ON THE ECONOMIC VALUE OF TOURISM:
A PRAGMATIC REFLECTION

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Abstract: This article addresses the economic value of tourism, namely as a tradable good primarily produced with the intent of export.

Before revealing the numbers to examine the increasing impacts of the tourism economy in today’s world, a brief insight is provided on the first steps of this recent industry, which flourishes at times of long standing peace and disruptive technological change on the transport and telecommunications sector.

Although the benefits of tourism tend to largely surpass any negative side effects, the role of authorities in avoiding and addressing any mounting negative externalities is explored, as timely and promptly public action is often required to protect the tourism assets.

Finally, the social role of tourism is also addressed as an anchor and a complement to its undisputable economic relevance.

Keywords: Tourism, Theory of value, History, Transports, Tradable goods, Growth, Exports, Externalities, Wealth.
Introduction.

The fast growing pace of tourism demand over the last few decades around the world makes this economic activity to be often regarded as promising and therefore deserving some kind of policy priority from local and central governments and policy makers in general. This article aims therefore at shedding light on the nature of the tourism product itself by revisiting its historical origins and analyzing its current trends and structural changes into the future.

The first section looks into the theory of value to search for a better understanding of the intrinsic and subjective value of tourism goods. Section two reflects upon the emergence of the tourism phenomenon with a view to a better perspective and current knowledge of today’s reality in this field. On section three the persistent numbers of tourism growth are exposed as signs of economic and social change in the 21st century. Section four deals with tourism externalities and the ways to address them for the benefit of society as a whole, while the fifth and last section addresses the importance of tourism as a tradable good of crucial importance in many countries to balance the balance of payments.

1. On the theory of value.

The value of goods and services is one of the most ancient discussions in economic science. Economists tend to agree that the theories of value can be divided into two main categories – the intrinsic theory of value and the subjective theory of value. The first addresses value as an endogenous characteristic of the product, which has an objective value stemmed from is production process (namely the cost of incorporated labour and other production factors), while the latter recognizes economic value in a product only upon its ability to satisfy human needs both in individual and collective terms. The marginalist theory of value developed during the 19th century is based on this principles and its two main mentors – Jeremy Bentham (1748-1832) and John Stuart Mill (1806-1873) – are still very influential on the economic thinking of the 21st century.

The discussion on the intrinsic value of a good is, nevertheless, believed to date back to Aristotle’s era, in spite of a more systematic approach being usually
attributed to St. Thomas Aquinas\(^1\), which disserted on the “just value” of goods as something that needs to be traded on the principle of mutual advantage between both parts (agents). The classical ricardian theory of comparative advantage added up some centuries later on the intrinsic value of incorporated labour, which was in turn later refined and modified by Karl Marx. According to this labour theory of value, the value of a good depends on the amount of labour required to produce it, regardless of its social utility. This latter observation was exactly what the utilitarianists challenged with their subjective theory of value later on the 19th century, thereby complementing the classical approach to the economic value of goods.

Generally speaking, however, everything that satisfies a human need has economic value and can therefore be exchanged for a price. Human needs have, however, evolved for the better through times and nowadays most people have achieved levels of comfort in their daily living that allow us to take for granted our basic needs, making therefore the search for ultimate quality levels of satisfaction as a new main goal for individuals at large. The need for travel and tourism is a major one arising from the many economic activities deriving from the possible uses of increasing volumes of leisure time pilling up in our societies as technological, social and demographic changes gain ground and settle in.

2. On the emergence of the tourism phenomenon.

Tourism is indeed one of the most famous industries these days. It has become a global, social and economic phenomenon that needs to be well understood from its origins. As with other human and social phenomenon, it is from a comprehensive and rightful understanding of its past that we can better predict its future.

