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## The Economics of Heritage

**Published in:**

Advances in Local Public Economics

**Publication status and date:**

Published: 01/01/2019

**DOI (link to publisher):**

[10.1007/978-981-13-3107-7\\_14](https://doi.org/10.1007/978-981-13-3107-7_14)

**Document Version**

Publisher's PDF, also known as Version of record

**Document License/Available under:**

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**Citation for the published version (APA):**

Mignosa, A., Martorana, M., Mazza, I., & Rizzo, R. (2019). The Economics of Heritage: Some Implications of Devolution. In M. Kunizaki, K. Nakamura, K. Sugahara, & M. Yanagihara (Eds.), *Advances in Local Public Economics* (1 ed., pp. 249-260). Springer-Verlag. [https://doi.org/10.1007/978-981-13-3107-7\\_14](https://doi.org/10.1007/978-981-13-3107-7_14)

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# Chapter 14

## The Economics of Heritage: Some Implications of Devolution



Marco Martorana, Isidoro Mazza, Anna Mignosa and Ilde Rizzo

**Abstract** In this paper, we focus on the political economic consequences of devolution of policies dealing with heritage conservation and valorization. In particular, the existence of local policymakers' vested interests concerning the conservation of heritage—due to its positive effects on tourism—raises the issue of what set of functions, and class of heritage to devolve. Our political economic analysis shows that devolution may favor the conservation of heritage with 'outstanding characteristics' over more 'local' heritage, leading to an inefficient outcome. We then discuss different possible measures to correct for such a political inefficiency.

**Keywords** Fiscal competition · Heritage policies · Conservation · Regional coordination

### 14.1 Introduction

Conservation<sup>1</sup> and valorization<sup>2</sup> of built cultural heritage (CH) are relevant issues in our society. The appreciation of CH appears to be widespread. In fact, according to the Eurobarometer (2017), a large majority of citizens in the European Union take pride in CH and are in favor of larger public support. At the same time, the scope

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<sup>1</sup>Lichfield (1988) provides a list of different activities regarded as conservation: prevention of deterioration, conservation, consolidation, restoration, rehabilitation, reproduction and reconstruction.

<sup>2</sup>Valorization refers to the activities put in practice to spread information and knowledge about cultural heritage and to enhance the attention toward its use.

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M. Kunizaki et al. (eds.), *Advances in Local Public Economics*,  
New Frontiers in Regional Science: Asian Perspectives 37,  
[https://doi.org/10.1007/978-981-13-3107-7\\_14](https://doi.org/10.1007/978-981-13-3107-7_14)

of what we consider CH tends to enlarge through time, and its positive effects on economic and social growth are increasingly recognized (Council of Europe 2005).

Public support to CH can be justified on the grounds of the well-known arguments of option demand, bequest demand, national prestige and merit goods, as well as the public good characteristics of CH and the externalities it causes (Towse 1994).

Great attention is paid in the literature to the controversial aspects of public intervention, both with respect to its normative rationale, i.e. the extent of market failure (Frey 2011; Benhamou 2013), and to implementation issues (Mazza 2011; Holler and Mazza 2013). From a positive analysis perspective, we observe that often governments play a crucial role in supporting the conservation and valorization of CH, though with different scopes and intensities. Public action exhibits different institutional features across countries,<sup>3</sup> depending on the mix of tools employed, the roles of public and private actors (Klamer and Mignosa 2006; Klamer et al. 2013), and the level of government involved (Rizzo 2004).

In a political economic context, the valorization of CH (which may be profitable for the specific jurisdiction where that heritage stands, for example by attracting tourists) requires specific attention. It is widely claimed that CH is a powerful touristic attractor, generating a large amount of economic benefits. However, such a conclusion, although almost unanimously accepted in the political debate, is not necessarily supported by empirical evidence. For instance, the effects of outstanding CH on tourism, such as the CH included in the World Heritage List (WHL), have been widely discussed in a debate on the journal *Tourism Management* (Yang et al. 2009; Cellini 2011; Yang and Lin 2011) without reaching clear cut conclusions.

