

Cultural heritage evaluation: a reappraisal of some critical concepts involved

Mihaela IACOB

The Bucharest University of Economic Studies
miuiacob@yahoo.com

Felicia ALEXANDRU

The Bucharest University of Economic Studies
alexandryafelicia@yahoo.com

Meral KAGITCI

The Bucharest University of Economic Studies
meral_ibraim@yahoo.com

Georgiana Camelia CREȚAN

The Bucharest University of Economic Studies
georgiana_cretan@yahoo.com

Filip IORGULESCU

The Bucharest University of Economic Studies
fileos1984@yahoo.com

Abstract. *This study aims to build a synoptic picture of the facets of the economic category called “value”, with practicality in the tangible cultural heritage field, from the point of view of a traditionally economists-specific approach: concern for the financial sustainability of any decision. Moreover, the methods from the economics literature regarding the valences of the “cultural value” concept prove the obsolescence of the common opinion according to which the economic approach is primarily interested in financial metrics. In as much as the ultimate goal of the scientific process is to identify the most effective cultural heritage preservation and evaluation methods, the study also reflects the public-private interference in this area.*

Keywords: cultural heritage; financial valuation; value subjectivism; economic value; cultural value.

JEL Codes: H23, H41, H43, H82, Q26, Z19.

REL Code: 14K.

Introduction

The mainstream opinion which tends to believe that economists focus too much on financial measures, overlooking the real cultural significance of heritage assets (which make us think about the sense of identity and continuity – heritage assets representing a bridge between the past and the present), proves itself, in fact, inadequate for the present stage of the approaches with respect to this subject in the economics literature. A brief evaluation (of these approaches) demonstrates that there are, indeed, common features between the economic and cultural methods regarding heritage valuation, to the extent that a correct economic evaluation of a heritage project has/should have a significant importance in the decision-making process regarding this area.

Any decision with respect to preservation, restoration or re-use of, for example, an old building, full of symbols, involves limited resources and, consequently, *a ranking of the needs* to be satisfied by them. Once used for heritage maintenance and preservation, they (the resources) cannot go in other alternatives – resulting an *opportunity cost* attached to them.

Heritage assets coming from the past have an objective limitation – not everything can be preserved – and a subjective restriction, generated by consumers' preferences – it is possible they are against the heritage project, if this implies using public funds supplied by their contributions, which are, by excellence, “non-voluntary”.

Any financial revenues resulting from a heritage project should, finally, exceed possible decreases/damages to heritage properties and for this kind of evaluation an entire economic methods instrumentary comes into play.

1. Semantic note: about “heritage” and “value”

Before resorting to applied exercises regarding the dimensions of the heritage assessment process on various types of communities (local, regional, national, universal), a subject that could continue the approach proposed by this article, we will further insist on the general conceptual framework for the heritage evaluation, filtering it through the concepts coming from the conventional economics.

The “heritage” term defines something inherited from the past, and attaching to it the notion of “cultural” (in both anthropologic or sociologic sense and artistic or aesthetic interpretation) its purpose is more clearly defined,

in this way referring to things inherited from past generations, having a certain cultural significance.

From the two components of cultural heritage, *tangible* – buildings, sites, but also paintings, sculptures or artefacts – and, respectively, *intangibles* – traditions, practices, beliefs, works of art such as literature or music –, the subject of our study evolves around the idea of *built tangible heritage*.

But, certainly, the most important notion refers to heritage's *value*, through its significance, the way to determinate it, its role in decision-making process with respect to preservation, restoration or re-use of heritage. In this field, two fundamental distinctions should be acknowledged: between *individual* and *collective value*, and, also, between *private* and *public value*, taking into consideration the subsequent categories of *economic* and *cultural value*.

2. Value: between individual and collective perception

2.1. Individual value

The notion of *value* in economics represented (and, to some extent, still represents) a subject of debate, but, even in these circumstance, the dominant paradigm of neoclassical economics states that it has found the solution for compromise to this problem in an almost unambiguous manner (more than this, an operationalized way in the current practice of public policies, with inertial relative public consensus), identifying value clearly enough as deriving from *individual utility*. This is not the moment for a revision of the literature dedicated to “theory of the value”, but even the claim to have resolved the problem of value and of the operations based on it still incorporates, after “the subjective-ordinalist revolution”, an epistemological taboo regarding inter-subjective measurement, comparison and computing of value/utility.

