TOURISM POLICIES AND FASHION, ART AND FOOD INDUSTRIES

DCE guidelines and topics recall

Lecture 17

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Tourism policy: a definition

Tourism policy can be defined as:

a set of regulations, rules, guidelines, directives, and development/promotion objectives and strategies that provide a framework within which the collective and individual decisions directly affecting tourism development and the daily activities within a destination are taken.

Stakeholder theory in Tourism

- Sustainable tourism development cannot be achieved without regarding the stakeholders' interests
- A stakeholder is identified as any group or individual who can affect or is affected by tourism development in an area (Freeman, 1984).
- Stakeholder theory is all about the way in which stakeholders should be taken into account when making business decision (stakeholder analysis).

Example of Stakeholders in Tourism

Policy Instruments

	Public governance	Interactive governance
Legal instruments	- Technical requirements - Performance standards	- Negotiated agreements (or Covenants)
Economic instruments	- Taxes - Subsidies (or Tax exemptions)	- Smart subsidies - Procurement auctions
Communicative instruments	- Public information campaigns	

The process of Tourism Policy: Strategy formulation and Implementation

Definitional Phase	Analytical Phase
Definition of tourism destination system Explication of a tourism philosophy Crafting of a destination vision Objectives and constraints	Internal Analysis □ Review of existing policies and programs □ Resource audit □ Strategic impact analysis External Analysis □ Macrolevel analysis of current and future demand □ Microlevel analysis of current and future demand and behaviors □ Review of competitive and supportive tourism development and promotion policies

The process of Tourism Policy: Strategy formulation and Implementation

Operational Phase	Implementation Phase
Identification of strategic conclusions	Implementation of strategy for destination of development, promotion, and stewardship
Implications of conclusions for supply and demand development	Allocation of responsibilities for recommendation implementation
Policy/program recommendations	Identification of sources of funding to support competitive initiatives and stewardship programs
	Specification of timing for recommendation implementation
	Monitoring and evaluation of the results

Fundamental theorems of Welfare Economics

- The branch of economics called **welfare economics** is the economic theory of measuring and promoting social welfare.
- **First fundamental theorem of welfare economics**: any competitive equilibrium leads to a **Pareto efficient allocation** of resources.
- **Second fundamental theorem of welfare economics**: any efficient allocation can be attained by a competitive equilibrium, given the market mechanisms leading to redistribution.

Market failures

A **market failure** is a situation where free markets fail to allocate resources efficiently.

Economists identify the following cases of market failure:

•An **externality** refers to a cost or benefit resulting from a transaction that affects a third party that did not decide to be associated with the benefit or cost.

•**Public goods** are goods that are consumed by a large number of the population, and their cost does not increase with the increase in the number of consumers.

•**Market power** occurs when either the buyer or the seller possesses the power to determine the price of goods or services in a market.

•Market failure may also result from the **lack of appropriate information** among the buyers or sellers.

Externalities

Figure 1: An external cost, and the effects of a tax to correct it.

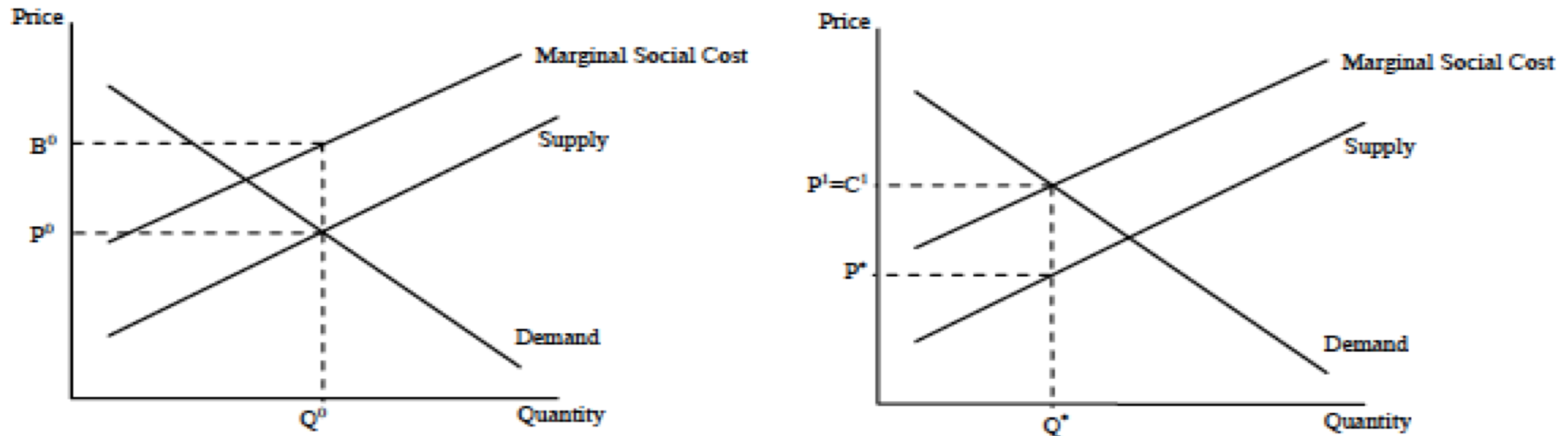
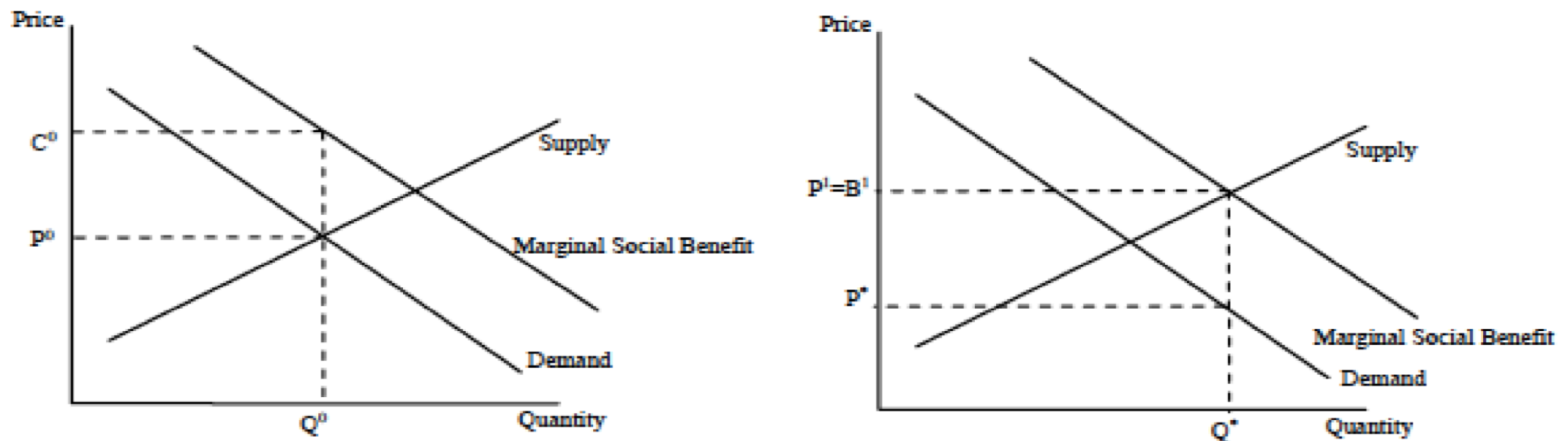


