

Public Support and Cultural Heritage in a Globalised World

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Abstract

In the age of neoliberalism, it has become common for the private sector to play an increasingly important role in various areas, including heritage conservation. It is believed that most governments nowadays have insufficient financial capacity and shortage in the human resources aspect, which has made intervention of the private sector in heritage conservation-related issues inevitable and warrants close scrutiny. Therefore, this study extends beyond the scope of explaining the potential benefits and barriers of private sector intervention in built heritage and aims to explore and answer questions associated with why public intervention is usually required in the area of arts and built heritage and what types of intervention and subsidy exist. With the intention of addressing these questions, this research follows a theoretically-based approach by investigating numerous texts from cross-cutting disciplines. The results of this research indicate that although the role of the private sector in heritage conservation cannot be overlooked, the role of the public sector continues to hold fundamental importance because some of the values and qualities attributed to heritage properties cannot be easily recognised in the marketplace.

Key Words

Heritage, public support, public goods, externalities, types of subsidies.

Introduction

The contemporary movement of globalisation started at the end of World War II with the establishment of the United Nations and Bretton Woods institutions, better known as the International Bank for Construction and Development and the International Monetary Fund. These institutions sought to enhance political and economic cooperation as well as convergence and cultural dialogue with the intention of avoiding economic crises and the recurrence of war. The disintegration of the Soviet bloc at the end of the 1980s did not pave the way for a fully globalised world; rather, it reflected the triumph of one of the competing globalisations, represented in free market capitalism over state socialism. This free market capitalist-based globalisation is what most people perceive when the issue of globalisation is debated. Such a phenomenon has varied and broadly acknowledged tenets, upon which its rationale is based on—for instance—free trade, international flow liberation of capital, optimising the role of the financial sector, privatisation, the recession of the public sector role in the economy, and the increased role of market forces in social and economic policy.² In an accelerated globalised and commercialised world, it would not be a shock to most people to experience private sector interference in heritage conservation-related activities worldwide. The outstanding socio-economic values of heritage assets indicate that in many cases they are identified as commercial resources, which also means that their exploitation for pure commercial purposes can contradict conservation aims.³

The impact of neoliberalism on heritage conservation-laced activities has been examined by some Western academics, especially issues laced with the division of responsibility between the government and the market, as well as ownership practices through the privatisation process.⁴ Approaches to the conservation of built heritage are thought

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2 Sophia Labadi, and Colin Long, eds. "Heritage and Globalisation". (London and New York: Routledge, 2010) 1-16.

3 Fiona Starr, "The Business of Heritage and the Private Sector," in *Heritage and Globalisation*, eds. Sophia Labadi and Colin Long (London and New York: Routledge, 2010), 147-170; Peter G. Gould, "Privatization, Public-Private Partnerships and Innovative Financing for Archaeology and Heritage", in *Encyclopaedia of Global Archaeology*, ed. Claire Smith (Springer- Verlag New York, 2018), 1-11.

4 Anna Ka-yin Lee, "The Role of Private Sector in Built Heritage Conservation: A Case Study of Xinhepu, Guangzhou," *Asian Geographer* 33, no. 2 (2016): 119.

to be identified according to wider economic and cultural-political contexts forged by local, national, regional, and political threads.⁵ In essence, the traditional model of built heritage management is principally based on state ownership and stewardship, unlike the market approach, underlined by private ownership with public interference in the form of funding and/or regulation.⁶ While the traditional approach of cultural policy in Europe acknowledges the responsibility of public bodies in financing and supporting culture, such an approach has experienced a major shift during recent decades due to two important factors: first, the decentralisation and deregulation of the central authority power to lower public bodies; and second, the process of privatisation/de-etatisation⁷ aimed at reducing the level of public interference. Such policies have enabled public bodies to create room to guarantee managerial freedom and the implications of market principles. While this trend has paved the way for more private intervention in supporting culture, it has also raised many debates and concerns.⁸

In major countries, the remarkable increase in heritage-related services is associated with a wider participation of public authorities. This can be recognised not only through the presentation of artefacts to the public in historical sites, museums, and galleries, but also through the extension of government regulations concerning—for example—the use and disposal of private buildings and land with certain heritage characteristics.⁹ In different Western countries, government interference in culture plays a salient role. The debate over market failures justifies and clarifies public sector interference in favour of culture, especially cultural heritage. The public sector delineates the institutional context responsible for outlining and implementing policies concerning cultural heritage.¹⁰ Interventions to preserve and maintain built heritage by governments and other social actors are driven by the actions of individuals and groups who appreciate their values. The values that mostly result in action are associated with the socio-cultural values framed by the varied cultural and political mechanisms of social interaction. For example, cultural activities such as artistic and historical research that reveals the aesthetic, historic, or educational value of the heritage environment prompt the cultural elite to support public investment and intervention in conservation activities.¹¹ The efficiency and effectiveness of heritage conservation-related policies—for example, their capability to meet individuals’ demands and underline the potential results in terms of public interests—largely rely on the decision-making process and the various actors involved.¹²

5 Elena Negussie, “Implications of Neo-liberalism for Built Heritage Management: Institutional and Ownership Structures in Ireland and Sweden,” *Urban Studies* 43, no. 10 (September 2006): 1803.

