

**Heritage Economics Workshop
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The Value of Heritage

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ABSTRACT

The fundamental concept underlying any assessment of the significance or worth of cultural heritage is the concept of value: what are the various dimensions to the value of heritage and how can they be assessed in a way that makes sense for public sector decision-making? This paper examines some basic distinctions between different types of value relevant to heritage, in particular individual *versus* collective value, and private *versus* public value. An underlying theme is a further distinction between those values that are included in an economic analysis of heritage and those that might lie beyond a strictly financial calculus. The paper discusses the means by which value is assessed and incorporated into heritage policy formation and implementation, and as such provides an overview of the concepts and methodologies to be discussed at the Workshop.

1. Introduction

Does economic analysis have anything to offer in assessing the worth of heritage projects? In the past, heritage experts have tended to regard economists as being insensitive and heavy-handed, focussed too single-mindedly on financial measurement, and overlooking the true cultural significance of heritage assets (Cannon-Brookes, 1996). This workshop provides an opportunity to open up a dialogue on these issues in the expectation that, on the contrary, there is in fact a lot of common ground between economic and cultural approaches to the valuation of heritage, and that an economic assessment of a heritage project, if well done, has a lot to contribute to decision-making in this field. My task is to set the scene by providing an overview or a conceptual framework as a prelude to the more detailed expositions and analyses to follow.

Perhaps the most fundamental concept that is relevant to our discussion is that of value. When we talk about the significance or worth or importance of an item of heritage, we are really making a statement about value: what it means, who experiences it, how it is determined, how it should be measured, and what role it should play in decision-making concerning the item's conservation, restoration or re-use. In this paper I look at the idea of value as applied to cultural heritage by making two essential distinctions: the distinction between individual and collective value, and the distinction between private and public value. Underlying these discussions is a further distinction, that between economic and cultural value, a distinction that is relevant to considerations of the value of a surprisingly wide range of cultural goods and services (Hutter and Throsby, 2008).

2. Individual/collective value

2.1 *Individual value*

The notion of value in economics has a long history, going back at least to Adam Smith. It has been a matter of considerable controversy and in some ways still is. Nevertheless the dominant paradigm of neoclassical economics claims to have resolved the question unambiguously, by identifying value quite clearly as stemming from individual utility. In a neoclassical world peopled by rational fully-informed utility-maximising consumers, value arises through processes of exchange in perfectly-functioning markets. Even when markets fail, as in the case for example of public goods, it is the willingness-to-pay of individual consumers that expresses the value of the goods in question. So when we think about the economic value of heritage within this model, we are thinking of the sorts of values that individuals recognise and are prepared to pay for in one way or another.

The categories into which the value of heritage can be classified in these terms are well known and are clearly spelt out in the heritage economics literature (Hutter and Rizzo, 1997; Schuster *et al.*, 1997; Peacock, 1998; Benhamou, 2003;

Rizzo and Throsby, 2006). The categories correspond to the ways in which individuals experience heritage, either by direct consumption or “use”, or by indirect means through “non-use” or as a beneficial externality.

(i) *Use value*

Use value is the value that accrues to individuals, households, or firms through the direct consumption of heritage services. It may be experienced in different ways, for example through the ownership of heritage assets, or through the enjoyment of the services of a heritage asset by living in a heritage house or working in a heritage building; such values are reflected in market processes, and can be observed, for example, in the actual or imputed rental value of heritage buildings used as dwellings or commercial premises. Direct use value of heritage also accrues to tourists visiting heritage sites; in this case the relevant value can be measured by entrance fees, or, if appropriate data are available, by consumer surpluses estimated using methods such as travel cost analysis.

In assessing the direct use value specifically attributable to the heritage qualities of, say, a historic building used for commercial purposes, it should be remembered that the heritage value *per se* is actually a marginal value: the building would presumably have some rental value as commercial space in the absence of any heritage quality, and the question to be asked is whether the rent is higher or lower as a result of its heritage characteristics. The rental value of such buildings might be higher if people prefer to live in heritage houses or work in a listed building, or it might be lower if, for example, the building were inconvenient because of its antiquated design or facilities. On the whole, the market seems to suggest that these sorts of direct use values are positive, insofar as studies of the effect of heritage listing on the price of houses or other buildings mostly indicate a positive premium (see, for example, Shipley, 2000; Leichenko *et al.*, 2001; Deodhar, 2007); this is not surprising since in general heritage properties are demanded by people who do value heritage services and so are prepared to bid up the purchase or rental prices of such properties.