Figure 2: An external benefit, and the effects of a subsidy to correct it.



Externalities: Economic and Environmental impacts

Literature demonstrates that tourism expenditures not only have direct economic impacts on the firms from which tourists purchase products, but also a range of indirect impacts on firms in their supply chains.

A positive external effect of a firm considering promotional activities producing benefits to agents outside the decision-making firm is a **positive externality**.

If the impact of a tourism activity on the environment is detrimental, a **negative externality** arises.

The economic prescription would be to measure the effects of this externality and impose a tax to compensate for it.

Dealing with externalities reduction: How to internalize social costs

Negative externalities should be internalized by governments by introducing specific taxation.

Taxes can be imposed both on tourism enterprises and on tourism consumers. The most common method is to use a **Pigouvian tax** (a tax whose value is equal to the one of the external cost).

As the UNWTO noted: "*Not only are tourists easy to collect taxes from, but it is often the case that the tourist will not be a voter in the country or region where the tax is levied*".

Public Goods

A public good refers to a commodity or service that is made available to all members of a society.

All public goods exhibit two important characteristics:

- **non-rivalry**. The consumption of the product by one person does not affect the ability of others to consume it.
- **non-excludability**. It is not possible to provide the product to one person without the benefits of the product being available to others

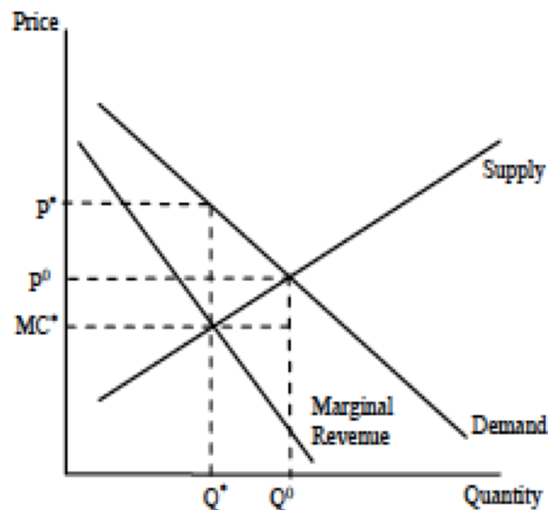
- Public goods should be provided collectively in some form (e.g. Destination and National Promotion, Infrastructures, Coordination and Planning).

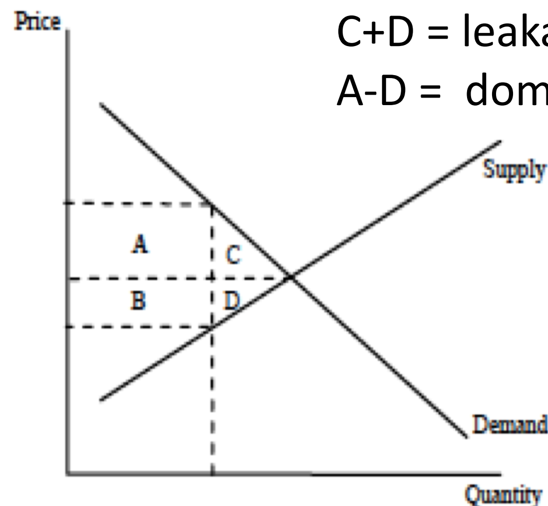
Market Power

Market power is the ability of a firm to profitably raise the market price of a good or service over marginal cost.

Figure 3: The Effects of an Export Tax

A+B = tax revenue
B+D = loss in producer surplus
C+D = leakage
A-D = domestic economy gain





Contacts and office hours

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