6 Lee, “The Role of Private Sector in Built Heritage Conservation: A Case Study of Xinhpu, Guangzhou,” 119.

7 It is important to recognise that the concept *désétatisation* is commonly and recurrently associated with the administrative changes and it describes the intention to keep a great distance from the state intervention in one way or another. Other alternatives for this term can also be found, for instance, *de-socialisation* which refers to removing certain responsibilities, tasks, activities from the collective realm, see Mark J. Schuster, “Neither Public nor Private: The Hybridization of Museums,” *Journal of Cultural Economic* 22, no. 2-3 (1998a): 127-150. For detailed discussion about *désétatisation* and its implications in built heritage and museums, see Françoise Benhamou, “The Evolution of Heritage Policy: The Case of France,” in *Does the Past have a Future: The political Economy of Heritage*, ed. Alan T. Peacock (London: Institute of Economic Affairs, 1998), 75-96.

8 Andrej Srakar, and Vesna Čopič, “Private Investments, Public Values: A Value-based Approach to arguing for Public Support to the Arts,” *Cultural Trends* 21, no. 3 (September 2012), 227.

9 Alan Peacock and Ilde Rizzo, *The Heritage Game* (Oxford: Oxford University Press, 2008), 15.

10 Arjo Klamer et al, “Cultural Heritage Policies: A Comparative Perspective”, in *Handbook on the Economics of Cultural Heritage*, eds. Ilde Rizzo and Anna Mignosa (Cheltenham: Edward Elgar Publishing Limited, 2013), 39.

11 Eduardo Rojas, “The Public Sector in the Preservation of Urban Heritage Sites: Lessons from Four Cities in Latin America”, in *Handbook on the Economics of Cultural Heritage*, eds. Ilde Rizzo and Anna Mignosa (Cheltenham: Edward Elgar Publishing Limited, 2013), 531-32.

12 Massimo Finocchiaro Castro et al., “Public Intervention on Heritage Conservation and Determinants of Heritage Authorities’ Performance: A Semi-Parametric Analysis”, *International Tax and Public Finance* 18, No. 1 (2011): 2

On the meaning of cultural economics

The intertwining of arts and culture, and economics seems to have recently been interwoven. When these two aspects are debated, they are labelled as art economics.¹³ The rise of this notion—also termed as cultural economics—dates back to the 1960s¹⁴ and comprises different aspects, such as visual arts, performing arts, cultural heritage, and fine arts.¹⁵ Starting in the

1960s, two terrains have dominated the theoretical and empirical investigation of cultural economics, aiming to explain their increasing costs and the rationale for public sector interference in their finance.¹⁶ Furthermore, the economics of built heritage as a specialist arena of concern has recently been debated and negotiated. Earlier concerns regarding heritage conservation and heritage policy did not broadly encompass economic aspects. From the beginning of the 1990s, the potential implementation of both the theoretical and practical analysis of economics in heritage policy began to gain wide acceptance. In addition, to pave the way for linking two different notions—culture and economics—two approaches were dissected: values and capital theory.¹⁷

Value in the economic and cultural debate

The notion of “value” has both positive and normative connotations.¹⁸ Its debate in the economic domain dates long back through what is better called the “paradox of value”, underlined by Adam Smith¹⁹ in his widely-acknowledged monograph *The Wealth of Nations*. According to the neo-classical school²⁰, price is identified as the principle of value measure for consumers. Nevertheless, even in neo-classical thought, market price cannot always be the appropriate measurement for all aspects of value. Consequently, this worked on the rise of what is termed as “market failure”, which is a common aspect in the cultural sector.²¹

The term “value” reflects the origin and motivation of all economic behaviours. According to the economic paradigm, it is laced with utility and price, as well as the value assigned to commodities by markets or individuals. On the other hand, according to the cultural paradigm, value is associated with certain characteristics and properties of cultural phenomena expressed in specific terms; for example, the colour value of a painting, the tone value of a musical note, and the worth of a work, object, experience, or other cultural things. Despite its different meanings in economic and culture, value can be conceived as an “expression of worth”. Hence, value can be a good starting point for bridging the gap between two fields—economic and culture—and upon which different interests can be developed and dissected.²²

13 Alessia Zorloni, *The Economics of Contemporary Art: Markets, Strategies, and Stardom* (Springer, 2013), 1.

14 Ruth Towse, *Cultural Economics: The Arts, the Heritage and the Media Industries* (Cheltenham: Edward Elgar, 1997), v.1.3.

15 Zorloni, *The Economics of Contemporary Art: Markets, Strategies, and Stardom*, 2.

16 Ilde Rizzo and Ruth Towse, eds., *The Artful Economist: A New Look at Cultural Economics* (Springer, 2016), 3.

17 David Throsby, “Heritage Economics: A conceptual Framework,” in *The Economics of Uniqueness: Investing in Historic Cities Cores and Cultural Heritage Assets for Sustainable Development*, eds. Guido Licciardi and Rana Amirtahmasebi (Washington: The World Bank, 2012), 46.

18 Positive notion points out a scientific understanding concerning how the allocation of goods and services shall be determined. In positive connotation, formulated and tested economics theories are used to describe the varied observed regularities in economic behaviour. On the other hand, normative term explores questions, for instance, how things shall be functioned in the best way from a certain point of view, see Preston R. McAfee, *Introduction to Economic Analysis* (Creative Common, 2006), 2.