(ii) *Non-use values*

The second aspect of individual valuation is the non-use or passive use values which are experienced by individuals but are not reflected in market processes since they are derived from those attributes of cultural heritage that are classifiable as non-rival and non-excludable public goods. Research in environmental and ecological economics over the last 20 years or so into demand for the non-market benefits of the natural environment has identified three categories of passive-use value that are equally relevant to heritage:

- existence value: individuals value cultural heritage simply because it exists;
- option value: individuals wish to preserve heritage items in order to leave open the option that they may consume their services in the future; and
- bequest value: individuals wish to pass on heritage assets to future generations.

All of these sources of value give rise to demand for the preservation of heritage expressible as individual willingness to pay, for example out of taxation. Well developed methodologies exist for measuring willingness to pay, including contingent valuation (CVM) and choice modelling, as discussed in more detail in other papers presented at this workshop.

As noted above, these valuation techniques have been developed in environmental economics. The reason why they are readily applicable to heritage derives from the close parallels between the concepts of natural capital and cultural capital. The former comprises natural resources, natural ecosystems and biodiversity, whilst cultural capital in the economic sense is made up of cultural assets (both tangible and intangible), cultural “ecosystems” or networks, and cultural diversity. The parallel extends further into the arena of sustainable resource management: the well-known paradigm of ecologically sustainable development has an obvious counterpart in the emerging concept of culturally sustainable development (Throsby, 2003a). Thus techniques for the economic evaluation of benefits generated from natural capital can be transferred directly to cultural capital, as can be seen in the growing number of CVM applications to cultural heritage (see, for example, Navrud and Ready, 2002) and in the smaller number of choice modelling studies such as that carried out in Australia as a contribution to the recent Productivity Commission Inquiry (Allen Consulting Group, 2005).

(iii) *Beneficial externalities*

A third type of value of cultural heritage experienced by individuals stands somewhat apart from the above two categories, although it entails both use and non-use characteristics. It derives from the fact that heritage may generate positive spillovers. A heritage building or site, for example, may give rise to a beneficial externality if passers-by gain pleasure from observing its aesthetic or historic qualities; for example, people going to work by ferry in Sydney may enjoy the sight of the Opera House during their journey. In principle the economic value of such a benefit could be estimated, although for obvious reasons it seldom is. But the fact remains that positive spillovers are an identifiable and potentially significant value of heritage that accrues to individuals.

2.2 *Collective value*

Stepping outside the framework of neoclassical economics raises some broader issues in considering the value of cultural goods and services. In the case of heritage we can ask: are there collective benefits of heritage that cannot be factored out to individuals and yet are important for decision-making? If one were to take an uncompromisingly neoclassical view, one would disregard such a possibility on the grounds that it is only individuals that matter and (in the words of Margaret Thatcher) there is no such thing as society. However, there may be concern that the standard economic model cannot entirely encompass those elements of cultural heritage that give rise to what is understood to be its cultural significance. Such considerations lead us into an alternative discourse which entertains the concept of cultural value that exists in addition to whatever

economic value the assets might possess. Cultural value in this context is a multifaceted concept reflecting qualities such as the aesthetic, symbolic, spiritual or historic values attaching to a particular heritage item. Of course such qualities may affect individual valuations of the asset in question and would be reflected in any economic analysis of the asset's value. But there is also a sense in which some such values can only be fully realised in collective terms, and cannot sensibly be represented in individual monetary valuations. Take, for example, the notion of identity. We say that Australian cultural heritage is important because it expresses Australian identity—it tells our stories, it helps define who we are. It is difficult to translate this value into willingness to pay; indeed it is hard to see how the value of identity can be expressed in financial terms at all. Yet identity is something that is valuable to society at large and clearly affects decision-making surrounding cultural heritage.

If it is true that heritage contributes to cultural value of this sort, we need to ask how such a value might be accounted for in a cost-benefit analysis (CBA) of a given heritage project. If an objective and replicable means for measuring cultural value were available, it would be possible to imagine, at least in principle, a parallel exercise to the economic analysis, applying the standard CBA methodology to assess the time stream of cultural benefits generated by the project. Such a prospect remains some way off in operational terms, since the necessary metrics have not yet been developed. Nevertheless in the meantime it should be possible to derive at least some overall estimate of the cultural value associated with particular projects, for comparison with an appraisal carried out on a strictly economic basis. In this way it may be possible to make explicit, for example, the cultural price to be paid to achieve a desired economic outcome or, alternatively, the economic price necessary to achieve a desired cultural outcome (Throsby, 2003b).