Tourism is today travelling with a purpose, but it also means the generalization of a certain way of using leisure time. A tourist is therefore a special traveller – one that choses travelling as opposed to other consumer alternatives for his or her leisure time. Generally speaking, the amount of leisure time available has continually increased from the mid-19th century onward and was basically absent for the masses before the industrial revolution (Poser 2011: 1). Travelling, however, has always been present in human life – whatever the reason – since the beginning of time.

Humanity has travelling in its genes, even mythology reflects this fact. In ancient history, the Argonauts symbolized humanity’s unrestricted desire to seek for something unique, under difficult and unknown circumstances. The Argonauts sailed in their ship, the Argo, through the Bosporus to the Black Sea. On board

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\(^1\) Summa Theologica, written between 1266 and 1274.
were many well-known Greek heroes, among others, Heracles, Nestor, Orpheus and Theseus, while the captain in charge was Jason. Their discovery tour led to spectacular adventures, but at the end they managed to bring back the Golden Fleece, despite its being guarded by a sleepless dragon. This episode of Greek mythology took place several years before the Trojan War, but clearly illustrates the drive of humanity to explore the unknown. In modern times, we have our own kind of Argonauts; they are now better known as tourists, although they now travel in different ships and with different motivations. Their desire to visit unknown places, or at the very least to enjoy unexpected experiences, is well known. The main difference from the earlier Argonauts is that tourism has become an emancipated activity related to leisure, hence almost anyone can be a tourist today in one way or another. This emancipation of tourism was part of a maturing process made possible as a major result of economic progress and the combined rise of the welfare-leisure society. Of course, the process was facilitated through the rise of efficient transport technologies and the consequent declining transport costs, as well as the latest globalization trends towards a world without borders and the emergence and development of ICT systems (Matias et al. 2011: 1).

Over time, the tourism sector has become one of the most rapidly growing economic sectors, and many countries and regions regard tourism today as a strategic vehicle for gaining prosperity. Today’s unprecedented growth in tourism activities often creates a virtuous circle which brings increasing numbers of producers to a voracious worldwide market where demand never ceases to increase. But this was not always the case. When Robert Smart first announced himself in the late 19th century as the first steamship agent – he began booking passengers on steamers to various Bristol Channel ports and to Dublin, Ireland – only a very few people believed that someone could make a living out of any tourism business by itself. Among those few, however, was Thomas Cook who shortly after began running a special excursion train from Leicester to Loughborough (in England), a trip of around 19 km. In fact, on 5 July 1841, Cook’s Midland Counties Railway train carried 570 passengers at a specially reduced round-trip price of 1 shilling per passenger in what is believed to be the first publicly advertised train excursion (Leuterio 2007: 28). Cook’s company prospered so much in the following years that his pioneering efforts as a travel agent were eventually copied widely in all parts of the world. Besides his pioneering, Cook was also a prolific innovator as he became aware of the practical difficulties of travelling abroad at his time – in particular, he developed two important travel systems: one was the hotel coupon, launched in 1868, which his customers could use to pay for hotel accommodation and meals instead of using money; the other was his circular note, first issued in 1874 and a forerunner of the – later widely used – traveller’s cheque, which enabled tourists to obtain local currency in exchange for a paper note issued by his company and countersigned.
on site by the traveller. Indeed, unlike Smart’s endeavour – which did not outlive its time – Thomas Cook’s brand prospered throughout the years and arrived in the 21st century as a major player in today’s travel and tourism business, which accounts for over USD 1.5 trillion in export earnings worldwide (UNWTO 2018a).

In fact, the first travel agents took advantage of a newly emerging demand that arose from a combination of factors in the social economic development of the late 19th century, namely increasing income, leisure time and technological change. The crucial reason behind these events was indeed a single major innovation in transport technology – the train – whose impact on human mobility in the 19th century is only comparable to the advent of the aeroplane in the second half of the 20th century (cars were likewise relevant in the first half but on a lesser scale).

At the time, the transport revolution, together with the strong economic growth and increased social wellbeing that followed the end of the Second World War, created the necessary conditions for the tourism boom of the late 20th century. This boom is still a major trend as the third decade of the 21st century approaches.

