

The Economics of Cultural Heritage: The Case of Museums

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Abstract: *In this paper we discuss museums as cultural institutions, as important part of cultural heritage and creators of cultural capital. Museums are also credible economic actors: they generate revenue and, in many ways, they behave like a for-profit organization. We discuss the economics of museums in terms of supply, demand, competition on the marketplace and output. Since museums are community focused, they play an important social role acting as a cohesion factor and therefore generate social value. On the other hand, museums educate the public, therefore in a broad sense, they have a public mission which is valuable by definition. While monetary gains are measurable and becoming more important, we argue that social cohesion and museums' commitment to communities should prevail, as museums are creators of cultural capital and individual and collective meaning. Finally, some related discussions and future directions of research are proposed.*

Keywords: cultural heritage, museums, economic value

JEL Classification: Z11, Z32, M20

1. Introduction

If we talk about museums we also need to ask: is there a business? Most museums do not have a (profitable) business model. It is for a reason that museums do not generate their total income by themselves: they have a public mission. There is always external support involved in museum activities, be it from government, a private funder or volunteers' time (Weide, 2016).

Since external funding is part of the business model, the government, the private funders or volunteers are museum's biggest stakeholders and clients. But paradoxically, it is the government that increasingly wants museums to behave like businesses while generating more money out of the market. In other words, museums meet the demand of its biggest client/funder by meeting the demands of its audience. To make things even more confusing, the better museums become at serving their audience, the more money they make out of it, the more arguments they give to the government to cut down on their contribution to museum's funding (Weide, 2016).

Museums are a key stimulator of economic growth, but they also have their own resources. While private funding is becoming important in museum budget, public funding support for museums activities is in continuous decline. Therefore, it is important to encourage the entrepreneurial potential of the cultural heritage of which museums are part of. Museums generate economic, social and public value. By creating meaning across economic and non-economic sectors, museums may add value to local and national communities, to social cohesion and personal growth.

In this paper we tried to analyze museums with economic lens. In the first section

we discuss the issue of cultural heritage, cultural capital and values that frame museums' mission and activities. In this sense, we overviewed relevant papers and studies in the cultural sector. In the second part we discuss museums as economic actors while the last section is dedicated to museums as generators of multiple types of value, namely economic, social and public.

2. Conceptual framework: cultural heritage, cultural capital and cultural values

As its dictionary definition indicates, cultural heritage refers to inherited things that have cultural significance where the term "cultural" is used in both its anthropological or sociological sense and also in its more artistic or aesthetic interpretation. It is helpful to distinct between tangible cultural heritage, existing as buildings, paintings, artifacts and intangible cultural heritage such as traditions and customs, etc. as well as artworks existing as public goods like literature or music.

Thinking about cultural heritage inevitably draws us into contemplation of some of the most fundamental emotional and spiritual aspects of human experience – the sense of continuity with the past provided by our cultural traditions or the transcendental qualities of art – all these are essential ingredients of different items of heritage that make them relevant to our contemporary lives.

Throsby (2001) disaggregates cultural value into several components in order to explain the concept "in such a way that its importance alongside economic value can be more vigorously asserted" (p. 31). His list of elements of cultural value includes: aesthetic, spiritual, social, historical, symbolic

and authenticity value. The distinction between economic value and cultural value creates a dilemma for the process of valuation, in Throsby's opinion (2010, p. 18). While the various types of economic value (use value, non-use value, externalities) can easily be summed due to the common measurement in currency, it is difficult to form an aggregate of cultural values even if one succeeds in measuring them individually (2001, p. 40). He acknowledges that to dissect the concept of cultural value into several pieces and assign values according to standardized (not necessarily numerical) scales is most likely impossible.

Cultural capital is another concept discussed in this paper, related to culture, in general, and to its serving institutions (museums included), in particular. While the term is used in sociological literature with a different sense (Bourdieu, 1984), Throsby uses it to suggest that "tangible and intangible manifestations of culture can be articulated as long-lasting stores of value and providers of benefits for individuals and groups" (2001, p. 44). Following the (conventional) distinction in relation to ordinary economic capital, Throsby differentiates between the stock of cultural capital (the quantity of available capital) and the "flow" that it creates (a stream of goods and services that may be consumed). While it is relatively easy to understand how cultural objects such as paintings can be counted as assets in this framework, Throsby argues that intangible cultural phenomena such as traditions can also be counted as assets in this sense. The cultural capital that is stored in these assets gives rise both to the cultural and economic value of cultural goods.