The fact is that in neoclassical economics, idolized against factual... reality, where society is populated by rational consumers, perfectly informed and maximizing their utility, value results from the exchange process on perfectly functioning markets. Even when it is considered the markets fail (there are monopolies, externalities, public goods), value is given by individual consumers' “willingness-to-pay” expressed for the goods in question.

In principle, individuals can experience heritage by direct consumption (or “use”), by indirect means (“non-use”), or as an external benefit (Hutter, Rizzo, 1997, Schuster et al., 1997, Peacock, 1998, Benhamou, 2003, Rizzo, Throsby, 2006). In this framework, other sides of “value” can be identified – use value, non-use value.

The use value represents the satisfaction felt by individual as a result of direct consumption of the services offered by the heritage asset, which can be experimented in several ways: by owning assets of heritage or by the pleasure of living or working in such a place – this perception is reflected in the market process and can be noticed in the *rental value*, and also by tourists’ visits (in this case, value can be estimated with the help of methods such as *transport/cost analysis*⁽¹⁾).

In estimating the direct use value of the heritage’s qualities (for example, a historical building used for commercial purposes), it has to be noted that the value of the heritage itself is, in fact, a marginal one. For sure, the building would have some rental value even in the absence of its heritage qualities. The rental value of such buildings is greater if people prefer to live or work in them, or smaller, if the building’s design and old facilities don’t suit them. Overall, the data seem to suggest that those direct use values are positive, unsurprisingly, because, usually, heritage properties are desired by individuals who cherish their services and are willing to pay the corresponding price.

The non-use value, or passive use value, is felt by individuals, but not reflected in the market process, since it derives from those attributes of cultural heritage that are known as *non-rival and non-excludable public goods*. A parallel with “the environment economics” could be made, today a subject extremely popular, where substantial progress has been made lately, diversifying and polishing its “non-market valuation” methods (it is worth mentioning these technics have specialized applications, working well in some situations and bad or not at all in others). In this area, three categories of non-use values have been identified relevant likewise for cultural heritage valuation (Throsby, 2003a)⁽²⁾, namely *existence value*, *bequest value* and *option value*.

- *Existence value* derives from the fact that people believe that a good has an intrinsic value, different from the use value, for whose existence they are willing to pay (even if there is the possibility never to use or consume it); satisfaction results because it is known the heritage will continue to exist. People are willing to provide funds to preserve assets of heritage simply because they consider such assets

should be there. Thus, the reason for this altruistic existence value is, generally, of a paternalist nature, emanating from the desire that a good should also be consumed by others, and not from the intention to increase its consumption among community's members.

- If altruism also considers the next generations, the perception regarding the good is equivalent to the *bequest value*, which appears when individual satisfaction derives from the continuing existence of that heritage displaying potential future benefits (known or unknown) to others.
- *Option value* is given by the dimension we attach to the desire to preserve heritage assets in order to leave open the option to consume their services in the future⁽³⁾.

All these types of values are based on, as previously mentioned, *individual willingness-to-pay*, for whose measurement a couple of methods were developed, out of which only two will be briefly presented: *contingent valuation* and *discrete choice modelling*.

Contingent valuation deals with questionnaires, where people can be asked how much they are willing to pay to avoid a destructive action to a heritage asset, or, alternatively, what compensation would they require to accept such a situation. The resulting average of willingness-to-pay is then multiplied by the relevant population to estimate the total value of the willingness-to-pay. The biggest advantage of this approach is that it can be applied to any evaluation problem, including where other methods already exist. Although, at first sight, the method looks simple, it is not problem-free: respondents can find out from the interrogators the most part of the information; respondents can be influenced by their own interest; answers are affected by the fact that the market is a hypothetical one, that is not necessarily real; and, not least, the way in which information is presented can influence individual responses. In addition, it has been observed that people have the same willingness-to-pay both for a part of the evaluated good and the whole good. Accordingly, the results of these studies are often contested, ranging in a large interval.

Discrete choice modelling can be used to compare a range of choices (as opposed to contingent valuation, which, generally, is restricted to comparing a single choice with a current situation). The heritage asset is described as a set of attributes, where each attribute can have many possible values, in a given

interval. All attributes' combinations are aggregated to build a matrix of possible scenarios for the asset. Interviewees are presented approximately 8-10 sets, each consisting of, usually, two hypothetical options and a given situation (*status quo*) and are asked to select the one they prefer.

There is also a third type of value for cultural heritage felt by individuals, different somehow from the first two categories, although it has both *use* and *non-use* value characteristics, emerging from the fact heritage can generate positive externalities (if, for example, those passing by a heritage building enjoy its aesthetic and historical qualities). Even if, as a rule, the economic value of such an *external benefit* could be estimated, in real life this can be hard to achieve. Nevertheless, positive externalities are an identifiable and potentially significant value for heritage.

