REGIONAL ASPECTS OF HERITAGE ECONOMICS: ANALYTICAL AND POLICY ISSUES

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ABSTRACT: This paper considers recent advances in the economics of cultural heritage that have relevance for regional analysis. Concepts of cultural capital, cultural value and culturally sustainable development are defined, and their implications for the evaluation of benefits and costs of heritage projects in a regional context are discussed, with particular reference to the evaluation of non-market benefits and costs. The recent Inquiry by the Australian Government's Productivity Commission into the policy framework for the conservation of Australia's built heritage places provides a useful illustration of the strengths and limitations of economic analysis applied to heritage policy; accordingly the paper discusses some regional implications of the findings and recommendations contained in the Inquiry's final Report.

1. INTRODUCTION

Considerable progress has been made in recent years in understanding the economics of cultural heritage. Indeed heritage economics has emerged as an identifiable area of specialisation within the broader field of cultural economics (Peacock and Rizzo 1994; Peacock 1995, 1998; Hutter and Rizzo 1997; Benhamou 2003; Rizzo and Throsby 2006). Writers in this area have been concerned, firstly, to articulate concepts that are useful in understanding the economic dimensions of cultural heritage; secondly, to develop techniques of assessment and measurement as a means towards empirical analysis; and thirdly, to point to policy implications. Much of this work has relevance to specifically regional issues. To some extent regional application of the analysis of cultural heritage can be seen simply as an extension of regional analysis techniques that have been well developed in other contexts. So for example economic impact studies that use methodologies such as regional input-output analysis, regional-level social accounting matrices or computable general equilibrium models (Nijkamp *et al*. 1986; Loveridge 2004) to look at the effects on a regional economy of an investment project of some sort may, at least at first glance, be undertaken with respect to investments in cultural heritage; in such cases the capital costs might involve renovation or restoration of historic buildings or sites and future payoffs might be seen in tourism revenues, rental income from adaptive re-use, and so on.

However, the interesting question is whether there are particular qualities of *cultural* projects that make them different from other types of project and that therefore raise theoretical or methodological issues not encountered elsewhere. In this paper this question is examined, looking in turn at the three areas of interest in heritage economics noted above -- concepts, analytical techniques and policy application. The last-mentioned area has particular contemporary relevance in Australia because of the Productivity Commission's recent Inquiry into built heritage; analysis of the final Report from this Inquiry (Productivity Commission 2006) provides some useful insights into the application of the theory and methods of heritage economics to current Australian policy-making in regard to cultural heritage at both national and regional levels.

2. CONCEPTS

The term "heritage" has a number of different meanings, though all imply some notion of inheritance from the recent or distant past. The distinguishing characteristic of *cultural* heritage is its association with the culture of a group, whether the group is defined regionally, nationally or on some other basis. In this context culture may be thought of both in an anthropological sense by reference to the shared values that bind a group together, or in a narrower sense in terms of group activities such as production and consumption of the creative arts. Cultural heritage may be *tangible*, occurring for example in the form of art objects, artefacts, buildings, sites or locations of cultural significance, or *intangible*, existing in such nonmaterial forms as inherited traditions, rituals or customs. Either way, heritage can be seen as a form of asset belonging to an individual, a community, a region, a nation or to humankind as a whole.

From the viewpoint of economics, the concept of asset is aligned with that of capital; in traditional economic theory capital is interpreted both as a store of value (a stock), and as a source of capital services (a flow) when combined with other inputs over time. This leads us to define the first important concept that has emerged in the field of heritage economics, that of *cultural capital* (Throsby 1999, 2003). The definition turns on the particular values that heritage assets entail. A piece of "ordinary" physical capital such as a machine or a conventional building embodies or gives rise to economic value, observable in its asset value or in the monetary returns it yields. Likewise a cultural asset such as a historic building also generates economic value measurable in financial terms, but there is a difference -- in addition the building has cultural significance that may not be reducible to a monetary measure. In other words the economic values attaching to a historic building must be augmented with some assessment of the building's cultural worth, however that may be expressed. Thus a formal definition of cultural capital is as an asset that embodies a store of cultural value separable from whatever economic value it might possess, and gives rise to a flow of goods and services which may themselves have cultural value in addition to whatever economic value they may yield over time.

To illustrate, suppose the item of cultural capital is a historic site in a particular location. The full asset value of the site (economic plus cultural value) will exceed its market value to the extent that its cultural value exceeds what is captured by the market. Furthermore its flow of services provided, for example, to tourists, will be valued not only in economic terms but also in terms of the cultural value accruing to the visitors. In a regional context it is possible to imagine a stock of regional cultural capital as comprising the aggregation of all cultural assets in a given (sub-national) region, bearing in mind that the benefits may accrue beyond the regional boundaries, for example if some of the assets are of national or international cultural significance.

