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HERITAGE WITHOUT FRONTIERS

KNOWLEDGE AND PROTECTION OF CULTURAL HERITAGE ON THE OCCASION OF THE 50TH ANNIVERSARY OF THE UNESCO WORLD HERITAGE CONVENTION AND THE 35TH ANNIVERSARY OF THE ERASMUS STUDENT MOBILITY ACTIONS

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CONTENTS

Address to Readers

Introduction

5

Different approaches on heritage conservation

Politecnico di Milano - Students contributions

Conclusion

CULTURAL HERITAGE AND MARKET FAILURES: THE ECONOMICS OF CULTURAL HERITAGE VALORISATION AND PRESERVATION FROM A PROJECT PERSPECTIVE

Camilla Lenzi[1]

1. An economic approach to heritage valorisation and preservation

The identity of nations, people and places is inherently formed and shaped by culture and heritage, especially in those countries with long and rich historical roots. Specifically, artistic and cultural traditions, buildings, monuments, up to collective memories i.e. cultural heritage in both its material and immaterial forms, represents a crucial specificity and a factor of diversity and distinction for each place, becoming a source of pride and identity for local populations while generating passionate attraction for visitors (Panzera, 2022).

The interest towards the role of cultural heritage as a source of development of places has recently gained renewed interested in the scholarly community (Cerisola, 2019, Panzera, 2022) but also in the policy arena within the European Union context. For example, the European report "Getting Cultural Heritage to work for Europe" explicitly states that "cultural heritage must be seen as a special, but integral component in the production of the European GDP and innovation, its growth process, competitiveness and in the welfare of European society" (European Commission, 2015, p. 6). Consistent with this approach, the EU designated 2018 as the "European Year of Cultural Heritage".

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Yet, cultural heritage presents important specificities when analysed from an economic perspective. Specifically, most forms and expressions of cultural heritage can be considered as public or collective consumption goods. Importantly, with public and collective goods, as early noted by Samuelson (1954, p. 387), "each individual's consumption of such a good leads no subtraction from any other individual's consumption of that good".

In details, the typical definition of public goods in microeconomics textbooks is that of goods that present two characteristics simultaneous-ly: non-excludability and non-rivalry. Non excludability means that no individual can be prevented from consumption; this condition may result from different situations, such as a matter of convention, law, technology, physical characteristics, feasibility. Non-rivalry (divisibility) means that an individual consumption does not affect another individual's consumption. Classical examples in this respect are landscape, scenic views, the defence system. In more modern terms, one could even consider Wikipedia as a sort of public goods whose value for a given consumer does not diminish because of the consumption from other people. At the opposite, one may find pure private goods, as ice-creams, whose consumption is both rival and excludable, as the consumption of an ice-cream cone by an individual prevents the consumption of the same ice-cream cone by others.

The specific characteristics of non-rivalry and non-excludability, however, open important reflections and choices about the actual provision of cultural goods and the desirable amount of resources to be dedicated to projects aimed at preserving, valorising and enhancing the economic potential and fruition of existing cultural heritage.

The following notes will propose some reflections on how an economic approach to cultural goods and cultural heritage can help framing current issues in valorisation and preservation projects. Specifically, these notes will help understanding how the public or at least collective nature and value of most of culture heritage goods represent both a blessing in terms of attractiveness and capability to raise interest but also a curse, leading to the risk of persistent underinvestment in valorisation projects.

1.2. *An economic perspective on the bottlenecks in investments in cultural heritage valorisation and preservation projects*

From an economic perspective, the chief criterion for choosing whether and how many resources should be dedicated to a valorisation and preservation project follows the principle of the so called economic efficiency, requiring that no resources/opportunities are wasted or, put differently, that the economic output (i.e. the value) deriving from the object of the intervention is maximized and no opportunities are missed.

In principle, this approach looks not only reasonable but also desirable. In practice, its implementation is confronted with multiple difficulties, whose complexity largely explains the numerous obstacles in raising interest, reaching consensus and collecting funding for valorisation and restauration projects.

In fact, very strict conditions should hold to make this approach feasible, first and foremost the fact that markets exist for all goods and services produced and consumed. This condition requires that property rights are fully assigned and fully enforceable for all resources and commodities, meaning that there are not public goods.