2.2. Collective value

In economics literature, emanating from the need to comprehensively answer pragmatic exigencies, it has been addressed the question if there are *collective benefits* with respect to heritage assets that are not considered relevant by individuals, but which can still be important for decision-making. It can be thought only individuals' opinion matter, but one cannot stop wonder if the standard economic model really takes into account all the features of cultural heritage which reflect what is known as *its cultural significance*. These statements bring into light an alternative approach that accounts for the concept of *cultural value* in addition to *the economic value* (referred to in the above section) the assets possess. In this framework, cultural value represents a complex concept grouping qualities such as aesthetics, symbolism, spiritual or historical value. To some extent, such features can affect the asset's individual valuation and can be transferred to the corresponding economic analysis. These values can be fully understood in collective terms, without being substantially accounted for in individual monetary valuations⁽⁴⁾.

Dissecting cultural value into its constituting elements, the following subsequent categories can be noted (Throsby, 2006): *aesthetic value*, *spiritual value*, *social value*, *historical value*, *symbolic value*, *authenticity value*.

- *Aesthetic value* refers to qualities generically labelled as "beautiful" a heritage asset possesses, regardless if these qualities are intrinsic or are perceived as such by the consumer.

- *Spiritual value* transcends the objectivity and can contribute to the sense of identity of a community, an individual member of the community or a visitor joining it, offering them cultural confidence and a bond between local and global environment. Understanding and intercultural dialogue emerge from the awareness regarding the existence of similar spiritual value provided by other communities.
- The interpretation of culture as values and beliefs shared by the same group suggests that heritage's *social value* can be reflected in the social stability and cohesion of the community. That asset puts its mark on the community's living style helping to identify those values which make that community a desired place to live and work in.
- *Historical value* is, without any doubt, intrinsic to heritage, being easily identifiable from an objective point of view. Its main benefit is it helps defining identity, making the link with the past, helping to understand the present and designing plans for the future.
- With respect to *symbolic value*, a heritage can transmit some significances⁽⁵⁾ and information which help community to interpret its identity and to express its cultural personality.
- And, not least, *authenticity value* refers to the fact that heritage can be appreciated for its own properties, being real and unique. Protecting its integrity, given those qualities, can be a significant restraint when making a decision alongside taking into account the cultural value.

If the right tools for measuring cultural value existed, then, at least in principle, a parallel could be made with the economic analysis, applying the standard methodology of cost-benefit analysis⁽⁶⁾ to estimate flows of cultural benefits provided by a project. But this objective is hard to achieve when there are yet to be developed the needed metric systems.

3. Value: between private and public

A second fundamentally important distinction for cultural heritage value is between *private* and *public value* (between private and public interests), distinction finally translated into the desired property regime, being most easily observed in the listing process (putting on the heritage objectives list). Listing has a direct impact on private heritage owners (regarding costs for respecting regulations or regarding lost opportunities for development), but in the same

time also influences the public value (the essential aim of the listing process is to protect heritage's non-market benefits as they are felt by public at large). The problem being a distributional one (accounting for beneficiaries and losers), cost-benefit analysis is considered to be appropriate for costs and benefits evaluation.

The distinction between the two values is recognized in the larger field of investment evaluation, where the difference between *private* and *social cost-benefit analysis* is rightly understood. In the case of a heritage project such as preservation or re-use of a private property, a cost-benefit analysis undertaken from a private point of view would analyse financial flows or opportunities costs as they are experienced by the individual owner. For a social cost-benefit analysis of the same project, some adjustments have to be considered: taking into account taxes/subsidies and transfers⁽⁷⁾; using shadow prices, not market prices⁽⁸⁾; using a smaller discount rate to reflect the social time preference; the inclusion of all non-market effects (public goods and externalities); and, in the end, recognizing, if possible, each cultural value or collective benefit not accounted for until now.

It should be remembered that, regardless of the level cost-benefit analysis is undertaken at, it only represents a small part of the information needed to be gathered in the complex process of decision-making.

It is considered that, for public purposes, the social evaluation should come first, public authorities watching over the public interest, but, all the while, the legitimate rights regarding the private property regime of individuals and firms need to be respected, issue that seldom is a source for conflict between heritage-listing authorities and private owners.