A particular attraction of conceptualising heritage as cultural capital is that it opens the way for the direct application of a range of associated concepts deriving from the management of physical capital assets in economics, such as depreciation, maintenance investment, rates of return etc. Given that heritage managers in the real world have to deal with treasury officials, finance officers etc. in negotiations about funding or in discussing the effects of regulation on the properties under their control, it helps to have a common language with which to communicate; reference to cultural capital and associated concepts provides such a point of contact. Moreover casting heritage conservation as a capital project allows application of investment appraisal methods such as cost-benefit analysis to both the economic and the cultural effects of the project, as we shall see further below.

The final concept in the economics of cultural heritage to be considered in this section is that of cultural sustainability or culturally 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 (World Commission on Environment and Development 1987, p. 43). This concept enshrines the principle of intergenerational equity. The same ideas can be applied to the management of cultural capital. It can be argued that the present generation has a duty of care over its cultural assets arising from the same intergenerational concerns. Furthermore, just as natural ecosystems are essential to the maintenance of economic activity, so also can cultural "ecosystems" and cultural diversity be seen as important components of the infrastructure supporting a dynamic economy. Another key element of sustainability in the management of natural capital is the precautionary principle, which advocates a risk-averse stance in decision-making potentially involving irreversible consequences such as species extinction. The parallel with cultural capital is clear; the same precautionary principle can be invoked, for example, when demolition of a historic building is threatened, since the uniqueness of individual items of cultural heritage cannot be replaced once they are lost.

Taken together, the concepts discussed above mark out a case for treating heritage as a distinctive phenomenon in contributing to the economic and cultural development of a regional or national economy. The critical distinguishing aspect of heritage in this context is its cultural value content, a matter to which we return in the next section.

3. ASSESSMENT METHODS AND ANALYTICAL TOOLS

A matter of primary concern in the economics of cultural heritage has been the evaluation of benefits and costs, especially as an input to a formal cost-benefit analysis of particular heritage conservation projects. The assessment of benefits and costs of heritage in economic terms has gained greatly from work in environmental economics, since the conservation of a cultural asset bears many resemblances to the conservation of a natural amenity such as a wilderness area. Not only is the measurement of project costs likely to be similar in environmental and cultural spheres, so also is the nature of the benefits generated. In particular, a major part of the economic value yielded both by the natural environment and by cultural heritage lies outside the market. Thus, whilst a cost-benefit analysis must of necessity pay attention to direct user benefits (such as entry fees for visitors to national parks or to cultural sites), it must also include an assessment of the estimated monetary value of non-market or passive-use effects. In the heritage context these latter values may relate to three sources of demand: the asset's *existence* value (people value the existence of the heritage item even though they may not consume its services directly themselves); its *option* value (people wish to preserve the option that they or others might consume the asset's services at some future time); and its *bequest* value (people may wish to bequeath the asset to future generations). These non-use values are not observable in market transactions, since no market exists on which the rights to them can be exchanged, so they have to be measured by special-purpose studies designed to gauge people's willingness to pay to preserve the heritage asset in question using techniques such as contingent valuation methodology or choice modelling (Frey and Oberholzer-Gee 1998; Klamer and Zuidhof 1999; Ready and Navrud 2002; Noonan 2003). Such methods allow us to gain some insight into the monetary values the community places on these non-market benefits. For example, they provide data on the basis of which it is possible to estimate how much revenue might be raised if in fact the hypothetical willingness to pay were able to be converted into a real payment, or how much expenditure of public funds might be justified to secure these benefits for the community.

In a full-scale assessment of the economic value of a particular heritage project, these non-market effects are likely to be especially important. In many cases they may overshadow in monetary terms the direct revenue generated by the project, providing a justification in their own right for proceeding with it. For example, a recent willingness-to-pay study of the heritage benefits of preserving views of Stonehenge in England by building a tunnel under it instead of a surface road around it found that the heritage benefits alone justified the building of the tunnel because they exceeded the present value of construction and maintenance costs (Maddison and Mourato 2002). Similarly a World Bank study of the non-market demand for the preservation of the historic town centre in Fes in Morocco found significant willingness to pay, sufficient to rationalise a tax on tourists to Morocco, including on those who do not actually visit Fes themselves (Carson *et al*. 2002).

These and similar studies such as those reported in Serageldin *et al*. (2001) and Navrud and Ready (2002) have particular relevance to regional analysis since most of them relate specifically to the contribution the heritage assets under consideration make to the local economy in which they are situated (see also in OECD 2005). In addition to the specifically economic effects, it may be noted that cultural heritage assets have a significant role to play in defining local identity, and as such may have value in maintaining cultural differentiation at the regional level in the face of the homogenising pressures from cultural globalisation (Beugelsdijk *et al*. 2006).

