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Economic issues should be embedded into every area of public policy, although the opportunities offered to better inform decision-making provided by economic analysis are often not paid sufficient heed. This is the first time – to my knowledge – that a workshop has been convened to consider the costs and benefits of heritage, which is one tool in the economist’s kit bag (although a workshop in 2000 explored the concept of heritage as an economic “good”).

The market for heritage, like many of the other “goods” with intangible public benefits – for example, biodiversity or air quality – would, if left to its own devices, lead to the under provision of heritage services in most instances. Virtually no market mechanisms exist for heritage, and those that do are unable to provide sufficient incentives for the conservation of heritage.

My starting point therefore is to assert that government involvement in heritage protection is necessary. But when, and in what form? What is the right mix of tools to provide the “right” level of heritage protection?

Heritage

To date, heritage judgements have largely operated around expert appraisal, be that for listing, for grants, and for priority setting.

The majority of properties recorded on historic heritage lists are places that have local significance, and are well loved by their community. They include wooden bridges, shearing sheds, old homesteads and houses, mechanics institutes, and so on.

However, these places often have relatively high maintenance costs, and present communities with challenges related to the costs and benefits of heritage conservation, for several reasons: there are a large number of them; their heritage attributes are often poorly articulated; and their individual cost of upkeep can be high for local communities.

Fundamentally, the problems presented by heritage are common to other areas of public policy – how much of the good or service does society want, and at what cost? Currently, for heritage we cannot answer this in transparent, defensible terms. I hope this workshop will help us take steps towards answering these questions.

What are the key areas to tease out? Firstly, heritage listing does little to protect the asset. Listing prevents the listed asset from being knocked down but it does not prevent it from falling into disrepair. Secondly, heritage listing can, in some instances, impose either direct or opportunity costs on private owners of heritage assets, which they are expected to absorb. This can have a couple of consequences: uncertainty can lead to people being wary of investing in properties that might potentially be heritage listed; and furthermore, potential heritage decisions can perversely work against the protection of heritage. Equally, of course, heritage decisions can lead to windfall gains, enhancing rather than diminishing property values. However, this instance where there are complementary private and public benefits does not pose a policy issue and, for this reason, is not explored further.

The need for economics and heritage to mingle

Let me give you an example to illustrate the dilemma that can arise between the preservation of public heritage good and the private right to pursue preferences.

One recent example, reported in the media, concerns “the Cliffe”, a Perth property in the Peppermint Grove Shire Council, which was purchased in 1995, with the owner reportedly intending to demolish and redevelop. As reported, when the owner submitted an application to demolish, the WA Heritage Council applied a conservation order and then listed the property. Twelve years of legal wrangling ensued, which had a perverse effect: little maintenance was carried out on the

property. As a means of preserving some of the heritage values of the property, the owners reportedly offered to spend over \$200,000 to relocate the building to a nearby park – this was apparently rejected by the Heritage Council. Later, I gather, a report estimated the property was uninhabitable and would need some \$2.8 million to bring it up to basic safety standards. Subsequently, I am told that the property was taken off the heritage register, removing any obstacles to the demolition of the property.

While I imagine there is more to the story than the newspaper articles have presented, the example highlights a lack of flexibility in current approaches and an apparent absence of real incentives to maintain heritage values for the betterment of the wider community.

The Western Australian Heritage Council clearly wanted to preserve this property. Given the rise in land values in Perth, they may be forgiven for not simply offering to buy it. But it does not appear that purchase was even considered. Instead, the approach undertaken appears to have been based on regulatory coercion, rather than a balanced consideration of private property and public good. It is tempting to question whether the Council should have had the ability to list the property without having to pay any form of compensation. I will explore this in a moment. But, the example points to several questions relevant to today, including:

- What were the benefits of preservation of the heritage values of the property, versus the costs of preserving these values?
- How did these costs and benefits differ for preservation in-situ, relocation, and demolition?

These are standard, practical questions that decision-makers should be asking themselves. They are questions that economic analytical tools could help us to answer.

Productivity Commission Inquiry

Last year, the Productivity Commission (PC) completed a review of heritage nationwide, the first of its kind. While there has been criticism of the PC's recommendations, I want to focus your attention on what should be an unchallengeable message from the report – the need to be totally transparent and to better balance cost and benefit considerations in heritage decision-making.

The PC's Report found that incentives in the heritage system are mixed. In their view, the *costs* of heritage protection are often not taken into account in decision-making processes – a conclusion that the example of “The Cliffe” highlights. The PC argued that the current regulatory approach can lead to perverse incentives: that it can unduly skew incentives by requiring private owners to bear unreasonable costs in order to provide public benefits.

The PC advocated in circumstances of disputed listing decisions where unreasonable costs are involved that there be a right of review or appeal by owners. It seems to me that at first blush this proposal seems to be unexceptional. Let me tease out some of the issues.

Incentives within the heritage system

According to the PC, the current system – especially at the local government level – enables heritage bodies to err on the side of listing properties because they don't have to factor in any resulting costs. In other words, the contention is that the system design tends toward to over-listing, or at least insufficient attention is being paid to placing unreasonable costs on private property owners.

Now it may well be that this complaint sits at the margins of heritage decisions, rather than relates to the system as a whole. However, if this is so, it does not mean that the PC's concerns are not valid. Rather, it should mean that the current heritage system needs to be adjusted where decisions clearly are unreasonable.

Should heritage listing bodies have to pay for any costs that private owners might have to pay as a result of listing? Who should pay for the public good that heritage represents? These questions might sound deceptively easy. But before we leap to an answer, I would observe that governments do not have a consistent answer to this question. The issues are not black and white. Historically, governments have not provided payments to compensate private owners for a whole host of regulatory decisions that impose private costs for public benefit: environment protection decisions, land rezoning decisions, and many other decisions that affect land use.

