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James Mak/Tourism and the Economy

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TOURISM AND ECONOMICS

To be able to take this very mysterious world we live in and to illuminate parts of it... through the use of economics is enormously intellectually satisfying and challenging.

GARY S. BECKER¹

TOURISM IS PLEASURE travel. And tourists are people who travel for personal pleasure.

The World Tourism Organization (WTO) uses a broader definition of “tourism.” According to the WTO, tourism comprises “the activities of persons traveling to and staying in places outside their usual environment for not more than one consecutive year for leisure, business, and other purposes.”² Tourism therefore excludes home-to-work commuting trips, but does include travel for pleasure, private and official government business, employment, religious pilgrimage, education, medical treatment, and so on. Leisure and business travel are the main purposes of travel. About 62 percent of international travel is leisure travel, 18 percent business travel, and the remaining 20 percent is for other purposes, including visiting friends and relatives, religious pilgrimage, medical tourism, and so on.³ In 1999, 69 percent of all domestic and foreign U.S. trips were leisure trips.⁴

Good reasons prevail for why we may want to reserve the term “tourism” to describe pleasure travel only. Tourists travel for a different reason than other travelers. They travel for their own personal pleasure, whereas business travelers, by comparison, travel for the benefit of their employers. Tourists pay their own travel expenses; someone else pays the costs of transportation,

lodging, and meals for business travelers. Hence, the factors that influence the travel decisions of pleasure versus business travelers are quite different. The suppliers of tourism services, such as airlines, also regard pleasure and business travel as separate markets and adopt different pricing strategies accordingly. Governments, too, treat pleasure and business travel differently; business travel expenses are “tax deductible,” whereas pleasure travel expenses are usually not deductible. Some nations restrict the ability of their citizens to travel to other countries for holiday, but not for business or official government travel. Thus pleasure travel should be studied separately from other types of travel.

On the other hand, good reasons also exist to adopt an inclusive definition of tourism. First, hotels and other tourism businesses serve pleasure as well as other travelers. Second, some trips are dual or multipurpose trips. For example, a business traveler may mix pleasure and business on a single trip. A wealthy foreign visitor comes to the United States for a medical procedure and then stays on for a vacation. Finally, it is difficult to collect data that separate pleasure travelers from other travelers. In countries that restrict their citizens from taking pleasure trips abroad, travelers often lie about their trip purpose to obtain an exit permit, and the official statistics record far fewer than the actual number of leisure travelers. Many countries do not collect information on the travel purposes of outbound visitors at all.

One way to avoid confusion is to use the term *visitor* to correspond to the more inclusive definition of *tourist* employed by the WTO.⁵ In this book, this distinction allows us to reserve the term *tourist* to describe a person traveling for personal pleasure. Thus, a tourist is also a visitor, but a visitor need not be a tourist. However, it is important to keep in mind that tourism statistics published by the WTO and destination tourism organizations usually conform to the WTO definition of tourism and include pleasure, business, and other travel purposes.

Difference Between Tourism and Recreation

THE MOST important difference between tourism and most forms of recreation is that consumers must travel to consume tourism.⁶ Ian Matley states the distinction between the two as follows:

Recreation does not necessarily imply travel. A game of tennis or a stroll in a neighborhood park constitute recreation, but the distance traveled to the

location where these acts take place may be minimal. Much outdoor recreation, such as sports of various types, or indoor recreation, such as visits to theaters, cinemas, and clubs may be local in nature. The participant does not travel far and does not leave his home for any lengthy period. Tourism . . . implies the removal of a person away from his habitual place of residence and his stay in another location. This stay or removal is temporary and is motivated by a search for personal pleasure in the shape of rest, relaxation, and self improvement.⁷

Tourism and Economics

ECONOMICS IS about how people make choices. Every day each one of us is confronted with many choices. In the morning, we have to decide what we want to eat for breakfast. What should we wear to go to work or school? Should we go to the gym in the afternoon, hang out with friends, or perhaps take a nap or watch television?