Final considerations

The paper concentrates on presenting the conceptual framework and on underling the fundamental role of the "value" notion in the heritage area, the importance of distinguishing between different types of value being all the while stressed out. In the same time, it has been insisted on the prospects and limits of the measuring methods and tools, in the decision-making process with regard to technical actions, such as listing, or allocation of funds for preservation and restoration. Although various methods of economic analysis can be adapted to our subject (*transport/cost method, contingent valuation, cost-benefit analysis*), trying to also take into account the cultural value (with

its subsequent components), alongside the economic one, the valuation field still needs to be developed with respect to market-based tools, non-market effect estimation, with the inclusion of those features of cultural value not contained in the standard economic analysis. Solving these problems and finding the proper (policy) solutions are highly connected to cooperation between economists and heritage experts, given its multidimensional nature, but, prior to this, there is always a strong need for avoiding conceptual misrepresentation of the realities.

Acknowledgements

This paper is supported by Research Project no. 92-119/2008, entitled, “Valorificarea și managementul patrimoniului construit în context intercultural – PATRIV@L”, Program 4 “Parteneriate în domeniile prioritare” 2007-2013, financed by UEFISCDI. A shorter version, entitled “Evaluation of Cultural Heritage – from the Epistemological Precautions to Pragmatic Approaches”, was presented at the International Conference Modern Approaches in Organization’s Management and Economy, 5th edition, 24-25th November 2011, Bucharest, Romania, organized by Bucharest University of Economics – Faculty of Management, The Management Department, in partnership with The Management Academic Society from Romania and The National Council of Private Small and Medium Enterprises from Romania.

Notes

- (1) Transport/cost analysis uses prices for goods that have a market they are exchanged on in order to determine the value for non-marketable goods. The costs for marketable goods are those paid by the person who wishes to recreate in order to reach the destination and enjoy her activity. The needed equipment, access taxes, food, time spent, cost of the hotel, parking fees, visits’ frequency and other costs are also included, and based on these information the aim is to design a demand curve for the recreational activity. All of these define a minimal value for the good in question. Regardless of the real value of the experience itself, it cannot be smaller than what the person has paid to take part at the event. Because individuals have to use the location to reveal their preference for it, the method is limited to certain use values, especially regarding location-specific activities, and cannot measure non-use values, this being, in fact,

its greatest disadvantage (alongside other faults: the limited capacity to measure the values of individual attributes; the complications in evaluating a journey with several destinations or purposes; distortions if the substitutable visiting places are not correctly incorporated in the analysis). Among its strengths, there are mentioned the relative easiness of usage and the fact that it takes into consideration the current relevant observations for preferences.

- (2) The concepts of natural capital and cultural capital are parallelly comparable. The first consists of natural resources, natural ecosystems and biodiversity, while cultural capital, in economic sense, consists of cultural assets (both tangible and intangible), cultural “ecosystems” or networks and cultural diversity. Additionally, the parallel extends also to the area of sustainable resources management: the well-known paradigm of ecologically sustainable development has its counterpart in the relatively new concept of culturally sustainable development.
- (3) Option value is recognized as a significant form of environment resources’ benefits, like coral reef and forests, as pharmaceutical and medical uses are being discovered. Closely related to this value are the concepts of uncertainty and irreversibility. There are uncertainties regarding possible future discoveries and bio-technological process due to ecosystems, which would be lost if their irreversible destruction is permitted. In this manner, a valuable gain can be obtained by postponing any action or decision that would cause irreversible deterioration. Economists recognize and quantify this “cvasi-option value” – notion introduced for the first time by Kenneth J. Arrow and Anthony C. Fisher (1974) – in other fields of economics, especially finance. According to them, cvasi-option value can be quantified in the context of explicitly formulating a multi-temporal decision problem, where the information needed to resolve the problem could be obtained at the end of these periods.
- (4) For example (Throsby, 2007), the notion of identity. Cultural heritage is important because it expresses the identity of a country, being difficult to put this aspect into willingness-to-pay terms. But this identity is valuable for society as a whole, clearly influencing decisions regarding cultural heritage.
- (5) Which can be important for the educational function, not only for young people, but for developing the knowledge basis and the understanding level of the whole community.
- (6) According to the common definition, cost-benefit analysis (CBA) estimates and aggregates the monetary equivalent of present and future social costs and benefits, from citizens’ point of view, regarding public investment projects (PIP), discounted and compared, in order to decide whether the projects in question are in the public interest (Iacob, Crețan, 2009). Because all cost and benefits of society as a whole are taken into account, it is usually known as social cost-benefit analysis.
- (7) Cost-benefit analysis only refers to resources that are created or consumed, excluding those resources which are transferred from one part of the economy to another, because, on the whole, at society’s level, there is no gain or loss. From the private’s sector point of view, taxes are costs. At government’s level, these redistribute revenues. To determine if taxes are to be considered transfer or consumption, it has to be known the point of view from which the transaction is looked at (if resources come from new supplies, the most appropriate way is to use the producer’s supply price, which represents the value of consumed resources and is equivalent to the price paid by other users, extracting the taxes and adding the subsidies; if production is expected to remain constant, then resources are obtained by depriving other

