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Heritage rent – underlying theory and Croatian practice

Abstract

Since cultural monuments and/or heritage sites, depending on the degree of their international recognition, generate economic activity and contribute to the economy of the countries in which they are located, one should regard them as valuable economic resources. The aim of this work is to firstly, address the issue of economically effective and socially responsible management of cultural monuments and/or heritage sites. Second aim is to provide theoretical background and empirical reasons for the introduction of the so called "heritage rent" as an effective mean for long term preservation of tangible cultural heritage. Third aim of this paper is to draw attention to the Croatian experience with the introduction of the heritage rent. Despite the fact that there seems to be enough support for the introduction of heritage rent in areas (destinations) rich in cultural heritage, the introduction of heritage rent system in Croatia still suffers from a number of deficiencies. In order to improve the existing system, concrete solutions are offered, especially concerning the principle of heritage rent assessment, the determination of heritage rent liability, as well as the determination of the heritage rent generated (appropriated).

Keywords:
public goods; heritage sites; preservation; experience economy; heritage rent; Croatia

Introduction

The economic life of every society (state, municipality, city) is characterized by simultaneous activity of both the private (entrepreneurial) sector and the various institutions of the public sector. The private sector is typically engaged in creating a variety of products and/or services intended for the market where the supply and demand relations define the quantities and prices of such products and/or services. On the other hand, the public sector's role should be to secure an adequate supply of "public goods" i.e. products and/or services for the production of which the private sector has no interest, but without which the society would not be able to function properly. Typical public goods are provision of education, health-care, public security, street lighting, playing grounds, cultural heritage etc. The more the roles of the private and public

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sectors are defined, mutually agreed upon and coordinated, the higher the overall level of social welfare, since the society is then provided with the best possible mix of products and/or services from both the private and the public sector under the best conditions possible (supply, price, quality).

The driving principle of any entrepreneurial endeavor is to maximize profit (Varian, 1984; Call, & Holahan, 1983) or shareholder value (Rappaport, 1986; Mathur, & Kenyon, 1998). The associated business risk is proportionately higher and failure more likely to occur the longer the payback period and the higher the amount of invested capital (Markides, 1998). In contrast, the most important duty of any bearer of public authority is to maximize the social and economic wealth of the entire society over the long run (Samuelson, & Nordhaus, 1992). However, unlike the conventional principles and rules of doing business in entrepreneurial undertakings, an effective supply and a satisfactory quality level in the domain of public goods provision can not be provided solely by the means of the market mechanism ("invisible hand"). Namely, because public goods are by their very nature non-excludable and non-rival in consumption, their relatively effective allocation (Arrow, 1963) in order to reach/secure a satisfactory level of social welfare, most commonly imply intervention by the public authorities (Musgrave, & Musgrave, 1989; Stiglitz, 2000). This refers to all public goods equally, including the preservation of the society's cultural heritage (i.e. historical monuments and/or heritage sites).

However, unlike other public goods, tangible cultural heritage bears invaluable testimony to the cultural and historical events of the past, as well as the achievements of the people of a certain territory throughout the history. In this regard, they represent a lasting determinant of national identity and international recognition of the region where they are located. Therefore, most modern societies are maximizing their endeavors to preserve, protect and present their cultural heritage. However, in doing so, they provide various direct and/or indirect economic and social benefits for a wide circle of potential stakeholders, including the private sector, the public sector, as well as the local population. Namely, from the public-authority's perspective (national or local level), cultural heritage monuments and/or sites are associated mainly with creating a positive image and international (tourism-related) recognition of a country or region. At the same time, for many private entrepreneurs cultural heritage monuments and/or sites are considered key resources for generating sustainable levels of market demand and/or revenues. Finally, local residents most commonly perceive cultural heritage monuments and/or sites in their communities as a place for fulfillment of their various cultural, artistic, esthetic, cognitive and/or other needs.

The successful utilization of a cultural heritage monument and/or site as an economically viable resource requires sustained investment into the preservation of its authenticity (conservation) and presentability (interpretation), while the lack of proper care implies gradual devastation of its economic potential (Greffe, 2004). Thus, socially responsible management of cultural heritage monuments and/or sites implies long-term investment maximization into their conservation and/or restoration so that the present and future generations can enjoy associated benefits under equal terms (McKercher, & Du Cross, 2002). From this perspective, the main purpose of responsible, economically rational and socially acceptable management of cultural heritage monuments and/or sites actually boils down to the issue of long-term sustainable preservation of their historical, cultural and or artistic essence.