Like Throsby, Klammer (2004) uses the term "cultural capital"; however, he uses

it with an entirely different meaning. For Klammer, cultural capital refers to people's inbred, acquired and developed ability to experience the sublime or sacred character of a good, to see its beauty or to recognize its place in cultural history. In short, it is the capacity to experience cultural value. Importantly enough, cultural capital accumulates in people and is increased through their consumption of cultural goods in Klammer's interpretation whereas it is stored in cultural objects, in Throsby's view (2011).

For Klammer, cultural capital is what lends us the ability to realize a meaningful life over and beyond its economic and social dimensions. The fact that cultural capital accumulates on the side of the consumers in Klammer's view explains why, for him, cultural policy needs to be at least partially focused on education and stimulating public discourse about culture and building cultural capital in the population.

Unlike Throsby and Klammer, Holden (2004, 2006) is more interested in the practical evaluation and policy making related to culture and cultural capital and valuing culture. He proposes a "valuing triangle" to illustrate the relationship between intrinsic, institutional and instrumental values. Intrinsic value, according to Holden, refers to "the set of values that relate to the subjective experience of culture intellectually, emotionally and spiritually" while "value is located in the encounter or interaction between individuals...on the one hand, and an object or experience on the other" (2006). Instrumental value encompasses both economic and social value and "relate to the ancillary effects of culture, where culture is used to achieve a social or economic purpose" (2006, p. 16). Holden associates these values with attempts

to measure “impacts”, “outcomes” and “benefits” (2004, p. 16).

Holden also adopts a particularly broad definition of economic value. He specifies that economic value “is determined by the extent to which something enhances or detracts from our wellbeing” (2004, p. 31). To the extent that health related outcomes, social integration and other instrumental outcomes of cultural participation enhance our wellbeing, these can all be considered to have value in Holden’s opinion.

For Holden, institutional value refers to the value that “organizations provide above and beyond the value of their products”. The manner in which organizations conduct their business, their processes and techniques can be of value quite independently of their physical output” (2016, p. 17). In this way, organizations create trust, promote mutual respect and provide a basis for sociability. Some of the attributes that Holden mentions under the heading of institutional value, such as trustworthiness, transparency and fairness (2006, 18) might be referred to as “brand value” and “customer service” in commercial contexts. Holden also considers the role that cultural organizations play as arbiters of taste to be part of the service they provide to the public.

In a report to the UK’s National Museum Director’s Council (NMDC), Sara Selwood (2010) seeks to introduce the notion of “cultural impact” as a means of assessing the work of museums. Since NMDC represents a wide range of museums, including science, history and arts museums, Selwood adopts a broader definition of culture in this study which she sums up as “stories we tell ourselves about ourselves” and, by extension, “those that we tell others” (p. 10). Culture is

thus closely related to (individual and collective) identity formation in which museums play a distinct and important role (Selwood, 2010).

Selwood also distinguishes cultural value from cultural impact, noting that value has “to do with worth and importance” while impact is about “effect”. According to Selwood, cultural impact may best be understood as the impact created by culture rather than the impact something has on culture.

Museums are a distinctive and important part of cultural heritage. According to Wikipedia, a museum is a building or institution dedicated to the acquisition, conservation, study, exhibition, and educational interpretation of objects having scientific, historical, cultural and artistic value (<https://wikipedia.org>). According to the International Council of Museums (ICOM) definition, museums serve society and its development first; they do not serve private or individual interests. Their activities are based on their non-profit status. As trusted entities, they generate cultural capital and economic, social and public values. They also have an important impact on the communities they serve and educate.

3. Museums as an economic actor

Museums generate more tax revenues than communities spend on maintaining them (Leva, 2016). Moreover, they play an important role when local organizations are competing for investments and promote a positive image. Their profitability is improving because both the tourism sector and the creative industries are on the rise. In addition to this, the American Alliance of Museums (AAM) has published a study which shows

that museums are particularly instrumental in generating money for small businesses located nearby (2016).

This development has been driven by a distinct demand. New customers and new tasks challenge museum activities, despite the economic crisis, the growing proportion of elderly and the growing differential between rich and poor.