From another perspective, Cuccia et al. (2014, 2016) stress that the inclusion in the WHL is not enough to increase the competitiveness of a tourism destination since the expected increase of tourism flows does not occur, unless effective local cultural policies are put in practice. Looking at regional evidence, Cuccia and Rizzo (2013) show that UNESCO inscription does not seem to be effective in overcoming seasonality and in fostering cultural tourism. Overall, it is worth noting that the consumption of culture by tourists involves not only immovable CH, however outstanding it may be, but also a wider content including intangible CH and cultural experiences (Bonet 2013). Noonan and Rizzo (2017) provide an overview of different contributions offered in the literature, and suggest that tourism and CH are closely related, in one way or in another; for instance tourism flows are also found to affect cultural attendance (Borowiecki and Castiglione 2014).

In this paper, we claim that the economic benefits deriving from tourism may induce a local government to spend relatively more resources on outstanding CH, which attracts tourists, rather than on the local one, which only residents know in general. This potential bias of local policymakers raises the issue of reconsidering the impact of devolution on conservation. The utilization of CH for economic purposes may also raise some obvious conflicts between the objectives of valorization and conservation. The «conservationist» stance, often adopted by specialists and bureaucrats, has been criticized as an obstacle to valorization for compatible uses (Rizzo

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<sup>3</sup>van der Ploeg (2006) discusses different approaches to cultural policy.

2011). In this study, we present a different view, claiming that the latter stance may be helpful to preserve *local* heritage, which risks not to receive adequate financial support by local governments. Their policies are likely to be biased towards outstanding CH because it is more visible and, therefore, more likely to generate political and economic gains.

This paper is organized as follows. Section 14.2 explores the pros and cons of devolution in order to identify the likely effects on conservation policies and public spending. Section 14.3 presents a simple economic model to derive some indications about the impact of devolution of policies of CH conservation and valorization. Section 14.4 provides some concluding remarks.

## 14.2 Devolution and Heritage Conservation

A peculiar feature of CH is that the area of public intervention constitutes a matter of discretion: the approach to identify CH is ambiguous. In such circumstances, the extent and priorities of public activity are mainly determined through the political decision-making process. Cultural goods, moreover, tend to be community goods that elicit social reaction. Although people are generally uninformed about the costs of provision, they appear to pay attention to the condition of their CH (Eurobarometer 2017). To meet such a demand, conservation should concern CH's aesthetic, social and historic values. These values should be recognized as such by a society to build its own cultural identity. Therefore, society can have a relevant role in determining the output of cultural policies, depending on the level of public participation in decision-making.<sup>4</sup> It is well known that such participation is improved by the devolution of political authority. People are better judge of their specific and local needs rather than national interests (Mignosa 2012). Moreover, the features and costs of local provision can be more easily observed by residents, and direct democracy can be more easily implemented when it concerns local issues. Therefore, devolution would allow the adoption of direct democracy tools, such as referenda, to assess public evaluation of heritage policies, if the rules underlying the decision-making process are properly designed (Rizzo 2004).<sup>5</sup> On the opposite side, according to the theory of fiscal federalism, the centralization of public intervention might be mainly justified by the benefits, derived from the conservation of CH, which go beyond the borders of a region or state, or by local budget constraints. Here, attention will be concentrated on these issues, and the pros and cons of devolution in the field will be examined within a specific political economic framework.

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<sup>4</sup>Peacock (1994) proposes that public participation could be enhanced by greater openness of public appointments in the decision-making bodies and if citizens, who are active in heritage matters, would be allowed to vote for their own representatives within these bodies.

<sup>5</sup>Swiss referenda offer interesting evidence on public attitudes toward the arts. Frey (1997) examines the reasons for extending the use of such a method to cultural decisions.

The traditional theoretical argument that devolution increases the accountability of government seems particularly strong in the CH field because of the close links between regional/local communities and CH. In addition, it is reasonable to presume the presence of vested interests in the conservation and valorization of CH at the decentralized tier because of the beneficial external effects on local economy (via its positive effects on tourism). This claim raises the issue of what type of CH and what set of functions to devolve. The common argument in the literature on fiscal federalism is that the allocation of functions among the various tiers of government should take into account, among other things, the geographical coincidence between taxpayers and beneficiaries of a given good and service. This would imply a hierarchy of CH in terms of the geographical distribution of benefits deriving from conservation—whether it is national or regional or local—in order to decide for the appropriate level of decision-making.

