consequences of experts’ decisions is highly desirable.

It is clear that no single policy tool is likely to be successful on its own in giving effect to heritage policy; rather what matters is how different instruments are combined and which level of government is entitled to use them. In many cases, a given tool can be used as a complement or a substitute for others. Complementarities arise between public subsidies and regulation when private cultural activities are publicly funded; for example, a private owner receiving public financial support for restoring a historic building might be compelled to carry out the project according to precise rules and may be obliged to allow for public visits. On the other hand, regulation and public funding can act as substitutes when a public activity related to heritage is privatised; for instance, if a publicly-owned building is sold to the private sector to be re-used, regulation can be applied to ensure that government objectives in regard to the building’s heritage quality are fulfilled.
6. Public-choice approach to heritage decision-making

In a principal-agent model of a representative democracy, politicians are construed as the agent of citizens and, in turn, the principal of the bureaucracy. Given that each actor pursues the maximisation of its own utility (politicians want to be re-elected and bureaucrats want to better their careers), the outcome of the public decision-making process in terms of society’s well-being will depend on its institutional design, i.e. on the incentives imposed on the various agents. In the heritage case, uncertainty about the definition of cultural heritage and the lack of voters’ information weaken the control on political representatives; also politicians may suffer information shortage because of the specificity of the knowledge and expertise required to understand heritage issues.

The institutional features of the decision-making process in the heritage field may vary. Delegation from politicians to bureaucrats can be complete, i.e. implemented with the institution of independent agencies, or incomplete, in the sense that politicians and bureaucrats interact, where the bureaucrat is assigned some goals by the politicians and chooses the tools to fulfil them [Alesina and Tabellini (2004)]. Moreover, different levels of government may be involved in various ways. Nevertheless, in most jurisdictions it seems realistic to describe the policy-making process as one in which politicians and bureaucrats interact, with the definition of goals and the decisions concerning the financing of cultural policies being determined at the political level, while the implementation of the policies is delegated to bureaucrats.

Typically decision-makers enjoy a high level of discretion, but face conflicting demands for conservation. In these circumstances there is room for bargaining and for rent-seeking activities. How the different interests will be represented and satisfied will depend on the institutional design, especially on the mechanisms used to prevent the opportunistic behaviour of agents, reducing their information advantage. It can be reasonably argued that heritage conservation is an avenue of government expenditure that enjoys general public support. Moreover, an ageing society is likely to support an increase in heritage conservation, especially in a globalised context when cultural identities can be perceived to be at risk [Benhamou (2003)]. These various demands are likely to be stronger the less visible the opportunity cost of conservation. Public opinion can be considered as being subject to a form of “fiscal illusion” with respect to heritage conservation, especially when regulation such as listing is used. This proposition is based on the assumption that conservation generates mainly benefits for the community; costs, if any, are concentrated on the owners of listed buildings and/or those otherwise directly affected by the regulation.

Other issues are relevant in shaping the decision-making process. If heritage deteriorates or is misused, bureaucrats will suffer. Because monitoring of bureaucrats by the

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21 For an extensive analysis of the public choice approach see Mueller (2003); an overview of the implications of public choice literature for the heritage case is provided by Mazza (2003)

22 This might be inferred, for example, from more general evidence for public approval of government support for the arts and culture; see Frey (2003).
politicians will be incomplete, they are subject to moral hazard and will therefore have an incentive to adopt a more cautious (i.e. conservationist) stance. Therefore they will seek to minimise the risk of irreversible losses, such as those caused by demolition or radical transformation of a building, and will oppose the use of historical or archaeological sites or buildings for mass events such as rock concerts, which can lead to the deterioration of heritage. The term “conservationist” refers also to a more general attitude leading to the unjustifiable enlargement of listing and to the implementation of very strict requirements for conservation, well beyond the correction of externalities; as a consequence the full enjoyment and utilisation of heritage can be endangered, for instance when restrictions prevent alterations needed to bring the interior of an old building up to modern standards of comfort. Bureaucrats will thus have an incentive to act in a very restrictive way. Such an incentive will be even stronger if the existing legal system makes them liable for any damage the heritage may suffer from the activities carried out on the site [Rizzo (2003)].

