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## WORKING PAPER NEW SERIES

### **LOVING DIVERSITIES, CORRECTING INEQUALITIES. A PROPOSAL FOR A WORLD HERITAGE TAX**

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# Loving diversities, correcting inequalities. A proposal for a World Heritage Tax

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## Abstract

The aim of this paper is to cope with the imbalances affecting World Heritage Sites as to the conditions of their conservation and the resources available for their valorisation.

We propose a policy mechanism divided into three phases. The first one aims at providing an objective approach to measure the needs and diversity of World Heritage Sites. The second phase presents valorisation strategies to generate new economic resources, in particular from cultural tourism. The third one illustrates the tax mechanism based on collecting resources through an earmarked tax on tourist activities and redistributing these resources at a regional scale.

Our proposal is a contribution to the growing literature on Unesco World Heritage sites and it may be useful to ground the decision making of the recently formed Unesco Centres aimed at raising funds for the World Heritage conservation.

JEL Codes: Z11, D6, F5, H87

*Keywords:* World Heritage, Unesco, Earmarked Taxes, Collective Trademarks

## 1. INTRODUCTION

The World Heritage Convention, launched in 1972 by UNESCO and so far ratified by more than 180 states, has got a great international success. In just three decades, under the coordinating effort of the World Heritage Center, about 900 sites, both natural and cultural, have been enlisted worldwide.

At the same time, cultural diversity is emerging as a new relevant issue in the international policy agenda. According to the UNESCO definition, "cultural diversity refers to the manifold ways in which the cultures of groups and societies find expression" (UNESCO, 2005). One of this way is undoubtedly represented by the heritage embedded into the World Heritage List, heritage sites in which groups and societies found expression over space and time. For this reason, preserving cultural diversity means also making all cultures able to preserve and conserve their own cultural heritage (Lévi-Strauss, 1952 and 1971). In this regard, the concept of diversity becomes fundamental also for the World Heritage Convention.

Cultural diversity risks to be threatened by a series of factors: governments' national priorities are not always coherent to the cultural World Heritage preservation; countries suffering from civil conflicts and wars, natural disasters, fast urban development and environmental pollution, are often not able to protect their cultural sites. Moreover, the tendency toward a *pensée unique* is causing an oversimplification in interpreting the specific characteristics of each culture making blurred the existing differences.

Paradoxically, the exciting success of World Heritage List is facing several global challenges.

A first challenge refers to the imbalance of cultures untruly represented in the WHL. As acknowledged by the Unesco Global Strategy for a Balanced, Representative and Credible World Heritage List in 1994 the western European inscribed properties appear indeed to have a weight greater than their cultural relevance at the global level. Among the 890 properties, 49% is located in Europe and North America. Moreover, historic towns and religious monuments, Christianity, historical periods and 'elitist' architecture (in relation to vernacular) are all over-represented on the World Heritage List; whereas, all living cultures, and especially 'traditional cultures', are underrepresented.

A second challenge is that of quality heterogeneity among World Heritage Sites (WHS). Quality refers here not to the cultural outstanding value, which is a necessary condition for a site to be enlisted, but to the level of conservation and valorisation of heritage across sites. The degree of such heterogeneity is large and almost out of control by UNESCO headquarters. From the political economy perspective, the power of control by UNESCO is soft and the enforcement is very poor (The Economist, 2009). Against the trend of quality degradation of the enlisted sites, UNESCO can use only two instruments: a) the delisting action (applied up to now only to Dresden in Germany and the Arabian Oryx Sanctuary in Oman); b) the List of the Sites in Danger (currently 31 properties), which is a general warning.

A third challenge refers to financial inequalities among and within countries, which reflect in unequal levels of WHS conservation. While some countries can have a vast tangible cultural heritage and low monetary resources to conserve it, others can have a small-scale heritage but high financial resources (Frey and Pamini, 2009).

It is clear that if some countries do not have the necessary financial resources to preserve their heritage, in parallel some cultures risk to have a minor representation in the world heritage scene. As a result, the preservation of cultural diversity may fail.