19 Adam Smith (1723-1790) is considered the Father of Economics who presented and introduced the notion of “invisible hand”. His book *The Wealth of Nations* is supposed to be the first to give an overarching analysis of wealth and prosperity. In this monograph, it is presumed that the wealth of a nation is highlighted by its production of goods and services instead of gold and silver. For further discussion please check, Paul C. Trogen, “Public Goods,” in *Handbook of Public Sector Economics*, ed. Donijo Robbins (London: Taylor and Francis, 2005).

20 The neo-classical school, at the beginning of the early 20th century, successfully merged the supply-cost approach of the classicists with the demand-supply thought of the marginalists. This thought is called is labeled neo-classical since it incorporated the thoughts of the marginal utility intellectuals while at the same time retaining the classical approach of the cost of production in value determination, see Many Mooya, *Real Estate Valuation Theory: A Critical Appraisal* (Springer, 2016), 39.

21 Ruth Towse, *Advanced Introduction to Cultural Economics* (Cheltenham: Edward Elgar, 2014), 4.

22 David Throsby, *Economics and Culture* (Cambridge: Cambridge University Press, 2001), 19.

Economic theory of value

Economists perceive that virtually everything has economic value expressed in monetary terms. For example, most people would be incapable of recognising the financial value of a beautiful landscape, as there is no market price for it. The absence of a direct market is a problematic issue, at least for economists, who pay close attention to its value. If there was a market, they would use the prices that it generates as a measure of its economic value.²³ When goods that are usually public goods—such as archaeological sites and historic buildings—have no market value, economists must determine other substitutions to emphasise their financial value. Economists' intervention would draw on indirect methods; for example, by calculating what people are willing to pay for the sake of visiting a landscape or site²⁴ or to live in the midst of it.²⁵ Referring to the economic value of cultural heritage, a distinction was made between use and non-use value, which was also highlighted as market and non-market value.²⁶

The use value of a heritage asset can be delineated in several ways. For example, a building can be used for commercial purposes—retail, office, and so on—where imputed or actual rents can be helpful in determining the value in use. Likewise, heritage buildings may be used for domestic residential purposes, where their rents can indicate the value of the private good of the services provided. Use values in the case of heritage properties and sites visited and experienced by tourists are mirrored and highlighted in the individual benefits that visitors enjoy as a consequence of their visit. Occasionally, there is another differentiation between the active use of a heritage property or site—as mentioned above—and passive use that emerges from an incidental experience for an individual; for instance, the enjoyment of the aesthetic values of a heritage building or site.²⁷ In other words, these use values are expressed through functional use value, intrinsic use value, and indirect (passive) use value.²⁸

Concerning the non-use value, it is recognisable that cultural heritage engenders public goods benefits that may be categorised according to the same ways in which the non-market benefits of environmental amenities are determined.²⁹ Three tiers of non-rival and non-excludable public goods benefits are supposed to exist for cultural heritage related to its existence value (people value the existence of heritage properties even though they may not consume their services directly), option value (people wish to preserve the heritage items so that they or others can consume their services in the future), and bequest value (people may seek to bequeath heritage assets to posterity).³⁰ These non-use values are neither attainable nor observable in market transactions since a market for their rights exchange does not exist.³¹ In recent decades, economists have developed various methods to assess non-market values, supposedly ranging from revealed preference to stated preference methods.³²

23 Arjo Klamer, "The Values of Cultural Heritage," in *Handbook on the Economics of Cultural Heritage*, eds. Ilde Rizzo and Anna Mignosa (Cheltenham: Edward Elgar Publishing Limited, 2013), 422-423.

24 Elisabeth Ruijgrok, "The three Economic Values of Cultural Heritage: A Case Study in the Netherlands," *Journal of Cultural Heritage* 7 (2006): 20.

25 Klamer, "The Values of Cultural Heritage," 423.

26 Throsby, "Heritage Economics: A Conceptual Framework," 52; Isabel Alonso and Valerie Meurs, "Assessing the Performance of Conservation Activities," in *Measuring Heritage Conservation Performance*, eds. Silvio Zancheti and Katriina Similä (CECI and ICCROM, 2012), 5.

27 Throsby, "Heritage Economics: A Conceptual Framework," 53; Eduardo Rojas, "Governance in Historic City Core Regeneration Projects," in *The Economics of Uniqueness: Investing in Historic Cities Cores and Cultural Heritage Assets for Sustainable Development*, eds. Guido Licciardi and Rana Amirtahmasebi (Washington: The World Bank, 2012), 145-146.

28 Christian Ost, "Spatial Analysis in Heritage Economics," in *Measuring Heritage Conservation Performance*, eds. Silvio Zancheti and Katriina Similä (CECI and ICCROM, 2012), 120.

29 Throsby, "Heritage Economics: A conceptual Framework," 53; Ost, "Spatial Analysis in Heritage Economics," 120.

30 Jim McLoughlin et al., *Perspectives on Impact, Technology and Strategic Management: Heritage Management Series* (Budapest: Archaeolingua, 2007), V.1, 19; Peacock and Rizzo, *The Heritage Game*, 124.

