

# The role of government

*Governments are a fact in tourism and in the modern world. The industry could not survive without them.*

Elliott (1997, p. 2)

## Aims

The aims of this chapter are to enhance understanding of:

- government intervention in tourism
- the key arguments for government funding of destination marketing
- the key reasons why governments might not support tourism development.



### Perspective

In the history of DMO development it is clear that the majority, including those cooperatives established by the private sector, would not have succeeded without the support of government. However, the issue of whether governments should or should not use public funds to support the tourism industry remains contentious. Why should taxpayers subsidise tourism businesses? An important issue in the development and survival of DMOs has been the role played by governments at national, state, and local levels. While entrepreneurs in many areas have been catalysts for stimulating cooperative destination promotions, rarely have they become effective in the long term without government intervention. Increasingly, DMOs are taking the form of public-private partnerships, utilising public funds and private sector expertise. It behoves anyone with an interest in tourism management to be able to articulate the rationale for the existence of DMOs and the key arguments for and against government intervention.

## The case for government intervention in tourism

Case Study 6.1 summarises how the fortunes of one resort destination has risen and fallen and risen in line with government intervention. The case, which I present in more detail in the *Journal of Marketing for Travel & Tourism* (see Pike, 2007), can be used to highlight, on one hand, the difficulty in stimulating an effective cooperative approach to place promotion without government support, and, on the other hand, the damage that can take place when stakeholders become complacent through an over-reliance on a paternalistic government. Rotorua is one of New Zealand's two most popular resort areas, attracting 1.2 million visitors each year. Tourism is a key element of the local economy, employing one in every five workers.

### Case study 6.1 A destination's rise and fall and rise in line with government support

Rotorua was New Zealand's first tourism destination, rising to prominence a hundred years ago on the back of the government of the country's vision for a South Pacific spa to rival those of Europe. In 1902 the government was convinced to invest all available resources in the development of one spa, at Rotorua, rather than spread resources around the nation. To support the spa development, government resources were used to develop and support Rotorua's infrastructure and tourism industry, like no other in the British Commonwealth, for the best part of the 20th century. This included: airports, drainage, water supply, roads, parks and gardens, railways, hotel development, spa facilities, electricity, visitor information, swimming pools, lake launches, deer and possum release, administration of Maori villages, licensing of tourist guides, development of the New Zealand Maori Arts & Crafts Institute, and geothermal tourist attractions. For many decades, Rotorua was New Zealand's premier tourism destination.

Although a town board was formed in 1880, Rotorua was to be managed by the New Zealand Department of Tourist & Health Resorts, the world's first NTO established in 1901. The reliance on government resources was such that Rotorua did not have an independent council, devoid of government representatives, until 1950. The town's visitor information centre was managed by the NTO for 90 years. Rotorua's rise as a tourism destination occurred on the back of New Zealand government intervention during the first half of the 20th century.

Rotorua's decline took place gradually over the next 30 years. The attempt to make it the great spa of the southern hemisphere floundered during the depression years and World War Two, and by the 1950s the government had dispensed with the concept. Rotorua's increasingly forced independence from central government from the 1950s onwards coincided with a steady decline in destination image, due to a lack of infrastructure maintenance and the lack of a DMO. Examples of negative publicity included:

- In 1965 the president of the Travel Agents Association of New Zealand described Rotorua as 'the most squalid place in the country'.
- The local council had developed the town's rubbish tip on the Lake Rotorua foreshore, adjacent to the central business district, and released sewerage into the lake after only partial treatment. An overseas scientist gained national media coverage when he labelled the lake an 'unflushed toilet' in the 1970s.
- In 1978, 200 people attending a tourism conference reached consensus that Rotorua was 'losing its oomph' against other destinations.
- In 1986, a major newspaper and national television network described the situation as 'the death of a tourist town'.

Attempts to develop a private sector destination promotion organisation ultimately failed due to infighting and a lack of funding. A crisis point was reached during the 1980s when entrepreneurs and the local council recognised that the destination was losing ground to unheralded competition. Rotorua had been firmly established on the blue ribbon route of coach tour itineraries, and thus assured of a steady flow of group tourists. However, a 1980s shift away from coach touring towards self-drive holidays opened up more destinations to travellers, and shifted distribution control away from a small group of inbound tour operators, on which Rotorua relied so heavily. There was also a sense of NTO abandonment of Rotorua in overseas promotions, in favour of the South Island's snowy mountain scenes and the emergence of Queenstown as a leading resort destination.

Ultimately, the 1988 crisis would lead to Rotorua's rise again as a destination. Finally acknowledging a tourism crisis, the local council agreed to take responsibility for destination marketing. The council's financial commitment to establishing an RTO, an economic development unit, and a much needed \$30 million infrastructure redevelopment saw Rotorua rekindle the interest of entrepreneurs, hotel developers and intermediaries. Tourism Rotorua, the RTO, undertook local pride campaigns, extensive television advertising in the domestic market, organised coordinated marketing opportunities for local tourism businesses, and established stronger links with the NTO, other RTOs, and key wholesalers in international markets.

