

## MONUMENT ANNUITY AS ECONOMIC INSTRUMENT – FROM THEORY TO CROATIAN PRACTICE

### ABSTRACT

*An annuity is a payment for the use of a fixed resource, such as land, natural resources or in our case a cultural monument. The theory of annuities has been developed by numerous economic theorists, primarily examining land annuities, amongst them W. Petty, A. Smith, D. Ricardo, T. R. Malthus, K. Marx, P. A. Samuelson and others. Monument annuity, therefore, represents an irreplaceable economic instrument through which the economic value of the monument is asserted on the market. Through its functions the annuity enables the management of protected built heritage as well as the realization of the most important objective of protection, and that is not only the preservation of the monument value of built heritage but also the "wise use" of built heritage in economic development.*

**Key words:** monument annuity, economic value of the heritage, cultural heritage

### 1. A THEORETICAL APPROACH TO THE CONCEPT AND DEFINITION OF AN ANNUITY

An annuity is a payment for the use of a fixed resource, such as land, natural resources or in our case a cultural monument. The theory of annuities has been developed by numerous economic theorists, primarily examining land annuities, amongst them W. Petty, A. Smith, D. Ricardo, T. R. Malthus, K. Marx, P. A. Samuelson and others. W. Petty developed the annuity theory by examining increased value, according to which annuities appear in only two forms, that of land annuities and monetary annuities (interest). He considered land annuities the primary form for increased value, while monetary annuities came from the land annuities. According to him, annuities are the entire excess after the deduction of the cost of production that includes a fee for the producer. Petty is the first to establish the term differential annuities, where he fully recognizes the importance of land position in relation to the market and recognizes fertility as the second criteria of differential annuities.

In following this review of the most important theories and theoreticians on annuities, the subsequent definitions for the ideas or annuities and land annuities arise. An annuity is income that in kind or money is acquired by a certain individual (person of independent income), without their work or entrepreneurial action, on the basis of ownership over real estate. Land annuities are a form of economic payment for the use of land ownership, and the collection of annuities is an economic form of realization of land ownership. Starting with annuities as income in kind or money, acquired by certain individuals (persons of independent income), without their work or entrepreneurial actions, on the basis of ownership

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of real estate, the following text gives the determination of monument annuities, and the basis for the characteristics of a monument as a fixed factor in the market. Payment for the use of a monument is viewed as a monument annuity, first by viewing the basic characteristics that a cultural monument has as a fixed factor in a market, and then through an examination of the characteristics of this type of annuity, as well as methods for its determination. Therefore, as with land annuities which represent an economic form of payment for use to the land owner, monument annuities represent an economic form of payment for the use of cultural monuments, or in other words their monument characteristics.

Monument annuities, in similarity to land annuities, can appear in three forms<sup>1</sup>, and they are:

- absolute annuity;
- differential annuity I and
- differential annuity II.

**The absolute monument annuity** is the annuity brought by every monument on the basis of ownership, and represents the value of the space and structure that, due to its monumental characteristics, has a special value. This, as a rule, is the result of the use of the monument with the lowest monumental values, in other words payment for their consumption. **Differential monument annuity I** is displayed through various monumental values, and therefore various economic values (fertility), and various distances from markets. In other words, it is rare to find two identical monuments, and when they do exist, it is very rare that they are in the same position in relation to the market. **Differential monument annuity II** is displayed as the income realized after additional investment is made into a monument to make it more fit for consumption. These investments do not have to be made on the monument, but can be in the contents of the infrastructure, which in the end act as an improvement to the conditions for consuming the monument (increased fertility). This can be the result of past or present investments.

A monument annuity is similar to a land annuity. A monument that has a greater quality of monument characteristics, or in other words a greater monument value, and which is closer to the market, or which has lower maintenance costs than one which is further from the markets, will realize an increased profit in the form of differential monument annuities. In all three forms of the phenomena of monument annuity it can be claimed that there is the appearance of a fourth form, monopoly annuity. However, it must first be taken into consideration that every monument is unique in a certain way and due to this uniqueness, which is represented through its monumental value, the monument achieves a monopolistic position in the market. Therefore, there is no situation where there is more than one monument, which leads to a monopolistic position and with this a monopolistic annuity. In this way, the monopolistic position of the monument is represented in all forms of monument annuities, coming to expression especially when the monument is of exceptional quality. This then represents a special form on monopolistic surplus profit, in other words these exceptional conditions allow for the production of special types of goods and services.

The further analysis of monument annuities, especially those that are collected from architectural heritage, deals with differential monument annuities, while absolute monument annuity is only important in a theoretical sense.

## 2. CHARACTERISTICS OF MONUMENT ANNUITY

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<sup>1</sup> Marx, K.: *Kapital, Kultura, Zagreb, 1948, treći svezak*

It is necessary to establish the characteristics of monument annuities to differentiate them from annuities gained from structures or land. For this reason the following text will point out the basic characteristics of monument annuities. The basic characteristic of monument annuities is that they result exclusively from the use of a monument or its monumental properties, which are realized in the market due to the consumption of goods and services. The characteristics of a monument annuity cannot be viewed without a prior review of the basic characteristics of a cultural monument as a fixed factor in a market.