Thus in the heritage field the range and intensity of regulation appears to be not simply a policy instrument but rather an endogenous product of the public decision-making process [Rizzo (2003)]; from this perspective, it is not without significance that the large discretionary power enjoyed by regulators is coupled with the widening scope and extent of heritage observed in some countries.23 It is worth noting also that a sustainability issue arises from the enlargement of the concept of heritage because “delisting” proves to be highly unlikely. These considerations may help to explain why economic advice tends to find a greater “barrier to entry” into the decision-making process in the heritage conservation field than in other areas of cultural policy [Peacock (2004)].

Similar arguments can be developed with respect to the international circulation of works of art [Giardina and Rizzo (1994)]. The alleged normative rationale for regulating the international movement of works of art is the preservation of the visual arts and the protection of national identity and prestige. However, doubts arise as to the effectiveness of such a policy tool, since excessive regulation might induce collectors and/or dealers to leave the official economy and to undertake their exchanges in the underground sector; the likelihood of such an event is greater the smaller the risk of punishment, which is in turn a function of the amount of resources government allocates to monitoring activities. A different argument can be made to question regulation preventing the sale of the works of art belonging to public museums. Many museums exhibit only part of their stock;24 scarce resources are mainly used for conservation, and there is no room for an acquisition policy consistent with the specific artistic vocation of the museum. If museums (regardless of whether they are privately or publicly owned) were allowed

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23 Benhamou (2004) reports that the number of listed historic monuments in France more than doubled between 1962 and 1999 and that the same happened in the UK in the period 1990–2000.

24 According to Grampp (1996, p. 225), many museums exhibit 10 percent or less of the objects they have in their collections, including the Art Institute of Chicago (3 percent), the Hermitage in St. Petersburg (7 percent), the Prado in Madrid (9 percent) and the Alte Pinakothek in Munich (10 percent). An exception is the Louvre in Paris which is reported to display well over 50 percent of its paintings.
to sell or to exchange works of art that are not strictly connected with the museum’s artistic interests, they could use the proceeds to finance new acquisitions, thereby enriching the existing collections.\textsuperscript{25} Mutatis mutandis a similar argument applies in the archaeological field; some museums which collect material from an archaeological site store thousands of identical items (small amphorae, pottery, etc.), none of which has peculiar features. Once an adequate number of them is kept, the others might conveniently be sold and the proceeds used to finance either the proper conservation of the museum exhibits or the acquisition of new items. A good example is provided by the Pompeii archaeological site, where thousands of identical amphorae have been found and are currently stored while new discoveries or the conservation of the existing ones are constrained because of budgetary stringency. In these circumstances protectionist arguments for regulation cannot be justified on efficiency grounds.

It is apparent from the above discussion that institutional design may have a perverse impact: if the decision-making process is mainly affected by bureaucrats/experts’ interests, it is likely to bring about consequences that contrast with the claimed objectives of conservation policy. Even if the society’s demands might seem to be satisfied, this depends on the low visibility of conservation costs and on the general issue of asymmetrical information which does not allow for a clear perception of sustainability effects. The extent of such an argument depends upon the degree of autonomy experts are granted and on the incentive schemes faced by the bureaucrats. Therefore, devices are needed to improve taxpayers’ influence on public decisions, bearing in mind that these decisions will still need to rely on experts.\textsuperscript{26} One way of achieving this would be to follow Peacock’s (1994) suggestion that public participation could be enhanced if greater openness were to characterise the appointments of “lay” persons to decision-making bodies and if citizens who are active in heritage matters were allowed to vote for their own representatives within these bodies. Moreover, to fulfil the same purpose, compulsory consultation and review procedures might be introduced into the public decision-making process. However, the benefits of a greater political participation should be weighed against the likely increase in administrative and time costs which would derive from it.