By 1996, Tourism Rotorua comprised a marketing office with six staff and an annual budget of \$1 million, a visitor centre with 11 staff and turnover in excess of \$3 million, and the redeveloped Rotorua Convention Centre. That year, Tourism Rotorua released the district's first strategic plan for tourism. In 1997 Tourism Rotorua became the first RTO to achieve a distinction at the New Zealand Tourism Awards for winning the 'Best RTO' award on three

occasions. The district has also been a recipient of New Zealand's 'most beautiful city' award in 1999, 2000, and 2002. The local council's philosophical and financial commitment led to a new spirit of cooperation among the private sector, and between industry and local government. The turnaround in destination image has been such that few visitors to Rotorua today would be aware of the negative publicity of the 1960s, 1970s, and 1980s.

### Discussion questions

1. What key lesson(s) do you draw from this case which could serve as a message to your local DMO?
2. Why might the local government not have taken a proactive approach earlier?
3. What theory or conceptual framework could be applied to this case?

### Further reading

- Ateljevic, I. & Doorne, S. (2000). Local government and tourism development: issues and constraints of public sector entrepreneurship. *New Zealand Geographer*. 56(2), 25–31.
- Pike, S. (2007). A cautionary tale of a resort destination's self-inflicted crisis. *Journal of Travel & Tourism Marketing*. 23(3/4).
- Stafford, D. (1986). *The Founding Years in Rotorua: A History of Events to 1900*. Auckland: Ray Richards.
- Stafford, D. (1988). *The New Century in Rotorua*. Auckland: Ray Richards.

While it has been entrepreneurs such as Thomas Cook who have been responsible for the rapid growth of mass tourism, this would not have been possible without government support in the form of security, stimulation of increased affluence and leisure time, and infrastructure development (Elliott, 1997). Government intervention has been necessary to guide the actions of both the private sector and the public sector. In Canada, over 20 government agencies have an active interest in tourism (Vallee, 2005). Mill and Morrison (1986) noted in the USA during the 1980s that there were over 150 government programmes across 50 departments that directly affected tourism. Similarly, in the UK a 1982 report identified over 70 pieces of legislation that affected tourism (Jeffries, 2002). Such fragmentation clearly requires coordination, which can only occur with government support.

## Why should taxpayers subsidise tourism businesses?

It is not uncommon for those outside the tourism industry to question why taxpayers should subsidise the tourism industry. A diverse range of groups can pose this challenge, from retiree associations that have no vested interest in business to representatives of other industries such as horticultural/agricultural producer boards. This issue has been a major hurdle for tourism interests in the USA, where a lack of Congress support for an NTO had been attributed to strong political views that this would represent corporate welfare (Gatty & Blalock, 1997).

Globalisation of competition has impacted on the ability of democratic governments to provide traditional services, due to a resistance by residents to accept high tax levels (Wanhill, 2000). There have been increasing calls for the public sector to focus on the core tasks required to operate in a market economy. These include the provision of essential services, assurance of macro-environment stability and protection of the environment. Implications of this include a smaller state enterprise sector, the privatisation of infrastructure, and a user-pays approach to the operation of museums and parks. Tourism would rarely be regarded as an essential government service such as health, education, and security.

The case for government intervention in tourism may be made through the following:

- economic development
- market failure
- provision of infrastructure
- fiscal revenue
- border controls
- spatial redistribution
- protection of resources
- regulatory safeguards
- exogenous events
- social benefits.

## Tourism as an enabler of economic development

In the Bahamas, 70% of foreign exchange earnings are generated by tourism (Edgell, 1999). Attracting visitors has long been recognised as a means of stimulating economic growth. For example, the emergence of a bathing season for visitors to Margate during the 1730s is credited with rescuing the English port town from ruin, following tough economic times (Walton, 1983). Opportunities exist for the smallest communities to benefit from tourism as a vehicle for economical development. Ioannides (2003) offered the examples of Pigeon Forge in Tennessee, Branson in Missouri, and Jackson in Wyoming, as places with populations of less than 5,000 that attract over five million tourists each year. Such opportunities have long been the prime motivation for government intervention in tourism. In Australia, the enthusiastic endorsement of tourism in government policy documents has traditionally espoused the benefits of encouraging tourism solely on the grounds of economic benefits (Craik, 1991).

Tourism has generally proved a stable investment vehicle, with overall global growth averaging 6% annually during the 1960s–1990s (Bull, 1995). International tourism receipts grew faster than world trade during the 1980s, and by the 1990s constituted a higher proportion of the value of world exports than all sectors other than petroleum products and motor vehicles (WTO, 1995). Also, for developing nations, tourism is usually free of the artificial constraints of other export industries where import quotas and tariffs can limit trade (Jenkins, 1991).

One of the essential services provided by governments is the stimulation of opportunities for the unemployed, and tourism as a service industry is labour intensive. Long's (1994) survey of over 100 British local authorities, which had an appointed tourist officer, identified increased employment opportunities as the most important benefit of tourism. In the USA, tourism is the first, second or third largest employer in 32 states (Goeldner et al., 2000). Globally, tourism employment has been estimated at one in every 12 jobs, representing around 8% of all jobs (WTTC, 2005). The WTTC estimated that the tourism industry was responsible for 215 million jobs and 10% of global GDP. Table 6.1 highlights the ratio of full-time equivalent jobs for a selection of macro-regions, countries, and communities. In general terms, it is useful to consider tourism as contributing *1 in 10*. For example, approximately 10% of world GDP and approximately 10% of world jobs are generated by tourism.