31 Throsby, "Heritage Economics: A conceptual Framework," 53.

32 While revealed-preference approach depends on extracting and analysing data from current market or past behaviour for services and goods associated with heritage, stated-preference based methods relies on creating hypothetical markets in which respondents are encouraged to make hypothetical choices, Ost, "Spatial Analysis in Heritage Economics", 120. See also Alan Peacock and Ilde Rizzo, *The Heritage Game*, 125-130.

Cultural theory of value

The values embodied in heritage sites have different meanings for different groups.³³ These values and meanings provide a principal motivation for communities to retain and preserve their cultural heritage,³⁴ where no society intends to safeguard what is not valuable.³⁵ It should be considered when debating and constructing theory of cultural value that it is a contested, unstable, multi-layered concept that may include aspects that cannot be attained quantitatively or qualitatively.³⁶ Value can be defined as a constellation of positive characteristics possessed by a cultural object or a site.³⁷

Values ascribed to a property can be divided into intrinsic and extrinsic values.³⁸ The former refers to those qualities inherent in an asset that do not require intervention or modification for the value to be recognisable. These intrinsic values are often assessed objectively. Therefore, the significance level ascribed to them can gain a broad consensus. The latter implies those qualities that depend on the human perception of an asset and usually require modification or use of the asset to identify its value. These extrinsic values are typically forged by personal, social, and cultural aspects, which make them inherently subjective.³⁹ However, with the multiplicity of heritage value, a classification can be made into social, historic, symbolic, aesthetic, spiritual, and scientific value (Fig. 1).⁴⁰

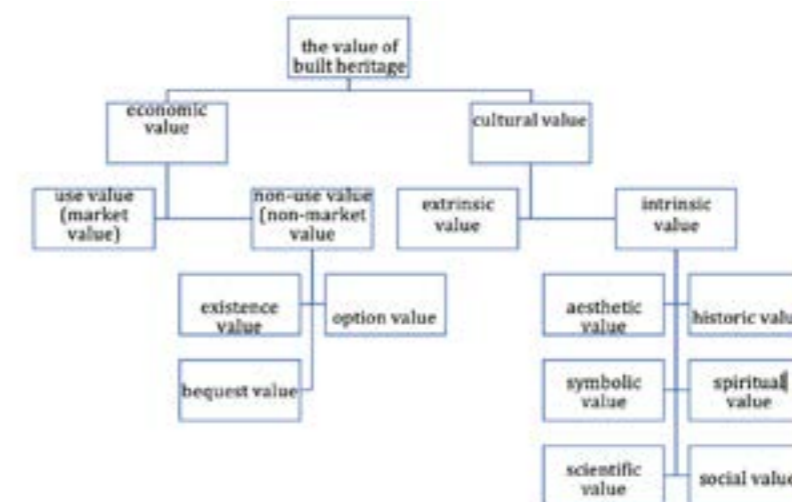


Figure 1: Value in Economics and Cultural Theories.
Source: The author based on Towse (2011; 2014), and Throsby (2012).

33 Peter Howard, *Heritage: Management, Interpretation, Identity* (London: Continuum, 2003), 9-10; Veysel Apaydin, "The Entanglement of the Heritage Paradigm: Values, Meanings and Uses," *International Journal of Heritage Studies* 24, no. 5, (2018): 491.

34 34 Marta de la Torre and Randall Mason, eds., *Assessing the Values of Cultural Heritage* (Los Angeles: The Getty Conservation Institute, 2002), 3.

35 35 Harald Fredheim and Manal Khalaf, "The Significance of Values: Heritage Value Typologies re-examined," *International Journal of Heritage Studies* 22, no. 6 (2016): 467.

36 David Throsby, "Determining the Value of Cultural Goods: How Much (or How Little) Does Contingent Valuation Tell Us?," *Journal of Cultural Economics* 27 (2003): 280.

37 Abdelkader Ababneh, "Heritage Management and Interpretation: Challenges to Heritage Site-Based Values, Reflections from the Heritage Site of Umm Qais, Jordan," *Archaeologies: Journal of the World Archaeological Congress* 12, no. 1 (2016): 43-44.

38 Ahmed Skounti, "The Authentic Illusion: Humanity's Intangible Cultural Heritage, the Moroccan Experience," in *Intangible Heritage*, eds. Laurajane Smith and Natsuko Akagawa (Abingdon: Routledge, 2009), 74.

39 Ryan Carter and R. Barnley, "Defining Heritage Values and Significance for Improved Resource Management: An Application to Australian Tourism," *International Journal of Heritage Studies* 8, no.3 (2002): 178.