The CH sector, however, shows specific aspects that weaken the rationale for the principles of subsidiarity and perfect correspondence put forward by the normative analysis of fiscal federalism (Rizzo and Throsby 2006). In fact, the external benefits to the local economy deriving from conservation and valorization of CH—for example, via tourism—are directly correlated to its cultural relevance and reputation (nation-wide or world-wide). This will enhance the local government interest in conserving CH according to its external relevance. Local sponsors too would be inclined to support CH for the same wide visibility. Therefore, the fact that there are political and economic reasons to internalize the above-mentioned national and international external benefits would call for devolving the functions of conservation and valorization of CH to sub-central levels of government. Nonetheless, central government may maintain control (for example through regulation, as it happens in Italy) over the most relevant CH items, because they could be so relevant that their external benefits cannot be fully internalized. Once such a «core» CH has been defined, it is necessary to decide which functions should be transferred.

In fact, the scope of devolution can vary not only with respect to the type of CH but also with respect to the functions to be transferred. Local governments could be given all the available means—regulation, expenditure and taxation—to pursue the objective of CH conservation and valorization, or only some of them.<sup>6</sup> Different issues arise with respect to different tools. For the aim of this work, attention will be concentrated on expenditure/taxation, leaving aside regulation.

The issue of devolution might have, however, some counterintuitive policy implications as far as expenditure and taxation are concerned. A first issue is that not all kinds of CH can be economically exploited to the same extent and that different regions may be not equally endowed. Moreover, different types of CH can be differently affected by devolution, and such an effect also depends on the jurisdiction's economic conditions and on its degree of financial autonomy. We can distinguish, in a very rough way, two classes of CH: one including historical buildings and mon-

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<sup>6</sup>For instance, in Italy, the Code of Cultural Goods and Landscape (2004) assigns the functions related to conservation to the central government and valorisation to the Regions and Municipalities. Instead, total devolution applies to some Special Statute Regions.

uments with outstanding characteristics—such as, for instance, CH included in the WHL—and another including ‘minor’ CH relevant mainly for residents. Whether the conservation of this latter type affects those living outside the boundary of the jurisdiction is a matter of discussion.

In the following model, we claim that the effects of devolution on the conservation and valorization of these two classes of CH can be quite different. We can imagine a spectrum having on the one end total centralization (i.e. the conservation and valorization of both classes of CH is assigned to the central government), and on the other end total devolution (i.e. the conservation and valorization of both classes of CH is devolved to local governments). Different arrangements can be located in the middle, the most representative being a form of partial devolution implying centralization for the first class CH and the decentralization of the second class CH. For simplicity, in the model we assume that conservation and valorization functions are not split between different levels of government, i.e. devolution or centralization include both functions. In what follows, the policy implications deriving from total and partial devolution are going to be explored.

### 14.3 A Model of Heritage Conservation and Valorization

We consider a country constituted by two regions of population  $n_1$  and  $n_2$ , respectively. Each region is endowed with some CH: conservation is costly and CH is consumed as long as it is conserved. We assume that expenditures for the conservation of CH does not cause spillovers. In this way, we refer to that kind of CH that has historical relevance for the region and constitutes an important patrimony for a town, but is not so outstanding to attract foreign visitors. The amount of CH conserved is defined as  $g_i$  ( $i = 1, 2$ ). Residents in each region are interested in the conservation of their own CH. In addition to  $g_2$ , region 2 only can also allocate resources for the conservation of a higher-class CH ( $G_2$ ) that causes positive externalities to the residents of region 1. The latter can also spend a share of their income to visit region 2. The first-class CH, for example, could have remarkable artistic characteristics and/or particular relevance in terms of national identity. The share of income transferred from region 1 to region 2 depends on the amount of expenditure for the top-class CH. For simplicity, we exclude flows from other countries. Conservation of CH is provided through a simple linear transformation of public revenue. The preferences of representative resident in each region are as follows:

$$\begin{aligned} u^1 &= v^1(g_1, G_2) + y_1(1 - t_1 - p(G_2)) \\ u^2 &= v^2(g_2, G_2) + (1 - t_2) \left( y_2 + p(G_2) \frac{n_1 y_1}{n_2} \right) \end{aligned} \quad (14.1)$$

where  $y_i$  and  $t_i$  denote the income and tax rate in region  $i$ , and  $p(G_2)$  indicates the share of income transferred to region 2 by visitors from region 1. Reason-

ably, this share is non-negatively affected by the amount of public expenditure for conservation and may be positively affected within a limited range (in particular:  $1/n_1y_1 \geq p_{G_2} \geq 0$  and  $p_{G_2G_2} = 0$ ). Moreover, we assume  $v^1$  and  $v^2$  concave in their respective arguments (cross-derivatives equal to zero), zero mobility costs and that all residents in region 1 visit region 2 (no corner solutions). We can then aggregate the utility functions over the number of residents, obtaining:  $U^1 = V^1(g_1, G_2) + n_1y_1(1 - t_1 - p(G_2))$  and  $U^2 = V^2(g_2, G_2) + (1 - t_2)(n_2y_2 + p(G_2)n_1y_1)$ . We now compare the outcomes under centralized and decentralized decision-making.