From this perspective a relevant argument is that devolution, as Schuster (1997) defines it, increases the accountability of government and allows for a better control of the decision-making process. In the heritage case this implies that lower levels of government are entitled to use all the means – regulation, expenditure and taxation – available to pursue the objectives of heritage conservation and, as we shall show in the next section, this can have an impact on the policy outcome.

\textsuperscript{25} See further Chapter 29 by Frey and Meier in this volume.

\textsuperscript{26} The need for a governance structure to define a mechanism to restrain the discretionary scope of regulators is common to regulation in general [see Levy and Spiller (1996)].
7. Devolution in the formation and implementation of heritage policy

7.1. Advantages and disadvantages of devolution

The normative rationale for devolution is well known: the allocation of functions among the various layers of government should take account, among other things, of the geographical coincidence between taxpayers and beneficiaries of a given good or service. Such a conventional argument acquires specific relevance in the heritage field. The scope to be assigned to devolution in this field is likely to be larger than is usually claimed, because spillover effects are internalised [Rizzo (2004)]. Sub-central levels of government in fact will promote heritage conservation even when the geographical coincidence does not hold; the more important a particular item of heritage and the wider its reputation, the greater are the external benefits related to its existence and the beneficial impact it can exert on tourism and, as a consequence, on the local economy [Brau, Lanza and Pigliaru (2003), Cellini (2004)].

However, to rely mainly upon tourism motivation in defining heritage policies might create problems; apart from congestion, it might bias policy, leading to undervaluation of other long-term benefits related to cultural value but less visible in the political market. For instance, such undervaluation might affect policies directed at the education of younger generations in order to raise their appreciation for the arts; if these policies are successful, the need for public support to the art sector could eventually be reduced. At the same time, if the rationale of economic development promoted by tourism prevails, devolution might lead to a concentration of resources on heritage with higher economic return, penalising minor heritage that may be closely connected with local identity and history but of lesser economic value [Mazza and Rizzo (1998)], although such an effect might be mitigated by the presence of voluntary local associations devoted to preserving minor heritage because of its relevance to the local community. A further issue is that stressing the tourism motivation can give rise to other problems such as the imposition of values that conflict with local tradition and identity, a problem that can be significant in developing countries. Again, the relevance of decision-making process and of the motivations underlying it comes into the picture.

A positive aspect of devolution is that it may be helpful in overcoming or reducing the sorts of asymmetries in information discussed in the previous section. In general it can be argued that devolution improves citizens’ information by allowing comparison among different alternatives, and also that the existence of many agents improves the principal’s information.27 The issue acquires specific relevance in the heritage case where public policy can offer a variety of solutions; hence comparison may turn out to

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27 The extreme consequence of this is described by the well-known phenomenon of people “voting with their feet” [Tiebout (1956)]; i.e. rational individuals exit communities which offer less attractive packages of taxes and local public goods to move to others offering more attractive packages.
be useful. Moreover, there is every reason to believe that sub-national tiers of government will be able to interpret the need for conservation better than the central government, given that the link between heritage and citizens is closest in the community in which the heritage is located.

This issue is relevant in multicultural societies where local governments can be considered more suitable for providing services for different ethnic groups and for promoting the participation of minorities [Fondazione Eni Enrico Mattei (2003)]. It would be interesting to investigate how such participation, coupled with the extension of the right to vote to immigrants and ethnic minorities, would affect the outcome of the political decision-making process as far as local heritage conservation is concerned. In multi-ethnic societies the heterogeneity of preferences weakens the assumptions behind fiscal federalism. Oates’ theorem demonstrates that heterogeneity within a specific community does not necessarily ensure the superiority of a decentralised provision of public goods and services in terms of social welfare. Equally it has been demonstrated [Bridgman (2004), Alesina, Baquir and Easterly (1999)] that, when there is majority voting, ethnically heterogeneous jurisdictions tend to provide smaller amounts of public goods than homogeneous jurisdictions. These effects are more pronounced in the heritage case because in a multicultural society the concept of local identity is more controversial than in a homogeneous society; as a consequence, if resources are devoted to promote local heritage as a symbol of local identity, such a decision is costly for those who do not recognise themselves in such an identity and have other priorities in terms of local public goods. Moreover, stressing local identity through heritage might reduce rather than strengthen integration of multicultural minorities. Overall it is not clear whether the net effects of decentralisation in this case will be positive or negative.