**Table 6.1** Full-time equivalent tourism jobs

<b>Destination</b>	<b>Ratio of full-time equivalent tourism jobs in the economy</b>	<b>Source</b>
The world	8%	WTTC (2003)
European Union	6%	Akehurst, Bland & Nevin (1993), Jeffries (2001)
Central and Eastern Europe	12%	WTTC/WEFA (1997, in Hall, 2002)
England	7%	Elliott (1997)
Australia	6%	Jenkins (1995)
USA	6%	Goeldner, Ritchie & McIntosh (2000)
Fiji	10%	<a href="http://www.tcsp.com/invest/table_A2.shtml">http://www.tcsp.com/invest/table_A2.shtml</a> , viewed 25/3/04
Cyprus	10%	Ionnides & Apostolopoulos (1999)
Mexico	10%	WTTC (2004, in Berger, 2006)
New Zealand	9%	Tourism Auckland (2002)
Wales	9%	Shipton (1997, in Pritchard & Morgan, 1998)
Scotland	8%	Kerr & Wood (2000)
New Orleans, USA	16%	Dimanche & Lepetic (1999)

**Table 6.1** (Continued)

<b>Destination</b>	<b>Ratio of full-time equivalent tourism jobs in the economy</b>	<b>Source</b>
Isle of Thanet, England	15%	Bishop Associates (1987, in Voase, 2002)
Valencia region, Spain	10%	Bueno (1999)
Cambridge, England	6%	Cambridge City Council (1995, in Davidson & Maitland, 1997)
Amsterdam, The Netherlands	6%	Dahles (1998)
Auckland, New Zealand	5%	Tourism Auckland (2002)

Case Study 6.2 examines how investors are returning to the Blackstone Valley, America's industrial birthplace, on the back of government intervention. Beginning in 1790 with cotton manufacturing, the Valley became the place to achieve the American Dream. However, by the 1940s industry was leaving. The Valley went into an economic free-fall, people moved on, and mill villages decayed. In 1986, the National Park Service, with special legislation, began to tell the story about this special landscape. Resultant initiatives have resulted in the Blackstone River becoming cleaner, historic properties being thoughtfully restored, and visitation growing.

## **Case study 6.2 Federal investments attracting private-sector investments in historic industrial areas**

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The Blackstone River Valley played a 'seminal role in transforming America, from a colonial landscape of farmlands and forests to one of riverside mills and urban factories' (National Tourism Association, 2003). The region is regarded as the 'birthplace of America's industrial revolution' (SMHS, 2002). Situated in New England, 200 miles north of New York City, the Valley rose to prominence in 1790, when English immigrant Samuel Slater built the first successful water-powered cotton-spinning mill in America (Slater Mill Historic Site, 2002).

Slater went on to become known as the father of American manufacturers, establishing several manufactories throughout Southern New England (Rivard, 1974). Hundreds of mills were built throughout the Blackstone Valley after Slater's success, underpinning the United States' progression to world economic leader. Immigrants flocked to the Blackstone's textile industry from all over the world.

After 150 years of growth and prosperity, the textile industry in the Blackstone Valley was hit by hard times. Manufacturers moved south and the mills grew silent. Outdated technology, labour troubles, and the climate were blamed. The region was then plagued with decaying mills, contaminated landscapes, a toxic river, and plunging community morale. This was a place for the economically deprived to live, and a place of disinvestment.

The textile industry that built America eventually killed the Blackstone River, and devastated its environment. With its textile industry decimated, the people of the Valley were faced with increasing high unemployment. The Valley was in an economic free-fall. The social turmoil and restlessness in the United States in the 1960s led to positive action along the Blackstone River. In 1972 change began to emerge. The people of the Valley had enough of their polluted river, and wanted to do something to bring it back to a better day when it ran clear. With leadership from volunteers, Rhode Islanders organised a *ZAP the Blackstone* campaign, and initiated a 10,000-person cleanup project in September of that year.

By 1985, an effort to develop a programme to attract visitors to the Blackstone Valley was launched. Although tourism development was laughable to many in Rhode Island because of the past 200 years of environmental degradation in the Valley, after five years the programmes of the Blackstone Valley Tourism Council began to work, and people started believing in this new industry. The former textile mills were seen as important places of heritage, and key to the future of the Blackstone Valley.

Officials in the State of Rhode Island and the Commonwealth of Massachusetts knew that if the health of the river were to be improved it would have to be accomplished in a different way; it would have to be done across state jurisdictions. In the early 1980s the two states petitioned the National Park Service to review the Blackstone River Valley and all of its historic and cultural resources, to determine any level of national significance. It took several years of work and support by the Rhode Island and Massachusetts US Congressional delegation, and extensive state, local, and organisational support, before President Ronald Reagan signed the Blackstone Valley National Heritage Corridor Act into law in November of 1986. Congress designated the Blackstone Valley a National Heritage Corridor for the purposes of (Public Law 99-647, November 10, 1986):

*... preserving, and interpreting for the educational, and inspirational benefit of present, and future generations the unique and significant contributions to our national heritage of certain historic and cultural lands.*

The Blackstone Valley Tourism Council, in 1989, began to lease small riverboats and eventually raised enough funds to build their own 49-passenger riverboat for the Blackstone River. Their educational staff developed curricula for environmental and historical tours for kindergarten to graduate level education.

Education at all levels of the community has brought about change, both attitudinally and financially. Since the creation of the Blackstone River Valley National Heritage Corridor, approximately \$21 million in federal funds has been invested in the Valley. These funds have assisted 24 communities and hundreds of projects in both states. The National Park Service funding has been key in creating a high-profile context for private investors. This federal investment is beginning to shrink as a percentage of what private investors are investing in the historic resources of the Valley. Over \$73.5 million in private funds have been attracted to the Rhode Island riverfront portions of the National Heritage Corridor; most of these funds have been invested in the last five years.

