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ECONOMIC EFFECTS OF NON-ECONOMIC ACTIONS: THE ROLE OF HISTORICAL HERITAGE PRESERVATION IN THE ECONOMIC DEVELOPMENT

Ahstract

The relevance of the article is associated with the lack of study of the impact on the economy of various activities that do not set the main goal of making a profit, but can be a powerful driver, a catalyst for economic activity itself, increase the value of assets and provide additional channels for profit. One of these activities is the preservation of historical heritage.

The methods of logical generalization, combination, analysis and synthesis, grouping, system and comparative analysis, monographic method are used in the course of research. The methodological basis of the study was theoretical development of domestic and foreign scientists and own research.

The article presents the impact on economic development of elements of spheres of social life, traditionally considered as non-economic, on the example of such impact from the processes of preservation of historical heritage. The article defines the main characteristics, vectors and characteristics of such influence. The text highlights presents and analyzes the main trends in the modern processes of transformation of the view of economic theory on the role of cultural sector and historical heritage in economic development.

The perspective directions of further research of this topic is the study of methodological foundations and principles, technologies and tools of economic development of historical heritage, the impact of these processes on national, regional and global markets and related industries; minimizing the negative consequences of the commodification of historical heritage and commercialization of culture.

Keywords: economic development, historical heritage, heritage preservation, modern economic theory, cultural economics, broad view of economic growth.

Introduction.

One of the more fundamental components of state policy is the preservation of a society's heritage, especially its historic buildings and structures. These historic buildings represent a culture's aesthetics, history and architectural achievements. Heritage preservation policy focuses on large and public structures as symbols of local, national, or even global heritage. Most policies identify these symbols first via their historical standing, often concentrating on older and endangered buildings. Policy thus emphasizes the maintenance and preservation of these venerated structures. The process of doing so has several interesting implications and challenges for market economies. The impact of historic preservation in markets defies simple characterizations in practice because the very essence of the

historic properties is, by its nature, interwoven with the broader community through both cultural channels and market forces. The result of historic preservation is a complex situation where unintended consequences come into play. Moreover, the indirect effects of historic preservation policies may be far more important than the direct ones. The actual preservation of some physical manifestation of heritage, in practice, is often a subsidiary goal to other aims like economic development or urban planning. The complex context of implementing historic preservation policies in real estate markets warrants careful untangling before sense can be made of the evidence uncovered to date.

Analysis of recent research and publications.

The works of famous foreign and domestic scientists are devoted to the problems of economy of historical heritage and its use in economics and other social activities. In particular, these issues are considered by such scientists as: J. Hausner, K. Jagodzińska, A. Karwińska, M. Kozak, A. Mignosa, A. Peacock, C. Petr, K.A. Polyvach, J. Purchla, I. Rizzo, D. Rypkema, J. Sanetra-Szelig and others. The results of their scientific research are of significant theoretical and practical importance. At the same time, the unstable state of the national economy and the constant transformation of the social and economic system of world necessitate additional research in this area, which once again confirms the relevance of the chosen topics. Despite the increased scientific interest in the study of the role of noneconomic factors of economic development including heritage it should be noted that there is no comprehensive approach to its solution, qualitative definition of categories and clarity in the definition of concepts.

Purpose.

The purpose of the article is to consider the impact of the processes of preservation of historical heritage on economic development in the context of the transformation of the views of modern economic theory on economic development and growing importance of non-economic factors.

Methodology.

The methods of logical generalization, combination, analysis and synthesis, grouping, system and comparative analysis, monographic method are used in the course of research. The methodological basis of the study was theoretical development of domestic and foreign scientists and own research.

Results.

The primary economic rationale for historic preservationist interventions in property markets is usually the claim that historic preservation is a public good. The historic character of a structure or neighborhood has properties that fit the classic definition of public goods. The historic quality is both nonexcludable and nonrival in consumption. Unlike typical private goods in the market, it is difficult to exclude anyone in the community from benefiting from the historic quality provided by the structure, and the more that someone enjoys the historic quality does not diminish the amount of that good for someone else to enjoy. Standard economic theory holds that a common result of public goods in market economies is that the market will underproduce the public good of historic quality without some kind of policy intervention. Without the policy, it is argued, the historic preservation that would benefit the broader community is typically not undertaken by the property owners because they cannot recoup their expenses because the nonexcludability allows everyone else in the community to Tree-ride' on their costly efforts to create and maintain the historic amenity.

Portraying historic preservation as a public good deserves further unpacking, however, because historic preservation policies in practice are often not so straightforward. The benefits that the historic properties provide, for example, are often difficult to define clearly. Tangible and intangible aspects of the structure or neighborhood may be cited as benefiting the broader community, and presumably (many) others value having those aspects preserved. Thus, the role of historic preservation policies is to designate certain structures and 'lock in' their public goods aspects. This functions much like a living

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museum where the historic structures are effectively archived and 'frozen' in perpetuity, for the benefit of the public and future generations. We expect free markets to underprovide this archival service because of the free-rider problem associated with public goods.