The aim of the paper is to deal with the economic inequalities affecting the possibilities of heritage conservation and then the diversity of the world cultural system. The need for a re-equilibrium through some mechanisms correcting the existing conditions is our main concern. In terms of economic policy, this means that we should design policies moving the system towards a more general balance. Our proposal relies on three main steps. The first aims to present a method to assess the risk of deterioration that each site runs, including the distance between the income of the country in which the site is located with respect to the income of the other countries. The second step is intended for building strategies for enhancing the valorisation of sites and then generating additional resources for the purpose of conservation and preservation. The third proposes a World Heritage Tax to feed the conservation of those sites in the greatest risk.

The paper is divided up as follows: section 2 presents a review of literature dealing with WHS and the models for enhancing their valorization; in section 3 we present a new proposal for dealing with the current challenges the World Heritage system is facing; section 4 concludes.

## 2. THE RAISING OF A NEW ISSUE

In recent years, a new pioneer literature has focalized on the preservation of World Heritage and the role of UNESCO in doing it. With regard to the UNESCO role, various fields of research are worth being investigated, among which: the impact of the nomination in the WHL on the economic and touristic activity (Prud'homme, 2008; Arezki et al., 2009, Yang et al. 2009); the process of site selection (Van der Aa, 2005; Bertacchini et al., 2009); the degree of world culture representativeness of the WHL; the management of WHS (Karpati, 2008; Leask and Fyall, 2006), the measurement of cultural diversity (Benhamou et Peltier, 2007).

Beyond these topics, there exists another research line scarcely analyzed despite of its high relevance, namely the institutional way of raising and efficiently allocating funds to preserve the WH. In our knowledge, several studies on funding global public goods were carried out (see for example Binger, 2003; Arce et al., 2001; Sandler, 2001), but just one of these explicitly dealt with the raising and the allocation of funds financing the preservation of WH (Frey and Pamini, 2009). The two authors of this study start stating that culture can be considered as a global public good; in other words, the benefits originating from culture and culture preservation globally spread (Sandler, 2001), and this characteristic causes the well-known problems of externalities and free-riding. The preservation of WH is still seen and managed as a national affair making the fund allocation inefficient. Frey and Pamini underline that poor countries spend too little in preserving their cultural heritage, due to budget-constraints, while rich countries spend too much with respect to the value of their cultural heritage. In order to raise funds, equilibrate the efforts and efficiently allocate the expenditure, the authors propose a four-step mechanism, which originates by environmental economics and can be synthesized in the following way:

- First of all, it is necessary to determine what is to be considered World Heritage and then to assign a value to each site. The adopted definition of World Heritage is that proposed by UNESCO. The value of each site is expressed in terms of World Heritage Units (WHU) by experts; "the units correspond to the loss of global heritage if the specified project was not carried out within a given year" (Frey and Pamini, 2009) and their amount is based on the cultural importance of the site expressed by experts on the base of the ten selection criteria already established by UNESCO; on the size of the site, and on the probability of danger.
- Second, a global agreement has to be stipulated by countries in order to decide how many sites to preserve and how many WHU each country has to preserve. Following the model of UN Security Council, the effort of each country is recompensed by an analogous decisional power; in other words, this mechanism results in the creation of a World Heritage Board in which the major financing countries have the permanent seats.
- Once the obligations of each country are determined, the process of preservation can start under the supervision of experts and a World Heritage Certificate (WHC) is assigned for each preserved WHU. A rich country possessing few sites is motivated to internationally spend funds in preserving the sites with the greatest number of WHU, obtaining an equal amount of WHC. Analogously, a poor country possessing many sites but no funds is motivated to attract donors by providing them with adequate incentives (for example, reducing conservation costs in order to lower the price of certificates).
- Finally, a market for trading WHC is opened up. This market-led process has the function of equilibrating the allocation of funds. This is particularly important for

developing countries, which could externally finance the preservation of their sites and have a new development opportunity. Since preservation activities are labour-intensive and developing countries labour-abundant, they can acquire WHC by internationally specializing in low-cost preservation activities. Analogously, firms can compete in offering preservation services at low-cost.

### **3. A NEW POLICY PROPOSAL FOR CORRECTING WORLD HERITAGE INEQUALITIES**

For governing the conservation and valorisation of sites and coping with the inequalities in financial resources, we suggest a new policy framework. The framework we propose is composed by three main steps: the first is linked to the assessment of the current needs of the sites in terms of risk of deterioration; the second is directed towards enhancing the valorisation of sites and then generating further resources for the preservation of the World Heritage; the third develops a tax scheme to feed the conservation and valorisation of those sites in the greatest need. The three steps represent at the same time a policy perspective to protect and, wherever possible, enlarge cultural diversity in the World Heritage System.