Regardless of the increasing commitment to social responsibility in the entrepreneurial sector worldwide (Mathur, & Kenyon, 1998; Tichi, 2002), the majority of private businesses, especially small and medium-sized ones, are still quite reluctant to participate on their own free will in the process of maintaining national, regional or local cultural heritage monuments and/or sites. For that reason, "internalization" of externalities is still not possible (Gupta, & Prakash, 1993). Accordingly, it is not possible to reduce significantly the current market inefficiency in the management of cultural heritage monuments and/or sites without the direct intervention of public authorities. Thus, sustained protection and preservation of the historical, cultural and/or artistic essence of cultural heritage monuments and/or sites still requires significant and permanent fiscal intervention.

Despite the fact that overall expenditure required for the "simple reproduction" of the cultural, historic and/or artistic essence of cultural heritage monuments and/or sites could, on an annual basis, be provided on the account of total budgetary revenues (budget redistribution), such fiscal practice would explicitly discriminate against those citizens and/or business entities that have no direct benefit from the physical presence of a cultural heritage monuments and/or sites in a certain area. At the same time, such fiscal practice would favor the citizens and/or business entities that, to a considerable extend, base their business activities on the market attractiveness and commercial potential of a cultural heritage monument and/or site. Namely, when internationally renowned monuments and/or sites are being increasingly used as one of the most effective means of attracting foreign and domestic tourism demand (Taylor, 2001; Apostolakis, 2003), the introduction of a heritage rent as an allotted, selective para-fiscal burden to be paid primarily by those who have direct benefit from doing business in the vicinity of cultural heritage monuments and/or sites, represents an economically far more appropriate and impartial method for collecting much needed funds for cultural heritage preservation (McKercher, & du Cross, 2002). This is especially true in the case of market commercialization of various tourism products related to historically and culturally rich urban agglomerations and/or globally known capitals.

The complex issue of heritage rent in Croatia has, for the first time, been brought to the attention of the scientific public in the context of considering the issues of adequate protection of the ancient town of Dubrovnik, a historical complex categorized by UNESCO as a World Heritage Site (Poljanec – Borić, & Kunst, 1989). The research was carried out in 1989 by the Zagreb Institute of Tourism with the aim to analyse potential options and propose a theoretically sound, financially effective, economically and socially viable method for generating necessary funds for the protection and long-term sustainable preservation of the historical complex of Dubrovnik.

Nevertheless, the institutionalization of heritage rent should be considered not only and not necessarily in the context of (a single) financial source for conservation, restoration or sustained protection of valuable cultural heritage, but also in the quite broader context of: (i) ensuring cost-effective and socially responsible management of the valuable national heritage, (ii) minimization of negative externalities, and thus (iii) increasing the overall level of social welfare in the society over the long run. However, the institution of heritage rent is still perceived by the majority of business entities in Croatia – payers of heritage rent – as a theoretically insufficient, undesirable and unjust para-fiscal instrument that burdens business operations of its payers excessively, thus reducing significantly their competitive edge.

Assuming that a better understanding of the entire issue of heritage rent will contribute to relieving the latent tensions between the heritage rent payers and the bearers of public authority (i.e. local government), and lead to better solutions in its implementation, the purpose of this paper is to:

- provide insight, review adequacy and assess the effectiveness of the heritage rent in view of the socially responsible management of cultural heritage monuments and/or sites;
- analyze recent practice in assessing liability and collecting heritage rent in Croatia, and
- identify eventual deficiencies in the existing practice and propose means to improve the established system.

Heritage rent – conceptual determinants and role

Rent is an income acquired by a property owner solely on the basis of ownership rights without being involved in any form of business activity (Antolović, 2006), providing, of course, that the property be placed on the market. Accordingly, heritage rent can be defined as a revenue generated on account of market evaluation of a special kind of property – a cultural monument, a heritage complex, or any other property that falls under the broader common term of heritage sites. In this regard, cultural heritage should also be treated as an economic good that allows for production of new value.