There is no small irony to this market failure rationale, however, because preservation policies are generally interventions to 'lock in' property attributes after they were already produced by the free market. The market was, apparently, perfectly capable of creating the historic quality worthy of preserving in the first place. An alternative, and more constructive, way to view the situation is to consider built heritage as two separate public goods problems: creating and maintaining the heritage [9]. Historic preservation policy typically targets the second problem, that of maintaining or preserving the built environment. Private owners may let their historic property decay or may redevelop it in ways that squander its heritage value, even though the free-riding community at large would greatly benefit from preservation. Thus, even though the market may have initially produced the heritage that merits preservation, there is no guarantee that it will be maintained indefinitely. This guarantee is a second public good benefit associated with the preservation in light of the irreversibility of historic qualities of structures. Once the original landmark is lost to damage or redevelopment, the change is irreversible and authentic substitutes might not exist [7, p. 345-352].

Private owners themselves can and do benefit from the historic quality of their property. But creating and maintaining that historic quality can simultaneously benefit others. In economics terms, these external benefits arising from the preservation of historic character of a building are known as 'externalities' – another way to see how markets may fail to produce heritage efficiently. In principle, the external effects of historic properties can be both positive and negative, can vary dramatically with distance to the site, and may depend greatly on the neighborhood context of the structure.

Advocates of preservation and redevelopment will tend to emphasize only the positive external effects of preservation, but this does little to inform us about what may be very real benefits associated with policy interventions. It is entirely possible that an historic structure's negative externalities outweigh its positive ones. As is common with public goods, tastes vary considerably even within a community and some members have particularly strong values for historic preservation. This variation in tastes plays a major role in the practical implementation of historic preservation policies. The possibility that a small minority 'captures' the policymaking institution to achieve their special interests worries both sides of an often-contentious historic preservation debate. This complicates simple inferences about a community's tastes for historic preservation based on its inventory of historic structures, because the decision to protect a building may not reflect the broader community interests. Moreover, historical quality as an aesthetic matter often resists consensus, with some architecture evoking strong and diametrically opposed reactions from residents; making preserving some controversial building both a positive externality to some and a negative one to others [5, p. 25-39].

To give an example of the many goals of historic preservation policies, consider this example from D. Rypkema [8] – an internationally acclaimed advocate for historic preservation. Following his book, his speech enumerated many rationales for historic preservation policies such as: sustainable development, reduced energy consumption, economic competitiveness, job creation, increasing property values, stabilizing property values and revitalizing downtowns and community development.

Historic preservation policies can take many forms. Most of them operate in ways that fall into one of more of the following categories. The first two categories (individual vs. cluster) refer to the types of structures being targeted by the preservation policy. The next categories (certification, subsidy, regulation) refer to the policy instruments being used. Most policies fit some, if not all, of these different categories. Nationalization or government ownership and maintenance of historic structures is an obvious policy alternative in many cases. In France, for example, government authorities own most of the listed and protected buildings. The most direct market impacts of historic preservation policies are those explicitly concerned with preservation in the private sector [1, p. 238-246].

Efforts at historic preservation should manifest in the market in several ways. These multiple

impacts can be classified into three groups: own effects, neighbor effects, and market-level effects. The implications of historic preservation, in theory, depend greatly on the context and content of the policy. And, by and large, we should expect 'mixed results' in almost any case. Nonetheless simple economic models can guide our understanding of historic preservation efforts and their market effects [10].

The 'own' effects of historic preservation refer to the impacts of historic preservation on the preserved property itself. Preserving a property – either voluntarily or via more coercive policy – should have numerous effects on its market value and on the behavior of its owners. If subsidies accompany the preservation policy, we should see preserved properties' prices rise. Conversely, if regulations accompany the preservation policy, we should see the preserved properties' prices fall. This latter effect is known as a 'takings', when government policy effectively taxes some portion of an individual's property for a public purpose. Depending on the magnitude of the accompanying subsidy, if any, the net effect of preservation on prices is ambiguous [6, p. 208].

Own effects of historic preservation extend beyond direct impacts on sales prices. Owners constrained to preserve some aspect of their property may adjust by investing more heavily in other aspects of their property. The threat of takings can spur preemptive redevelopment to avoid this, thereby lowering the overall inventory of properties worth preserving. Anecdotal evidence of this behaviour for historic preservation regulations is available, although systematic evidence is still lacking.

Arguably the greatest impacts of historic preservation accrue to the neighbors of the preserved structures. Real estate markets capture many of the external benefits (or costs) associated with proximity to preserved properties, as values of the neighboring properties increase (or decrease) along with preservation. Thus, even if mandated preservation lowers an individual property's value, the nearby properties may enjoy appreciation that outweighs the individual's loss. Historic preservation policies may thus be an excellent example of the common story of taxing a few individuals for the sake of the broader public [4, p. 286-297].