40 Throsby, *Economics and Culture*, 28-29; Rojas, "Governance in Historic City Core Regeneration projects," 143.

Cultural heritage as an asset

Heritage is perceived as a capital asset by some cultural economists, such as David Throsby, who used the “cultural capital” notion to underscore the values ascribed to this type of asset.⁴¹The theoretical foundation for conceptualising heritage as an asset is closely associated with the rise of capital theory, which has played an important role in understanding and analysing economic production processes for many decades. In this sense, capital is described as durable goods that work on producing services over time which can be combined with other inputs, for instance, labour to create additional goods and services.⁴² In economics, it is common to demarcate between the different modalities of capital; for example, physical capital indicates stock or real goods including machines, buildings, and plants that are necessary for the production of different forms of goods, human capital highlights the experiences and skills yielded in human being and engender outputs in the economy, natural capital implies the stock of renewable and non-renewable resources supplied by nature as well as the ecological processes that control and govern their use and existence, and cultural capital refers to an asset that provides or stores cultural value in addition to the economic one.⁴³

As it is thought, cultural capital can be found in two models: the tangible and intangible aspect. The tangible aspect includes sites, buildings, precincts, and artworks. Such capital has qualities that are similar to those of physical and human capital. Cultural capital such as physical capital is created by human activity; it may last for a period of time; it can deteriorate if it is not maintained appropriately; it can generate a set of services that are prone to buying and selling, and the financial value can be measurable. Second, the intangible aspect encompasses intellectual capital; for instance, values, ideas, beliefs, and practices shared by a group (Fig. 2). This model of cultural capital also includes artworks, for example, literature and music. This intellectual capital can easily vanish if it is neglected, flourished and developed by investment.⁴⁴



Figure 2: Capital Theory and Cultural Heritage as an asset. Source: The author based on Towse (2011; 2014), and Throsby (2012).

The rationale for public intervention for cultural heritage

The public support for arts and heritage has been the locus of many debates and analysis among cultural economists⁴⁵.

41 Peacock and Rizzo, *The Heritage Game*, 112.

42 Throsby, “Heritage Economics: A conceptual Framework,” 47.

43 Throsby, *Economics and Culture*, 46.

44 Throsby, “Heritage Economics: A conceptual Framework,” 47; Sao-Wen Cheng, “Cultural Goods Creation, Cultural Capital Formation, Provision of Cultural Services and Cultural Atmosphere Accumulation,” *Journal of Cultural Economics* 30, no. 4, (2006), 264.

45 Bruno S. Frey, “Public Support,” in *A Handbook of Cultural Economics*, ed. Ruth Towse (Cheltenham: Edward Elgar Publishing, 2011), 371. Second Edition.

The rationale for the public support of the arts, heritage, and some aspects of the creative industries⁴⁶—especially public service broadcasting—has drawn on the concept of market failure.⁴⁷ Historically, cultural activities were broadly supported by royal princes and merchants, however; with the turning to democracy, the government has taken the lead and identified itself as the principal supporter of the arts.⁴⁸ Two main factors of market failure have received close scrutiny and investigation in cultural economics: the nature of public goods and external social benefits (externalities), which shaped the underlying argument of public intervention.⁴⁹ The main rationale for public intervention in arts and heritage can be explained as follows.

The nature of public goods

Public goods imply of the availability of benefits to all people or communities. Classical examples of public goods encompass national defences, lighthouses, and fireworks displays.⁵⁰

These public goods are identified as goods and services with unique characteristics; for instance, being non-rivalrous in consumption, meaning that the use or enjoyment of a person is not minimised by another person, and non-excludable, meaning that the user cannot be prevented from benefiting from the good or service,⁵¹ unlike private goods that are distinguished by rivalry in consumption and excludability.⁵² Although these public goods are important in market economies, their provision faces significant challenges,⁵³ stemming from the fact that if there is no charge for non-rival goods, there would be no motivation to produce them, which in turn leads to the under-provision of these goods or services.⁵⁴

The major economic rationale for heritage conservation interference is based on the premise that heritage conservation reflects public goods. It is widely acknowledged that the historic quality of a structure or neighbourhood has specific characteristics that align with the traditional definition of public goods.⁵⁵ This built heritage can be distinguished by its collective nature, where they are non-excludable and non-rival in consumption.⁵⁶ Although it is often debated that the arts are not identified as public goods where they can be bought and sold, and fees to art festivals and events can usually be applicable—which mark them rivalrous in consumption⁵⁷—their underlying features of being non-rivalrous and non-excludable can be applied to the whole culture or certain aspects where people might be able to enjoy the aesthetic value or the beauty of a cultural city without paying for such consumption, for instance.⁵⁸ On the other hand, visits to a museum or theatre engender private benefits for those who have financial capability, excluding those who are not able to pay. Once exclusion is possible, entry fees can be applied to finance the production or safeguard a good or service. Built heritage provides a number of examples of such aspects; for instance, Stonehenge in the UK, which used to be open for visitors, a fence was set up, and entry fees were charged with the increasing growth in visitor numbers.

46 Creative industries is a term that implies a new paradigm that emerged out during the late of 1990s which incorporated both the arts and heritage and the cultural industries in one sector. For a detailed discussion please check Ruth Towse, “Creative Industries,” in *A Handbook of Cultural Economics*, ed. Ruth Towse (Cheltenham: Edward Elgar Publishing Limited, 2011), 125. Second Edition.

47 Towse, *Advanced Introduction to Cultural Economics*, 3.

48 William J. Baumol, “Application of Welfare Economics,” in *A Handbook of Cultural Economics*, ed. Ruth Towse (Cheltenham: Edward Elgar Publishing Limited, 2011), 9. Second Edition.