As with rent in other economic sectors, heritage rent is an aggregate category that can be divided into its absolute, differential, and sometimes monopolistic portion (Poljanec-Borić, & Kunst, 1989). Since the absolute heritage rent is appropriated only on the basis of ownership rights, and due to the fact that each property when offered to the market achieves a certain price, every heritage site enables the generation of an absolute heritage rent (Poljanec-Borić, & Kunst, 1989; Antolović, 2006). Differential heritage rent, on the other hand, is a result of rarity and uniqueness, i.e. the fact that no two identical cultural monuments and/or heritage sites exist. Accordingly, differential heritage rent mostly depends on the provision of adequate infrastructure at the site (easy access, appearance, lighting, insignia), level of preservation, uniqueness, age, and so on. Finally, a monopolistic portion of the heritage rent is mainly the result of the monument's acquired reputation, owing to which certain cultural monuments and/or heritage sites occupy a monopolistic market position (Alfier, 1985).

Apart from securing a steady and relatively abundant stream of funds for the conservation and restoration of tangible cultural heritage in a more impartial, more suitable and more transparent manner than would be the case with budget redistribution, the institution of heritage rent implicitly reduces negative externalities associated with the usual market commercialization of cultural monuments and/or heritage sites (Scitovsky, 1965; Cowen, 1988; Stiglitz, 1986; Musgrave, & Musgrave, 1989). It does so by means of: a) limiting the number of simultaneous visitors in the immediate vicinity of the cultural monument/heritage site (Pedersen, 2002), and/or b) establishing an integral (aggregate) tourist experience in the presentation and management of cultural monuments/heritage sites, according to the principles of the "experience economy" (Pine, & Gilmore, 1998; Pine, & Gilmore, 1999.).

Starting from the usual classification of tourism resources, cultural monuments and/or heritage sites are not only an important attractions in the overall destination tourism product (ICOMOS, 2002; Kušen, 2002; McKercher, & du Cross, 2002; Apostolakis, 2003;), but are also an increasingly important single motive of tourist visitation (McKercher, & du Cross, 2002; Cabrini, 2002; Richards, 2007). Also, cultural monuments and heritage sites represent a key integrative component of the vast variety of tourism products (Leask, Fyall, & Garrod, 2002). This leads one to believe that the number of tourist arrivals and visits to a certain tourism destination will be in strong positive correlation with the attractiveness of its cultural/historical landmarks (McKercher, 2001; Palmer, 1999). Their attractiveness is, however, conditional upon their authenticity and/or uniqueness (Hughes, 1995; McIntosh, & Prentice, 1999), as well as upon the quality of their presentation and interpretation.

On the other hand, based on a specific motive of tourist visitation and relying predominantly on the autonomous attractiveness of the destination's cultural heritage (McIntosh, & Goeldner, 1990; Silberberg, 1995), cultural tourism could generally be considered as a non-aggressive and, hence, "desirable" form of tourism (Richards, 2001). However, the most famous world cultural tourism destinations and/or heritage sites of today are presently literally congested due to mass tourism (Cabrini, 2002; Greffe, 2004). In economic terms, such situation creates at least three negative effects related with effective cultural monuments and/or heritage sites' management practices. Firstly, due to ever increasing "consumption", famous cultural monuments and/or heritage sites are deteriorating much faster than they otherwise would, thus requiring increasing amounts of money to keep them in their original (presentable) condition (Garrod, & Fyall, 2000; McKercher, & du Cross, 2002). Secondly, due to the faster "consumption", the cultural monuments and/or heritage sites need to undergo restoration more often, during which periods they are uninteresting or less interesting to visitors. Finally, the constant crowds around the cultural monuments and/or within heritage sites drastically diminish the intensity of the overall visitation experience (Pedersen, 2002; Cabrini, 2002), resulting in a gradual loss of the original attractiveness to visitors, thus affecting negatively tourism demand and generated revenues.

In order to prevent the aforementioned negative effects associated with mass visitation and faster "consumption" of the cultural, historical and/or artistic essence embedded in cultural monuments/heritage sites, regardless of whether this involves visits from local residents or tourists, it is in the local authorities' best interest to control not only the actual number of simultaneous visits (ICOMOS, 2002; Cabrini, 2002; Nasser, 2003), but also to physically limit total time spent in the vicinity of the cultural monuments /heritage sites (Pedersen, 2002). The former can be achieved, although not fully (Cowen, 1988), by setting up a system of charging entrance. This represents a direct form of heritage rent, i.e. its effective collection from the most evident consumers of the monument's intrinsic substance (Antolović, 2006). The latter may be influenced mainly with well-organized site interpretation, provision of various guided tours and other methods of visit organization (McKercher, & du Cross, 2002).