Blackstone River Valley National Heritage Corridor, National Park Service  
Investments Compared to Private Sector, River-related Heritage Project  
Investments in Rhode Island

Fiscal year	NPS annual	Private sector
1987	50,000	1,200,000
1988	350,000	
1989	325,000	2,000,000
1990	320,600	
1991	696,000	
1992	2,518,000	
1993	1,537,000	
1994	1,047,000	
1995	1,325,000	
1996	860,000	
1997	1,020,000	
1998	1,069,000	
1999	1,330,000	10,000,000
2000	1,727,000	1,300,000
2001	3,391,000	500,000
2002	2,106,000	1,000,000
2003	2,107,000	57,500,000
<b>TOTALS</b>	<b>\$21,778,600</b>	<b>\$73,500,000</b>

*Source:* Blackstone River Valley National Heritage Corridor Commission, City of Pawtucket, City of Central Falls, City of Woonsocket. (March 2003).

The Blackstone Valley has risen to the standard where its plans for preservation are deemed worthy of private investment. Several more buildings, in historic districts, are being sought by preservation-minded private investors. This could mean sustainability of the historic fabric of the region, which is vital to residents, their cultural history, and the visitor industry. The work completed in the Blackstone Valley over the last two decades has created a generation with a new awareness of their natural, cultural, and historical resources. Community revitalisation, based on education, historic preservation, landscape improvements, private and public investments, are causing this new-found awareness to ensure the Blackstone Valley is not just a place to make a living, but a place worth living.

### Discussion question

How can public place-making investments in infrastructure, culture, the environment, and history, help a visitor destination draw private investments?

### Further reading

Boucher, S. M. (1986). *The History of Pawtucket 1635–1986*. West Hanover, MA: The Pawtucket Public Library & The Pawtucket Centennial Committee.

Copping, S. E. (2003). *Report, Leveraging and Resources Information, National Heritage Areas Program*. Washington, DC: National Park Service.  
Blackstone River Valley National Heritage Corridor Commission (1999). The next ten years, an amendment to the cultural heritage and land management plan.  
Woonsocket, RI: JHC Blackstone River Valley National Heritage Corridor Commission.

Recognition that visitor increases lead to new job creation has seen tourism move from the shadows of fiscal policy to a place in centre stage (Hall, 1998). However, some in industry, such as the director of the British Travel Trade Fair, argue the benefits of tourism are not fully recognised by governments (Barnett, 2006, p.1):

*In marketing terms, tourism's return on investment is exceptional, reaping nearly £50 in income for every £1 spent. It's another example of why MPs of all parties need to wake up to the fact tourism needs to be moved right up the government agenda.*

Kubiak (2002), a senior policy advisor to the Southern Governors' Association in the USA, suggested that the potential of tourism as an economic enabler had been underestimated by state governments, and questioned why more had not been done to promote the benefits offered by tourism. Kubiak (p. 19) referred to tourism as the 'red-headed step-child' of state government policymakers.

## Market failure

In New Zealand, Edlin (1999) cited a National Bank report that presented a succinct argument for the government's financial support of the NTO. National Bank economists argued that offshore marketing was required to attract higher-spending tourists, and suggested that an extra \$10 million in offshore marketing spend could generate an extra 31,000 annual visitors spending \$385 million a year. It was argued that without an NTO, market failure would result. In other words, if left to the private sector, the priority for individual businesses would be to do what is best for their own operation rather than the destination.

Competition within a destination is positive when it leads to innovation, quality, and efficiency (Porter, 1991). The one-industry concept recognises that while businesses pursue individual goals, the success of the tourism industry relies on effective interrelationships between stakeholders to produce traveller satisfaction (Collier, 1997). The assumption is that the traveller's perspective of a holiday, while made up of a composite of service encounters, is judged as a total experience (Medlik & Middleton, 1973). At a destination level the implication is that poor service provision by one or more sections of the community, which may or may not be directly involved in the tourism industry, may ultimately impact on the success of other suppliers.

Clearly, developing a cooperative approach towards quality assurance, as well as stimulating a cooperating to compete marketing philosophy/approach requires a champion with a holistic perspective. This is a challenge, since while there may be good vertical integration in tourism, there has been a general lack of horizontal coordination (Lickorish, 1991). Individual businesses tend to first consider the costs, rather than the benefits of collaboration.

Would small tourism businesses survive against unfair competition from larger and better-resourced operators without government intervention? What constitutes membership of the tourism industry? It is extremely difficult for tourism to adopt a cooperative producer board approach, such as is found in the horticulture and agriculture industries, due to the difficulty in delineating those businesses that benefit from tourism spending. Generally, it is for this reason that destination marketers need government support more than other industries. Also, a vast pooling of resources would be required to achieve a reasonable destination marketing budget since the vast majority of tourism businesses are family-owned businesses:

- Around 98% of the one million plus USA travel businesses are classified as small businesses (Edgell, 1999; Jeffries, 2001).
- In the UK, over 75% of tourism businesses are small and medium-sized enterprises (SMEs) with a turnover of less than £250,000 (Frisby, 2002).
- In Europe, about 95% of tourism businesses employ less than 10 staff (Middleton, 1998), and 96% of the 1.3 million hotels and restaurants have less than 9 employees (WTO, 1997, in Jeffries, 2001).
- The mean number of staff in Sweden's 20,000 tourism businesses has been estimated at 10 (Swedish Tourist Board 1990, in Pearce, 1996a).
- An estimated 70% of accommodation houses in England have only 10 or fewer guest rooms (McIntyre 1995, in Davidson & Maitland, 1997).