If one were to analyze the importance of a cultural monument they would observe five basic characteristics that establish it as a fixed factor in market relations, and they are:

- Restriction in the number of monuments,
- Uniqueness (there are no two alike) that makes the owner a monopolist,
- Proof of identity,
- The need to preserve the monument restricts opportunities to use it, and
- The effect of time on preservation.

The first characteristic is the restriction on the number of cultural monuments, within the area of individual countries or even the entire world. The restriction in the number cannot always be taken literally, since it is indisputable that there are discoveries of items and objects with monumental qualities still being made, while time mercilessly destroys individual monuments. For this characteristic it is important to stress that it is not possible to produce a cultural monument, nor otherwise intentionally create it. Only with the passage of time, and based on expert valuation, will an object be recognized as a monument and this serves only as a pre-condition for the inclusion of such an object in the national holdings of cultural heritage, or of the world. The second characteristic is the uniqueness of every individual monument. In other words, there are no two monuments that are the same. Even if two were found, for example two castles or villas, they would be found at different locations. Therefore, the owner or holder of the monument is a monopolist and can have corresponding benefits due to this fact. Artistic, historical or other characteristics of the monument, which are also called monumental qualities, contribute to the uniqueness of the monuments. An important characteristic of uniqueness is the authenticity of the monument due to which replicas of the original do not have the same monumental value, or even the same economic value.

The third characteristic of the monument is its bearing witness to human creativity in a specific time period. Monuments are proof of the cultural identity of a man or community to which the monument belongs or belonged. The fourth characteristic of a monument is the fact that its preservation restricts opportunities for its use. The need to extend the «life» of a monument, to preserve it for future generations, restricts the use of it. These restrictions, which are becoming increasingly common in appearance, can now be considered a generally accepted principle in developed societies. They restrict the consumption of a monument, preventing the devastation that could be caused by its uncontrolled consumption.

The fifth characteristic is the merciless effect of time on the preservation of a monument. In other words, no matter how much a good is preserved from deterioration, no matter how much care and attention is given, no matter how much is invested in its preservation, there is always a natural end to every good, and even a monument. There are no eternal materials, and the same is true of monuments, and therefore every one of them has a restricted time of existence. Luckily for mankind, many constructors were aware of this mercilessness and in a desire to make their creations «eternal» used materials that successfully resist the effects of

time (the Egyptian pyramids, the Roman and Greek temples, etc.). In contrast to this, the common architectural heritage in many regions has completely disappeared since the materials used could not survive for long durations.

One characteristic that arises from the direct use of a monument is that it is expressed as a price for service in which the «consumer» realizes direct benefit for visiting the monument. This form of direct use, and with it the collection of this form of monument annuity is, as a rule, very transparent in practice and this eases its recognition and determination. Take for example a museum institution or castle, where admission is charged for access. In buying the admission ticket the visitor pays a monument annuity, as a price for the right to visit and review the museum collection or monument. However, not all forms of direct use, and with that, other forms of monument annuities, are that transparent. For example, a building that is a monument and located in the commercial center of a city, whose space is used for commercial activities, can at the same time have both monument annuities and positional annuities, and it is very complicated to separate them. With indirect use, monument annuities are hidden in the market price of products or services and it is commonly very difficult to express them as an exact amount realized on that basis. Most commonly it is only possible through comparisons between the same products or services to determine the participation of the indirect effect of a monument on price. This type of comparison is not always possible, which complicates the process of determining monument annuities for this form of use. An example would be the production of replicas of a monument, which by themselves, as products, would have minimal value if they didn't simultaneously represent a copy of the original monument. The characteristics of monument annuity are partially affected by the method of their creation, in other words whether they arise as the result of direct or indirect use. In both forms of use, it must be emphasized that the monument annuity arises as a result of use of a monument in which a benefit is realized.

### **3. ESTABLISHING THE MONUMENT ANNUITY**

From the previous text it is obvious that a cultural monument achieves an annuity and this annuity is the result of direct or indirect consumption. The realization of monument annuities in certain conditions is established with the recognition of these values by the market. Very frequently, a monument annuity is not easily recognized as a unique amount in the price for a service offered by the monument, such as the entrance ticket for visits to a museum or a castle. More frequently the monument annuity is hidden in the differences of prices between similar services that are offered in the monument or some other location. One illustrative example is the price of services in a hotel located within the monument structure with the prices of the services in a hotel of the same category located within a modern structure.

What are the reasons for establishing monument annuities? The following are only the most basic reasons for establishing monument annuities:

- as instruments to ensure resources for the maintenance and preservation of a monument, and
- as a regulator for the rational use of a monument as a scarce resource.