The dimension and complexity of the challenges suggest the importance of dealing with the issue from a supra-national perspective, so we suggest that the level of the analysis would be that of the macro-regions of the world. This supranational dimension is due to governance considerations. On one hand, the national dimension is too small for addressing the imbalance in terms of risk of deterioration and the need of financial resources, which is above all an issue across rather than within countries. Moreover, the World Heritage Convention has an international nature and aims to build a supra-national system of culture preservation. In addition, it should be considered that in many cases cultural and natural sites are transboundary properties (for example, Struve Geodetic Arc and the forthcoming Main Andean Road - Qhapaq Ñan).

On the other hand, adopting a global approach would be very demanding because of the costs involved in the international arena to reach political agreement, policy management, strategy coordination and cooperation among all parties. Unlike the global size, regions or macro-areas (for instance Central America, Latin America, Middle East, Sub-Saharan Africa, etc.) are likely to have the suitable dimension to ease collective action among different neighbouring countries. First, macro geographic areas usually are more homogenous in terms of cultural identity, history and language. Second, geographical proximity can foster information and knowledge flows among the parties. These conditions tend to reduce negotiation and transaction costs favouring the production of trust and cooperation. Third, under a regional approach it is easier for State Parties to capture the positive externalities deriving from regional cultural heritage conservation and valorisation.

#### **3.1 Defining Values and Needs: the Risk Function for Mapping Regional Disequilibria**

The first step of our proposal is oriented to set a ranking among heritage sites according to their risk of deterioration. This procedure is necessary in order to measure in comparative terms the degree of support needed to preserve the site at standard levels of quality. The list of "World Heritage in Danger" partly addresses this problem

but has a limited application. Indeed, it does not provide a quantitative and comparable measure of the danger affecting.

To this end, we propose to adopt a risk function, which is a methodology put forward first by Italian scholars on Heritage conservation (Baldi et al., 2005). In the analysed context, the importance of building a risk function for each site relies on the possibility to create a priority list of needs (Handbook for the Environmental Risk Analysis, 2003). On the basis of the risk functions computed for each site it should be possible to design maps of the regional disequilibrium.

The risk of site deterioration could be estimated as function of three factors:

- ▶ the cultural value of the site (  $C$  ), which as far as cultural diversity is concerned, is constant and equal across the sites.
- ▶ the vulnerability of the site (  $V$  ), which represents its predisposition in suffering damages; for instance, absence of continuous investments in preservation are likely to increase the vulnerability of the sites. The higher the vulnerability, the higher the risk.
- ▶ the probability that an harmful event (  $H$  ) occurs, which is function of natural events (earthquakes, floods, volcano eruption, air pollution, etc.) and human actions (anthropic pressure, tourist pressure, plunders), occurs. The higher the probability of an harmful event, the higher the risk.

Moreover, to take into account between-countries economic inequalities and diverging private attractiveness of heritage sites that could affect the conservation capability of WHS we suggest also:

- ▶ the distance between the income per capita of the country in which the site is located and the regional average income (  $RI$  ). This is a proxy for the site capability to be financially supported at the country level in its conservation practices. The greater is the distance, the higher is the risk.
- ▶ the economic value expressed by individual preferences of consumers for the heritage site (  $E$  ). As the public good theory suggests, the economic value of heritage site is composed by use value and passive use values, such as existence, option and intergenerational values. The higher the economic value, the higher the risk.

The risk function slightly modified in our approach is therefore expressed as

$$\mathbf{Risk} = f(\mathbf{C, V, H, RI, E})$$

Of course, one of the most puzzling points is the evaluation of both sites' cultural and economic value.

As for the economic value of the sites, use value can be partly captured by the number of visitors to the sites. In addition, Contingent Valuation (  $CV$  ) method can be an effective technique to provide reliable and comparable information, given the public good nature of tangible heritage.  $CV$  tries to measure the use and passive use values of a heritage site eliciting the willingness to pay of the people (Santagata and Signorello, 2000). Albeit the acknowledged biases,  $CV$  still remain a reliable method to assign value to cultural and environmental goods.