Torbay, an English seaside destination, is a useful example of the importance of government intervention in tourism. English's (2000) case study presented a snap shot of many of the issues discussed in this chapter. Torbay has been promoted as the English Riviera in reference to its picturesque bay and resort towns. The area suffered a decline in popularity from the 1970s due to the increased affordability and availability of European holiday packages. Tourism has a significant economic impact on the area with an estimated 16,000 people employed in the local tourism industry. English cited a leading local official to highlight the need for government intervention: 'We all know the story of Torbay's decline but its trying to persuade government that we suffer measurable deprivation that's the big challenge' (p. 91). There was a lack of direct involvement by central government, and poor communication between the regional tourism board and local operators. English's synopsis (p. 96) provides sobering reading

for one of Britain's leading resort areas, where tourism is the core industry, where standards are declining, and where strong government leadership is lacking:

*Many tourism providers are trying to be all things to all people, and the result is often a lower standard of experience for the tourist. In Torbay the major problem is a lack of professionalism and the belief that they do not need help. Many come to the industry with no prior background or training and very little knowledge . . . Many providers only think short term, few have business plans or tourism development strategies, and these are major failings that result in a lack of professionalism. Businesses also feel they are only in competition locally . . . and thus do not work together. On the whole, few seem to be investing for long-term benefits and standards vary considerably. This research has shown that many supporting the industry would like to see more government involvement and feel that government has an important leadership and coordination role to play.*

## Provision of infrastructure

Traditionally, governments have been responsible for the development of infrastructure to enable tourism, such as utilities, sewerage, cleaning, health, and fixed communication and transport facilities (Bull, 1995). In recent years India has been investing heavily in infrastructure projects, such as over 18,000 kilometres of highways (D'Sliva & Bharadwaj, 2004). In 2003 the first annual Africa tourism investment summit was announced by the Ugandan Minister of Tourism (TravelMole.com, 23/7/03). One of the principal aims of the forum was to promote infrastructure development, in a continent that was attracting only 2% of global tourism spending.

Hazbun (2000) reported the difficulty faced by Jordan in attracting visitors prior to the 1990s, due to a lack of infrastructure, access, and attractions. Poor-quality infrastructure has also been one of the major challenges to overcome for destinations in Eastern Europe (Davidson, 1992). During 2003 the Albanian government began an ambitious development tourism redevelopment programme in a bid to appeal to international visitors (www.TravelMole.com, 23/6/03). The government organised the demolition of run-down buildings along the best beaches, which would be replaced with 5-star accommodation developments. Albania's Minister of Tourism suggested that only Kosovans were willing to put up with the poor roads and other inconveniences of travelling within Albania. Apparently, hundreds of illegally erected kiosks, shops, and hotels did not have access to water and sewerage facilities (Brown, 2003). A similar problem exists in Kazakhstan today, where significant government investment in infrastructure is required to enable the fledgling tourism industry to develop. Likewise, Papua New Guinea's tourism potential will remain untapped unless there is the political will by government to develop necessary infrastructure (Wright, 2006). Papua New Guinea attracted only 15,000 tourists during 2003.

## Fiscal revenue

A government has no money of its own, and so the more it can collect in taxes from tourism businesses the more it can spend on enhancing a social, environmental, and economic climate where entrepreneurs can flourish (Owen, 1992). The tourism industry can therefore be a source of increased tax revenue to help fund government's essential services. Examples include:

- The April 2003 newsletter of the Colorado Tourism Office reported the results of a study that estimated every advertising dollar spent by the STO generated US\$12.74 in state taxes.
- In the decade 1996–2005, Las Vegas room taxes (9%) generated approximately \$321 million for local schools, \$247 million for local transport services, and \$477 million for local government.
- In Florida, tourism generated US\$51 billion in taxable sales during 2002, with the US\$3.1 billion in tax representing 20% of the government's total sales tax take (Word, 2003). By 2004 visitor spending of \$57 billion generated \$3.4 billion in tax revenues to the state ([www.travelindustryreview.com](http://www.travelindustryreview.com), 1/3/06).
- In 1995, total USA tourism-related taxes at federal, state, and local levels was estimated at US\$64 billion (Brewton & Withiam, 1998).

Most commonly, taxes in tourism take the form of user-pays charges, as discussed in Chapter 5. In some cases the tax is levied across most goods and services, such as the value added tax (VAT) in the UK and Mexico, and the Goods and Services Tax (GST) in Australia and New Zealand. In other cases there may be a special tax levied by federal, state, or local government on specific services such as accommodation. Often this contribution from tourism goes into the government's consolidated fund rather than dedicated to tourism, much to the ire of the tourism industry. For example, the Hawaii state government introduced a 5% room tax in 1986, with all revenue allocated to the state general fund rather than to the HVB (Bonham & Mak, 1996). In other cases a bed tax is used as a dedicated destination marketing fundraiser. For example, the Tokyo metropolitan government collected a bed tax that provides revenue solely for tourism promotion (*The Daily Yomiuri*, viewed online at [www.yomiuri.co.jp](http://www.yomiuri.co.jp), 11/8/03).