If we did decide that heritage bodies should pay for what are judged to be unreasonable costs, there are a number of difficult policy and practical questions that arise:

- What might be the nature of the appeal or review process?
- What sort of private owner costs should be examined: opportunity costs, direct costs, or some more fine-grained division?
- How do we deal with the question of incentives, especially incentives to ensure the up-keep of a listed property?
- How do we separate out those who are happy, with those who are not? The moment we offer compensation, we are likely to increase the number of complaints – we will have created an incentive to be unhappy – something we don't want to do.
- And, in a practical sense, listing authorities could only meet unreasonable costs with additional resources. And, without extra resources, such as scheme might become a backdoor means to preclude any further listings that were not agreed.

Rights and appeals – costs of listing

Now, what the PC was saying was little different to the issues addressed in that iconic Australian movie, “The Castle”. That is, we need to avoid a system where individual rights are trampled by overbearing governments. Yet this is contrary to longstanding law and practice in this area. The general legal principle is that property owners have the right to do anything that isn't explicitly prohibited. There is no prima facie legal

right to compensation or payments for restrictions on land use. As mentioned earlier, many actions by government entail unrecompensed costs to private interests and government would become unworkable if that were not permitted.

A decision to heritage list a property is simply one of many ways in which the rights of a property owner may be legitimately restricted. In this case, there is no challenge to basic rights. Rather, the problem is one of fairness, efficiency and the nature of perverse incentives. It is not a question of law.

The easiest answer to fairness might be to allow appeals. This has merit if confined to appeal upon the heritage merits of the listing. After all, heritage listing should take place on a transparent basis using factual evidence to justify decisions against well-established criteria – the sort of decisions that various review bodies could be well equipped to make. However, the views of the heritage community on these issues are mixed. The Australian Heritage Council recognised that there is a problem and supported appeals against listing decisions but opposed compensation. However, the Chairs of state and territory heritage councils are opposed, however, to the PC's basic analysis of the problem.

In my view, these issues are complex. There are no straightforward answers. Certainly, in the initial assessment there should be a transparent process with natural justice and considerations of fairness and efficiency, as well as heritage considerations. However, if a decision is properly taken, I am not sure of the grounds for a subsequent merit-based review of that assessment.

How economic analyses/tools could be used

When the term cost-benefit analysis is mooted unfortunately there is a tendency in some quarters to run a mile, or to deny that such analysis is applicable to heritage assessments. I beg to differ. While not everything in this area can be quantified in dollar terms, the framework provided by cost/benefit analysis goes to the heart of the striving for transparency, efficiency, fairness and natural justice. It is what should be expected of a sound process and good decisions.

A cost-benefit framework could help in deciding:

- whether to list an individual place on a heritage register;
- how to decide upon any proposed change to a place;
- how to prioritise between places for listing;
- priorities in the allocation of grants; and
- whether the overall level of support for heritage is sufficient.

There are techniques designed to help with cost-benefit analysis – choice modelling, contingent valuation, travel cost demand, hedonic pricing, and others. All have strengths, but each has limits. I don't think that we should get too hung up about such techniques. After all, the PC itself is inclined in most of its reports to make recommendations on the basis of economic first principles: a weighing of the evidence and a transparent public inquiry process. If things are capable of meaningful measurement by all means do the analysis. I do not recollect them ever undertaking a cost-benefit analysis (narrowly conceived) before coming to recommendations. However, in my judgement, what is really required is a thorough reasonable process that informs decisions makers and is judged to be generally fair. This is the real challenge. The Productivity Commission's focus on trying to avoid unreasonable costs strikes me as a balanced perspective.

Sometimes I feel that economists sometimes miss the mark, not least our colleagues from the central financial agencies of government. The Department of Finance and Administration last year issued a handbook on cost-benefit analysis. The introduction to this book properly acknowledged that some costs and benefits cannot be quantified. But one gets the sense reading the book that, where this is the case, any area that cannot quantify costs and benefits will be the poor cousin of those areas which can quantify costs and benefits – unless of course there are other factors at play such as political support. Furthermore, in the UK, HM Treasury recommends that cost-benefit analyses should be extended as far as possible.

The difficulties extend beyond this. While the costs of heritage protection are commonly expressed in market terms, the benefits are not. That is because benefits

often take a different form. They are often intangible, non-market, and difficult to quantify. Some might classify this as a market failure. In my view, it is more importantly a failure of economics and of government decision-making. That is, our analysis cannot readily cope with a situation of information asymmetry such as presented by heritage, where we can readily generate information on costs but not on benefits. And governments make decisions based upon advice that does not overcome these flaws.

The way forward

The challenge of this workshop is to help us define a forward pathway to reduce the asymmetries. It is a serious issue for this portfolio, which in large part has as its task the protection of non-market goods and services. We need practical guidelines for how cost-benefit analysis or other techniques might be integrated into all aspects of heritage decision-making.

During this workshop, I encourage you to explore which quantitative economic techniques can be practically applied in cost-benefit analysis of heritage. However, I want you to avoid the temptation of trying to fit “square pegs” into “round holes”. Quantitative tools won’t always be applicable. The nature of heritage – and the intangible benefits it provides – means that qualitative assessment will always have a key role to play.

I encourage you to examine the cost-benefit framework for heritage in a broader sense: explore how we can use a mix of qualitative and quantitative analyses to assess the costs and benefits of heritage protection and improve the fairness, transparency and efficiency of the heritage system.

Above all, strive to articulate the nature of the problem. What are the perverse incentives that are best avoided and how should they be addressed?