49 Alan T. Peacock, “Welfare Economics and Public Subsidies to the Arts,” *Journal of Cultural Economics* 18, no. 2 (1994): 155–57; Carmen Camarero et al., “How Cultural Organizations’ Size and Funding influence Innovation and Performance: The Case of Museums,” *Journal of Cultural Economics* 35, no. 4 (2011): 252.

50 Paul C. Trogen, “Public Goods,” 171–72.

51 Dennis C. Mueller, *Public Choice III* (Cambridge: Cambridge University Press, 2003), 9–10.

52 Robert J. Eger, “Provision and Production of Public Goods,” in *Handbook of Public Sector Economics*, ed. Donijo Robbins (London: Taylor and Francis, 2005), 211.

53 Raymond G. Batina and Toshihiro Ihori, *Public Goods: Theories and Evidence* (Berlin: Springer-Verlag, 2005), 3.

54 Tony Bovaird and Elke Löffler, “Understanding Public Management and Governance,” in *Public Management and Governance*, eds. Tony Bovaird and Elke Löffler (New York: Routledge, 2003), 7.

55 Douglas S. Noonan, “Market Effects of Historic Preservation,” in *Handbook on the Economics of Cultural Heritage*, eds. Ilde Rizzo and Anna Mignosa (Cheltenham: Edward Elgar Publishing Limited, 2013), 345.

56 Frey, “Public Support,” 372.

57 Arnaldo Barone, *A New Economic Theory of Public Support for the Arts: Evolution, Veblen and the Predatory Arts* (New York: Routledge, 2016), 87.

58 Ruth Towse, *A Handbook of Cultural Economic* (Cheltenham: Edward Elgar Publishing Limited, 2011), 5–6.

In this sense, it has become a quasi-public good: non-rival, yet excludable.⁵⁹ Additionally, rivalry can be prominent in other examples, as when a visitor visits a museum or occupies a seat in theatre, he occupies a space and this seat is thus no longer available to other consumers.⁶⁰

Needless to say, the benefits of these public goods extend beyond direct consumers to include society as a whole. Although these benefits almost indicate positive effects, they highlight a market failure that causes the under-provision of such public goods. Additionally, the provider of these public goods would be unable to recoup all market value, leading to public support offsetting those suppliers.⁶¹ Without public intervention, the arts and built heritage are prone to loss.⁶²

Externalities

Externalities arise when a decision generates benefits or uncompensated costs for individuals or communities other than the person who makes the decision.⁶³ They refer to the impacts of an activity on others, whether positive or negative.⁶⁴ Externalities are another solid argument when the debate over public support for arts and built heritage is addressed.⁶⁵ Indeed, the arts and built heritage generate a number of externalities that are unlikely to be captured through market mechanisms.⁶⁶ The arts produce positive externalities with slightly negative ones.⁶⁷ For example, individuals and firms can benefit from the provision of artistic activities although they do not participate in the production process. In this sense, they reap the benefits of goods or services for which they do not pay and that are not considered by art producers in the market.

Similarly, artistic production may yield benefits to individuals and firms that do not pay for such consumption, and consequently they do not influence the production decision and mechanism of art markets. In both cases, production is too small compared to what is socially beneficial and optimal.⁶⁸ Built heritage—as it is widely discussed—yields benefits or positive external effects. The benefits of safeguarding a historic building or monument from decay transcend the benefits of private owners or specific groups to encompass society as a whole. For instance, everyone can enjoy the façade of a building with architectural or historical qualities even if entry is not allowed. Additionally, numerous sites and buildings represent non-rivalrous goods where the enjoyment of a person is not affected by the consumption of other visitors, with some exceptional cases when congestion is dominant, which may reduce the non-rival feature.⁶⁹

National identity and pride

The provision of artistic activities—for instance, museums, orchestras, theatres, and opera houses—are thought to be associated with national identity, social cohesion, and prestige.⁷⁰

⁵⁹ Towse, *Advanced Introduction to Cultural Economics*, 15.

⁶⁰ Frey, “Public Support,” 372.

⁶¹ Snowball, “Cultural Value,” 174

⁶² Victor A. Ginsburgh, “The Economics of Art and Culture,” in *International Encyclopedia of the Social and Behavioural Sciences*, eds. Neil J. Smelser, and Paul B. Baltes (Amsterdam: Springer, 2001), 3.

⁶³ Wim Heijman, “Regional Externalities: An Introduction,” in *Regional Externalities*, ed. Wim Heijman (Berlin: Springer, 2007), 1.

⁶⁴ Jane Beckett-Camarata, “Voting and Representative Democracy,” in *Handbook of Public Sector Economics*, ed. Doni Robbins (London: Taylor and Francis, 2005), 135. For further discussion about the positive and negative externalities please check, Morten Marott Larsen et al., “Modelling Transport in an Interregional General Equilibrium Model with Externalities,” in *Regional Externalities*, ed. Wim Heijman (Berlin: Springer, 2007); Shiva Raj Adhikari, *Economics of Urban Externalities: Analysis of Squatter Settlements in Kathmandu and Quito* (Springer, 2015); Hansa Jain, *Trade Liberalisation, Economic Growth and Environmental Externalities: An Analysis of Indian Manufacturing Industries* (Palgrave Macmillan, 2017).

⁶⁵ Frey, “Public Support”, 371.

