

## **PART I.**

### **I.3. Related fields**

Can other disciplines be of any help in fostering the economic approach ?

- \* Cultural economics - Measuring externalities
- \* Public economics - Public and private funding
- \* Economics of tourism - Keynesian multiplier
- \* Management - "Marketing the historic city"
- \* Sustainable development
- \* Urban planning
- \* Sociology and history - Evolution of the concept of CBH

NB. Some of these fields are only alluded to, please find more details in the bibliography.

81. The previous sections have demonstrated that economic analysis of the CBH finds itself confronted with a number of problems summarised here :

- the "market" is constituted of extremely heterogeneous "goods", not to confuse with the "services" that they are able to perform,
- the economic nature of the CBH is collective, whereas its legal status can be private, thus obeying other rules and behavioural principles,
- the life span of CBH-related projects is extremely long, which makes it difficult to estimate the costs and benefits that they can bring,
- CBH is an international resource, inducing local side-effects,
- "quantifying the unmeasurable" is no aim in itself : economists can complete and supplement the evaluation, but should never overlook the qualitative aspects,
- CBH is a stock of existing monuments : the problem is one of stock management, not production; the uniqueness and non reproducibility of the CBH restrict the field of analysis.

*Can other disciplines be of any help in fostering the economic approach ?*

82. CBH and cultural economics - Measuring externalities

A typical example of economic tools applied to non-traditional objects, the discipline called "cultural economics" is not restricted to a monetary or material approach of cultural institutions, but brings new intuitions on specific problems : for example, demand and supply of theatre performances, museum management, prices and returns on art markets,...

83. It insists on three important aspects :

- cultural goods and services are "scarce"; they are not "produced" in the full economic sense of the word. Yet they obviously produce "utility", which makes them worth demanding;
- art supply and demand are individual facts, determined by individual features (income, education level, advertising and entrance fee). Cultural economists then analyse these features in detail, and evaluate willingness to pay for cultural goods and services;
- a major argument against market as the sole supplier of art is that suppliers are unable to get all the supply benefits because some of the demanders can consume the product/service without actually having to pay for it.

84. How is this possible ?

An individual may benefit from a cultural service even if he does not actually use it : we speak of "option value"(WEISBROD 1964), "existence value" (KRUTILA, 1967), "heritage value", "prestige value"... all referring back to the fact that art, as a collective good, generates so-called "external effects" or "externalities".

85. What do economists mean by that ?

An external effect or externality is a situation in which one agent's actions induce advantages (in the case of positive externalities) or disadvantages (negative externalities) to one or more other agents, while this interdependence is not accounted for by the market. A typical example is the firm polluting its environment without compensating its neighbours who suffer from its activities. In economic terms, utility functions are interrelated, and measurement of these external effects remains a difficult task.

In the presence of externalities, the market ceases to function as an efficient informative and incitative tool, as individual preferences are not clearly revealed, which may render public intervention necessary. Cultural economics is then closely linked to "public" economics.

*For more on this see the List of bibliographic references*

86. CBH and public economics - Public and private funding

Public economics evaluate the importance and efficiency of government support in the cultural field. Cultural expenses are questioned at two levels : would public funds be more efficient in other uses ? Does public support generate inefficiency and waste ? The debate between supporters of profit-oriented (private) and government-supported art institutions is far from being closed.

87. Public intervention is common in the case of the CBH. Indeed, it appears that, in a vast majority of cases, the public authority owns the monument and opens it to the public for some uses at a certain price. The collective dimension of the CBH implies collective responsibility, endorsed (to a certain extent) by the representatives of the community. Protection, refection, maintenance of the monument, subsidizing entrance fees (in the case of a touristic use), or rents (in the case of housing) or even fiscal measures in favour of private owners are then undertaken by the public authorities, most frequently financed through taxes.

88. The first obvious reason to preserve CBH is valid for any building : avoiding the costs of replacing old by new, with the advantage that the "old" often has a special quality, superior to the contemporary structure that would replace it.

Other reasons are the values that CBH conveys (its "heritage", historical, educational aspects, which make it a trust for future generations to be handed on), and the future services that it can/could render.

89. There are also arguments against conservation. Sometimes the heritage quality may co-exist with an unpractical and outmoded internal space which is uneconomical to operate and maintain for contemporary use, even after extensive adaptation works. Maintenance of such buildings could lead to the sterilisation of important sites for new development. The question is then : is it possible to transport and reconstruct elsewhere (as it happened for the Abu Simbel temples) ?