The existence and the enforcement of property rights is crucial for the functioning of markets, i.e. for the definition of a reasonable price for them ensuring the execution of market transactions and exchanges. Property rights, in fact, convey powers to the owner in terms of appropriability of the returns of the owned resource, ability to divide/transfer the rights, the exclusiveness of the right, its duration and enforceability

However, property rights are frequently not defined or ill-defined if not ambiguous for heritage resources. The weakness and/or limited enforceability of property rights for most of heritage resources impede their trading and exchange (e.g., abandoned sites) implying that no market price is available for them. Many heritage sites are, in fact, not subject to exclusive property rights, e.g. churches, museums, squares, natural parks. When left as open access resources with uncontrolled exploitation, however, economic theory and personal experience highlight the risk of overexploitation and depletion, as debated in the literature on the tragedy of commons (Tirole, 2017; Ostrom, 1990). From an economic perspective, these outcomes are not desirable as they

are inefficient, in the sense that they do not maximise the value of the resources and lead to wastes.

In most cases, then, markets fail to allocate heritage resources efficiently and the absence or scarce reliability of prices prevent delivering truthful information on the costs and benefits of any action aimed at their valorisation and preservation. Since heritage resources are typically subject to inefficiencies, the key question for economists becomes how such inefficiencies can be avoided and what measures can be implemented to address such inefficiencies. In fact, eliminating waste can bring benefits, boost the economic value of single sites and/or monuments, lead (eventually) to local development. In this regard, a mitigating solution adopted in several cases, which is not by no means definitive but at least ameliorative, is that of converting open access heritage sites into common property resources with controlled exploitation by legal or customary conventions e.g. major churches, most museums. Consequently, governments and public bodies frequently take the responsibility of interventions related to such heritage goods.

To illustrate the origins of the inefficiencies in the use of heritage resources and the widespread risk of underinvestment in valorisation projects, lets make use of the following example summarised in Table 1.

Lets imagine that two individuals (Camilla and Nora) are independently asked to decide about a restoration project in an archaeological site that costs 100 € in total. Each individual has 1000 € endowment, and each of them values the realisation of the project 60 € each with the total value of the project accruing to the two amounting to 60 + 60 = 120 €, greater than the cost, 100 €. In this context, the value each individual attributes to the project shall be interpreted as the perceived benefit (i.e. utility) the individual gain from the realisation of the project. Such a gain that does not simply refer to the willingness to pay for the entry ticket to the improved site but may also include considerations each individual can make about the project's effect as a cultural initiative, as a concrete improvement of the state of conservation of the site up to the spillover effects on the local area in terms of new jobs, new professionals, increasing tourism, just to mention a few examples.

Should the cost being split between the two, each individual should pay 100 / 2 = 50 €. This amount is smaller than the benefit each

individual gain from the realisation of the project (i.e. 60 €). At a first glance, this simple algebra would suggest that, in presence of coope-ration, Camilla and Nora would agree in having the project executed.

Unfortunately, the scenario in absence of cooperation is far more complex and can be briefly sketched by applying the prisoner dilemma logic (Poundstone, 1993) to this very simplified setting.

Lets consider the case in which Camilla and Nora independent-ly one from the other decide both to finance the project (YES - YES outcome in Table 1.1) and to share the costs. In this case, then they will gain both 1010 = 1000 (endowment) + 60 (utility from the conclusion of the project) − 50 (individual cost of the project). Both Camilla and Nora will be better off than in the original situation.

If Camilla and Nora independently one from the other decide both NOT to finance the project (NO-NO outcome in Table 1.1), they will maintain their initial endowment of 1000 but the restoration project will not be undertaken. This outcome is certainly inefficient since both Camilla and Nora will be left with a lower economic outcome with respect to the YES-YES case.

If only Camilla declares she would finance the project and Nora says she would NOT finance it (YES-NO outcome in Table 1.1), Camilla will pay the restoration project in full and will get 960 = 1000 − 100 + 60, and Nora will gain 1060 = 1000 + 60. Camilla will be worse off than in any other situation and Nora better off than in any other situation.

On the other hand, if only Nora declares she would finance the pro-ject and Camilla says she would NOT finance it (NO-YES outcome in Table 1.1), Nora will pay the restoration project in full and will get 960 = 1000 − 100 + 60, and Camilla will gain 1060 = 1000 + 60. Nora will be worse off than in any other situation and Camilla better off than in any other situation.

In order to make her choice, Camilla will compare the YES and the NO outcomes in the case she expects Nora to say she would finance the project (YES column in Table 1.1). Next, Camilla will compare the YES and the NO outcomes in the case she expects Nora to say she would not finance the project (NO column in Table 1.1). Nora will apply the same logic to make her choice.