As for the supply side, museums have proven their worth by conducting research in education, social sector, tourism and creative industries in general. Most of them have adopted constructivist strategies – “museums change lives” - whereby they have set wider objectives for their work.

In spite of their positive economic impact, museums have not been the rightful beneficiaries. The money that museums make (that they need in order to maintain their service offering) is not commensurate with the money that they bring to an area. When it comes to tourism, for example, museums actually receive less than 4% of the revenue they generate. Based on the economic impact of museums study (2013), this money goes to accommodation (21%), restaurants (20%), travel tickets (20%) and shopping (11%).

Museums must realize that new services come at a price: museums cannot longer be seen as cultural institutions only, but also as a service with paying customers. According to Leva (2016), nowadays a museum is “a service organization that helps its customers to fulfill their needs and responsibilities in preserving, studying, teaching and exhibiting heritage and culture, as well as generating economic and social wealth” (p. 21). In other words, museums pay the price of accepting to turn into a business while preserving its cultural roots.

Museums and marketplace competition

Museums are not immune to the forces of competition. On the finance side, they compete for the limited public funding and private benefactors/sponsors that are available. Their visitors are also likely to be affected by what other museums (and cultural institutions) are doing. Since visitors are an important source of funds, museums strive to find new activities and tools to attract them.

There are at least three aspects of competition that need exploring. First, there is evidence that museum visitor numbers are affected by a product life cycle (Johnson and Thomas, 1991). Fashion and tastes change and museums play an important part in developing the public taste. If museums adapt to the continuous change in visitors preferences and tastes, they may have a chance to benefit a relatively constant flow of visitors in time.

Second, digital tools and technological innovations are constantly influencing museum operations and activities. From the supply side perspective, adopting new tools and technologies may be a “must” because otherwise a decrease in visitor numbers is likely to happen. In this respect, some museums made substantial progress: National Museum of Arts and “Grigore Antipa” Museum in Bucharest are representative for how they reached a certain degree of “expertise” in reaching their audiences via modern technologies.

Third, new entries in the museum sector are important. While countries such as Great Britain are constant in opening new museums since 1980, Romania does not seem to encourage supporting new museums openings. To be more specific, since 1989 only 14 new museums opened in the country, most

of them are private museums with private funding. Since new museums are a source of innovation and creativity, the relative small number of museums recently opened means that we do not have yet a critical mass of museums, big enough in terms of innovation spreading.

What kind of output can museums generate?

There are several special characteristics of museum output that deserve mentioning. First, most museums offer a diversified output. The mix of outputs changes over time (Hutter). Second, museums are producing not only for the current generation but also for future generations who cannot express their preferences on the market. Conservation of their current collections for future consumption may therefore be categorized as output. Given that future generations have no direct means of making their preferences known and given that limited resources mean that not everything can be conserved, the question that arises is what to conserve? Third, the visitor experience consists of a number of services, including viewing and engaging with different collections but also services such as shopping, learning how to make a film, pottering, and so on. The proportion of how different elements combine is crucial for determining customer satisfaction. It is also important to note that visitors may gain utility both prior to and after their visit. According to Caygill and Leese (1994), repeat visiting is likely to be strongly affected by post visit enjoyment of visitors.

Some modern forms of museum output may act as a substitute for a visit. For example videos, social networking, blogs and publications based on the museum's collection can reach a wider audience compared to

what is possible based on traditional media (radio, TV, etc). Modern internet technologies may also provide a source of income for museums.

A particular interest presents the discussion about museum cost functions (Jackson, 1998). For typical businesses and for museums alike, costs may vary with changes in different types of output and with substitution between labor and capital. And yet, many museums have not been able to value their collections because they have not fully catalogued them. In this situation, museums may make allocation decisions without having access to key information. According to Frey and Pommerehne (1989), museums directors may have a management interest in not valuing their stock as such a process would make them more vulnerable to external performance appraisal and reduce their freedom to allocate resources on their own criteria.

One characteristic of museums that has important implications for their costs is the work of volunteers. Volunteers have a contribution especially in private museums where they receive utility from the "production" process, as they are both "producers" and "consumers".