**Centralized Decision-Making**

The national policymaker will maximize the aggregate utilities of the residents in both regions, subject to the balanced budget constraint:  $g_1 + g_2 + G_2 = t(Y + p(G_2)n_1y_1)$ , where  $Y \equiv n_1y_1 + n_2y_2$ .<sup>7</sup> Therefore, he will have the following program:

In an interior equilibrium we obtain:

$$V_{g_2}^2 = V_{g_1}^1 = 1$$

$$V_{g_1}^1 (tp_{G_2}n_1y_1 - 1) + V_{G_2}^1 + V_{G_2}^2 = tp_{G_2}n_1y_1 \tag{14.2}$$

Thus  $V_{G_2}^1 + V_{G_2}^2 = 1$ : the sum of the marginal benefits from conservation will be equal to the social marginal cost.

**Decentralized Decision-Making**

If the conservation of local CH is entirely financed by its regional government, i.e.  $g_2 + G_2 = t_2(n_2y_2 + n_1y_1p(G_2))$ , region 2 will choose  $t_2$  and  $G_2$  such that:

$$V_{g_2}^2 = 1$$

$$V_{g_2}^2 (t_2p_{G_2}n_1y_1 - 1) + V_{G_2}^2 + (1 - t_2)p_{G_2}n_1y_1 = 0 \tag{14.3}$$

therefore:  $V_{G_2}^2 = 1 - p_{G_2}n_1y_1$ . Region 1's optimal choice of  $G_2$  is such that benefits and costs are equal at the margin:  $V_{G_2}^1 = p_{G_2}n_1y_1$ . Accordingly, we obtain that, in the extreme case that all residents in that region visit region 2 and mobility costs are zero (such that income is perfectly transferable to the destination region), the external benefits are internalized by region 2 and the efficient outcome is reached. However, the preferences for the lower-class CH in region 2,  $g_2$ , could also extend outside the regional borders, for example for reasons of national identity (for example the location where a treaty was signed), and yet that CH is not so outstanding to attract tourists. In this case, local expenditure does not internalize the external benefit of preserving  $g_2$  and the decentralized choice of conservation is therefore inefficient.

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<sup>7</sup>In our model, analytical results would be equivalent if we exclude the inter-regional transfers from taxation. Notice that we do not consider a possible interest of the federal policymaker for redistribution. This issue could be of some relevance when important historical sites are located in relatively poor regions.

### ***Political Economic Approach***

The policymaker of region 2 could have a personal interest in the conservation of the local higher-class CH. For example, this type of expenditure may improve his/her prestige and popularity not only within the constituency, but also at the national level. Alternatively, the flows of tourists attracted by CH would improve the local economy and, therefore, the political consensus for the government. Accordingly, we assume that the objective function that the regional policymaker will maximize, subject to the balanced budget constraint  $t_2(n_2y_2 + p(G_2)n_1y_1) = G_2 + g_2$ , is:  $P = \vartheta [V^2(g_2, G_2) + (1 - t_2)(n_2y_2 + p(G_2)n_1y_1)] + (1 - \vartheta)F(\alpha G_2, (1 - \alpha)g_2)$  with  $F_1, F_2 > 0$  for  $1 > \alpha > 0$ . With  $\alpha$  we indicate the relative preference of the policymaker for  $G_2$  with respect to  $g_2$ , and with  $1 - \vartheta$  his/her personal interest for CH. In general, we can suppose that the policymaker is more interested in the conservation of the outstanding CH, because that captures a larger attention from the media and visitors, than the low-class CH. However, it can be the case that there is no remarkable CH in the jurisdiction, or that conservation cannot be afforded because of limited regional resources. In this situation, we would have  $\alpha = 0$ . Substituting for the budget constraint and maximizing over  $t_2$  and  $G_2$ , we obtain in equilibrium:

$$\begin{aligned} \vartheta (V_{g_2}^2 - 1) + (1 - \vartheta)(1 - \alpha)F_2 &= 0 \\ \vartheta [V_{G_2}^2(t_2 p_{G_2} n_1 y_1 - 1) + V_{G_2}^2 + (1 - t_2)p_{G_2} n_1 y_1] + (1 - \vartheta)[\alpha F_1 \\ + (1 - \alpha)F_2(t_2 p_{G_2} n_1 y_1 - 1)] &= 0 \end{aligned} \quad (14.4)$$