consumers, and the cost correct measurement is given by inputs value in alternative uses or by the producer's supply price, adding the taxes and extracting the subsidies (the price paid by the consumer)). Sometimes, subsidies or indirect taxes try to correct external spillovers. In these situations, such taxes can be included in the project's costs, paying attention not to double count.

- (8) If the cost-benefit analysis is done from the society's point of view, to better express social costs and benefits, social or real prices are used instead, known also as shadow prices, as market prices are considered "distorted" for the objective of cost-benefit analysis. The situations in which the shadow prices may substantially differ from the market prices are (Treasury Board of Canada Secretariat, 1998): (i) when the currency is wrongly valued because of the exchange rate control; (ii) when wages are kept artificially at a high level by the unions' pressure or by legislation, even if there is unemployment; (iii) when there are anti-competitive conditions, monopoly or monopsony; (iv) when taxes or tariffs are applied directly on goods and services, such as value added tax; (v) when the government regulates, controls or subsidizes prices. Moreover, shadow prices are as well used when benefits cannot be directly expressed in monetary terms, because a market to exchange those goods does not exist.

References

- Benhamou, Françoise (2003). *Heritage*, in Towse (ed.) (2003), pp. 255-262
- Boardman et al. (2001). *Analiza Cost-Beneficiu. Concepte și Practică*, Second Edition, ARC Publishers, Chișinău
- Campbell, H.F., Brown, R.P.C. (2003). *Benefit-Cost Analysis: Financial and Economic Appraisal using Spreadsheets*, Cambridge University Press Guide to Cost Benefit Analysis of Investment Projects, 2008
- Gruber, J. (2005). *Public Finance and Public Policy*, Massachusetts Institute of Technology, Worth Publishers
- Hutter, M., Ilde, R. (1997). *Economic Perspectives of Cultural Heritage*, London: Macmillan
- Iacob, Mihaela, Crețan, Georgiana Camelia (2009). "Some remarks on the "evaluation problem" in cost-benefit analytics", paper presented at the 10th International Conference *Finance and Economic Stability in the Financial Crisis Context*, Bucharest University of Economics, Faculty of Finance, Insurance, Banking and Stock Exchange, December 11-12 2009, published in *Supliment Economie Teoretică și Aplicată*, Volume 2010, pp. 153-160, ISSN:1841-8678
- Krutilla, J.V. (1967). "Conservation Reconsidered", *American Economic Review*, 57, No. 4, pp. 777-786
- Mishan, E.J., Quah, E. (2007). *Cost-Benefit Analysis*, fifth Edition, Routledge, Oxon
- Peacock, A. (ed.) (1998). *Does the Past Have a Future? The Political Economy of Heritage*, London: Institute of Economic Affairs

- Rizzo, Ilde, Throsby, D. (2006). Cultural heritage: economic analysis and public policy, in Victor Ginsburgh and David Throsby (eds.), *Handbook of the Economics of Art and Culture*, Amsterdam: Elsevier/North-Holland, pp. 983-1016
- Schuster, J.M., John de Moncheaux, Riley II, C.A. (eds.) (1997). *Preserving the Built Heritage: Tools for Implementation*, Hanover NH: University Press of New England and the Salzburg Seminar
- Throsby, D. (2003a). *Cultural sustainability*, in Towse (ed.) (2003), pp. 183-186
- Throsby, D. (2003b). “Determining the value of cultural goods: how much (or how little) does contingent valuation tell us?”, *Journal of Cultural Economics*, 27(3-4), pp. 275-285
- Throsby, D. (2006). “Paying for the past: Economics, Cultural Heritage and Public Policy”, http://www.businessandconomics.mq.edu.au/faculty_docs/news_files/throsby_fisher.pdf
- Throsby, D. (2007). The Value of Heritage, *Heritage Economics Workshop*. ANU, 11-12 October. <http://www.environment.gov.au/heritage/publications/strategy/pubs/economics-value.pdf>