Another reason for the long-term economic viability of instituting the system of heritage rent collection is closely associated with the principles of the "experience economy" that are increasingly characterizing economies of highly developed countries worldwide. According to the experience economy theory (Pine, & Gilmore, 1998; Pine, & Gilmore, 1999.), proper evaluation and effective market commercialization of the cultural monument's and/or heritage site's intrinsic substance is strongly positively correlated with the need to establish an exclusive, unique (once-in-a-lifetime), and emotional experience when visiting it. The reason for this lies predominantly in the fact that, mostly because of globalization, an increasing number of products and services, including cultural tourism products, are gradually being standardized (Teo, & Yeoh, 1997; Greffe, 2004). This leads to their gradual "commoditization", with inevitable adverse implications on pricing. As a result, the market attractiveness of such products or services in the eyes of both, their producers and potential consumers, will gradually fade. At the same time, the relative market value of authentic (personalized) experiences, which should be perceived as an integrated offer of numerous individual, mutually related, products and services will constantly grow. For example, although all restaurants turn foodstuffs into edible dishes, very few restaurants offer a "unique dining experience" that not only offers wonderfully prepared and presented dishes, but also offers a parking service, unobtrusive attendance, appropriate music, show cooking, entertainment, and so on. The difference between these two kinds of restaurants is best reflected in their price lists.

Returning to the issue of cultural monuments/heritage sites management in a socially responsible manner within the realm of the "experience economy", cultural monuments and/or heritage sites should be perceived not only as a means for efficient market differentiation and competitive positioning (Apostolakis, 2003), but also as one of crucial building blocks of a destination's integrated tourism product. In that sense, cultural monuments and the areas where they are situated evidently form a unique spatial-visitation entity, as well as an economic entity. At the same time, commercial activity in and around areas abundant in historic monuments and/or cultural heritage, offer certain entrepreneurs the opportunity to "wrap up" the cultural monument/heritage site into an integral visitation experience. By offering a highly valuable integrated tourist experience based on: (i) the authenticity of the monument/heritage site, (ii) the expertise of the tourism facilitator, and (iii) the quality of accommodation and various other services, all entities involved in creating such a "heritage value chain" jointly participate in the visitors' involvement in the "experiencing" process, and thus in selling the integral (aggregate) tourism product as a once-in-a-lifetime experience.

To illustrate the above approach, one should bear in mind that the overall experience of visiting St. Mark's Square in Venice not only represents a walk in the Square and enjoying the sights, but also a ride in a gondola, being photographed with the gondolier, having a rest in one of the cafés or cafeterias, and buying souvenirs in a tiny shop in the outer periphery of the square. In that sense, the quality offered by each of the individually run private hospitality facilities and all other services located in the outer periphery of St. Mark's Square have to be in total coordination with the cultural/historical, architectural and artistic value of the square itself, thus forming an undividable spatial, heritage, visitation, and economic entity (UNESCO World Heritage Centre, 2000).

Assuming, further, that in a certain area rich in heritage, (e.g. St. Mark's Square) a number of business entities operate in a way that they are spoiling the splendor of the site and, thus, the overall intensity of the visitation experience in whatever way, the actual number of visitors and the revenues generated, due to negative externalities, would unnecessarily decline. To prevent unnecessary devaluation of the aggregate tourist experience and, in turn, the level of tourism consumption in a valuable heritage area, the public authorities have the right (and responsibility) to employ an adequate instrument (i.e. heritage rent) to deter and discourage undesirable business activities that would fail to contribute to the overall intensity of the (tourist) experience.

The introduction of such a selective para-fiscal instrument would represent an additional financial obligation that would be hard to bear for all those businesses that do not yield any material benefit from doing business in the utmost vicinity of the highly demanded cultural monument/heritage site. Namely, all such businesses would be unable to lift the prices of their products and/or services above the usual market prices (Durbarry, 2000/01), and would not be able to pass on this extra duty to the end consumers of the integral visitation experience (tourists or local visitors). Hence, the majority of such business entities would finally be encouraged to find alternative locations for their operations. At the same time, this process would result in the creation of more available space for businesses that would be able to create external economies i.e. that would provide synergies to the remaining businesses and contribute effectively to the intensity of the integral visitation experience. This "purification" process would ultimately lead to increased (tourism) consumption and overall growth of social welfare. At the same time, the (heritage rent) rates and/or the principles for assessing rent liability should not jeopardize the economic sustainability of the desirable business activities near valuable cultural monuments and/or heritage sites.