It is important to understand that when we focus on the economic value of museums in the literal sense, this challenges the mission and social meaning of the museum in very strong ways. Of course, if we focus on the entertainment side of a museum, its economic impact can be measured. This leads to the expectation that museums should generate profit which is technically not possible and that efficiency standards and contribution to the development of tourism should become the primary concern. Do we want a

museum that has better income production but at the same time leaves its basic mission behind? Income production is linked to the audience response: how many people/visitors/customers does a museum bring? How popular is it and what should be done to make it more popular? What kind of mission should a museum pursue?

The idea of focusing on the income side is questionable at best because museum incomes are small from a local development perspective. According to Sacco (2016), the real sources of value creation rests into the local community's commitment to the museum, namely the rate of active cultural participation of the community into building the economic sustainability of a museum. Modern technologies play an important part in the "inner lives" of museums because digital production of content, social media etc. – blur the distinction between users and producers of cultural content, leading to a blend of active and passive participation (Sacco, 2016). There has been a complete change of roles. In cultural productions nowadays, one cannot think of an audience that is separate from the professionals. Instead of an audience, we now talk about a community that when engaged, it produces content by itself, both valuable and important. From this perspective, the social value that museums generate is of utmost importance.

4. Social values: museums as a social cohesion factor

Several studies have examined the relationship between participation in visits to museums and social outcomes such as increased educational attainment, reduced crime rates, health and overall wellbeing (Matarasso, 1997; Fujiwara, 2013; Tepper et al, 2014).

Some of the benefits created by visiting museums, for example, community cohesion and civic engagement, are difficult to appraise at the individual level since they are communal by their very nature (Throsby, 2001). However, some techniques have been developed in order to express social outcomes in monetary terms so as to render them comparable with other policy outcomes. Thus, studies have calculated the Social Return on Investment (SROI) for cultural activities (including museum visits), by consulting a wide range of stakeholders and beneficiaries and finding a financial equivalent that allows the monetary value of the benefit to be calculated (Museums, Libraries and Archives Council and NEF Consulting, 2009). Another approach has been to measure people's subjective wellbeing and then calculate how much more money they would need to earn in order to improve their wellbeing by an equivalent amount (O'Brien, 2010; Fujiwara, 2013).

As social outcomes of museum visits we should first mention higher levels of achievement of students who have learned more, improved health of people who may live longer and fuller lives and increased wellbeing – people just feel better about their lives. In short, by consuming cultural goods, people accumulate cultural capital in that they live a more meaningful life.

People today are socialized in cultural participation and engagement, even if they do not consider themselves to be participating. Museums can elaborate on this by also serving as participative platforms. In this way, the production of value moves to the social domain and connects to all of the main dimensions of its functioning: innovation and welfare, social cohesion and life-long learning, social entrepreneurship and

sustainability, local identity and soft power (Sacco, 016).

The idea of visitors/customers as passive audience is gradually being substituted by forms of direct engagement - active audience. Today, there is a proven relationship between cultural participation and wellbeing. As European population is ageing, there are impressive numbers of people who do not know what to do with their free time and suffer from solitude and isolation. We know now that socializing these people into a cultural experience makes a big difference in terms of their psychological wellbeing. If cultural participation improves the psychological wellbeing of older people, it is less likely that these people will end up in hospitals or homes for the elderly.

A museum that significantly contributes to active ageing generates a clear economic and social benefit for the local community as a whole and therefore, it seems that museums may be changing the welfare system. This is the kind of economic impact museums should be interested in. The same applies to a museum that develops a culture of innovation, especially in young people. As the experience of the "Grigore Antipa" Museum and National Museum of Art reveal, museums open their collections to the possibility of creative appropriation and remix of their content by their visitors/customers. In the digital era, by helping transform passive visitors into active ones, museums may definitely contribute to the welfare of the community, namely to its sustainability.

5. The public value and museum's mission

Conceptually speaking, public value exists in a different plan than economic and

social value. Public value is rather a way of thinking about, articulating and increasing the value of services that are provided by public agencies and organizations, and thus it is not a form of value itself.

The public value framework was developed in the field of management by Mark Moore (1995) and gained considerable influence in all areas of government, including the cultural sector. The basic idea is that public agencies and organizations should pay more attention to the value they create for the general public than to fulfilling bureaucratic performance measures set by their superiors. According to Scott (2013), public value is a theory, model and practice that address management issues. The public value approach in museums has been critiqued for its vague definitions and for failing to specify who the public is (O'Brien, 2014).