The establishing of a monument annuity, both its amount and method of collection in individual cases, especially when the owner is allowed to do the collection, represents one method of insuring the necessary resources for the maintenance and with this the preservation of the monument. Very frequently the maintenance costs of a monument, or preservation, are greater than those of similar goods that do not have monumental characteristics. In other

words, the preservation of monumental characteristics frequently demands special and, as a rule, more expensive activities for the maintenance and preservation of such goods. The establishment of monument annuities is especially useful for the goal of balancing supply and demand for a certain monument. The absence of payment of annuities for very attractive monuments, such as the Pyramids of Egypt, the Great Wall of China, and many others, would create crowds of visitors who through their great number could threaten even the further existence or preservation of the monuments. Therefore the establishment of the annuity, through the payment of entrance fees, as the simplest form of collection, in other words the level of the entrance fees, regulates the relationship between the demand and objective capabilities related to the amount of visitors that can visit a cultural monument without threatening its integrity and monumental characteristics. Even though only two important reasons were given for the establishment of monument annuities, this is frequently not the case in practice. Why? The non-establishment of monument annuities can be attributed frequently to the following reasons: First, the owners of a cultural monument, as a rule, do not find it necessary to increase their income, and when they decide to do this they cannot recognize the methods to achieve or increase their income. The second reason, which as a rule leads to excessive use of the cultural monument, is that the owner considers it too expensive to create a system for payment, or the collection of annuities, and therefore rejects payments and leaves allows the use of the resources without compensation. Both of these reasons lead to the non-establishment of annuities, and its collection in practice, become serious reasons for the need to establish monument annuities in cases of monument use, as a hypothesis for its collection.

#### **4. COLLECTION OF MONUMENT ANNUITIES – CROATIAN EXPERIENCES**

During the analysis of the collection of monument annuities it is important to observe who collects that monument annuity in practice and how. These two basic questions are extremely important if one wishes to affect changes in the collection of monument annuities, both in the economic processes, and through the introduction of systems for collecting monument annuities.

The collection of monument annuities can be:

- non-regulated – which means the process of collection occurs exclusively through economic actions in the market. Individuals with positions that allow them to determine the level of annuity and the method of its collection, have almost complete freedom in decision making;
- partially regulated – which means the process of collection occurs within partially set frameworks, and a portion is surrendered to the effects of market factors;
- regulated – which means the process of collecting monument annuities is ordered, both in regards to the level and the method of collection.

In cases of monument annuity collection, it is also important to differentiate whether it is the result of direct consumption or indirect consumption of the monument. The following text will analyze some methods of collection for both types of consumption.

The consumption of many other products and services, in addition to the monument and its presentation, can lead to the collection of monument annuities.

An analysis follows of an example where the method of monument annuity collection is the offering of a service in which the consumer participates in direct consumption of the monument. The organized viewing of a monument is one such type of this service. This service, in addition to the optical experience, contains a summary of the basic information

concerning the monument that is then presented to the visitor. Practice has shown that visitors readily use organized viewing of a monument or settlement or even the organized viewing of several monuments. With this they convert their visit to a monument into a cultural-educational act. They also receive a confirmation of the authenticity of the monument, in other words they confirm that they have visited a special place and gained a special experience, which in turn makes their trip special. Cities that are a common tourist destination develop various sightseeing programs, and the most common places visited by these programs are in fact monuments. In addition to services that are connected with the direct consumption of a monument, there are also products. This type of product most commonly takes the role of a souvenir that cannot be found elsewhere, more specifically it can only be obtained during a visit to the monument. It is in this way that many museums create replicas of items that are found in their holdings, that visitors can purchase at the museum shop during their visit. In addition to replicas of authentic monuments, occasionally there is the appearance of actual portions of a monument that are sold as souvenirs. After the fall of the Berlin Wall, there was the offering of products that contained actual portions of mortar or brick from the Berlin Wall as souvenirs. The special quality of this souvenir cannot be doubted, and it is of no surprise that buyers were found. This type of product can be found during the restoration of a monument, when replaced segments are sold as souvenirs, and this sale contributes to the collection of resources for further renewal of the monument. The examples presented indicate the possibility of creating very attractive and special souvenirs whose authenticity compensates for the lack of any useful value and which make them special products that assist in the collection of monument annuities. In other words, such a piece of stone or other material would be almost worthless if it were not an authentic piece of a monument.

#### **4.1. COLLECTION OF ANNUITIES THROUGH INDIRECT MONUMENT CONSUMPTION**

The examples given have shown only a few forms of indirect monument consumption, many forms and examples of such consumption have not attracted the necessary attention. However, it is indisputable that this form of monument consumption appears as a result of organized activities that have their economic reasons and effects. From a market-based standpoint, indirect consumption, in similarity to direct consumption, obtains a monument annuity as a price for consumption. In this case, the annuity is most often collected by the entrepreneur, or by an individual who is not the owner of the monument and even has no type of association with the monument. In this way, for example, a professional photographer will sell a picture of monument for the creation of postcards at a price higher than for other visited structures, despite the fact that the production price and time required to create each picture is the same. The photographer will therefore collect a monument annuity, even though they have no obligation towards the monument or its owner. A similar example is when a wine producer uses outlines or drawings of cathedrals, castles or monument sites on the bottle labels. They pay for the design work of the individual who created the label in which they also pay a portion for the monument annuity for the indirect consumption of the monument. If that same designer were to use another artist's creation (picture, symbol, etc.) for the creation of the same label, instead of a drawing of the monument, regulations would require not only a payment to the author, but commonly also their permission.