Heritage rent liability

In approaching the issue of assessing/imposing heritage rent, it is possible to distinguish between two theoretically acceptable concepts, out of which arise two different criteria for determining liability to heritage rent. Namely, liability to heritage rent may be assessed according to economic activity principle or according to the territorial principle.

Assessing heritage rent liability based on the criterion of economic activity, implies that certain business entities, depending on the type of business they engage in, have the opportunity of claiming (and appropriating) heritage rent, which is why they should be treated as viable heritage rent payers.

Unlike the economic activity criterion, the territorial principle in assessing heritage rent liability implies that all economic agents, including physical and/or legal persons who are owners of commercial property within a certain distance of a cultural heritage site, regardless of the type of economic activity, should be liable to heritage rent. This approach to heritage rent liability determination follows the logic of gravitation models (Hotelling, 1929), where the amount (rate) of the fiscal duty is determined based on the distance from the center (concentric circles) - the closer a commercial facility/property is to a valuable cultural monument and/or heritage site, the higher the fiscal duty.

Although both principles of assessing heritage rent liability permit a differentiated approach to its collection (“grading”), several features suggest the superiority of the territorial approach. These are as follows: the territorial principle is considerably more transparent, impartial (less discriminating), simpler in procedure, and thus more suited for practical use.

Namely, assessing heritage rent liability according to the economic activity principle assumes that not all economic activities are liable to heritage rent. In other words, the approach suggests that there is only a certain number of privileged economic activities that have the opportunity of appropriating a portion of the heritage rent, whereas a certain number of businesses does not have that privilege. Following the logic of input-output analysis (Leontief, 1986), it is certain, however, that a portion of the heritage rent entailed in the revenues of the “privileged” businesses, due to multiplication principle, will gradually channel into the entire economy of the area rich in cultural monuments and/or heritage sites. In other words, businesses considered initially in the position to appropriate a portion of the heritage rent based on their regular activities, will also generate certain business expenses. Since these expenses, in turn, represent revenues to businesses engaged in other economic activities, the majority of which also gravitate toward the heritage rich area, a comprehensive and impartial approach to assessing liability to heritage rent based on the economic activity criterion requires that all active businesses in the vicinity of areas rich in heritage be included in the system as rent payers. At the same time, it is understandable that the appropriators of heritage rent in the first phase should bear a greater fiscal burden than those in the second and third phases. In line with the above logic, the economic activity approach in assessing heritage rent liability, therefore, implicitly presumes the need to establish well-defined economic criteria based on which it would be possible to assess the fair amount of liability level of various business activities.

Furthermore, assessment of the heritage rent liability according to the economic activity principle is based on the assumption that only active, publicly declared, commercial activities (businesses) are in the position to appropriate heritage rent. At the same time, the economic activity approach completely neglects the rental income of physical and/or legal persons generated on account of leasing commercial space in areas abundant with heritage. In other words, this method of assessing heritage rent liability is biased and favors physical and/or legal persons that do not "actively" use their commercial space for own businesses, but lease it to "real entrepreneurs". Due to this bias, the economic activity approach considerably diminishes the total sum due to be collected through the heritage rent.

Finally, the criterion of fitting into a certain economic activity as an option for assessing heritage rent liability is practically in no correlation with the previously elaborated principles of socially responsible system of heritage management. Namely, it is neither able to set a limit to the actual number of simultaneous visits, nor is it capable to ensure the creation of an integral tourist experience in an area rich in heritage. Therefore, applying the economic activity criterion significantly complicates the discharge of an effective and proactive economic policy aiming to preserve and protect the unique cultural, historic and/or artistic substance in valuable heritage areas in a sustainable manner.

In contrast, the territorial principle to heritage rent liability is not only fair and unbiased, but it also enables the policymakers to be proactive. Hence, the territorial principle to heritage rent liability enables the reduction of negative externalities associated not only with the excessive "wear and tear", but also with unnecessary degradation of the integral experience of visiting a cultural monument and/or heritage site. In that sense, therefore, assessing heritage rent on the territorial principle is more adequate to the economic activity principle.

Heritage rent in Croatia – features and weaknesses

In Croatia during the 1990s, the need for more intense investment into the preservation of national cultural heritage was strongly advocated, mostly due to the newly gained independence, the need to promote the country's cultural identity, and the need to repair the damage associated with the Homeland War, when many cultural monuments of Croatia were partially if not completely devastated. Therefore, with an aim of providing adequate sources of income for restoration, quality improvement and long-term preservation of Croatian tangible heritage, and drawing on the already existing positive experience of heritage rent introduced in Dubrovnik, at the end of the 1990s Croatian government decided to institutionalize the instrument of heritage rent throughout the country.