3. On tourism growth.

As the technological, economic, social and institutional transformations of the last two centuries gain traction and become structural, the tourism industry is
consolidating today and becoming an important source of wealth and economic development in an increasing number of countries around the world.

As the World Tourism Organization rightly points out (UNWTO 2018b), over the past six decades, tourism has indeed experienced continued expansion and extensive diversification to become one of the fastest growing economic sectors in the world. Many new destinations have emerged in addition to the traditional favourites of Europe and North America. Tourism has boasted virtually uninterrupted growth over time, despite occasional shocks, demonstrating the sector’s strength and resilience. International tourist arrivals have increased from 25 million globally in 1950 to 278 million in 1980, 674 million in 2000, and 1,235 million in 2016. In relation to market share, France, the United States, Spain and China are the main tourism destinations while, in terms of outbound tourism, China, the United States and Germany lead the demand trends around the world. Actually, China is a newcomer in this regard – according to the WTO, in 2016 Chinese tourists spent over USD 260 billion, more than double the amount forked out by Americans abroad and about one-fifth of all global spending by international tourists – it may be recalled that only a decade earlier Chinese tourist spending accounted for a mere 3% of the world’s total. Yet, this is just the beginning, as less than 10% of the Chinese population currently hold passports, compared with more than 40% of Americans in 2017. By the end of this decade the number of passport-holders in China is expected to double to 240 million (The Economist 2018).
Tourism has also grown faster than world trade in the current decade. At this point in time, tourism exports account for around 7% of the world’s exports in goods and services and 30% of the world’s services exports – furthermore, it is also worth noting that in many developing countries tourism is the top export category. Henceforth, provided that peace and stability in international relations continue to be the norm, international tourist arrivals worldwide are expected to increase by 3.3% a year between 2010 and 2030 (UNWTO 2018c).

It is worth observing that the economic impact of the tourism phenomenon is intensified by the transversal nature of the product, which covers several sectors and activities throughout the production process. This factor is of crucial importance for policy making purposes, since self-reinforcing and multiplier effects within and across sectors significantly boost the return on tourism investment. In fact, modern tourism is closely linked to development across sectors and encompasses a growing number of new destinations within a variety of segments – traditional vacation-related triple-S products (sun, sea and sand) are increasingly being complemented by urban, rural, cultural, religious and health tourism, just to give a few examples of a trend that has been contributing a lot to decrease seasonality (an intrinsic problem originally affecting tourism revenues and therefore the quality of the employment generated). These dynamics have turned tourism into a key driver of socio-economic progress in many countries, as the business volume of tourism equals or even surpasses that of oil exports, food products or automobiles. As mentioned before, tourism exports are presently a significant share of international trade and also represent one of the main income sources for many developing countries. Additionally, whilst this trend consolidates – stability, security and peace are a necessary precondition – it also goes hand in hand with increasing diversification and competition among destinations, which ultimately favours the final quality of the product, even if at times massification becomes as issue. Developed countries are also largely benefiting from this global spread of tourism as it generates economic and employment growth in many related sectors – from construction to agriculture, telecommunications and financial services.
4. On tourism externalities.

Notwithstanding all these facts about the benefits of travel and tourism, there has been a certain degree of controversy on the possible negative externalities of tourism activities. These seemingly adverse effects associated with tourism activities are due to several factors, in particular massification and diversification. While the former is related to the pressure of excessive demand on some destinations (with the corresponding complaints from locals regarding, for example, noise, litter, property destruction and congestion in general), the latter relates to the displacement from traditional triple-S products to other products, for instance urban short-term stays. In fact, as tourist crowds affect densely populated areas some initial discomfort from locals is to be expected, as they compete for the same vital space, services and amenities provided by the urban environment. While the same may happen in less densely populated territories, here the effect is mitigated as space is less scarce and the benefits of tourism spending in local businesses is more visible in the short run.