As for cultural value of heritage sites, we share the view by Claude Lévi-Strauss's thought, which influenced the UNESCO principles and largely contributed to define and

clarify the concept of cultural diversity. In the two essays “Race and History” (1952) and “Race et culture” (1971), Lévi-Strauss underlined the absolute non-existence of criteria by which a culture can be judged superior to another one. As a consequence, we should preserve all the cultures, and then the overall cultural diversity, without any exception. Looking at the topic we analyze, these considerations become important when we think about the possibility that a site could have a greater cultural value than another one and then be most worth being preserved. We could be seduced by thinking that the historical centre of an important city has a greater cultural value than some ruins in the countryside; however, this statement relies just on the historical value, namely the way in which a site participated to the human history, rather than on the cultural value. At the same time, differences in terms of attractiveness and fame of sites are not based on an objective evaluation but on people subjective perceptions. For these reasons, our analysis starts from the assumption that all the sites, once enlisted, have a priori the same cultural value and then the same right to be preserved.

### **3.2. A potential strategy for valorisation**

The potential strategy of valorisation included in this step is mainly directed to generate new economic value, which should be the first mechanism to redress the regional unbalances in world heritage valorisation. The starting point is to increase the total amount of resources for conservation. The main way to reach such a goal is to rely on cultural tourism and related activities.

The starting point is to consider that there are different levels of attractiveness among world heritage sites. Once a site enters in the list it gets the same mark signalling the average quality of the overall WHS, therefore the higher the number of the sites in the list, the less significant could be the signal of the inscription in terms of sites attractiveness. This is an information trap in the line of Akerlof (1970) analysis. Moreover, there is a debate over the effectiveness of the World Heritage Mark as an instrument to attract cultural tourists. On one hand, Yang et al. (2009) finds that the Chinese world heritage sites have a positive attraction effect on tourism as compared to other cultural sites. On the other hand, Prud'homme (2008) for the French case shows that inscription in the WHL is less effective in attracting tourists than other signalling devices such as tourist guides.

To correct this unintended effect of the UNESCO inscription, we are imagining the introduction of a second layer of quality mark, on the same line of World Heritage awards.

High quality World Heritage Sites should receive a second *seal of excellence* and will be in a position of attracting further visitors and tourists given their greater visibility, their capability to differentiate on the tourism market and to increase of their symbolic value. As a consequence, the sites that do not receive the superior quality mark will signal a relative inferior quality and, probably, they will attract a lower number of tourists. The superior quality mark is particularly suited for high quality regional sites seeking more visibility rather than world renowned sites that in principle do not need a further signalling. However, as we will see in the next section, in the medium and long term they may be not damaged by such discriminating policy as they will receive additional resources generated by the earnings collected in the superstars heritage sites. The challenge for implementing this two marks system lies in the fact that the increase in tourist visitors to the superior quality heritage sites will be able to compensate the potential losses in tourist revenues suffered by the sites that continue to hold the basic

UNESCO mark. In this case, there is a strong analogy between this proposal and the system of double quality certification of wines in some countries, namely Italy.

Along with the superior quality marks another value enhancing strategy is to use collective trademarks on artisanal products manufactured within the area where WHS are located. A collective trademark is a signal communicating information about the quality of commodities and services locally produced. In principle, setting up a collective trademark is a way to create individual incentives in quality increases (Santagata, 2006). In fact, the quality requirements imposed by the collective trademark exclude low quality producers from the use of the mark. The low quality producer has the option to stay outside the collective brand without investing in increasing the product quality. Alternatively, he may invest and be entitled to use the collective mark that brings several benefits: sharing strong unique image of the brand in the national and international market and belonging to a producers' community endowed with facilitating institutions (chambers of commerce, training institutes, information sharing on international markets characteristics). To realise potential complementarities between the heritage site and the culture based products and services, a possible enhancing strategy is to entitle local producers to relate the collective and community trademark of their products to the Unesco Heritage label. This should not be merely considered as a commercial operation because it entails the mobilization of local culture and strengthens the relationship between the local economy and the cultural heritage site.