Taxes also commonly target international travellers at gateways. These include an airport departure fee, such as in Costa Rica and New Zealand, and an arrival tax, such as in Paraguay and Venezuela. In other cases revenue may be raised through visa application fees. A visa fee levied on entry, as is the case in China for example, might also be considered an arrivals tax. Another tax example is permit fees for admission to national and forest parks and marine reserves. Such tourist taxes to help pay for the use of public amenities (Wanhill, 2000), which would otherwise be funded by local taxpayers.

Some taxes can be divisive. Internet news wire service TravelMole.com (10/6/03) reported news of a controversial eco-tax introduced in May 2003 in Spain's Balearic Islands which was in danger of being scrapped only

one year later. The purpose of the tax was to offset environmental damage caused by tourism. At the same time as the levy was imposed however, visitor numbers declined significantly. The report cited the spokespersons from the Federation of Tour Operators and the *Majorca Daily News* who suggested strongly that the tax had made a significant negative impact on the affordability of the islands. So there is a paradox in the balance between government realisation of tourism's economic development potential versus tourism as an easy target for taxes. While tourists are a valuable part of the tax base, they are not voters (Wanhill, 2000).

In India the government recently abolished the Inland Air Travel Tax and Foreign Travel Tax (D'Sylva & Bharadwaj, 2004). State governments there have also reduced tourism taxes. For example, Goa reduced the luxury hotel tax from 15% to 8% during the peak season and 4% during the low season, which ironically resulted in an increase of 23% in tax revenue. McMahon and Sophister (1998, in Davidson & Rogers, 2006) cited two examples of negative impacts of bed taxes. In New York a 1990 5% tax on rooms over \$100 per night was repealed in 1994 following three years of lobbying by hotels, based on reports that New York lost \$2 in related taxes for every \$1 in tax revenue. In Ireland an estimated 10% of hotels closed following the 1980s value added tax (VAT) on hotel rooms increasing to 23%. Lobbying by hotels resulted in a decrease in 1985 to 12.5%. In 2004, Mexico became the second country, following Chile, to reduce the VAT rate to zero for international conventions (Cerdeña, 2005). The initiative, which was proposed by the tourism industry, covers venue hire, accommodation, transfers, and related services.

## Border controls

Since so much travel crosses national borders, governments have been forced to develop policies for entry and exit by residents and visitors. Often the tourism industry lobbies for the easing of visa restrictions to improve access from emerging markets. At the 2003 IACVB convention chairman Rick Antonson lamented that the USA's new visa programme was putting off travel to that country (Travelwire News, 4/8/03).

In some cases coordination between tourism policy and immigration policy has resulted in visa regulations designed to enhance international visitor arrivals. For example, a relaxed visa policy introduced by Oman in 2003 was promoted by officials as a measure to boost tourism to the Gulf nation (Rahman, 2003). The European Union is a tourism example of a free trade agreement, where the entry/exit process has been hugely simplified for citizens, much to the envy of tourism interests in most other parts of the world.

## Spatial redistribution

The imbalance of the London-centric nature of British inbound tourism has long been controversial in Britain (Jeffries, 1989). Around two-thirds of all holiday visitors to Britain arrive in London (Bowes, 1990). Using redistribution policies involving a combination of taxation and spending, it is possible for governments to spread economic benefits throughout the economy

(Bull, 1995). For example, the government in Egypt introduced a 10-year tax holiday for developments in remote areas (Wahab, 1995, in Gartner, 1996). Malaysia, Italy, Thailand, and the UK have used regionally-variable taxation and development grants as incentives for development in outlying areas.

Tourism can be an effective way of redistributing wealth from prosperous cities to rural and industrial areas that have a narrow economic base. Through increased diversification into tourism, these regions can counter the risk of decline in traditional industries. The resultant employment opportunities also help to reduce the impact of urban drift among younger members of the population. A proactive approach developed in the USA is Civic Tourism (see [www.civictourism.org](http://www.civictourism.org)), which aims 'to provide a forum for communities to decide if and how the individual ingredients of place (cultural, built, and natural) can be integrated to create an appealing, dynamic, and distinctive community identity'. The initiative emerged from those concerned about the urban drift from the old mining towns in the country's south west. Rural America has long been in economic decline, and Edgell (1999) cited a number of reports initiated by Congress that promote tourism as a major opportunity for revival. Edgell asserted that most of rural America, which contains 25% of the USA's population and 90% of the natural resources, is conducive to tourism. Other notable examples of spatial redistribution policies to improve regional economic opportunities by government include the Languedoc Roussillon development in France (see de Haan et al., 1990; Jeffries, 2001), Cancun in Mexico (Jeffries, 2001), and Korea's Cheju Island (Jeffries, 2001).

## Protection of resources

A completely free market philosophy might not be congruent with a community's wider interests such as the protection of the environment and public goods (Jeffries, 2001). Would an unfettered tourism industry ensure all members of the host and visiting community retained access to natural features such as beaches and rivers? Would unrestricted access to such assets by private sector developers place an undue strain on public sector infrastructure responsibilities? Could we rely on all entrepreneurs to adopt sustainable resource practices without government intervention? While tourism can be used as an economic incentive for protecting native wildlife from poaching (Ritchie & Crouch, 2003), in general there is increasing conflict between the tourism industry and the conservation movement (Carroll, 1991). This conflict has played a role in stimulating government policies relating to the protection of natural resources for sustainable use. These issues are discussed further in Chapter 7.