Such considerations lead directly back to the concept of cultural value as a component of the benefits produced by cultural heritage. In principle a cost-benefit analysis of a heritage project should, in addition to the economic evaluations discussed above, attempt a parallel cost-benefit statement of the project's cultural value. But the problem remains as to how this value is to be measured (Avrami *et al*. 2000; Hutter and Throsby 2007). Given the multidimensional character of cultural value, it would seem sensible to try to disaggregate it into its component elements, since specifying value assessments is likely to be more precise the more clearly the criteria for judgement are defined. So, for example, it might be suggested that the aggregate concept of cultural value could be decomposed into such components as aesthetic value, historical value, spiritual value, social value, symbolic value and so on (Throsby 2001 Ch. 2). If so, it may be possible to assign cardinal or ordinal scores to these components and to aggregate them into a single index of cultural value, for example along the lines attempted by Nijkamp (1995) who put together a composite index of different characteristics of historic urban districts evaluated according to a range of criteria.

Despite the appeal of these approaches, however, it must be said that the lack of a standard metric by which cultural value can be assessed continues to limit its empirical application and the search goes on for objective and replicable assessment methods. Meanwhile it is important that policy makers at least acknowledge the validity of cultural value effects alongside purely financial criteria in heritage resource allocation decisions. We turn to this and other issues for heritage policy in the next section.

4. POLICY APPLICATION

We have noted that the primary value of cultural heritage to individuals and to the community at large arises outside the market in the form of non-rival and non-excludable public benefits. This presents problems for government policy. In principle the existence of such public goods provides a *prima facie* case for government intervention to correct for market failure, for example via regulation (listing etc.) or through fiscal measures (subsidies or grants for heritage conservation projects etc.). In practice, the determination of optimal assistance levels in the absence of reliable data on community demand can prove very difficult, and this may lead to under-provision of heritage services by the public sector. These problems are especially acute at the regional level, where the revenue base for public intervention is limited and pressure from competing priorities may be stronger than at higher levels of government. In these circumstances some quantification of the non-market benefits of particular heritage items for the local community may be necessary to persuade local governments to continue to support them.

An illustration of the way in which data on community preferences in a regional context can be helpful to the regional administration in its decision-making on cultural heritage is provided by an economic study of the Mildura Arts Centre in regional Victoria undertaken in the early 1980s (Throsby and O'Shea 1980; Throsby 1982). Using a survey-based application of contingent valuation methods, the study showed that the public-good benefit generated by the Centre was sufficient to justify the local council's expenditure in maintaining it, even though the Centre's actual income (from entrance fees etc.) was insufficient to cover its cost. The Centre continues to function to this day, and indeed celebrated its 50th anniversary last year.

But the public policy dilemma goes further if we move beyond an economic rationale for heritage policy and consider the matter of cultural value. If indeed it is the case that heritage yields some elements of value that are not able to be captured by economic analysis, and yet are important in forming public preferences, a further justification for collective action may exist. In other words, if the generation of cultural value is a socially desirable goal to be pursued by a national government alongside the familiar objectives of economic policy (growth, full employment, macroeconomic stability etc.), the allocation of resources in support of heritage (or of the arts and culture more widely) may be warranted. Arguments about the intrinsic values attaching to culture as a basis for government policy have recently been canvassed by Holden (2004), McCarthy *et al*. (2004) and others; these arguments imply a recognition of cultural value as a legitimate concern of public policy in its own right. Again, although these discussions have taken place mainly in a national context, their applicability to regional policy formation is just as relevant.

We turn finally to a consideration of recent developments in Australia, as a timely illustration of the application of the economics of heritage to policy decisions. In April 2005 the Federal Treasurer requested the Australian Government's Productivity Commission to undertake an inquiry into the policy framework and incentives for the conservation of Australia's built heritage places. Given the Commission's reputation for applying the rigorous principles of free-market economics to government policy, some observers feared that an uncompromisingly commercial approach to heritage would be taken by the Commissioners. Yet in the Discussion Paper released as the Inquiry's first step, full acknowledgement was made of the fact that substantial non-market benefits accrue to cultural heritage, and during the course of public hearings a sympathetic ear was turned to the many witnesses proclaiming the public benefits of heritage protection.