If Nora is expected to say she would finance the project (YES column

in Table 1.1), Camilla will compare 1060 (NO option) to 1010 (YES option); the NO option gives a greater outcome and will be therefore preferred.

If Nora is expected to say she would NOT finance the project (NO column in Table 1.1), Camilla will compare 1000 (NO option) to 960 (YES option); the NO outcome gives her a greater outcome. Whatever Nora will do, the NO option is preferable for Camilla.

The same logic can be applied to understand the preferred behaviour of Nora. Without knowledge of what Camilla will actually do, Nora will always prefer the NO option, as this is the choice that gives the best outcome. If Camilla is expected to say she would finance the project, by choosing the NO outcome, Nora will gain 1060 (YES-NO outcome in Table 1.1) instead of 1010 (YES-YES outcome in Table 1.1). Similarly, if Camilla is expected to say she will NOT finance the project, Nora will gain 1000 (NO-NO outcome in Table 1.1) instead of 960 if she chooses the NO outcome (YES-NO outcome in Table 1.1).

Therefore, the conclusion is not only paradoxical but more importantly it is also inefficient from an economic perspective. Both Camilla and Nora prefer the NO-NO outcome even if the YES-YES outcome would have provided higher economic gains.

		Nora	
		YES	**NO**
Camilla	**YES**	1010/1010	960/1060
	NO	1060/960	1000/1000

Table 1. The dilemma of investment in cultural heritage valorisation projects. (Elaboration by C. Lenzi).
NOTE: The first number (i.e. payoff) in each cell represents the economic outcome for Camilla, the second one the economic outcome for Nora

Even if this example and the absence of coordination may sound rather unrealistic should the society being composed of two people only, it may turn to be quite concrete in a large society in which consensus building and coordination are hampered by the high number of individuals.

Large groups are also afflicted by an additional problem, that of opportunistic behaviour or free riding. In this case, single individuals have little incentive to declare truthfully their own preferences about whether to finance a project or not as in same cases it might be even financed regardless their actual financial contribution.

2. Conclusion

The simple framework discussed in the previous section highlights the complexity of making decision about restoration and valorisation projects. This complexity arises from the intrinsic nature of most heritage goods object of interventions. Heritage goods, in fact, are typically public goods characterised by non-rivalry and non - excludability. This condition generates two main consequences.

First, it is extremely difficult to generate consensus and coordination around a valorisation and restoration project. Fear of opportunistic behaviour may induce individuals not to engage or not to support financially new projects if not to free ride while making the burden of the intervention fall on the rest of the society, as the simple example sketched in Table 1 proves.

Second, because of non-rivalry, public goods can be consumed by multiple consumers at the same time. Moreover, non-excludability breaks the link between payment and use (i.e. transfer of property rights) of a good. Therefore, all individuals can consume at the same time the same amount and get benefit from consumption, with the accruing utility depending on the individual preferences. What matters, then, is not the benefit that each single individual gains from the consumption of a single quantity of a certain public good, but the sum of the benefits of all individuals in the society.

Making such an assessment, however, is highly complex; yet, it

remains a fundamental step in order to understand whether and how much invest in restoration projects. Considerations in this regard should not purely reflect the financial value and cost of the project but all possible tangible as well hidden (yet measurable) benefits and costs related to a specific intervention.

Continuing with the example discussed in the previous section, an intervention aimed at valorising an existing archaeological site might lead not simply to improve the archaeological, aesthetic and historical value of the site, but also to generate greater tourism inflows, greater employment opportunities in the site and in the related business activities, as well as extra income for the new workers employed in the touristic activities (and in the related ones) to be spent in the consumption of other goods. Additionally, new businesses may have birth, especially if linked to touristic activities, and connections with other sites (part of a broader thematic touristic trail) can also lead to improved accessibility. Following a parallel reasoning, the economic costs of the intervention do not simply refer to the financial resources to be mobilised to complete the project but should also take into consideration the possible effects/risks of congestion, waste, and pollution due to over-tourism up to a narrowing economic specialization of the area in the tourism sector at the expense of more profitable/added value activities.

Assessing the relative benefits and costs of a specific intervention, by applying a logic that goes beyond the pure financial accounting, but it is still strongly anchored to an economic approach, is therefore important to understand the net benefits (defined as total benefits minus total costs) stemming from any intervention and to develop more balanced conclusions about the opportunity and feasibility of a specific project.

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