But in fact tourism can lead to a degradation of nature and local assets in general, which in turn lowers the quality of life both for residents and tourists. Thus, tourism and nature (the environment) can be in conflict, in coexistence or in symbiosis (Budowski 1976), depending on a variety of factors. In these circumstances, as market forces alone do not always produce the desired
outcome, some adequate and properly tailored policy action is required in order to avoid this latent conflict between tourism and nature. This also means promoting sustainable tourism.

The problem with externalities – either positive or negative – is, however, that it is often difficult to assess and handle the numerous side-effects associated with tourism, particularly the non-economic ones, as no markets for them exist. They constitute externalities, as they are costs or benefits that tourists or firms confer on others without receiving direct compensation. Because of these side-effects that markets do not take into account, externalities can lead to individual decisions that are not optimal for a society as a whole (Schubert 2009: 3). Hence, to improve the welfare of residents, it is important to implement appropriate policies to deal with negative externalities.

One of the main roles of tourism authorities and policy makers alike is precisely to avoid or offset the effects of negative externalities – which can be done through regulation, licensing or taxing policies. Economic theory suggests, nonetheless, that apart from this kind of coercive solution (which implies high administrative costs), if certain conditions are met a (cheaper) cooperative solution might emerge among the private agents in the market (the case of the Coase theorem). This outcome, however, can only be achieved with the right motivation, namely if property rights are well defined and transactions costs are negligible, which is hardly the case in tourism markets (various public goods and services are often part of the tourism consumption process). For this reason national and regional authorities have a strong incentive to intervene in order to prevent or offset the adverse effects of tourism activities, in particular when carrying capacity is at stake. Examples include Venice reducing its cruises, Barcelona tightening the control of renting, and Dubrovnik imposing quotas on its visitors due to overcrowding.

Taxing tourists is also a commonly used approach to finance the public investments necessary either to counteract negative externalities from tourism or to respond to increased pressure not only on tourism and supporting infrastructures, but also on the national and regional budgets with responsibility for: i) marketing and promotion; ii) providing the necessary services and facilities to cater for tourists; iii) ensuring visitor safety and security; and iv) maintaining the natural environments that attract visitors. Despite many levies being long-standing in nature, there has been a general increase in the number and scope of tourism-related taxes, fees and charges of various kinds over the last 10 to 15 years (OECD 2014: 72-73). Sometimes the tax policy instrument is overused by governments simply because taxing non-residents is rather appealing politically as it expands general tax revenue without overburdening national citizens with additional taxes.

As a matter a fact, the history of taxation tells us that kings and local and national authorities have taxed their citizens since the earliest days. In spite of
certain periods when coercive means of confiscation were used (e.g. feudalism), people tend to accept a certain level of taxation as far as it is perceived to be for the benefit of the community, in particular if the provision of important public goods is at stake, such as security or property rights. In fact, property rights are classic public goods in the sense that the protection of people’s liberties with regard to both their persons and property is the most effective way of promoting the general welfare in the long run. For this reason, short-term policies that restrict these liberties inevitably reduce welfare in both the short and long run (North and Thomas, 1973). This is of particular importance in tourism, namely at times when excessive tourism pressure in certain areas pushes governments to limit local rentals to tourists – a business that is presently on the rise in European cities like Lisbon and Barcelona. This seems to work in the short run in favour of residents and local real estate demand, but it is harmful in the long run because it limits investment and wealth creation, which ultimately benefit the local economy. Again, if an adverse effect (negative externality) occurs in the short run, there are policy options available to intervene by protecting the weakest while allowing (tourism) investment to flourish, regardless of the source (internal or external).

Actually, local rentals to tourists are a flourishing business in many cities. Accommodation services are sold on a retail basis by common people, whereas, before, this seemed to be an exclusive area of hotel entrepreneurs. Suddenly, common people become supply agents and exporters of tourism services alike, thereby making an important contribution to diminishing supply rigidity at times of continuously expanding demand.