In the end, at least one big question needs a clear answer: what are museums trying to do? More specifically, what kind of public value do they generate? Some specialists consider that museums have as key objectives conservation, documentations and research into their collections (UK's Museums Association), but if we take a look at the mission of museums, as stated on their websites, we will notice a wide range of purposes such as: "to be a universal museum, continually striving for grater accessibility" (The Louvre); "to be a repository of knowledge and a public medium" (Wien Museum); "to collect, preserve, study, exhibit and stimulate appreciation for and advance knowledge of works of art that collectively represent the broadest spectrum of human achievement" (Metropolitan Museum of Art, USA); "appreciation of the mundane in everyday life, finding wonder and beauty in the simplest of

things and...knowing that there is always a story behind the cover" (The Umbrella Cover Museum, Peak Island, Maine, USA); "to bring the worst of art to the widest of audiences" (The Museum of Bad Art, Deadham, Massachusetts, USA).

As the above examples show, there are many forms of expressing public value: from the simple things that have meaning for a (small) community to the "Museum among museums" concept (The Louvre) that have a globally recognized, universal meaning. On the other hand, public value encompasses what Throsby (2001) names "components of cultural value": the aesthetic (beauty); the spiritual (sense of identity of the community and of the individuals); the social (stability and community cohesion); the historical (providing a connectedness with the past); symbolic (interpretation of identity and assertion of personality); authenticity (real and unique). In short, a museum's public value is profoundly correlated with its cultural value as perceived by stakeholders and clients/visitors alike.

6. Conclusions and future directions for research

In this paper discussed museums as cultural institutions but also as credible economic actors. They are perceived as generators of economic, social and public value. In terms of monetary impact, their contribution to GDP creation, for example, is difficult to appraise since museums' output has so many different source: tourism and associated services, jobs, etc.

Museums, on the other hands, compete on a market for visitors: they are not isolated from the activities of other institutions and

organizations. But the evidence suggests that they are able to respond adequately to competition challenges if they adapt to supply and demand changes. We should highlight again that technological innovation and digital tools give museums a much wider market than that encompassed by the physical environment: besides those who visit the museum in person, there is an "army" of digital visitors who prefer virtual tours.

Museums have an important economic value – in addition to the value of their collections, in addition to their social value (and the impact museums have on social cohesion) and in addition to their educational value (how museums inspire, engage and explain the world). They also have an important public value rooted into their cultural value. What are the appropriate tools and measures to assess these values? What role museums play in supporting cultural diversity and creation of meaning in a rapidly changing world?

There are at least three more issues that deserve future research: one is museum operation and structure related to its capacity of innovation and innovation diffusion. For example, innovation may include new technological developments in managing visitors and organizing displays. In this case, what would be the implications for costs and revenues of adopting innovations? What specifically determines the rate of innovation diffusion inter and intra museums?

Secondly, as museums grow, we face the challenge of measuring this growth because different measures might yield different results. Visitor numbers, the most obvious measure of growth, represent only one dimension of a museum's growth. What drives museums' growth in the first place

and why do museums vary in their growth rates?

Third, more attention should be paid to the museum's production functions and, in particular, to the role played by volunteers. Donations and sponsorships have been studied to a far greater extent than donations of labor. There is some literature on the supply of volunteers but much less on the demand for such labor and the costs of employing volunteers.

Finally, there is a set of issues that need research related to policy towards museums. We know little about the interrelationships between different forms of funding. Does public funding (from whatever source) reduce or increase private funding? If a museum raises its own income, how does government react?

It is beyond the scope of economics to provide insights on society's cultural

objectives and the mission and output of museums. But there is a clear role for economics in dealing with the costs of museums and the efficiency with which different outputs are produced. Since the term "museum consumer" made its entry into the language of museums, no doubt that museums are now an integrated part of the world of economics. They provide entertainment and fun and yet they are not simply amusement parks. They have an impact on tourism, but they are not mere marketing instruments. They create work and wealth, but not in the same way as private companies. Hopefully, the growing interest in cultural heritage and in museums, in particular, will ensure that some of this work will be carried out for the benefit of all of us and the society at large.

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