90. The presence of externalities (like option, prestige, education values) not accounted for by the market is one major argument in favour of subsidization. Other analysts advocate national or regional prestige, "endowment" reasons to "protect" the CBH, while the induced effects of the conservation of the CBH and its nature as an international resource constitute two more arguments, of a more prospective nature.

The public character of the CBH induces that, whereas conservation is undertaken for the benefit of a wide community (not only residents, but tourists and even future generations), the costs are localised on the owners, occupiers and local community. It seems then adequate that the public authority should intervene to reduce this gap.

91. When governments wish to conserve, but conservation constraints are such that the individual owner cannot face them, a complex array of financial aids can meet the shortfall.

Public intervention essentially takes place at four levels :

- public authorities can provide cultural services directly, by managing the monuments themselves;
- they can subsidize them (directly or through intermediaries);
- they can provide incentives for preservation projects (like contribution to maintenance works, tax deduction or exemption, repayable loans at favourable interest rates);
- they can use regulations and rules (listing, prohibiting demolition).

92. Nevertheless, and particularly in times of tight budgetary constraints, private partnership is sought as a complementary source of financing<sup>27</sup>.

In this case, the authorities try to elaborate measures inducing the private sector to get involved in the rehabilitation of the CBH. They can do that in two ways :

- in a dynamic approach, they can create a favourable political and legal framework encouraging the private sector to invest in restoration projects (by supporting urban planning, handling cooperative projects efficiently,...)
- in a financial approach, through tax exemptions etc.

*For more on this see the List of bibliographic references*

### 93. CBH and economics of tourism - Keynesian multiplier

CBH is a powerful incentive to the development of touristic activities : it has been estimated that 37% of international travel have a cultural connotation. Historic monuments play a central part in the touristic attractiveness of a region : a Swiss study has demonstrated that regions with a rich CBH attract 20% more tourists than others.

Cultural tourism generates flows of revenues, employment and activity : it has a "multiplier" effect on the touristic area. Measuring these flows is an interesting aspect of economics of leisure and tourism.

*For more on this see the List of bibliographic references*

### 94. CBH and management - "Marketing the historic city"

CBH can be viewed as an economic resource and must be "managed" as such : congestion and over-exploitation should be avoided as the damage that they cause could be irreversible. Managers and owners could then rely on a body of existing principles as to the management of an exhaustible resource, which brings us to the next point.

*For more on this see the List of bibliographic references*

### 95. CBH and sustainable development

Economics of natural resources tackle the essential question of the potential uses of scarce resources, in a "sustainable" economic development process.

As in the case of CBH, environment (e.g. unpolluted air) is a collective good generating externalities. One cannot give a price for clean air (there is a problem in the correct revelation of preferences), and public intervention is common in environmental matters. The resources being scarce, it is

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<sup>27</sup> Council of Europe, Patrimoine architectural, quels financements ?, Rapport établi par un groupe de spécialistes du Conseil de l'Europe, déc. 1991.

important to show how gains from a given political action are superior to the costs, that is how efficiently resources are used.

Cost-benefit analysis has been often used in this area, including various techniques (cost-advantage analysis, cost-effectiveness analysis, multi-criteria analysis, risk-advantage analysis, impact analysis... more on the methods in Part II).

*For more on this see the List of bibliographic references*

#### 96. CBH and urban planning

Sustainability of cultural heritage in an urban city is an important question, related to the roles of modern cities, both as favourable settings for economic growth (through the external effects that they create) and as trustees of cultural heritage (thus carrying a socio-cultural identity).

New analytical tools are now being developed in order to ensure harmonious integration of the CBH in an urban setting.

*For more on this see the List of bibliographic references*

#### 97. CBH, sociology and history - Evolution of the concept of CBH

A new attitude towards conservation has emerged in the 70s, enlarging not only the notion of CBH (restricted before to the very old, the unique or the outstanding) but also the notion of conservation (becoming active preservation of a rich environment built generation after generation).

*For more on this see the List of bibliographic references*

98. Despite multiple difficulties in defining the CBH in economic terms, due to the peculiar nature of CBH as we have seen above, it seems indispensable to try and evaluate the role of the CBH in other terms than cultural, in order to convince the reader of its importance.

This will be the object of the next Part.