A final advantage of devolution is that the monitoring of bureaucratic behaviour is likely to be simpler and easier at the local level (assuming the system favours political accountability), since the opportunity costs of bureaucratic decisions can be more readily observed. The fact that bureaucrats can be monitored might make it easier, for instance, to adopt at local level codes of practice or guidelines agreed between the regulator and those involved in conservation activities (architects, building firms, engineers, cultural associations, etc.); such procedures reduce the uncertainty related to investments in heritage conservation.

7.2. Practical issues

We turn now to some practical issues relating to devolution. The implications of devolution for heritage policies can be quite different according to the kind of heritage existing in the region. Consider, for example, the case of outstanding (“superstar”) heritage items. For such heritage the choice between devolution and centralisation is not crucial because, as noted above, the unique characteristics of the heritage affect the decision-making process in similar ways regardless of the level at which policy is made. In addition, financial constraints are likely to be less stringent in the case of outstanding-
ing heritage even if it is located in a poor region, because private sponsorship will be more willing to provide financial support for the conservation of this heritage than for less well-known heritage. At the same time, in a devolved context the existence of outstanding heritage might lead to complementary policies for the conservation of minor heritage within the same area, using the attractiveness of the former to promote income-generating uses for the latter. Policies tend to be easier to promote if decisions are taken by one decision-maker, i.e. the sub-central level of government, while transaction costs will be higher if an agreement has to be reached between different layers of government, each with different responsibilities. An interesting example is the case of City Museums in Venice where network economies are generated: a visit to the Palazzo Ducale, which is an item of state heritage and whose management has been assigned to the city, is offered in a package with a visit to the lesser museums in Piazza San Marco, with the positive result that the local government “makes profits” out of them [Zan (2001)].

Devolution might also lead to enlargement of the range of what is perceived as “culture” in particular locations. For example, visitors to a city or region might be offered a package including visits to minor sites and museums, attendance at performances which take place in historic buildings or archaeological sites, visits to handicraft ateliers, and so on. Different types of itineraries can be designed around a leading theme. To illustrate, in Italy at the regional level “wine routes” are designed to present unfamiliar heritage associated with specific social and economic functions, illuminating local history and producing an impact on the related economic activities. Another example is the so-called “literary parks”, where an itinerary is created to illustrate the work of famous writers and to experience the places that gave birth to them and inspired their masterpieces. In these sorts of cases, horizontal cooperation among local governments is usually needed and the free-rider problem is likely to be overcome by the mutual interest in gaining the benefits deriving from a joint cultural supply. Devolution matters because it may contribute to the creation of a “virtuous circle”, developing a common strategy among different partners such as local governments, economic and cultural operators, crafts makers, associations and so on which can be helpful in supporting minor heritage, enhancing its capability of providing income-generating services.

A further argument in support of devolution relates to the potential conflict which may arise between different levels of government when a central or regional regulatory power impacts upon urban policy carried out at local level. For example, local government decisions on matters such as urban renovation may be constrained by regulation established and implemented at a regional level [Mazza and Rizzo (2000)]. If so, a conservation decision taken at the regional level will produce costs and benefits for a set of voters that are relevant for politicians at the local level but are not taken into account by the politicians at the higher level of government. As a likely consequence, self-interested regional policy-makers will find it convenient to adopt strict rules, since the social costs will be borne only by local owners within the local jurisdiction which is not relevant for them, and the benefits will be spread out over the whole population.
7.3. Summary

