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## 32 Heritage

*Françoise Benhamou*

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The economics of the built cultural heritage has a particular status in the field of cultural economics. Heritage goods share some characteristics with other cultural goods, especially uniqueness and their perception as merit goods. They differ also from other cultural goods because of durability and irreversibility: if a historical building is transformed or destroyed, it cannot be recreated or restored in its initial shape. From this point of view, heritage economics is close to environmental economics. They share the pre-occupation of sustainability, and the existence of an international demand linked to tourism.

Heritage goods generate mixed feelings among researchers. Publications are not so numerous, probably because of many methodological difficulties: empirical issues lack data, and comparative studies are limited by the very specificity of national situations. Moreover, there is a kind of soft consensus in favour of public regulations, at the same time as subsidization is criticized for its inefficiency.

### **Definition**

Heritage includes different forms of cultural capital 'which embodies the community's value of its social, historical, or cultural dimension' (Throsby, 1997, p.15). In this chapter we only emphasize the question of built heritage, in the restrictive sense of immovable heritage, including archaeological sites, historical buildings and historic urban centres (or some part of them). A very simple definition would identify the built heritage as the buildings and monuments inherited from the past, with a cultural or historical dimension justifying their preservation for future generations, but also modern monuments whose symbolic or cultural value is high: houses or buildings designed by a kind of international elite of architects. Even in this sense, heritage includes a large range of goods, whose definition changes over time and space and depends on the variety of dimensions (symbolic, cultural, national identity-oriented, social and suchlike) included in the concept (Chastel, 1986). Therefore heritage is a social construction whose boundaries are unstable and blurred, with a twofold source of extension: historical additions and enlargement of the concept of heritage towards additional items (gardens, industrial buildings, and so on).

Peacock (1997, p.195) argues in favour of a Beckerian definition of heritage

as ‘an intangible service increasing the utility of consumers, in which historic buildings and artefacts are inputs’. Such a definition recognizes the existence of substitutes for goods that have some characteristics in common. This conception presents the advantage of including services offered through new technologies, provided that the consumer considers a visit through new technologies (CDRom, Internet) a satisfying substitute for a ‘real’ use.

One can oppose an institutional definition (the official listing of historical buildings) and a more informal definition (what art historians or mere citizens think should be maintained and preserved). Different institutional definitions of heritage may be distinguished also, depending on the level of the administration in charge of them: from a small city mayor deciding to undertake restoration of a little rural church, to an international organization like UNESCO providing lists of artefacts that it considers as the basis of an international human patrimony. Local or national authorities may be in opposition to international demand. Contrary to Klamer and Throsby (2000), preservation is never obvious, as we have recently seen with the Taliban’s destruction of the giant sculptures of the Buddha, but also with the recurrent debate about the spoliation and restitution of parts of monuments (as in the case of the Parthenon friezes and their storage in the British Museum) or with the controversial question of destroying or preserving urban centres built in the 1950s.

### **Characteristics of cultural heritage**

Cultural heritage has public good characteristics. Firstly, indivisibility generally prevails: the consumption of publicly-owned goods is a priori identical for all consumers provided that the monuments – especially their façades – represent joint, non-rival goods. Nevertheless, congestion may occur for overcrowded monuments, at a risk: degradation, especially for ‘superstar’ sites or monuments (Venice, Mont Saint Michel, Statue of Liberty, Tower of Pisa, Angkor and so on), threatens buildings that attract too many visitors. For these monuments, reputation increases with the number of users, creating network externalities.

Secondly, externalities are a source of market failure. First of all, externalities concern the fact that heritage constitutes a legacy to be passed on to future generations (bequest value). Heritage also confers benefits on individual citizens, who have not contributed to their production or preservation. Many economists also emphasize the spillover effects of historical monuments for local activities and tourism. Moreover, excludability is not always possible or desirable. Greffe (1999) addresses the question whether to charge a price or not (when possible). He analyses price discrimination policies in heritage buildings and sites, emphasizing the lack of clarity that results from the large variety of policies.

These characteristics constitute a strong argument for public funding in order to correct market failure, and for the impossibility of grounding the choice of preservation solely on market forces (Mossetto, 1994; Koboldt, 1997).