Croatian regulations concerning the protection of cultural goods have had provisions where this form of monument annuity is collected in the benefit of the monument, or cultural heritage, for a longer period. The implementation of Article 51 of the Law led to the collection, in 1988 alone, of \$121,668 US (or 994,903 HRK according to the exchange rate

valid for July 20, 2001) from the region of the former municipality of Dubrovnik for the renewal and protection needs. The Law on the Protection and Preservation of Cultural Goods<sup>2</sup> appreciated the beneficial experience gained from the quoted provisions of the Dubrovnik Law, and a special section of the Law proscribes the method of collecting budget income on the basis of the use of a cultural good, more specifically in Article 112 and 113. These quoted provisions regulate the method of monument annuity collection from the indirect consumption of a monument, more specifically in two ways: when the monument, or a recognizable portion, is used for commercial purposes in photographs, badges, stickers and souvenirs; and the other described cases when the monument or its portion is used for promotional activities. At the end of 2003, the Law on Changes and Additions to the Law on the Protection and Preservation of Cultural Goods («Narodne novine», No. 103/03) was brought, which introduced another form of collection of monument annuities for the indirect consumption of a monument, and it is regulated by Article 114a. According to Article 114a, all economic subjects that perform one of the mentioned activities are legally obligated to pay into the National Budget the amount of 0,05% of their realized annual income from the previous year for monument annuities. The majority of activities that are required to pay this form of monument annuities are related to tourism, banking, telecommunication and the transport of passengers. The connections between tourism and heritage are quite transparent and show the reasons why there is the obligation to pay monument annuities for the indirect consumption of a monument. However it is necessary to explain the reasons why this obligation is regulated for the activities of banking, telecommunication and transport of passengers. All three activities have their special role in tourism, which is just one of the reasons. The activity of telecommunications is present, with its infrastructure, in almost all monuments and monuments sites. The transport of passengers, whether it is intra-city or inter-city, also has a direct benefit from monuments. Passengers may use public transportation to visit monuments, amongst other things.

#### **4.2. RESULTS FROM THE COLLECTION OF MONUMENT ANNUITIES FOR 2004-2005.**

During 2004, the Ministry of Culture requested all city and municipal administrations to deliver a Decision concerning the level of monument annuities, as well as an estimate of the resources that the administrations were planning to collect in 2004, based upon the bringing of that Decision. An example of the estimates of the City of Korcula, which on July 19, 2004, brought a Decision on the level of monument annuities for the urban site of the City of Korcula.

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<sup>2</sup> «Narodne novine», No. 69/99.

**Table 1.****Monument annuities collection**

<b>CITY/MUNICIPALITY</b>					
CITY OF KORCULA					
<b>MONUMENT SITE</b>					
URBAN CENTER OF THE CITY OF KORCULA					
Reg.no.	Date Decision brought				19.07.2004
Prevent.	Date Decision implemented				29.07.2004
No.	Zone and/or Activity	Level of Annuity	Number of payers	Surface m2	Expected Annuity
1	2	3	4	5	6
		3,00 Kn	10		54.192,00
		4,00 Kn	112		513.600,00
		5,00 Kn			
		6,00 Kn	5		128.160,00
		7,00 Kn	1		840,00
		8,00 Kn	2		56.064,00
		9,00 Kn			
		10,00 Kn			
<b>TOTAL</b>			<b>130</b>	<b>0,00</b>	<b>752.856,00</b>

Source: Ministry of Culture

On the basis of the Decisions brought and the submitted estimates, a summary was created that encompasses 26 cities and municipalities that, up to September 23, 2004, had brought adequate Decisions and informed the Ministry of Culture of the same.

Table 2.