## Regulatory safeguards

Key motives for government policies relating to regulatory safeguards are concerned with economic controls, consumer protection, and orderly markets (Bull, 1995). Economic controls impact on international travel where a generating country might impose restrictions on the export of

the local currency or regulations concerning tax deductibility for business travel. Consumer protection areas include the licensing and bonding of goods and services providers, accommodation classification systems, and the fulfilment of contracts. As temporary residents of a community, travellers also have a right to expect protection from unfair practices and to safe passage. For example, ensuring the safety and security of travellers is a major obstacle to Papua New Guinea's tourism growth. Clearly, regulatory safeguards need to avoid unnecessary bureaucracy. In this regard, Bermuda has been labelled 'red-tape island' by the government opposition due to the problems being encountered by hotel developers there ([www.travelindustryreview.com](http://www.travelindustryreview.com), 9/3/06).

## Exogenous events

An emerging area of interest in the tourism literature is the impact of disasters on the tourism industry, both at global and local levels. Quick decisions are required in times of crisis. Such decision-making and resultant responses should also be of a cooperative nature and therefore coordinated. Individual businesses are at the mercy of exogenous events, but few have the resources individually to engage in strategic planning for crises, particularly at a destination level. The government therefore has a vested interest in ensuring adequate leadership. The topic of tourism disaster management is discussed in Chapter 18.

## Social benefits

A key factor in the rise of tourism during the 1950s and 1960s was the introduction of the social policy of leave with pay from work (WTO, 1983b, p. 3). Jeffries (2001) referred to research by Cadieu (1999), who recorded French government initiatives in the 1930s to promote social tourism through publicly subsidised holidays for low-income earners as part of a welfare programme. Cooper et al. (1993) reported plans in Wales to develop tourism in ways that would optimise the social and economic benefits. Long's (1994) survey of British local authorities found that, after increased employment opportunities, the social benefits of an increase in the range and quality of facilities, services, and events designed for the visitor industry was the next most-cited benefit of tourism development in their community. Bramwell and Rawding (1994, p. 430) cited the head of the Manchester City Council tourism section:

*Tourism can make the city a better place to live, visit, work and invest in and so the standard of living goes up, and the quality of life improves, and the profile of the city is raised, and (this process) goes round in a circle.*

The WTO (1983b) analysed the social effects of domestic tourism, on the basis that 80% of the world's tourism movements were domestic at that time. The study broke new ground in terms of addressing the social costs and benefits of tourism at national and local levels. These are summarised in Table 6.2.

**Table 6.2** Social cultural benefits of tourism

National benefits	Local benefits
Contact among people from different regions stimulates socio-cultural integration at a national level	Rural areas develop urban infrastructure facilities, medical care, and education
Socio-cultural integration fosters national identity and pride	Tourism income leads to the development of a middle class
Stimulation of educational diversification, in terms of learning national values	Family relations change as a result of increased employment opportunities and therefore economic independence for the younger generation
Travel stimulates progress and modernity	Local cultural values, customs, arts, and monuments can be revitalised
Increased travel opportunities lead to quality of life enhancement	Increased contact with visitors broadens the mind of locals

## The case against government funding of tourism

With so many policy areas impacting on tourism it would seem to be very much in a government's interests to support a coordinating body, such as a DMO. However, just as lobbying for government support is undertaken by the tourism industry leaders, other stakeholders can be just as passionate in arguing that government has no place supporting tourism marketing.

Government recognition of the economic value of tourism to communities, as well as subsequent social benefits, has to a large extent been responsible for the proliferation of DMOs worldwide. The focus of DMO operations has generally been selling a place, with the desired end results being increases in visitor arrivals, length of stay, and spending. However, as will be discussed in Chapter 19, one of the problems with destination marketing is that it has been difficult to actually quantify the contribution of DMO efforts to the overall success of the destination.

The lack of performance metrics rightly leaves the industry open to attack from politicians and other industries seeking justification for public funding of place promotion, high costs of infrastructure (sewerage and water) and superstructure (tax breaks for developers), and the impact of export leakage (foreign owned hotels). For example, in the late 1980s, a British government review of the BTA examined the extent to which the private sector should be responsible for overseas marketing. Jeffries (1989, p. 75) cited the then minister responsible as stating the government's wish was 'to see such activities carried out in the private sector wherever possible'. The British government continues to be accused of apathy towards tourism by major tourism industry players such as the CEO of VisitBritain

([www.travelindustryreview.com](http://www.travelindustryreview.com), 9/3/06) and the director of the British Travel Trade Fair who offered this criticism (Barnett, 2006):

*VisitBritain does an excellent job in marketing the UK around the world and yet 'tourism' is buried within the Department of Culture, Media and Sport and largely ignored by all but a few parliamentarians.*

The USA federal government has traditionally adopted a non-interventionist approach to tourism destination marketing at a national level. However, it has been suggested that any criticism of the devolvement of NTO activities to the states should first consider the significant federal resources committed to the protection of recreation resources such as the National Park Service, the Fish and Wildlife Service, the Forest Service, and the Bureau of Land Management (Jeffries, 2001). In a few cases, state governments have adopted a similar stance to the federal government, such as in Colorado, California, and Maine. In 1976, California and Maine closed their tourism marketing offices, although California reinstated the office in 1978, albeit with almost the lowest budget in the USA (Doering, 1979, p. 312). California, the world's fifth largest economy and home to such globally recognised tourism icons as Disneyland and Hollywood, is not clear of the problem. In 2003 the then governor of California proposed that the state tourism office be closed as a cost-saving measure. The STO had a \$7.5 million budget and at the time California faced a \$35 billion shortfall (*Inbound*, 13 January 2003, p. 1).