**The market value of historical buildings: some methodological questions**

One of the greatest difficulties is the evaluation of demand and supply. Tools are available to evaluate heritage demand and the willingness to pay. Contingent valuation methods value consumer preferences that people place on heritage. Different biases are inherent to this survey-based methodology, especially 'free-riding', that can be explained by the collectively owned nature of certain goods as described above. Referenda have the advantage of combining the evaluation of competing alternatives with democratic decisions. They are routinely undertaken in Switzerland (Frey, 1997). The travel cost method is based on the hypothesis that the cost of travel (including time opportunity cost) to heritage sites is a satisfactory proxy for the visitors' willingness to pay. Such a method underestimates demand by excluding non-users. The hedonic pricing method is theoretically much more convincing. According to this method, a building is considered as a bundle of characteristics. It estimates the differences in value of buildings with a set of identical characteristics, but located in two different areas (listed and non-listed), considering that the price of a property can be viewed as the sum of the shadow prices of its characteristics. Unfortunately, many difficulties arise for the estimation of hedonic prices (Stabler, 1995).

It has been suggested that the utility of preserving the past increases with the age of consumers, especially in the case of rapid social and economic change, when national identities seem threatened by changes. Therefore the intensity of demand varies according to a series of factors, such as access, revenues, price and age.

The market value of historical buildings includes the possibility of property rental. It may differ greatly from the scientific value (as the object of study) and communication value (the social significance of heritage, its aesthetic and commercial value); a property with zero market value, except that of the land (such as a country church), can have very great scientific value. Heritage goods have option value and existence value also. Option value is defined by what the non-user is ready to pay in order to preserve the possibility of benefit from an asset in the future. Existence value is obvious when individuals gain utility from the mere existence of cultural goods that they do not directly consume.

Costs of restoration and upkeep are high, since listing implies the hiring of skilled labour and the use of rare and hence expensive building

materials (Benhamou, 1996). Those costs increase with the stock of heritage. One can argue that nobody can anticipate the test of time. This uncertainty implies the broadest preservation policy possible, taking into account that present-day preferences of consumers may differ markedly from future preferences. But the vast financial burden of preservation imposes the need to select a set of buildings from among the large variety of possibilities and claims. Two kinds of criteria coexist: objective criteria, like the age of the building, its state of conservation and the emergency, and subjective criteria, like the definition of the experts themselves, who give the imprimatur to heritage goods. With subjective criteria, there is a risk of a conventional and self-referential process (Throsby, 2001), given that criteria are not well established and may be imposed by experts for their own benefit: regulators have their own preference functions which they impose on the public; in such a case, the capture of regulators, as for other public utilities, leads to an oversupply of heritage.

Heritage supplies jointly produced outputs. This feature increases the problems of evaluating the performance of public or private suppliers.

### **Regulations**

When the stock of cultural items is large, the marginal value of a specific item is low (Hutter, 1997; Netzer, 1998); that is an explanation for the low level of preservation in Italy. The problem in Italy is probably merely due to the huge costs of preservation in that country. Among policy issues, Throsby (2001) makes the contrast between 'soft' and 'hard' regulations. Soft regulations open up the possibility of relatively large tax incentives and subsidization, or mere agreements, while hard regulations include enforceable legal restrictions on use, exchange and transformation.

Listing requires owners to conform with a series of constraints that range from restrictions on alteration and demolition, and supervision of works by public experts, with the requirement that the work be done by approved contractors. Moreover, in many countries, inheritance tax deductions are submitted on the opening of the property to the public during a defined period. Therefore regulation creates an incentive to reveal the existence of heritage goods and to provide services to the public. But regulation also creates an incentive to apply for subsidies: moral hazard occurs, creating a collective propensity to produce more heritage than would be preserved in a free market situation (Benhamou, 1996). Individuals asymmetrically weight losses and gains in the case of heritage, and therefore have a natural propensity to apply for preservation. Social costs of preservation may be much higher than is socially desirable.

Theoretically, bestowing on a monument a mark of architectural quality increases its market value. But a study conducted in the UK in 1993 did not

find any substantial change in the commercial value. Does listing increase market value of buildings? Research findings in Great Britain (Creigh-Tyte, 2000) compare returns of listed and unlisted office properties over the period 1980–95. According to Creigh-Tyte, values of listed properties built before 1974 match or exceed their unlisted equivalents. Moreover, the oldest (pre-1945) listed properties slightly exceed the return for all properties. Unfortunately, data collected in this survey only concern offices and not residential buildings.

Listing probably gives birth to a twofold effect on value (higher value because of symbolic significance versus lower value because of a loss resulting from the opportunity costs of delay and constraints). Subsidies should compensate for the loss only when it occurs.