## Monument Annuities Collection in Croatia

<i>Monument annuity – estimate September 23, 2004</i>			
CITY/MUNICIPALITY	DECISION	m2	ESTIMATE
ZAGREB	01.01.2004.	2.715.307,21	175.173.090,72
CITY OF KORČULA	29.07.2004	0,00	752.856,00
ROVINJ	01.09.2005	35.989,21	1.295.611,56
BUJE	01.07.2004	5.791,21	119.647,00
KARLOVAC	01.07.2004	60.047,00	1.441.692,00
ĐURĐEVAC	15.04.2004	396,00	23.760,00
ČAKOVEC	01.01.2004	22.953,48	1.893.695,76
NAŠICE	01.01.2004	26.852,00	966.672,00
OSIJEK	01.08.2004	343.000,00	1.100.000,00
POŽEGA	15.02.2004	10.912,41	392.846,76
RIJEKA	08.03.2004	311.412,18	12.232.619,07
NOVI VINODOLSKI	09.03.2004	930,68	48.395,36
RAB	10.07.2004	10.710,00	160.650,00
CITY OF MALI LOŠINJ	05.06.2004	30.278,00	681.139,00
CITY OF VELI LOŠINJ	05.06.2004	682,00	15.550,00
OPATIJA	01.01.2004	0,00	15.260,40
HRVATSKA KOSTAJNICA	01.06.2004	2.260,54	47.471,34
SISAK	01.04.2004	149.221,25	5.171.725,71
OMIŠ	12.08.2004	4.036,44	145.311,84
TROGIR	15.04.2004	16.200,00	658.000,00
ŠIBENIK	17.08.2004	19.200,00	1.651.332,00
VODICE	01.01.2004	4.139,00	244.620,00
PAG	01.01.2004.	2.884,15	102.982,40
BAKAR	01.10.2004.	5.135,39	184.874,04
SUPETAR	01.10.2004.	0,00	250.000,00
DUBROVNIK	01.01- 2004.	17.680,51	2.102.122,80
<b>TOTAL</b>		<b>3.796.018,66</b>	<b>206.871.925,76</b>

Source: Ministry of Culture

A majority of the resources, according to this estimate, were to be collected in the region of the City of Zagreb, but that did not occur. The reason for this was most probably the local elections, since the city and municipal administrations then extended implementation. This point can be confirmed in the statements made by some municipal leaders during the election campaigns. They publicly opposed the implementation of already brought Decisions concerning the level of monument annuities or refused to bring such Decisions for monument sites in the area of their city or municipality. During 2004, a total of 67,9 million Kuna was collected as monument annuities, of which 48,6 million, or 71,5%, was from the indirect consumption of a monument. From direct consumption, according to square meter, only 19,3 million was collected, instead of the estimated 206,8 million, or an actual portion of 28,5% of the total collected resources.

**Table 3.****Monument annuities collected during 2004 and 2005.**

MONUMENT ANNUITY	2004.		2005.	
	HRK (000.000)	EURO (000.000)	HRK (000.000)	EURO (000.000)
TOTAL	67,9	9,2	111,5	15,1
0,05% of total income (Article 114a of Law)	48,6	6,6	62,1	8,4
<b>By square meter (Article 114 of Law)</b>	<b>19,3</b>	<b>2,6</b>	<b>49,4</b>	<b>6,7</b>

Source: Ministry of Culture

A comparison of the indicators of the collected monument annuities from 2004 and 2005, shows that in 2005 64% more annuities were collected than in the previous year. Noticeable growth was observed in annuities from direct consumption, where 156% more was collected than in 2004. This growth is explained by the increase in the number of cities and municipalities that not only brought Decisions concerning the level of monument annuities, but also that implemented them in practice. This is confirmed by the indicators related to the amount of monument annuities collected, according to which the City of Rijeka, even though containing a monument site much smaller than that of the City of Zagreb, collected more than Zagreb in 2005. In addition, the amounts collected in five cities were also much higher than in 2004. Since not all cities and municipalities have properly followed this legal obligation, even in 2005, the following years can expect increased growth in this type of annuity based upon the estimates from 2004. The top five cities with the highest collected resources from monument annuities based on municipal Decisions, by square meter, are:

**Table 4.****Monument Annuities in Major Cities**

CITY	2004.		CITY	2005.	
	HRK (000.000)	EURO (000)		HRK (000.000)	EURO (000)
Zagreb	8,0	1,081	Rijeka	9,2	1,243
Rijeka	5,3	716	Zagreb	8,1	1,095
Sisak	1,9	257	Dubrovnik	3,2	445
Split	1,3	176	Varaždin	3,2	440
<b>Karlovac</b>	<b>1,0</b>	<b>135</b>	<b>Split</b>	<b>3,1</b>	<b>419</b>

Source: Ministry of Culture

Monument annuities from indirect consumption (according to Article 114a of the Law) collected in 2005 were 27% higher than in 2004, which is primarily a result of a very successful tourism season where numerous business people, those responsible for paying this form of annuity, realized a growth in total income. Since the indicators are related to the location of the headquarters of the economic subjects, it is obvious that the largest amounts were collected in the largest Croatian cities, and that the City of Zagreb led in both 2004 and 2005. For this form of monument annuity, the collection is legally entrusted to the Taxation authority that prevents payment evasion. The first five cities with the highest collected resources from monument annuities, according to a rate of 0.05% of total income, are:

**Table 5.**

<b>Highest Collected Monument Annuities</b>					
<b>CITY</b>	<b>2004.</b>		<b>CITY</b>	<b>2005.</b>	
	<b>HRK (000.000)</b>	<b>EURO (000)</b>		<b>HRK (000.000)</b>	<b>EURO (000)</b>
Zagreb	17,5	2,364	Zagreb	30,5	4,122
Rijeka	2,3	311	Rijeka	3,5	472
Split	1,6	216	Split	2,6	351
Dubrovnik	0,8	108	Dubrovnik	1,2	162
<b>Osijek</b>	<b>0,6</b>	<b>81</b>	<b>Zadar</b>	<b>1,1</b>	<b>149</b>

Source: Ministry of Culture

The Law regulates the division of the collected monument annuities, where 60% goes to the benefit of the city or municipality of the area where it is collected and 40% to the benefit of the National Budget (distributed by the Ministry of Culture).