From (14.4), we obtain that:  $\vartheta (V_{G_2}^2 + p_{G_2} n_1 y_1 - 1) + (1 - \vartheta)\alpha F_1 = 0$ . If  $\vartheta = 1$ , the local policymaker is not interested in the conservation of CH because of personal prestige and the outcome is the same as that presented earlier, whereas, if  $\vartheta = 0$  then  $t_2 = 1$ . Consider the intermediate case of  $1 > \vartheta > 0$ . Then, if  $\alpha = 1$ , the conservation of the high-class CH,  $G_2$ , is higher than in the case when  $\vartheta = 1$ , while the amount of conservation of the low-class CH,  $g_2$ , stays the same. We then find that we could have under-provision of  $G_2$  (although less than in the earlier case), if the number of visitors is low and mobility costs are high. Instead, we would have an efficient solution or even *over*-provision in the case of no mobility costs with all residents in region 1 visiting region 2. In the opposite case when  $\alpha = 0$  there would be no change in  $G_2$ , with respect to the case when  $\vartheta = 1$ , but we would obtain over-provision of  $g_2$ , if that provision does not cause positive spillovers. Clearly, with  $1 > \alpha > 0$  we obtain intermediate results.

From the above results, we see that in the case of total devolution top class CH could receive at least as much support as in a centralized system. In fact, local jurisdictions will be inclined to spend public money not only because of the historic and cultural values linking the CH to the community but also because of the political and economic benefits deriving from tourism. Moreover, we have not consider here the additional support to valorization and conservation of any type of local CH that private sponsors could offer due to its national visibility and/or community values. It is also worth mentioning that CH with more evident characteristic of uniqueness would



also face a quite inelastic demand, allowing for high admission fees. In conclusion, devolution seems to cause no particular arm to top class CH.

Actually, the above argument speaks in favor of the largest possible degree of autonomy and devolution. In fact, the central policymaking will not take into account the effect that cultural expenditure may have in attracting *domestic* tourists. Moreover, it is also likely to fix rather homogeneous admission prices to be applied in the whole national territory, without taking into account the specificity of CH and regions. On the contrary, devolution allows each region to allocate resources for CH conservation and choose admission fees to maximize the economic return. The decentralized solution should, in general, improve the amount of resources invested in the conservation of first class CH and lead to efficient solutions, since each jurisdiction will equate at the margin the costs and benefits deriving from spending in CH.

The main problems deriving from total devolution concern the conservation of second class CH. As previously mentioned, decentralized decision-making is likely to concentrate resources on the type of CH with higher economic return, penalizing the CH of the second class. Such an impact is likely to vary according with the economic conditions and the social environment characterizing each jurisdiction, such as the income level in each jurisdiction and the existence of non-profit organizations (NPO) in the area. The features of the institutional framework can also be crucial.

Devolution may be partial rather than falling in one of the two polar cases we examined. Moreover, decision-making power can be split between politicians (government) and bureaucrats (executive bureaus) who may influence the allocation of funds. In what follows, these and other issue are briefly outlined.

### ***Jurisdiction Income Level***

The second class CH located in rich jurisdictions will suffer less, in terms of conservation, (or even does not suffer at all) than the equivalent class of CH located in poorer jurisdictions. The displacement effect in favor of outstanding CH could be compensated in the long-run by the higher local income generated by a larger tourism, but it is likely that, at the beginning, devolution might threaten the conservation of CH of lower class. In practice, in poorer jurisdictions, for economic reasons, the government will be naturally biased towards outstanding CH and a cross-subsidy from this type to the lower class one may not take place adequately, even threatening the conservation of cultural local identity (as represented by the second class CH).

From the above considerations, when total devolution occurs, almost paradoxically, public intervention for CH conservation, motivated by market failures, should concentrate on supporting the conservation of those assets that could not be efficiently financed by the market (via tickets and sponsorships).