The formal institutionalization of heritage rent in Croatia started in 1999, with the passing of the Cultural Goods Preservation and Protection Act. However, since the method of assessing heritage rent liability defined by this document did not yield the expected effects, in October of 2003 the Amendments to the Cultural Goods Preservation and Protection Act were adopted. Both Acts nowadays still represent the legal framework for assessing heritage rent liability. Furthermore, based on the provisions of these two Acts (Articles 114, 114a and 114b), as of year 2004, heritage rent has been introduced and collected in all major Croatian towns. The heritage rent liability, according to the provisions of the aforementioned legal documents, has been determined based on: a) the economic activity approach, and b) available surface of commercially used space near a protected cultural/historical complex and/or heritage site.

When considering the first criterion for assessing heritage rent liability, and taking into account the logic behind the National Classification of Economic Activities, the law prescribes that all service-providing business entities that might be in the position to claim a portion of heritage rent are obliged to allocate 0.05% of their gross revenue for covering their annual heritage rent liability. Service-providing businesses that fall under the category of potential heritage rent claimers are: travel agencies, telecommunication companies, wholesalers, hotels, food & beverage services providers, marinas, casinos and gaming related companies, regular land, sea and/or air passenger transport companies (including airports), banks and supporting financial institutions, car rentals, personal and household goods rentals, trade-fair and/or organizers, etc.

The second criteria of heritage rent collection prescribes the amount of heritage rent in the range of HRK 3.0 to HRK 10.00 (0.4 to 1.3 Eur) per square meter of commercially used space, whereby every local government has the authority to independently determine the exact amount to be collected. According to such legal provisions, the heritage rent, for example, in Rijeka – varies from HRK 3.00 to HRK 5.00, depending on the location of the commercial space with regard to their vicinity to the rent bearing cultural monuments and/or heritage sites (SN Primorsko-goranske županije/ Official Gazette of Primorsko-goranska County, No. 7/04, 2004). On the other hand, the heritage rent in Hvar (SG Grada Hvara /Official Gazette of Town of Hvar, No. 3/01, 2004), and Dubrovnik (SG Grada Dubrovnika/Official Gazette of Town of Dubrovnik, No. 9/2003) has been determined as a single amount for all commercially used business spaces regardless of their location. Nevertheless, in the case of Hvar, the heritage rent has been set at a minimum level of HRK 3.00 per square meter, whereas in Dubrovnik, the level of heritage rent has been set at its maximum level of HRK 10.00 per square meter.

Finally, it should also be noted that the total amount of heritage rent collected within the territory of any single local jurisdiction is divided in the range of 60% : 40% between the relevant local government and the state budget. In both cases, however, the collected financial resources are allocated fully to the protection and restoration of cultural heritage.

Although the establishment of a heritage rent system is strongly grounded in the economic theory, and regardless of the fact that Croatian government has had fully justifiable reasons to impose this para-fiscal duty, especially in view of the growing tourist arrivals and increasing physical "consumption" of national cultural heritage, the current practice of collecting heritage rent in Croatia seems not to be the most adequate solution. Namely, the rent liability is currently assessed based on two nonexclusive criteria, causing a certain number of business entities to be "taxed" twice on the same account.

Furthermore, with regard to the liability to heritage rent based on the economic activity criterion, the legislator has imposed this para-fiscal duty predominantly on a relatively restricted number of tourism-related business activities. At the same time, however, business entities operating in other, seemingly tourism unrelated, economic activities are fully exempt from paying heritage rent although a portion of the generated heritage rent is gradually, via the multiplication process, channeled into their business revenues as well.

Lastly, probably the greatest cause of criticism for assessing heritage rent liability according to the economic activity principle is being reflected in the fact that there seem to be no clear and objective criteria upon which the rate of this additional para-fiscal burden has been determined. In other words, there seems to be no apparent logic neither behind the determination of the rate, nor behind the fact that only a single rate (0.05% of total revenue) has been introduced for all the businesses liable to pay heritage rent, regardless of their potential to appropriate a portion of the generated heritage rent.