An alternative way of analysing the question of the effects of listing on market value consists in taking into account property rights allocation. Different individuals may own distinct attributes of the same commodity (Barzel, 1997). Thus, among the multiple attributes of a historical building, some are related to the private owner, and others have to be shared with others, because they are a part of the national collective heritage. Therefore restrictions on the owner's behaviour are imposed in order to protect the rights of the other citizens, and public authorities capture a part of the property rights because of the inherent heritage quality of the property. The state and the owners share the responsibility for restoring registered monuments, as is observed in most countries.

Sable and Kling (2001) identify a double public good feature also: historical assets enter into household utility functions *and* contribute to the public externality of 'shared experience'. The twofold nature argument applies better to façades than to interiors; the idea of preserving only the façades gave birth to a very questionable preservation choice named 'façadism', consisting in preserving the integrity of façades and freely re-organizing the interiors, with owners free to adapt their properties to modern life. Art historians generally criticize such an exercise, considering that it implies a loss of cultural value. This question of quality is emphasized by Mossetto (1992), who shows the voluntaristic nature of goods that people wish to keep unchanged for centuries, as in the case of Venice. In the same way, re-use responds to cost concerns, by creating value (Mossetto and Vecco, 2001), but is always susceptible to threatening the historical quality of a site. As in the Baumolian cost disease case for the performing arts, economizing costs may lead to a decrease in quality.

An interesting debate concerns the degree of restoration. Are identical reproductions of the past stimulating solutions, or should each period leave the signs of its conceptions of the way to preserve the past, as in the case of Viollet le Duc architectural restorations? This question is close to that

of inalienability. When historical buildings are publicly owned, are there any possibilities to apply market forces in order to diminish the weight of preservation for taxpayers? The same issue concerns some works of art in the storage of public museums (de-accessioning). From this point of view the question of the preservation of non-moveable heritage (providing fixed-location services) shares many aspects with moveable artefacts.

Peacock (1998) denies the existence of inalienable rights for the preservation of buildings that would lead each generation to preserve a stock equivalent to that which it has inherited. This intertemporal redistribution issue relies on the assumption that future consumers will cover the costs of such an accumulation. He adds that there are no grounds that justify '[forcing] present generations, especially in poor countries, to make the implied sacrifices in terms of the alternative use of resources in the expectation – which could be falsified – that future generations will perceive extra benefits from a bequest of historical artefacts at the expense of other forms of physical capital' (Peacock, 1997, p.229).

The question is more complicated when taking into account the international concern for the preservation of other countries' heritage. According to Netzer (1998), there are cases in which foreigners are ready to contribute to preservation, because of option, existence or bequest values. International demand for heritage services in numerous poor countries is undersupplied when financing preservation depends only on the national decision-making process.

### **Private versus public, local versus central**

A large part of cultural heritage remains in private hands. Mossetto (1994) notes the existence of three different levels for the extent of preservation: re-use, (partial) restoration and preservation. In the two first cases the market works adequately, while public regulation is unavoidable in the third case. One of the specific problems is the risk linked to the two first cases: without any intervention, heritage may be radically transformed and its long-term value reduced by the loss of its historical characteristics.

Privatization is often presented as a solution in order to limit public expenditure. Whatever the case, public funding may be added to private finance. Public funding helps listed buildings' owners to undertake works and preserve the property as a whole. Therefore a mixture of private and public finance should not be opposed. There are private altruistic solutions, in the case of non-profit institutions in charge of heritage (like the National Trust in the United Kingdom) and friends' associations. Another form of private altruism relies on the proportion of voluntary labour in this field. The National Lottery has been mainly developed in the United Kingdom, but, in such a case, taxpayers are replaced by gambling groups, leading to

a regressive effect (Peacock, 1997). Final choices depend on the context, on the nature and extent of externalities.

Some debates emphasize a second opposition between local and central support. According to Peacock, devolution towards funding by regional and local authorities would increase the individual involvement in the decision-making process. But the legitimacy of devolution depends on the type of monument concerned. A case study of Sicily shows that devolution has not diminished the gap between local voter preferences and those of policy makers: while administrative responsibility relies on local authorities, funds still come from central authorities (Rizzo, 2002).

### Final remarks

The economics of built heritage does not live in a ghetto only concerned with the question of preserving the past. Economists help policy makers to find appropriate solutions when intellectual property rights intervene in the decision process: for example, when every image of the 'Pyramide du Louvre' designed by Pei provides royalties to its architect. Economists may value the way new technologies increase the market value of monuments, by enlarging the circle of their potential users (as in the case of the record industry for the performing arts). Economists have to undertake more studies on the impact of regulation on supply and demand behaviours. Many stimulating avenues for further research are still open in this field.

### See also:

Chapter 14: Contingent valuation; Chapter 19: Cultural capital; Chapter 52: Regulation.

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