Similarly, choices must be made when we decide to go on vacation. How much money should we budget for the trip? How much time do we plan to be away? Where do we want to go? What do we want to do? Do we take a car, or should we fly to our destination? As we make our individual choices, other people are making their choices as well. Airline officials must decide how many flights and seats to allocate between which cities, and what prices they should charge for these seats. Cruise line companies must decide whether to offer more cruises to Alaska and fewer cruises to Europe this summer. Rental car companies must decide where to locate their cars. Souvenir shops must decide how much inventory they want to order from their suppliers. Government tourist bureaus must decide how much money they should spend in what markets to promote travel to their destinations. Choices must be made because available resources don't permit us to satisfy all our wants. All these examples of people making choices represent economics at work in our daily lives; thus, economics studies how rational people make choices among the available alternatives to meet their goals.

Tourism's many decision makers⁸—tourists, suppliers, and governments—don't share the same goal. Consumers, as the popular cliché goes, want to get “the biggest bang for the buck.” Economists use the term *utility* to describe the satisfaction or benefit (“the bang”) that consumers derive from the consumption of a good or service. The goal of the tourist is to derive the most satisfaction from the use of her scarce resources—namely, her time and money. A commercial supplier's goal, by contrast, is to maximize profits.⁹ In

tourism, numerous not-for-profit suppliers also exist, such as the operators of historical attractions, national parks, and museums whose goal may be to maximize the number of tourist visits. Governments have broader objectives: In developing countries, governments may want tourism to generate income and tax revenues, create employment and reduce poverty, and at the same time protect the environment and respect their cultures. In developed countries, an additional goal of tourism development may be to foster better people-to-people understanding and international relations. Tourism may also be exploited to achieve political goals. For example, in the 1970s, the Eastern European countries began to welcome Western tourists on the premise that exposure to communism would convince Westerners of the superiority of their socialist system.¹⁰

In this book, we examine how tourists, suppliers, and governments make their economic choices regarding tourism and the outcomes of those decisions.¹¹

Organization of the Book

THE BOOK is loosely divided into four parts: Part I (Chapters 1–2) explores the attributes of the tourism product; Part II (Chapters 3–6) focuses on the tourists; Part III (Chapters 7–9) focuses on the suppliers of tourism services; and Part IV (Chapters 10–14) focuses on the tourist destinations. Destinations can be local, regional, or global.

Chapter 2 defines and describes the attributes of the “tourism product” and notes that tourists and tourism suppliers have different notions of what this product is. Chapter 3 discusses the most important economic and noneconomic determinants of demand for pleasure travel. Chapter 4 explains why some people prefer to travel on prepaid package tours, and why consumer tastes for package tours are changing. Chapter 5 explains why some people use travel agents to search for travel information and book their travel arrangements. The chapter also examines the impact of the Internet and high-speed computers on consumer demand for travel agent services and on the travel distribution business. Chapter 6 examines the determinants of trip duration and tourist spending at tourist destinations.

Chapter 7 provides a definition of the tourist industries and examines the structure of competition within the U.S. tourist industries. Chapter 8 compares the relative advantages and disadvantages of travel via different transportation modes (such as air versus rail or automobile) and how economic

regulation and deregulation in the airline and cruise industries affect the welfare of consumers. Chapter 9 examines how government tariff and nontariff barriers impede international tourism.

Chapter 10 describes the newly developed tourism satellite account and explains how it is used to measure the economic contribution of travel and tourism to the host community. Chapter 11 examines the benefits and costs of tourism to the host community, emphasizing that the benefits and costs of tourism are not etched in stone and can be changed by public policy. Chapter 12 explains the principles of tourist taxation, why destinations may want to levy taxes that fall largely on tourists, and how imposing higher tax rates on tourist purchases is neither economically inefficient nor unfair. Chapter 13 examines the relationship between tourism and the natural environment and evaluates the alternative policy instruments to deal with the negative environmental spillovers from tourism. Chapter 14 examines sustainable tourism: that is, tourism development that balances the need for economic development and the protection of the natural, social, and cultural environments of the host community. Chapter 15 concludes with an examination of the most important factors that will likely shape the future of travel and tourism.