**Table 6.**

#### **Division of monument annuities in 2004 and 2005.**

<b>MONUMENT ANNUITIES</b>	<b>2004.</b>		<b>2005.</b>	
	<b>HRK (000.000)</b>	<b>EURO (000.000)</b>	<b>HRK (000.000)</b>	<b>EURO (000.000)</b>
<b>TOTAL</b>	<b>67,9</b>	<b>9,2</b>	<b>111,5</b>	<b>15,1</b>
Cities and municipalities	40,7	5,5	66,9	9,1
<b>National budget</b>	<b>27,2</b>	<b>3,7</b>	<b>44,6</b>	<b>6,0</b>

Source: Ministry of Culture

The institution of monument annuities is gradually entering into Croatian practice and is showing expected results. In areas where this form of collecting resources began immediately after the Law was brought into effect there has been a systematic restoration of protected heritage, and the public in these places has given this process a positive grade. Numerous cities and municipalities are at the beginning of introducing monument annuities, while some small local units of self-government are stubbornly, out of political reasons, not implementing the regulations of the Law, bringing damage to the protected cultural heritage that exists within their authority.

#### **4.3. THE PURPOSE OF MONUMENT ANNUITIES**

The fact of whether a monument annuity resulted from direct or indirect monument consumption will be ignored during the examination of the purpose of the collected annuities. If one wished to review the purpose of the collected monument annuities it is first necessary to confirm who collected it. In other words, the annuity collector could be:

- the owner of the monument,
- the user of the monument,
- the country,
- the local authorities of the region where the monument is located,

- an entrepreneur who performs an activity related to the monument,  
or
- even a citizen in some cases.

The importance of the annuity collector in relation to its purpose is seen through the relationship between the annuity collector and the monument itself. It is therefore necessary to show the variety of relationships towards the monument by different annuity collectors. One can start with the monument owner, who naturally wishes to preserve their possession and therefore, as a rule, invests in it. It follows that when an owner collects an annuity it most frequently is added to the resources that are invested in the maintenance and preservation of the monument. Another possible annuity collector is the user of the monument, who is not the owner of the monument. They are therefore most commonly interested only in the possible use of the monument, and consider the maintenance and preservation of the monument the obligation of the owner. The user of a monument is prepared to invest in the monument only when they can significantly improve their own benefits. If they do achieve a position where they can collect the annuities, it is improbable that the collected annuities would be converted into investments into the monument.

The country or nation is another possible annuity collector, which can use regulations to proscribe that the collected annuities, or a portion of them, become income for the national budget. In this case the nation is obliged to invest into the protection and preservation of cultural heritage for the common good. However this obligation is general in nature and as a rule exists without consideration of the amount of annuities collected. It should be therefore held that if a nation obtains the position of annuity collector, all of these resources should be used exclusively as additional resources for the protection and preservation of cultural heritage. The local authorities can also be an annuity collector, through the collection of local taxes and utility charges. In this role the local authorities act similarly to the national ones by using the annuities as income for their budget, but in this case they have a significantly reduced obligation towards investment in the protection and preservation of monuments than for the national level case. Local authorities most frequently consider investment in monuments as an obligation of the owner or the general community, in other words the country. Another possible annuity collector is an entrepreneur who is connected to the monument through a type of activity, whereby they acquire a portion of their income through the use, or consumption, of the monument. An entrepreneur is an individual who is focused on acquiring income, and therefore, as is the case for monument users, is not prepared to pay for investments in the monument unless they can result in profits or some other benefits. Therefore the entrepreneur is also not prepared to invest the collected annuities for the benefit of the monument. Instead the priority is on the use of the annuities for the development of the entrepreneur's own businesses.

Finally, citizens can also be possible annuity collectors. If they achieve this position, they are not interested in monument preservation investment since they are not the owners. In other words, the citizen considers that the fulfillment of their obligation towards monuments comes through the payment of taxes to the national and local authorities, and therefore considers the collected annuities to be a result of their own personal skills and therefore their own income.

After reviewing the relationship between the monument and the possible annuity collectors it can be concluded that the collected annuities can only have a few purposes, and they are for:

- investment in the preservation of the monument that enabled the annuity,
- investment in the preservation of architectural heritage,
- investment in the preservation of cultural heritage,
- covering other forms of consumption by the annuity collector.

The purpose of the collected annuities very frequently uncovers the level of economic consideration that should be given to the monument, and also heritage, as an economic factor.

#### **THE ROLE OF MONUMENT ANNUITIES**

The monument annuity, therefore, represents an economic form of collecting assets for the consumption of the monument, namely, its monument properties and as such represents the:

- Pecuniary equivalent for direct and/or indirect monument consumption;
- Regulator of monument consumption;
- Factor which stimulates the owner to manage the monument with a view to its preservation.