There are essentially two key arguments against public funding involvement in the support of commercial tourism development (Bull, 1995). Firstly, such investments may distort markets. This may occur when a project would not ordinarily succeed in a free market, and the net welfare benefits such as employment creation are used to support commercial inefficiencies. Also, larger entities may receive a larger share of resources. Stimulated by the decline in oil prices in the 1980s and a peace accord with Israel in the early 1990s, tourism was promoted in Jordan as the panacea to that country's economic woes (Hazbun, 2000). Tourism would be the oil of the Jordanian economy. However, Hazbun warned of the danger of false expectations created by unrealistic or overly optimistic projections by the Jordanian state. Jordan, which relied on Arab aid and remittances from expatriates abroad, announced ambitious plans to encourage private sector tourism developments. The strategy was to stimulate a rush of investment in mega projects, such as 30,000 new hotel beds in the Dead Sea area by 2010, to overcome the 'low equilibrium trap' of low visitors arrivals generating little revenue for future tourism development. One of the results of this was a 68% increase in hotel beds during the period 1993–1996. However, by 1997 hotel occupancy rates had decreased to only 38%. Khouri (1998, in Hazbun, 2000, p. 195) cited a Jordanian economist:

*Hotels, tourist buses and travel agencies are real and sad examples of how parts of the economy went on an investment binge in 1995, only to come down to earth with a thud a year later and then start to wallow in a depression which continues.*

One of the problems with Jordan's 'big push' in stimulating new tourism developments and infrastructure, was a failure to balance this with adequate initiatives to stimulate increased demand for the new products (Hazbun, 2000). Part of the problem was a lack of public or private promotional organisations, resulting in a lack of information flow and cooperation between individual tourism businesses.

Bull's (1995) second argument against funding tourism is that subsidies may ultimately benefit visitors rather than suppliers through lower tariffs. This might not be an issue for domestic tourism, but in such cases governments may in effect unintentionally subsidise international visitors. Unfortunately it is the term *subsidise* that is often used by some to describe government funding of destination marketing.

Even though few countries are self-sufficient and therefore require foreign exchange earnings to purchase necessary imports, not all have embraced the idea of an international tourism trade. Historically, authoritarian regimes have either banned tourism or tightly controlled it (Gartner, 1996). In this regard, readers are referred to Roper (2001) for a comprehensive discussion on the perceived problems with tourism. Roper summarised these points of view as primarily falling into six categories, which are shown in Table 6.3.

While a full discussion on the negative impacts of tourism is beyond the scope of the text, it is important to acknowledge there are often strong arguments by sections of society against tourism. Some of the claims are fair . . . some are not. Students of destination marketing should be aware of the nature of these points of view in order to develop a balanced perspective.

**Table 6.3** Perceived problems with tourism

**A dislike of strangers and xenophobia**

While such views are probably in the minority, there are many closed societies where outsiders are not welcome. The Hawaiian island of Ni'ihau is an example of a place virtually off limits to tourists. Other examples include towns and rural communities that are the base for religious sects such as the Jews of Mea Sharim in Israel and the Amish of Ohio.

**Changes to the character of the destination**

The character of a destination and its people can be negatively affected by the very people who come to experience it. The number, characteristics, morality and behaviour of visitors can spoil the very nature of what attracted interest in the first place.

**Negative social and cultural impacts**

New visitors not only bring money into a destination, but they can also bring crime, ideas that create disharmony and envy among the host community. To cater to the entertainment tastes of mass tourists, traditional cultures have been replaced with ersatz rituals.

(Continued)

**Table 6.3** (Continued)**Economic damage**

Critics of tourism argue that the majority of jobs are low paid and servile in nature, and that most of the profits flow out of the community to outside investors.

**Negative environmental impacts**

Tourism developments have been the cause of damage to the environment. Also, ironically, increasing numbers of eco-tourists are spoiling the very serenity of the nature they seek to enjoy.

**Colonialism or external control**

It has been argued that tourism is the new form of colonialism, and is even more powerful than any imperial power.

**Key points****1. Government intervention in tourism**

Governments generally interact with tourism in the following ways: stimulating economic growth, provision of infrastructure, fiscal revenue, border controls, spatial redistribution, protection of resources, regulatory safeguards, managing of exogenous events, stimulating social benefits, and minimising market failure.

**2. The key arguments for government funding of destination marketing**

Coordination is required within and between government departments, within industry, and between government and industry. Only governments can provide such coordination through their access to taxation revenue and ability to legislate. Many DMOs, at national, state, and local levels, would simply not be able to function in their current form without the resources of government.

**3. The key reasons why governments might not support tourism development**

Anyone with an interest in tourism management should be able to debate the argument for and against government support of DMOs. Critics argue that this is a form of subsidy. Some stakeholders from other industries see this as unfair, while others in the community suggest tourism benefits a select few.

**Review questions**

- Why should a government subsidise the tourism industry?
- Apart from finance, what other forms of government support are provided to the tourism industry at your destination?