To sum up, we have argued that the issue of devolution acquires special relevance in the case of minor heritage. The argument rests on the assumption that at local level a better representation of citizens’ preferences is likely to occur as well as better scrutiny of public decisions, which can be expected to induce decision-makers into taking account of the opportunity cost of their choices. Moreover, at a devolved level it is easier to identify those who gain and those who lose from regulation; members of the latter group may have more room to organise themselves, acting as watchdogs rather than being only passive adjusters to heritage authority decisions made higher up. This does not mean that devolution will necessarily provide optimal solutions, but only that the decision-making process will be less supply-oriented. On the other hand, the opposite argument, invoking central decisions to reduce the role of local pressure groups opposing conservationism, leaves unanswered the sustainability question and is less likely to satisfy the society’s demand for conservation.

Nevertheless, the findings of recent research on heritage policies in Sicily [Rizzo and Towse (2002)] indicate that unless an adequate incentive system is introduced in the decision-making process, devolution as such is not enough to bring about improvements in the accountability and responsiveness of heritage authorities to public opinion or the introduction of better economic management of cultural institutions. Thus, despite devolution, museums in Sicily have not improved their performance, paying little attention to the needs of visitors, with limited use of multimedia information and a lack of strategic cooperation among different institutions at the local level. In addition, public opinion has not been mobilised, with few voluntary associations such as “museum friends” compared to other Italian regions. A possible explanation may be found in the institutional features of the Sicilian case; lack of real fiscal autonomy coupled with a proportional voting system have led to low levels of accountability of regional government in Sicily and high political instability, weakening the instruments of control over bureaucracy. Although political and administrative reforms have been recently introduced to improve political and bureaucratic accountability in this region, it is not clear whether they will bring about any change in the management of heritage and museums.

8. The role of the private sector

8.1. Effects of regulation

The role of the private sector in heritage conservation can be analysed from different perspectives: individuals and firms are private investors when they are owners of heritage and are directly involved in conservation; at the same time, other private agents contribute with donations and sponsorships to heritage projects of various sorts. The behaviour of these private participants in cultural heritage is based on a variety of motivations and is affected by whatever mix of policy instruments might be chosen.
Regulation affects private decisions to invest in heritage conservation and therefore shapes the public–private mix in the heritage market. If regulatory decisions are taken adopting a conservationist stance, private investors will face uncertainty and higher costs and are likely to be discouraged. The extent of such an effect, however, depends on the policy mix, i.e. whether direct or indirect public spending is coupled with regulation. If public financial support is indeed to be provided to the owners of listed buildings, the question arises as to how it should be designed. Direct spending leaves more room for discretion for the decision-maker to identify the eligible beneficiaries, while tax allowances are automatically enjoyed by all the owners of listed buildings. As far as effectiveness and equity are concerned, the effects will depend on how these tools are actually shaped. For instance, subsidies might be in the form of matching grants, tax allowances could be designed as tax exemptions or deductions, and so on. In regard to equity, tax allowances are generally likely to favour rich taxpayers compared with direct spending.

Empirical evidence allowing a comparison to be made between different countries is difficult to find. It is not so easy to isolate the impact of regulation from other policy measures. Feigenbaum and Jenkinson (1984) found that in the United States both the grants-in-aid and tax credit programs had a positive effect on per capita preservation expenditure and no major differences were found in the effectiveness of these tools. Benhamou (2004) points out that in France an extensive system of financial support does exist for private expenditure on conservation; overall, private owners of listed buildings benefit from listing, as shown by the difference in value between listed and non-listed buildings. This differential is smaller in the United Kingdom because, whereas French regulation concerns only visible parts such as the façades, in the United Kingdom it refers to the entire building. No evidence exists for Italy as far as the impact of heritage policy on prices is concerned, but it can be presumed a priori that a disincentive effect is likely to exist.