The monument annuity is a payment for using the monument as a fixed resource and its collection prevents the free-of-charge use of the monument in economic processes. Therefore, its payment, either for the direct or indirect consumption of the monument, acknowledges the participation of the monument in economic processes, namely, on the product and service market. As a rule, the annuity collected from the direct consumption of the monument is quite evident as it is collected during the direct contact of the consumer with the monument either in the form of a ticket for visiting the monument or as a component part of some of the services or products available to the visitors of the monument. As opposed to direct collection for the consumption of the monument, in the case of indirect consumption, the collection of monument annuity is often disguised in the market price of various products or services so that its acknowledgement most frequently requires both an analysis of the price structure as well as an analysis of the connectedness of the specific service or product with the protected built heritage. In order for the consumption of the monument, either direct or indirect, to be effectuated, at least minimum investments have to be made in its preservation and maintenance and the benefits that can be attained through the consumption of the monument recognized. The minimum level of monument consumption therefore implies the existence of a minimum level of preservation and consumption including the provision of necessary facilities for the rendering of appropriate services. The monument cannot become a source of extensive services without adequate prior investments that will make that possible. Otherwise the monument could remain untapped from the economic point of view, namely, used only by the owner for his own needs or else the consumption of the monument, if not followed by adequate investments in its preservation and maintenance, could cause its accelerated deterioration.

The consumption of the monument, both direct and indirect generates benefits to the consumer which can be distinguished as the value of its very use for the consumer himself and as an authentic (implicit) value manifested through the very existence of the monument which in the future could open up the possibility of its consumption on the part of every individual in society. For assessing the benefits individuals have from monument consumption, economists have developed methods whose application can facilitate the determination of the economic value of the monument, namely, evaluate the effects of the preservation policy that is presently being implemented. Although it has already been noted that the owner is obliged to invest in the preservation of the protected building regardless of whether he has an economic interest to do so or not, it is important to accept the fact that the very existence of the economic value of the monument will significantly motivate the owner to invest in the preservation of the monument. The economic assessment of the monument is carried out by the application of adequate methods wherein the economic value of the monument represents the difference between the overall proceeds generated or could be generated by the monument in a given period and the overall costs of managing and maintaining the monument in the same period. Monument annuity is an important component

of the overall proceeds generated by the monument given that it is the price for the effected direct and indirect consumption of the monument. In this way monument annuity has a direct impact on the economic value of the monument, since, as already mentioned, in the process of preserving the monument, the safeguarding of monument properties is an imperative, implying that monument preservation and maintenance costs are unavoidable while proceeds from monument consumption as a rule are dependent on monument management. The collection of monument annuity regulates the supply and demand relationship in respect to direct or indirect monument consumption. This function of monument annuity is important for the direct consumption of the monument where, for example, the excessive number of visitors to the monument or some other form of excessive consumption can devastate the monument itself or its monument properties. Excessive use not only threatens the preservation of monument properties, namely, monument value but also threatens the economic value of the monument that could be achieved in the future. The function of monument annuity as a regulator of the direct consumption of the monument is particularly important in tourism. The example of the monument ensemble of Venice best illustrates the effects of an excessive number of tourists who continuously visit this internationally famous tourist destination. It should be mentioned here that every monument, namely, monument ensemble has its own direct consumption capacity and the monument annuity is the only economic regulator of that consumption.

Monument annuity as an important factor of the economic value of the monument stimulates the owner to be a good manager. A good monument manager invests in the preservation of monument properties owing to which the building has been protected and safeguards and enhances the economic value of the monument. For achieving both of the set goals of good management, the proceeds generated by the monument are important and give particular meaning to monument annuity. Proceeds from monument consumption that are higher than preservation and maintenance costs make the preservation of the monument sustainable in the long term. This is confirmed by numerous examples in practice in which monument preservation projects have been transformed into business projects with revenues which many times over exceed the means invested in the preservation of the monument.

The monument annuity motivates the owner to preserve the usefulness of the monument either for him or for other users of the monument. In that way, while pursuing his own interests the owner contributes to the preservation of the monument as social value.