Guidelines for future assessment and collection of heritage rent in Croatia

In line with previous discussion, and due to the superiority of the approach, it would be much more appropriate if payers of heritage rent in Croatia should in future be assessed exclusively based on the territorial principle. In other words, all business entities not operating within the clearly defined boundaries of a rent bearing heritage area should be exempt from paying heritage rent, regardless of what type of business activity they engage in. Of course, the mere distinctiveness and intrinsic quality (cultural, historic and artistic uniqueness) of the heritage site should define the size and range of the entire gravitating area yielding heritage rent.

Application of the territorial principle in assessing heritage rent liability requires well-conducted zoning, which involves rating the land lots and/or zones both, in the surroundings of the heritage site, as well as within the heritage site itself. Although the current system of assessing heritage rent liability in Croatia is already based on the zoning procedure, regardless of different criteria applied to each individual case, the current zoning procedure does not allow for the intensity of variation among different zones. Put differently, the present zoning process does not provide the decision makers with any information whatsoever on how much is the economic potential of a certain zone greater or lesser in relation to other, higher or lower rated zones. Therefore, in the aim to distribute liability to heritage rent in a more just and impartial manner, it is necessary to provide efficient means to assess the economic potential of each rated zone. This boils down to the assessment of each zone's participation in the seizure of the generated heritage rent. For this to achieve, one could apply two methods: a) the comparison method, and/or b) the auction method.

The comparison method is based on the comparison of financial turnovers achieved per unit of conditional capacity (e.g. available space in squared meters, accommodation unit, bed, chair) of various commercial premises in a predefined area (town) over a unit of time (year), between commercial premises that operate in the immediate vicinity of (or within) valuable heritage sites, and others who do not have that privilege. Assuming the sample is well structured and the gathered data reliable, the differences between the sums of the financial turnovers achieved per unit of conditional capacity are a good indicator of the heritage rent being generated. The difference in financial turnover per unit of conditional capacity multiplied by total conditional capacity available (total space in squared meters, number of accommodation units, number of beds, number of chairs), thus represents a financially expressed indication of the total heritage rent being generated in the heritage area. The comparison method as a means of determining the amount of appropriated heritage rent is well suited especially to hotels, financial agencies, major supply chains, and all other economic entities that can be accounted for as reliable sources of information. One should also bear in mind that the comparison method could be used at a level of a town, as well as for inter-town comparisons.

On the other hand, the auction method is based on the assumption that the differences in real, market-conditioned, monthly lease rates per unit of conditional capacity could also be a good indicator of heritage rent. As with the comparison method, the difference between the monthly lease rates per unit of conditional capacity (square meters of commercial premises), multiplied by total conditional capacity, is a good indication of the total amount of heritage rent being generated due to the existence of cultural heritage sites in a certain area. The auction method is especially suitable for business premises used by small and medium sized companies, i.e. all business entities that cannot be accounted for as being a reliable source of information. Similar to the comparison method, this method also allows for comparison at the level of a single town, as well as for comparisons among different towns. However, comparison of the heritage rent among towns requires caution and a provision of well-defined peer group. Namely, differences in the lease rates per square meter of business premises may be the result not only of the heritage rent, but also of various so-called urban charges, i.e. various other town-specific communal charges, building permits and similar charges.

Regardless on the method applied to determine the heritage rent generated in a certain area, it is also necessary to clarify the issue of "heritage rent payers" i.e. the physical or legal persons from whom the public authority has the right to collect initially appropriated heritage rent. In other words, the question boils down to: Should the heritage rent payer be the owner of commercial space (lessor) within or in the neighborhood of a heritage site, or the entrepreneurs using such commercial space for their business purposes (lessee)?

Assuming solely its owner for his/her own economic activity is using a commercial space potentially liable to heritage rent, the net financial effects of such a business operation would consist of two parts: a portion of profit and a portion of appropriated heritage rent. In other words, being a commercial space owner near a heritage site and using it for an own business operation certainly implies heritage rent liability.

However, if an owner of commercial space within or near a heritage site leases this space (property), the leasehold charge would normally entail the amount of the anticipated heritage rent as well. This implies that the leaseholder (the lessee), through regular lease payments, typically covers the entire sum of generated heritage rent, regardless of whether, or to what extent, he/she will be able to pass it on to his/her customers by increasing the prices of his/her products or services accordingly. In any case, the net financial result (profit) of the leaseholder's (lessee's) business activity would generally not include the appropriated heritage rent. Thus, in this case also, the owner of the commercial space (lessor) is the appropriator of the heritage rent and should, consequently, be the heritage rent payer. An exception to this rule would be only if the leaseholder (lessee) succeeded in passing on to his customers, an amount in excess of the heritage rent originally defined under the leasehold agreement, in which case he/she would also need to be a heritage rent payer. However, in circumstances of transparent assessment of the heritage rent (zoning, rating the economic potential of each zone), which implies that the lessor and the lessee know in advance the amount of the incorporated heritage rent, this scenario has no real grounds.