8.2. Sustainability in heritage financing

Turning to the sustainability issue, we note that the likely unintended consequence of a conservationist stance might be the crowding out of private investment for conservation, if public spending is not directed toward compensating owners for the financial burden involved. To what extent this occurs is an empirical matter but the effect would be to reduce the overall amount of available resources for heritage conservation. On the other hand, if private investment is not crowded out by public spending, a conservationist stance will produce increasing pressure on public funds because, as noted above, listing is likely to expand; whether such pressure is sustainable depends among the other

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28 If, as appears to be generally the case, listing increases the market prices of buildings, owners benefit and might therefore be expected to bear a greater share of the cost of conservation; see discussion in Benhamou (2004) and Creigh-Tyte (2000).
things on the stock of heritage as well as on the strength of financial constraints. If the size of the stock is huge relative to GDP, a sustainability issue arises; heritage is likely to deteriorate, which is the opposite effect to that desired. This effect is likely to be self-perpetuating, producing increasing pressure on public funds and further decay. The same negative result is reached if private owners, because of the stringency of regulation, undertake their activities without complying with existing rules; the likelihood of this outcome is greater the lower the owners’ risk of punishment. In all these situations, effective monitoring of the impacts of regulation is difficult because of the amount of resources required.

The above considerations suggest that no unique conclusion can be drawn as to the desirable path in the policy mix, since the solution will depend crucially on particular countries’ features. Netzer (1998) offers an emblematic example comparing USA and Italy with respect to the ratio of annual heritage capital consumption to GDP, reaching the conclusion that in Italy the costs required to maintain the capital stock are unaffordable. He estimates that in Italy the capital consumption allowances would amount to nearly 35 percent of GDP while in the USA it would be only 0.05 percent of GDP. In fact, total public spending on culture in Italy comprises a low percentage of GDP (0.67 percent), which is around the average of OECD countries; almost half (45 percent) of such expenditure is devoted to heritage rather than to other cultural goods [Pasquali (2003)]. Thus Italy’s public effort, though financially comparable with other countries, is inadequate to the heritage conservation task, calling at least for the introduction of an opportunity cost criterion into the decision-making process, whereby any decision in regard to heritage should take into account the costs and benefits stemming from different stances (conservationist vs. non-conservationist). However, the public decision-making process in Italy has not been designed to take into account such a constraint; indeed, it offers an example of the “fiscal illusion” issue mentioned above.

Listing applies only to private heritage while until recently any public item older than 50 years was considered by definition part of heritage, to be conserved regardless of its condition. Only recently has the possibility been introduced of selling these latter items provided that, after a complex bureaucratic procedure, heritage authorities agree that the item to be sold lacks any historical or artistic value and impose only weak constraints on the buyer in terms of allowed uses. Public opinion as well as experts have reacted strongly against such a possibility, claiming that Italian heritage was at risk but without suggesting alternative ways to find resources for the prevention of heritage decay. Interestingly enough, the relevant law was originally proposed by the Ministry of Treasury, with the clear objective of raising money from the sale of public property; a different and less conservationist mentality within the heritage authorities might have allowed for a more coherent policy based on clear cultural priorities and on more precise guarantees [Rizzo (2005)].

29 However, as has been pointed out in Section 6 above, this is no easy matter.
How conservationist should public policy be? If a conservationist stance makes it difficult to pursue income-generating uses, it might have a negative impact on the conservation of historical districts etc. and therefore on the promotion of sustainable local economic development. The arguments put forward above would suggest that the larger the size of heritage stock, the less conservationist public policy should be. On the other hand, it might be argued that if attention is paid to other potential sources of support for heritage, such as forms of supra-national intervention or of international philanthropy, a conservationist stance might be perceived as a signal of quality, thereby creating the impression that the support is warranted. However, the extent of such an effect in reality does not seem significant enough to justify a reorientation of domestic heritage policy.