Beyond this enhancing strategy, there are many other exogenous and endogenous factors that can spur local development and cultural tourism on world heritage sites. On one hand, there are social and economic conditions which are favouring the international tourism towards cultural heritage destinations (the GDP per capita increase in emerging economies, the increase of the global education level, the reduction of transportation costs). On the other hand, entrepreneurial activities by private and public actors in the area of the world heritage site could stimulate the development not only of the site as a tourist destination, but also of handicraft sector and industries producing culture based goods and services.

### **3.3 A World Heritage Tax for correcting inequalities**

After the assignment of quality marks, which represent a first strategy to enhance the valorisation of world heritage sites and trigger additional resources, a new mechanism suggested to collect new funds for re-equilibrating the preservation of sites will be based on earmarked tax mechanism. This tax will feed a common regional fund to be used for supporting conservation and valorisation activities.

Since the tourism industry and the artisanal production (handicrafts, food and cultural services) are among the major beneficiaries from the existence and valorisation of the UNESCO sites, it could be fair to tax them for supporting the conservation of cultural heritage (monuments, museums, galleries, artifacts). This makes suitable the introduction of earmarked taxes, which are raised and allocated to specific expenditure programs, often through an extra-budgetary fund.

There exist many empirical examples of earmarked taxes in the tourism sector and the tax base varies accordingly. The tax is introduced in order to fund tourism promotion and is usually imposed to accommodation and food services; an example is the "lodging tax" authorized by the State of Florida in 1967, according to which a 4% and



2% tax rate is currently allowed on transient rentals and food services respectively (Culver et al., 2006). Another example of earmarked tourism tax is given by the Mâconnais – Val de Saône Urban Community Area in French; in this case, the tax base is charged on accommodation services and its amount is fixed depending on the class of lodgings, ranging from 1.50 € for accommodations in 4 stars hotels to 0.20 € in 1 or 2 stars camp sites. On the contrary, there are other examples in which the tax base is larger and extended to all tourism-related activities, as in the case of the seasonal tourism tax in South Dakota; in this case, the tax rate is fixed to 1.5% and applied to all the tourism-related activities spacing from lodging establishment to motor vehicle rentals, recreational services, spectator events and visitor attractions.

In our case, the tax base will be provided by two different sources. The first and principal source relies on the turnover generated by cultural tourism in the site area (i.e. motivated by cultural heritage). All the tourist activities (hotel, restaurants, professional guides, recreation services as festivals and performing arts) located in the area of a World Heritage site are asked to contribute a given share of the total amount.

The tax base of a given year could stand from the tourist revenues of the year. The tax rate will be decided by the State members of each region according to an agreed amount of conservation investments planned for a given period. In order to make the proposal more suitable to local tax payers, part of the tax revenues collected from each site area will be used locally for valorisation projects, while the other part will feed the regional re-equilibrium fund.

Economic literature analyses earmarked taxes describing their advantages and limits (Buchanan, 1963; Carling, 2007; McCleary, 1991; Wilkinson, 1994). Although this type of taxation is faced with many criticisms, in general we can state that the more specific is the goal and the context for which the tax is applied, the lower is the possibility that tax-related problems, as biased effects, inefficiency and administrative difficulties, occur. In particular, two conditions seem to be necessary for a successful earmarked tax (Carling, 2007). First, the tax revenues must be used exclusively to fund the service identified as the goal, avoiding the over-funding of it (in other words, the tax revenues have not to be greater than the needs). Second, the tax must be paid by those subjects which will benefit from its revenues. In our case, these two conditions are satisfied. The first because, as already noted, the collected funds are used just for the valorisation and conservation activities located into a World Heritage site, in a context in which subjects and goals are clear and well defined. Moreover, the amount of tax revenues should not be greater than the needs because the tax rate is fixed on the basis of the agreed amount of conservation investments planned for a given period.

The second condition relies on the fact that the tax-payers must be the final recipient of the service financed by the tax revenues. As we have already said, the tourism industry and the artisanal production located within the site area are one of the major beneficiaries from the valorisation of the sites; directly, since a part of the tax revenues from this area goes to site preservation activities and, indirectly, since the remaining part feeds the regional re-equilibrium fund which can be used if the site eventually ranks high in the list of needs originated from the Risk Function. The other beneficiaries are the visitors of the site which, as compared to tourism industry and the artisanal production, can benefit from the preservation not only of the UNESCO Heritage site they are visiting, but also of all the other sites in the region. As economic literature noticed (Anderson et al., 2001; Chouinard and Perloff, 2004; Ring, 1999), the earmarked tax can be either paid by the tourism industry (and related activities) or transferred to the visitors, depending on the elasticity of the demand.