## **5. CONCLUDING REMARKS**

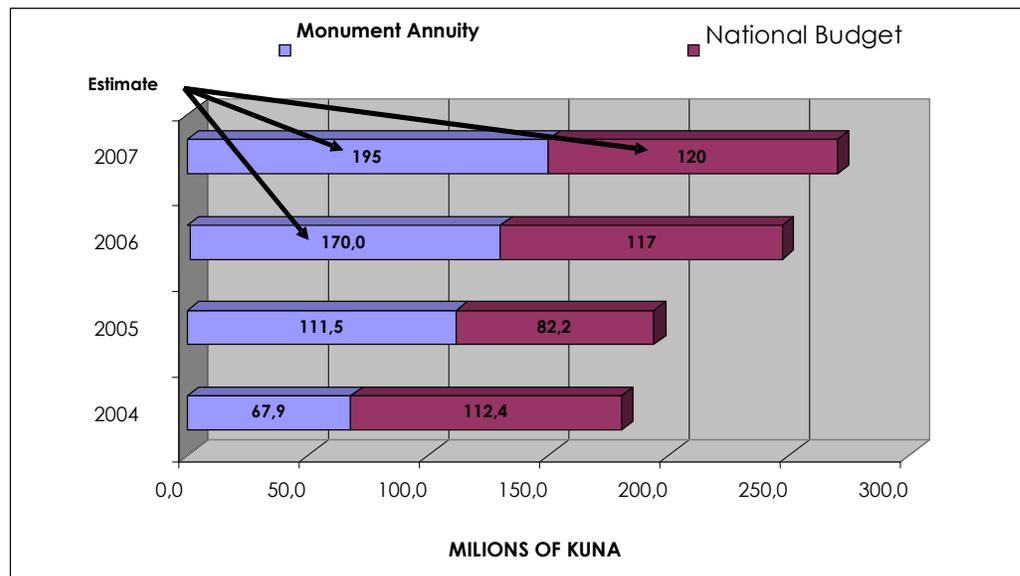
The annuity as income, generated without work on the basis of the ownership of the protected building, belongs to the owner of the monument. However, the building he happens to own has been proclaimed a monument without the will and influence of the owner, taking into consideration the expertly established monument properties of the building. The protection of the building, likewise without the owner having a say in the matter, obliges the owner to preserve the monument properties and, in the process, sets certain limits to his right of using the building. Accordingly, a building that has been proclaimed a monument also attains a dimension of social value which others too will begin to use. This use forms the direct and indirect consumption of the monument, which we described in detail above, as well as the reasons which necessitate payment for the consumption by the user in the form of an annuity. However, in practice the owner can collect only the annuity resulting from the direct use of the building - monument, while it would be completely impossible for him to collect from the indirect use of the building monument. Likewise it would be difficult for the owner of a building that is located within a monument ensemble to collect the annuity either from direct or indirect consumption effected within the monument ensemble. Therefore the

need for the state to intervene through its conservation service, which protected the building as a monument in the first place, by establishing a system for collecting monument annuity on behalf of the owner, offers itself as one of the possible solutions. The establishment of a monument annuity collection system sets the economic framework for forming a monument market. Built heritage monuments are component parts of the fixed fund of the state's national assets and are as such of special interest to society, not only due to their monument values but also owing to their social and economic values. The establishment of a monument annuity collection system, particularly when the collected annuity is returned for settling the costs of preserving protected built heritage, at the same time encompasses all the users of the monuments and enabling participation in the preservation of the monuments proportionate to their use. Such a system enables the owner of the monument, as well as society at large, to become aware of the economic value of each individual monument or monument ensemble and thereby secure their preservation for future generations. In this way not only will the monument substance be preserved but the protected built heritage placed in the function of the economic development of the region it is located in.

Croatian experiences are based on legally obligated expenditures collected from monument annuities for the preservation of cultural heritage that significantly increases resources for this purpose. In addition to the resources that the individual owners of each individual monument invest in the preservation of the protected cultural heritage, the following Figure shows the investment from the National Budget and that from the collected monument annuities realized during 2004 and 2005, as well as projections for 2006 and 2007.

**Figure 1.**

**Investment in the protection of cultural heritage from the resources of monument annuities and the National Budget from 2004 – 2007.**



Source: Ministry of Culture

Monument annuity, therefore, represents an irreplaceable economic instrument through which the economic value of the monument is asserted on the market. Through its functions the annuity enables the management of protected built heritage as well as the realization of the most important objective of protection, and that is not only the preservation of the

monument value of built heritage but also the "wise use" of built heritage in economic development.

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## SPOMENIČKA RENTA KAO EKONOMSKI INSTRUMENT - OD TEORIJE DO HRVATSKE PRAKSE

### SAŽETAK

*Spomenička renta je naknada koja se plaća na korištenje fiksnih resursa poput zemlje, prirodnih resursa ili u slučaju kulturnih spomenika. Teorija renti u fokusu je istraživanja brojnih ekonomista, osobito onih koji su se u svojim istraživanjima bavili istraživanjem zemljišnih renti poput W. Petty, A. Smith, D. Ricardo, T.R. Malthus, K. Marx, P.A. Samuelson i drugi. Spomenička renta predstavlja nezamjenjivi ekonomski instrument pomoću kojeg se ekonomska vrijednost spomenika utvrđuje na tržištu. Kroz svoju funkciju spomenička renta omogućava upravljanje zaštićenom spomeničkom baštinom kao i ostvarenje osnovnih ciljeva koje se zaštitom spomenika želi ostvariti. Time se ne ostvaruje samo zaštita naslijeđene spomeničke baštine već i racionalno korištenje spomeničkih vrijednosti u gospodarskom razvoju.*

**Ključne riječi:** spomenička renta, ekonomska vrijednost baštine, kulturna baština