Another critical interpretation of this 'lock in' is that the long-run expected supply of housing or other buildings is reduced following historic preservation. Such an impact is especially important for cluster designations or for historic districts. These policies are designed to 'lock in' entire neighborhoods. freezing their level of development at the current level. To avoid the ensuing shortage, market prices adjust upwards and the now artificially scarcer real estate enjoys a premium due to a decline in supply rather than an increase in demand. This is the critical distinction. In the first story, preservation prevents redevelopments that adversely affect neighbors and thus boost demand for owning property in that neighborhood. In the second story, preservation prevents adjustments in supply of buildings thus artificially creates scarcity rents that drive up prices. Either or both could happen. The former version of the stabilization story involves increased social welfare, while the latter version involves decreased social welfare. Before interpreting an increase in prices as indicative of improved social welfare, the analyst must know whether a shift in supply or demand drives the change in price [3, p. 92-111]. In indirectly affecting neighboring property values and in altering the trajectory of community development, preservation policies are often thought to promote gentrification. The flip-side of that story is that historic preservation can enhance property values, promote investment by stabilizing an area, and catalyzing revitalization. This might price poorer residents out of that market and restrict residential and commercial development in a way that shows preference for certain groups.

Historic preservation can have impacts that are felt across the entire real estate market. In many cases, historic preservation policies function like zoning rules that govern the types and quantities of development that can occur in particular areas. For historic districts, preservation will tend to hold the supply of built capital fixed at the status quo level. When demand rises and the preserved area cannot respond with increased supply, other neighborhoods in the market may substitute and see their prices and supply increase. In that regard, historic preservation shifts the location of new development away from the preserved areas and concentrates it in other areas.

Another type of market-level effect of historic designation follows from preservation signaling a

sort of focal point. Historic properties and historic districts can attract buyers to the area due to its distinctive name and identity. The additional buyers drive up prices. This local increase in demand, however, comes at the expense of decreased demand in the other neighborhoods where the buyers would have otherwise shopped. The same can be said for commercial or retail activity in historic districts. Localized gains from historic preservation may be merely the result of displacing preexisting demand rather than generating any new value [2, p. 46].

Conclusion and prospects.

In the absence of a controlled experiment, identifying price effects of historic preservation encounters several intrinsic challenges. At least five major challenges appear in the historic preservation research. Perhaps the singular largest shortcoming is the failure to account for buildings' quality, in particular their historic quality. Distinguishing between impacts of existing historic quality and of the preservation policy demands this, however. As we expect higher-quality buildings to receive attention of preservationists and regulators, too easily can the premiums associated with high quality be attributed to designation. Policy endogeneity refers to the nonrandom assignment of preservation efforts. Preservation may be the result of property value or other market outcomes just as much as preservation may cause market outcomes. Preservation may follow the market. Various efforts to address this include repeat-sales or repeat-assessment. These approaches fall short, because preservation may still follow market trends. and offer a sophisticated approach that leverages the regulators' behavior to isolate the causal effect of historic designation. Historic preservation and real estate markets are intrinsically spatial. Drawing inferences from statistical evidence relies on fairly strict assumptions about spatial dependence in the data that are unlikely to hold in practice for historic preservation analyses. We expect the effect of preservation efforts to vary across buildings, districts, real estate markets, years, etc. Most studies identify only average impacts. Many other authors touch on some part of heterogeneous effects, such as effects of landmarks versus districts, effects on new versus old buildings, and from district to district. Most of the positive price effects are what term as own-price effects, meaning that these are net increases in property values associated with preservation policies. For individual structures, however, the bulk of the theoretical and policy arguments in favor of historic designation rely on neighbor price effects, not own-price effects. The own effects for individual designations should not be positive, but the preservationist argument finds it comforting that they are. Rather than creating new value, the higher prices might just as well be the result of displaced demand or reduced supply, which reduces overall social welfare. Deducing why prices rise following preservation requires more attention. Moreover, higher prices bring a reduction in affordability, making this evidence for the preservationists' cause appear elitist. The fascination with price effects as the primary indicator of market effects has likely crowded out some other market effects that may be even more important. These include impacts on the supply of historical quality, shifts in the market of unregulated historic quality, the use of historic districting to achieve other policy aims such as downzoning, how a certification mechanism might operate, and how historic authenticity is produced and valued in the market. The vigorous interest in historic preservation has continued to be matched by research into its market impacts. The promising state of affairs is that the scholarly discussion has, for the most part, evolved in more sophisticated and positivist directions. New and economically interesting questions about historic preservation are being asked. Historic preservation is here to stay, and so is research into its market impacts.

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