3. Private/public value

The second fundamental distinction that is important in considering the value of cultural heritage is that between private value and public value, or between private interest and the public interest. In the heritage arena this distinction is seen most obviously in the listing process. Listing has direct impacts on private owners of heritage properties, for example through costs of regulatory compliance, or through development opportunities forgone. At the same time listing affects public value; indeed the essential intention of the listing process is to protect the non-market benefits of the heritage items as experienced by the public at large. Essentially the problem is a distributional one: who benefits and who pays? And again CBA is the appropriate methodology with which to evaluate the benefits and costs.

The private/public value distinction is recognised in the wider field of investment appraisal where the differences between private and social CBA are well understood. In the case of a heritage project such as the conservation or adaptive re-use of a privately-owned property, a CBA undertaken from a *private* viewpoint would use the actual financial flows and opportunity costs as

experienced by the individual owner; it is also likely to use the opportunity cost of capital as the appropriate discount rate. A *social* CBA of the same project would adjust the private analysis to:

- account for taxes and transfers;
- use shadow prices, not market prices;
- use a lower discount rate reflecting (perhaps) a social time preference rate;
- include all non-market effects (public goods and externalities); and
- recognise, if possible, any cultural value or collective benefit not otherwise accounted for.

Once these adjustments are made, the private and social rates of return can be compared as a basis for decision-making. It should be remembered, of course, that the CBA, at whichever level it is undertaken, does not make the decision, it simply acts as an important piece of information to be put on the table as part of a wider decision-making process.

For public policy purposes it has to be, by definition, the *social* assessment of value that must guide the processes of policy formation and implementation, since there is a clear obligation on government instrumentalities at all levels—federal, state and local—to be the guardians of the public interest. At the same time, however, the legitimate property rights of private individuals and firms must be respected and this is frequently the source of conflict between the heritage listing authorities and private owners.

The problems faced by private owners of heritage properties who are dissatisfied with the effects of listing on their circumstances occupied a great deal of the Productivity Commission’s time during its recent Inquiry into the conservation of Australia’s historic heritage places (Productivity Commission, 2006). The Commission’s proposals in its draft report for a voluntary negotiation process to replace compulsory listing were both theoretically flawed and practically unworkable, and were replaced in the final report by a concentration on the problem of “unreasonable costs”. Again the issue of value is the critical one—whose values are relevant and how is an outcome to be reached that somehow balances the private and public interest? In operational terms an important question arising from such concerns is at what point in the listing process should financial considerations such as potentially “unreasonable” costs be taken into account? Should they be admitted as a possible influence on the listing decision itself, or should that decision be based purely on cultural significance, with the possibility allowed subsequently for economic concerns to be introduced, for example as a basis for assessing “just compensation”? Practice in this respect varies in different jurisdictions in Australia, reinforcing the Productivity Commission’s calls for greater uniformity and coordination in heritage administration around the country.

To sum up, in considering means of dealing with the relatively small number of cases where private owners claim to be disadvantaged by listing or its consequences, it is incumbent on the government not to lose sight of the primary

purpose of heritage regulation, i.e. to protect the public benefit arising from the built heritage at whatever level it occurs. In particular, it is important that the short-term financial exigency of some property owners should not be allowed to override the longer-term public interest. The key to achieving the appropriate balance between private and public interest in heritage conservation lies particularly in two policy directions: the application of objective, consistent and thorough procedures for heritage assessment, and the provision of adequate resources for compensation when a demonstrated need for it can be shown to exist.

4. Conclusions

The above discussions have highlighted the fundamental role of concepts of value in the heritage arena, and emphasise the importance of the distinctions between different types and levels of value—individual/collective, economic/cultural, and private/public. Economic analysis using well-established methods for benefit assessment such as CVM, and applying them using equally well-established techniques such as CBA, allows these distinctions to be clarified in ways that can make a substantial contribution to heritage policy and practice.

Yet much remains to be done in areas such as the development of market-based instruments, the evaluation of non-market effects, the possibilities for benefit transfer, and the assessment of those aspects of cultural value not captured in standard economic analysis. Given the multidimensional nature of the value of heritage, much will depend on cooperation between economists and heritage professionals in identifying problem areas and in seeking solutions. It is hoped that this Workshop will contribute to an ongoing process of breaking down barriers between disciplines.

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