⁶⁶ Michael Rushton, “Methodological Individualism and Cultural Economics”, *Journal of Cultural Economics* 23, no. 2 (1999): 141.

⁶⁷ Barone, *A New Economic Theory of Public Support for the Arts: Evolution, Veblen and the Predatory*, 25.

⁶⁸ Frey, “Public Support,” 371.

⁶⁹ Françoise Benhamou, “Public Intervention for Cultural Heritage: Normative Issues and Tools,” in *Handbook on the Economics of Cultural Heritage*, eds. Ilde Rizzo and Anna Mignosa (Cheltenham: Edward Elgard Publishing Limited, 2013), 5.

⁷⁰ Towse, “A Handbook of Cultural Economic,” 7.

Citizens of a nation are not supposed to consume the outputs of the arts personally to be recognisable, but gains emerge when citizens acknowledge that the arts are there and that they belong to a nation that valorises and boosts the existence of the arts.⁷¹ Such rationale is in consistence with the prevailing thought that the “benefit is not merely discriminate”. The positive external effects of supporting the arts and maintaining the built heritage can be widely recognised to include all members of society instead of being limited to those who are able and willing to pay, similarly to the benefits of a well-planned urban landscape or public hygiene.⁷²

Merit goods

Since its evolution, the term “merit goods” has experienced multiple interpretations in such a way that makes it lacks a solid definition.⁷³

Arts are considered to be a merit good.⁷⁴ The arts are assumed to have some special qualities that make their provision and consumption beneficial for the entire community. Merit goods are often understood as goods that a society or individual should possess. They form a specific class of goods and services, although their unique characteristics have not been thoroughly acknowledged by people. Their features distinguish them from other goods that are traditionally provided by the market process or for which people are willing to pay. Furthermore, according to society’s viewpoint, it would be desirable to provide some cultural activities in greater quantities than individual consumers would wish to purchase at the market prices.⁷⁵ Despite the merit characteristics of the arts and built heritage, they have little appeal and demand in private markets, which results in public subsidies.⁷⁶

The future generation aspect

Public subsidies are also sometimes approached through the argument that it is the responsibility of the current generation to maintain and transfer the arts and cultural heritage to future generations. As it is underlined, future generations are unable to reflect their preference for art support or consumption, and hence it is the responsibility of the current generation to keep art subsidies.⁷⁷ The future generation aspect is also associated with other values; for example, bequest, option, existence, and educational value.⁷⁸

Artistic innovation

Innovation in science is ensured and kept through the patent system. Researchers, scientists, and inventors usually bear the costs of their own projects, however; they are completely aware that the patent system will guarantee their right to claim benefits or financial returns once a product is introduced to the market. Similarly, the arts have experienced some innovations; for example, the development of the pentatonic scale in music. However, the arts lack a solid system such as the patent system to retain the rights of artists and the outputs of their scientific innovation. In this sense, artists have a lower degree of enthusiasm and passion for artistic innovation, simply because their costs would exceed any potential benefits. Therefore, it is contended that public support can ensure the continuity and fulfilment of artistic innovation.⁷⁹

Additionally, supporting artistic activity may inspire others to promote additional creative endeavours.⁸⁰

⁷¹ Barone, *A New Economic Theory of Public Support for the Arts: Evolution, Veblen and the Predatory*, 25.

⁷² Alan Peacock, “Welfare Economics and Public Subsidies to the Arts,” 157.

⁷³ Richard Musgrave, “Merit Goods,” in *The new Palgrave Dictionary of Economics*, ed. Steven N. Durlauf and Lawrence E. Blume (London: Palgrave Macmillan, 2008), 1.

⁷⁴ Ginsburgh, “The Economics of Art and Culture,” 6.

⁷⁵ Frey, “Public Support,” 372.

⁷⁶ David Throsby, “The production and consumption of the arts: A view of cultural economics”, *Journal of Cultural economics*, 32, no. 1 (1994): 5.

⁷⁷ Barone, *A New Economic Theory of Public Support for the Arts: Evolution, Veblen and the Predatory*, 26.

⁷⁸ Snowball, “Cultural Value,” 175.

⁷⁹ 79 Barone, *A New Economic Theory of Public Support for the Arts: Evolution, Veblen and the Predatory*, 27.

⁸⁰ Baumol, “Application of Welfare Economics,” 10.

Equal opportunity

As it is underlined, the arts should be available to all members of society without restrictions, whereby this policy forges equity and accessibility arguments. Arts with no public support are undoubtedly available to a limited number of people. Consequently, if the market takes the lead concerning arts-related issues, then their provision will be highly problematic, since aspects such as fairness and income distribution have marginal importance.⁸¹ Such a dilemma becomes controversial especially when high fees are required for museum operations, to cover the costs of a live performance or other cultural activities. Therefore, it is said that if the equal opportunity aspect is seriously taken into consideration, it will be a solid foundation for the rationale of public intervention.⁸²

Lack of information

The operation efficiency of the market processes relies on fully informed consumers. If consumers lack substantial required information on which their market choices and preferences are determined or they are ignorant of their benefits, then they would make decisions that do not necessarily present their own interests. Hence, corrective means are required, which may take the form of information provision or education.⁸³ The arts are goods that require a specific level of knowledge to fulfil overarching appreciation. However, a question normally comes to the fore laced with whether public support would close the knowledge gap. Public support would certainly develop the provision of artistic outputs that receive little attention or interest in the marketplace.⁸⁴