In other words, if the demand of tourism and related activities is rigid with respect to the price, it is highly possible that the tax will be paid by visitors; on the contrary, if the elasticity of the demand is so high that an increase in the price (normal price plus tax) can cause a decrease in the number of customers, the cost of the tax will burden the tourism and artisanal industry. Anyway, in both cases who pays the tax is a subject benefiting from the goal for which the tax is introduced.

Given the collected amount of each regional fund, and given the sites ranking originated from the Risk Function, it should be possible to allocate resources to the sites that most need conservation and valorisation support. It is necessary to estimate the cost of preserving and conserving each site (through a good management plan). The resources in the fund will first cover the conservation needs of the first site on the ranking. Should other resources from the regional fund remain, these will be invested in restoration projects for the second site on the ranking, and so on.

The proposal for a World Heritage Tax should be easily agreed and sustained by State members because the bias effect of the tax on tourist behaviour would be almost unnoticeable since the tax rate levied on tourist transaction would be very low. As a result, tourist flows should not be influenced by the World Heritage Tax. On the contrary, they should be improved by the enhanced quality of heritage sites through the tax resources. Moreover, the ethic goal of the World Heritage Tax makes it a sort of international merit good, because of its capacity of preserving cultural diversities all over the world.

With this perspective, the World Heritage Tax shows evident analogies with the so called Tobin Tax on international financial transactions that was proposed both for hindering financial speculations and for collecting funds in aids of countries suffering financial crises.

### **3.4 A practical example**

In order to verify the feasibility of our proposal, it is necessary to estimate how much funds it is possible to raise. To do it, we have taken as an example the South Asia geographical area. We collected the visitors statistics of each World Heritage site of the area by consulting the Periodic Reports that every six years the States Parties of the Convention have to submit to the World Heritage Centre. Since this information is not available for all the sites, we collected statistics on the annual visitor flow for 41 cultural sites in the period 2000-02, representing the 43 % of the 95 cultural sites currently inscribed on the list of the 12 considered countries (Bangladesh, Cambodia, China, India, Indonesia, Iran, Japan, Nepal, Pakistan, Philippines, Sri Lanka, Thailand). On the whole, at the beginning of the millennium, around 82 484 000 persons yearly visited the UNESCO sites located in South Asia; in most cases, this number was constantly increasing over the preceding years. The type of site visited is highly heterogeneous ranging from historic and religious cities like Kyoto, to small heritage sites like shrines and historic monuments. For instance, if the value of the tax revenue is half a dollar per visitor, more than 40 million US dollars per year could be raised from less than half of the sites located in South Asia and the funds would be used both locally and regionally. In comparative terms, the UNESCO World Heritage Fund currently provides at the global level about 4 million USD per year for international assistance to State Parties while, at regional level, the African Heritage Fund (together with the Nordic Heritage Foundation, one of the recently formed UNESCO centres entitled to raise funds) amounts in 2009 to 4.4 million USD. As a result, our proposal may potentially draw a relevant amount of financial resources if compared with the current international assets.

#### 4. Conclusions

In this paper we have suggested a proposal to cope with the disequilibrium affecting World Heritage Sites as to the conditions of their conservation and the resources available for their valorisation.

The proposal is based on a tax mechanism and is divided in three phases. The first step aims at providing an objective approach to measure the needs and diversity of WHS. The second step presents valorisation strategies to generate new economic resources from cultural tourism. The third one illustrates a tax mechanism based on collecting resources through an earmarked tax on tourist activities and redistributing these resources at a regional scale. The overall objective is to reduce the differences among World Heritage Sites in terms of their ability to conserve and valorise the local cultural heritage.

Our proposal is a contribution to the growing literature on Unesco World Heritage sites. In addition, it is worth noticing that our proposal may be useful to ground the decision making of the recently formed Unesco Centres aimed at raising funds for the World Heritage conservation.

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