### ***Non-profit Organizations***

With respect to the above considerations, it should be mentioned the countervailing effect of spontaneous and voluntary local associations which could invest efforts and money to preserve the lower-class CH, because of their relevance for the local identity. This latter argument gets further support if an inter-generation perspective is adopted. Moreover, the outcome depends upon the size of the «third sector» (NPO),

and the tax incentives available to local governments to facilitate NPO support. If devolution takes place in a context where local governments are entitled with a low degree of tax autonomy and/or local taxes are unsuitable to be used for such a purpose, there are weak economic incentives for the third sector support to the conservation of local and minor CH.

### ***“Political” Bias and Separations of Power***

There are further political elements that induce to believe that outstanding CH will be privileged relatively to local CH, in particular when the former is located where the political power is concentrated (for example the capital of the region). The level of conservation and valorization, in this case, bears a string visibility and therefore is very likely to affect the popularity the local policy-maker(s). This political bias suggests that devolution, while improving the local effort for the conservation of CH by multiplying the centers of expenditure, might result inefficient because the resources would not be allocated in order to maximize the economic but rather the political return (Guccio and Mazza 2014).

From these considerations, it follows that the existence of “political” bias is likely to enhance the negative impact that devolution might exert on local and lower-class CH. A solution to this problem can come from a separation of powers. In fact, bureaucrats may be entitled to influence the allocation of funds to the local CH. Since they are not elected, they are not necessarily interested in the ‘attention’ of the voters on the conservation and valorization of top class CH. And if they are experts having a ‘conservationist stance’, aiming at preserving rather than exploiting, their reaction may correct for the political bias and come to rescue the local, less prestigious CH.<sup>8</sup>

### ***Partial Decentralization***

Let us now shift the attention to the intermediate case of partial decentralization, i.e. when central government is entitled to the conservation of outstanding CH, while local government is entitled to the conservation of local lower-class CH, and each level of government financing its activity with state and local taxes, respectively.

First, it is worth noting that this type of allocation of functions has an automatic re-distributive impact: jurisdictions with outstanding CH will be favored, regardless of their level of income, because the national community of taxpayers will finance the external economic benefits deriving from the tourist flows.

Second, the effect on the two types of CH critically depends on which hypotheses are made on the behavior of the central government and local jurisdictions. More precisely, if these different levels of government are assumed to act independently, no differences arise with respect to the total devolution case: the conservation of both classes of CH will be carried out, at each level, until its marginal costs and benefits are equal. If, on the contrary, central government and local jurisdictions behaviors are interdependent, the effect will be different depending on whether central and local conservation are complement or substitute. In the former case, the level of

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<sup>8</sup>For a more detailed analysis of this situation of separation of powers, see Mazza and van Winden (2002).

conservation of outstanding CH is supposed to increase because the local jurisdiction increases its intervention, while in the latter case the opposite situation occurs.

## 14.4 Concluding Remarks

This paper has paid attention to the features of the decision-making process in the CH field and to their implications on CH policies, namely on the impact of devolution on CH conservation and valorization.

In principle, the peculiar feature of public intervention for CH—i.e. the area of intervention is not clearly defined—would suggest that the process by which CH decisions are taken is crucial. Attention, therefore, should be given to the features of the decision-making process. In this respect, an important issue is how the degree of public participation in decision-making on CH varies according with the distribution of responsibilities between different levels of government.

In the paper, the *pros* and *cons* of devolution in the field have been examined with specific reference to expenditure and taxation and the implications of total devolution and partial decentralization have been dealt with.

A tentative conclusion stemming from the paper is that total devolution might reduce the quantity of public spending for the conservation of ‘minor’ CH, i.e. with only local relevance. The size of such an effect, however, depends on the jurisdiction income level, on the extent of the NPO activity, on the existence of “political bias” in favor of outstanding CH, and on the separation of powers between biased politicians and ‘conservationist’ bureaucrats.

When partial decentralization is considered, the relative impact on the two classes of CH cannot be assessed *a priori*, depending on whether central intervention can be considered independent, complement or substitute to local government conservation activity.

Further developments should try to test the main results of the model. Italy might offer an interesting case study because of its institutional features (i.e. partial decentralization for most Regions and total devolution for some Special Statute Regions), marked economic differences across North and South areas and the peculiar characteristics of its CH endowment. In fact, Italy has substantial CH scattered all over the country, often in very small municipalities, and at the same time, a very high concentration of CH included in the WHL. These conditions, if data are available, offer a suitable case study to test for the impact of devolution versus partial decentralization, on CH conservation and valorization.

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