8.3. Philanthropy and heritage

We turn finally to the role of the private sector in the areas of philanthropy, sponsorship and voluntary action in support of heritage. To encourage private giving in its various forms, governments mainly provide indirect support to individuals and business, via tax exemptions; however, direct support is also sometimes involved, as occurs when matching grants are given to arts institutions on condition that an equivalent amount of private support is raised. Public policies follow different patterns in different countries [Mussoni (2003)]. In some countries, such as the United States, the United Kingdom and recently Italy, equal tax treatment is accorded to patronage and sponsorship, while in other countries, such as France and Germany, tax treatment differs. Moreover, most countries, including the United States, the United Kingdom, France and Germany (but not Italy) provide tax incentives not only to monetary giving but also to in-kind giving. Of course, different tax devices have different effects. A tax system which is neutral with respect to the donor/sponsor choice is likely to strengthen private influence on cultural decisions; this may be perceived as a challenge to the development of culture as the autonomous outcome of the democratic collective decision making process, insofar as the control over the use of resources (of voters through their representatives) might be partially given up because private donors/sponsors would decide priorities. In the specific heritage field, as noted above, private decisions might be driven by the prestige of the monument or the institution concerned; for instance, in Italy empirical evidence shows that private contributions have privileged well-established institutions to pursue highly visible restoration activities.

The different policy measures in different countries give rise to varying patterns of private giving. As far as corporate support for the arts is concerned, Kirchberg (2003) notes that differences, though still consistent, have reduced in recent years. Mazza (1994) suggests that a possible explanation of differences in private giving among countries may lie in the fact that when the provision of cultural goods is primarily a government responsibility, social recognition for donations is low; therefore, sponsors

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30 See further Chapter 36 by Schuster and Chapter 37 by Katz in this volume.
I. Rizzo and D. Throsby will not have sufficient economic incentive to support the arts, and only patrons, who are not interested in social approval, will provide their support.\footnote{For further discussion of sponsorship, see O’Hagan and Harvey (2000) and Leclair and Gordon (2000).} Such an argument is in line with empirical evidence in Italy, a country in which traditionally heritage conservation is considered a public duty; Mussoni (2003) reports that the overall amount of private giving in the first two years of the implementation of a new law encouraging private cultural support has been more modest than expected. Moreover, only 37.4 percent of private contributions have been directed to heritage while 62.6 percent have been devoted to support for the performing arts.

The United States case is widely taken as an example to stress how social norms or shared social recognition of the importance of the arts provide the fertile humus in which tax incentives act as effective tools to stimulate private contributions. This does not mean that the same tax scheme will exert similar effects everywhere because private support in whatever form is the result of a complex array of elements specific to each country.

9. Conclusions

In this chapter we have endeavoured to show how economic theory and public policy analysis can illuminate decision-making relating to cultural heritage. Several themes run through our discussion. First, we have argued that from an economic point of view the appropriate conceptualisation of heritage is as capital. In theoretical terms this opens up rich possibilities for analysing the productivity of heritage, and for formulating strategies for heritage investment; the distinctively cultural character of the capital assets under consideration adds a specific and challenging dimension to these analyses. In policy terms, regarding heritage as a capital asset places it alongside other items of the economy’s capital stock for which governments have some responsibility, and conditions the application of the principles of public finance to this area.

Second, our concern throughout has been with sustainability. Our theoretical discussion has been particularly concerned to formulate conditions for defining sustainable development paths for cultural heritage. These considerations have informed our treatment of heritage policy, where maintenance of the cultural heritage stock has been seen as one of the critical issues facing policy-makers in many countries today.

Third, we have stressed that efficient institutional structures are an essential element in delivering sustainable policy outcomes. Questions of the appropriate mix of policy instruments, the allocation of functions between levels of government, and encouraging a positive role for private sector participation are all matters that are facilitated by good institutional design.

Finally, to come back to the beginning, we can reiterate the importance of information, especially via education in the arts and culture field. Public policy supporting
heritage can provide long term educational benefits, raising social appreciation for the arts and perhaps eventually reducing the need for increased public subventions in this area.

References