Nevertheless, when the Inquiry's Draft Report was released in December 2005, one of its principal policy recommendations was firmly based in neo-liberal economics. The Commission proposed a system of voluntary negotiated agreements to replace the compulsory listing process that for decades has been the main regulatory means by which Australia, in common with most other countries, has safeguarded its built heritage assets. This proposal appeared to place the private interests of property owners who claimed to be adversely affected by heritage regulations ahead of the protection of the public interest. The recommendation was based on the well-known Coase Theorem, which requires that: interested parties can be defined and property rights assigned; transactions costs are negligible or zero; and contracts can be monitored and enforced. As the chorus of dissent that greeted the Draft Report made clear, none of these conditions could be adequately met by the Commission's recommended course of action and hence the proposal could not be expected to work as intended.

The Final Report of the Inquiry was released in July 2006. It recognises the undoubted cultural value arising from Australia's cultural heritage, and accepts that the non-market benefits generated by heritage do provide at least a presumptive case for government intervention. The Report also notes that the policy framework within which such intervention is effected at present is working well; essentially these arrangements involve the assignment of responsibility for the identification and conservation of nationally significant, State significant and locally significant places to the Australian, State/Territory and local government tiers respectively. In regard to the possibility that some private owners may be disadvantaged by the heritage listing of their properties, the Final Report retreats somewhat from the draconian stance of the Draft Report, replacing the negotiated voluntary agreements recommendation with an appeals process whereby private owners of heritage properties may be allowed to opt out of listing controls if the costs of compliance are deemed "unreasonable" in their case. The reality of such cost pressures on some owners is undeniable, as is the validity of their entitlement to equitable recognition of their rights. However, the Commissioners' proposal would still appear to go too far in placing the short-term financial exigency of private individuals ahead of the long-term public interest. The appeals process carries with it a potential for loss of heritage places (a diminution in the cultural capital stock) without sufficient regard for the precautionary principle or the long-term requirements of intergenerational equity.

Indeed empirical evidence suggests that any such diminution in the stock of heritage would be contrary to the expressed preferences of the Australian community. Part of the documentation tendered to the Productivity Commission's Inquiry was a report from the Allen Consulting Group (2006), which carried out a choice-modelling study of the demand for the public benefits of heritage in Australia at the present time, based on a random sample survey of just over two thousand respondents. This pioneering research showed that people in Australia have a very strong perception of the existence, option and bequest values of heritage. The results also indicated that cultural rather than economic motives underlay the public's approval of government support for heritage conservation. In addition the study calculated willingness-to-pay estimates under a range of assumptions; these results suggested a significant demand for increased public funding for heritage protection over current levels. It is somewhat ironic that the Productivity Commission's Report laments the lack of data that can inform heritage policy-making in Australia at the present time, yet neglects to take full account of data generated for the Inquiry that have important implications for a number of the issues the Report discusses.

The findings of the Productivity Commission have significant regional ramifications for at least two reasons. First, it is apparent that local government bears a significant burden in the administration of heritage policy for which it is not always well resourced. It is certainly true, in accordance with the principle of subsidiarity, that locally-significant heritage should be primarily the responsibility of the lowest tier of government. However, in a broader interpretation of diffused community benefit it can be argued that Australians as a whole have a collective interest in appropriate preservation of small-scale heritage, especially in rural areas. If this is so, a role in this respect for higher tiers of government can be established, suggesting, for example, that the Federal Government could take the lead in encouraging capacity building for heritage policy administration at a regional level.

The second regional implication concerns funding. The Productivity Commission declined the opportunity to recommend either increased funding or potential sources of extra finance for heritage conservation. The Commissioners' unwillingness to engage in what is essentially a political matter is perhaps understandable. Nevertheless it needs to be pressed that a ready source of increased federal funding is in fact available, namely the Natural Heritage Trust. The Trust was set up by the Commonwealth in 1997 to help restore and conserve Australia's environmental and natural resources. Regional investments are the principle mechanism by which Trust funds are disbursed. Allowing cultural heritage projects access to these investment programs would acknowledge the close parallels between natural and cultural capital and could be readily accommodated without compromising the Trust's environmental activities. The Allen's survey results referred to above would seem to imply that such a move by the Australian Government would be fully in line with consumer preferences.

5. CONCLUSIONS

This paper points to some recent developments in the economics of cultural heritage that have relevance to regional analysis. The theoretical concepts of cultural capital, cultural value and culturally sustainable development can find practical application to the evaluation of heritage projects at a regional level, informing and extending the power of existing analytical methods. There would appear to be considerable scope for further theoretical and empirical progress in the application of regional economics to heritage-related problems. Rationalising the joint treatment of economic and cultural effects of heritage projects is a matter of particular interest. In the policy arena it can be suggested that the attention being paid by the governments to cultural heritage in Australia at the present time would seem to invite an expansion of policy-oriented empirical studies as a basis for informing the future development of regional policy in this field.

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