Types of state subsidy

There are multiple forms of art subsidies; for instance, direct, indirect, variable amounts, or lump sums, and matched or not. Each model offers different incentives to beneficiaries. Personal funding is also a common aspect provided for individual creators for some specific undertaking.⁸⁵ Subsidies have recently witnessed a shift in which they can be offered directly to art consumers instead of art producers. According to this approach, consumers would spend vouchers on art activities according to their own interests, choices, and preferences.⁸⁶

In a similar vein, public intervention in built heritage areas has different models. First, it includes direct monetary tools, such as public expenditure, as well as indirect monetary tools including tax expenditure. Second, non-monetary means such as regulation are another salient means in the process of public intervention.⁸⁷ Public expenditure has various functions: it can be employed for buying tangible and intangible goods required for different restoration activities; for example, salaries of experts and staff, equipment for diagnosis, building of artistic interests, and providing loans or subsidies to cultural institutions and privately-owned and managed heritage assets⁸⁸. Tax expenditure implies another form of indirect public subsidy. It can be understood as the provision of tax incentives to individuals or firms who spend money with the intention of maintaining the built heritage or donating money to cultural heritage institutions.⁸⁹

On the other hand, regulation highlights modifications or restrictions imposed on individuals and firms' activities

81 Barone, A New Economic Theory of Public Support for the Arts: Evolution, Veblen and the Predatory, 28.

82 Ginsburgh, "The Economics of Art and Culture," 5.

83 Throsby, "The production and consumption of the arts: A view of cultural economics", 7.

84 Barone, A New Economic Theory of Public Support for the Arts: Evolution, Veblen and the Predatory, 29.

85 Towse, Advanced Introduction to Cultural Economics, 25.

86 Peacock, "Welfare Economics and Public Subsidies to the Arts," 158.

87 Throsby, "The production and consumption of the arts: A view of cultural economics", 15.

88 Castro et al., "Public Intervention on Heritage Conservation and Determinants of Heritage Authorities' Performance: A Semi-Parametric Analysis," 3.

89 Ilde Rizzo and David Throsby, "Cultural Heritage: Economic Analysis and Public Policy," in Handbook of the Economics of Art and Culture, eds. Victor Ginsburgh and David Throsby (Elsevier, 2006), 959.

in the private sector, which should be compatible with the general policies followed by the government.⁹⁰ There is a set of instruments that can be used to realise such objectives, such as listing archaeological and historic properties, protecting privately-owned and managed heritage buildings, and imposing restrictions on land use that may affect the qualities of heritage properties. Additionally, regulations can also be used to limit the export of artwork, aiming to maintain the national heritage stock. Consequently, regulations manage and constrain property rights in which owners have to follow enforceable directives; otherwise, penalties would be imposed for non-compliance.⁹¹

A distinction between "hard" and "soft" regulations is often demarcated. The former describes enforceable acts, including authorisations, listing, permission, demolition orders, and penalties for non-compliance.⁹² Multiple forms of hard regulations—laced with the heritage context—are often underlined, such as regulations associated with existence, appearance, land use, and decision-making processes.⁹³ On the other hand, soft regulations indicate non-enforceable directives; for example, conventions, charters, guidelines, and codes of practice. There are a number of international conventions whose accession requires some obligations to local governments to guarantee adherence to their implementation, including the World Heritage Convention and the Burra Charter.⁹⁴

Conclusion

This paper has attempted to explain the rationale behind public support of arts and heritage based on a theoretically-based approach. In liberal markets, the traditional demarcation between government and the market has become blurred, entailing an increasing role for the market in various areas. However, when some aspects such as arts and heritage are debated, public support becomes a dominant theme. The relatively recent description of heritage as cultural capital has encouraged economists to investigate its unique characteristics and potential economic benefits. They have been able to identify a wide range of values, which in many cases cannot be expressed in monetary terms. One of these characteristics is the nature of heritage public goods, which implies its non-excludable and non-rivalrous nature. Although these public goods reflect positive effects, they also indicate a market failure that justifies public intervention. The rationale for public support for art and heritage may extend to include externalities, national identity and pride, merit goods, artistic innovation, and future generation aspects. In addition, this public intervention can be expressed using direct monetary and non-direct monetary tools (Fig. 3).



Figure 3: The rationale of public support for cultural heritage. Source: The author.

90 Ilde Rizzo, "Heritage Regulation: A Political Economy Approach," In Does the Past have a Future: The political Economy of Heritage, ed. Alan Peacock (London: The Institute of Economic Affairs, 1998), 60.

91 Peacock and Rizzo, The Heritage game, 145-150. eds. Michael Hutter and Ilde Rizzo (London: Palgrave Macmillan, 1997), 25.

92 Peacock and Rizzo, The Heritage game, 145-150.

93 David Throsby, "Seven Questions in the Economics of Cultural Heritage," in Economic Perspectives on Cultural Heritage,

94 Throsby, "Seven Questions in the Economics of Cultural Heritage," 26; Peacock and Rizzo, The Heritage game, 145-150.

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