As to the level of "fiscal pressure", the public authorities should not collect the entire amount of heritage rent. This conclusion arises not only from the fact that a distinction should be made between work-related income and income related to (real estate) ownership, but also from the need to break down the total amount of heritage rent into its absolute, differential and monopolistic portions. Namely, since every real estate offered to the market rightfully enables its owner to acquire rent, the absolute portion of heritage rent should belong to the owners of real estate (commercial space) within or near heritage sites that are being leased out. The absolute portion of the heritage rent may be calculated as a weighted arithmetic mean, where the average value of heritage rent determined for each predetermined zone within a valuable heritage area is weighted with the total area of commercial space used by heritage rent payers in each of the predetermined zones.

Unlike absolute heritage rent, claiming the differential and monopolistic portion of the heritage rent has no grounds whatsoever in ownership. Since the differential and monopolistic portion of the heritage rent are the result of the sole presence and intrinsic quality of cultural monuments/heritage sites within a certain area, it is reasonable that the public authorities (local government) are entitled to this portion of the heritage rent. The differential and monopolistic portions of heritage rent could thus be determined as the difference between the total heritage rent and the absolute portion of the heritage rent. It is a matter of political decision, however, whether the local authorities will access the differential and monopolistic portion of the heritage rent in full or only in part.

Conclusion

Cultural monuments not only represent extremely valuable cultural, artistic, and historical heritage, but they should also be considered as a considerable economic resource that, especially when exploited as a first-class tourist attraction, enables creation of new value. For that reason, this work has: a) indicated the goals and basic principles of the socially responsible management of cultural monuments and/or heritage sites; b) defined the conceptual framework and analyzed the role of heritage rent as a means of providing additional financial resources for efficient preservation and proper protection of material cultural heritage; c) indicated the allocational feature of the heritage rent as well as its beneficial effect on reducing negative externalities associated with improper evaluation of the economic potential of cultural monuments; d) addressed the theoretical principles of assessing heritage rent liability; e) described the present situation and offered a critical analysis of the current method of assessing and collecting heritage rent in Croatia.

The performed analyses indicate that heritage rent is a theoretically founded economic category, the fiscal establishment of which, aside from collecting part of the resources required for restoring and/or renewing material cultural heritage, allows for effective and sustained, socially responsible management and the long term preservation of the cultural heritage's intrinsic substance. Further, together with the minimization of externalities not only associated with excessive physical "use" of cultural monuments, the introduction of the heritage rent also contributes to minimization of the unnecessary reduction of induced (tourism) consumption due to spoiling the integral visitation experience. This is of key importance under circumstances of omnipresent globalization imposing rapid standardization of tourism products and/or services and their gradual commoditization, due to which sustained strategic advantage of a tourism destination increasingly relies upon its ability to offer integral, unique and hard to copy memorable experiences.

As to the current practice of collecting heritage rent in Croatia, this work indicates that the present method of assessing liability and collecting heritage rent is questionable. Such a conclusion is based on the following:

- The current system of assessing heritage rent liability does not exclude the possibility of double taxation, because it is based on two mutually nonexclusive criteria;
- The current system of assessing liability to heritage rent is unfair, since heritage rent is currently paid by economic entities that most probably should not be paying it, while certain rent appropriators/beneficiaries are at present exempt from any payment;
- The current system of assessing heritage rent liability is based on a flat-rate principle due to which there is almost no differentiation in fiscal burden and all heritage rent payers pay, more or less, the same amount of rent.

Bearing in mind the aforementioned inconsistency of the current system of collecting heritage rent in Croatia, it would not only be appropriate, but also economically opportune for the public authorities to review the existing legislation and initiate its qualitative improvement. A logical starting point would be to assess the previously elaborated propositions which suggest not only concrete and specific solutions for assessing liability to heritage rent, but a more objective way of its determination and justified appropriation.

The proposed guidelines for improving the existing system of heritage rent appropriation in Croatia imply an application of a new and all-encompassing methodological procedure, as well as the collection of relatively extensive extra information from various economic entities. Therefore, it would be wise to empirically verify the reliability and practical applicability of the here presented approach by means of embarking upon a pilot project.

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