5. On tourism exports.

With the expansion of the market, tourism is sometimes regarded as an obvious political priority by governments. But this policy option should be carefully considered, because tourism is neither easy nor effortless to produce. In the production process of a touristic good many factors are combined to provide the consumer with a unique and distinctive experience. Because many of these production factors are human-related, the act of production takes place simultaneously with the act of consumption (e.g. hospitality, weather conditions or catering services) which makes each product unique in the sense that it cannot be 100% replicated in the future. This intrinsic heterogeneity of tourism products does not impede their tradability (these are tradable goods by essence) but makes this export a special one, in particular given the fact that the basic production and consumption processes take place in the very same spot, which implies, in turn, certain singularities in the marketing distribution circuits.
An important example of this kind of singularities relies on the fact that a tourism product is one in which the transport cost is always on behalf of the client. This is another distinctive feature that requires a different mindset when it comes to organizing and structuring the whole sales process (Matias 2007). Supply side agents are well aware of this fact and therefore a lot of resources are directed at marketing the product at the point of origin of the tourists. The same applies to national tourism authorities with regard to enhancing the image of the country or region on the external markets. If efficiently combined and continuously implemented over time, these efforts by policy makers and tourism entrepreneurs may create a symbiotic process of long term growth, as is presently the case in many economies around the world.
The case of Portugal: over 20 years of continuous tourism growth and still counting...

Portugal’s tourism boom in recent decades has made the industry one of the biggest contributors to the national economy (about 10% of GDP, according to the national statistical office - INE) and the largest employer, with almost 1 million direct and indirect jobs, according to the World Travel & Tourism Council (WTTC). The number of foreign tourists has been steadily increasing year after year and jumped 12 percent to 12.7 million people in 2017. Including domestic tourists, the total is about 21 million, compared with a total resident population of around 10 million.

Beyond its natural wonders, beautiful cities and rich history (including several World Heritage Sites), Portugal has benefited from over two decades of good tourism planning, with the tourism sector being provided with a set of systematic measures and policies that have prevailed throughout the years despite the political cycle.

After years of steady tourism growth – well above the average GDP growth rate – Portugal created an integrated international promotion model in 2003, which made the private sector an effective partner in the external promotion of regional destinations. The country then initiated, in 2006, a long term strategic plan for tourism with the launching of the National Strategic Plan for Tourism (PENT 2006-2015), a 10-year plan that aimed at the development and consolidation of 10 strategic tourism products, at that time with sun & sea still leading the list. This plan was later revised for 2013-2015 but maintained the same main features, in spite of setting new national goals requiring proactive actions from sector agents to successfully execute the programmes and projects initially defined in PENT.

Shortly after the government change in late 2015, a new long-term strategic framework for tourism for the next decade started to be prepared. Officially launched on 27 September 2017 under the motto “Leading the tourism of the future”, Tourism Strategy 2027 is again an ambitious 10-year plan aiming at positioning Portugal as one of the most competitive and sustainable tourist destinations in the world by 2027. Instead of looking at specific products, the tactic of its predecessor (PENT), this plan sets out 10 strategic assets as the main policy priorities for the decade, starting with people and skills. This is a supply side approach well spotted for a mature destination like Portugal – twice voted Europe’s Leading Destination – where the average quality of the product matters more and more as the terrorist menace and economic and social unrest eases in Portugal’s main competitors in the southern Mediterranean and north Africa.
Conclusion.

In light of the above, the benefits of tourism – generally speaking – largely surpass any negative side effects. Its economic benefits are quite visible nowadays, in particular in otherwise depressed territories. Moreover, in a world increasingly challenged by civilizational setbacks such as Brexit or the resurgence of protectionism, we should appreciate even more one of the sociologically less recognized, though no less important, aspects of tourism: the fact that it is an industry of peace, one that only functions in times of peace and that ultimately works intrinsically for peace by bringing people closer together socially and culturally.

Furthermore, apart from its undisputable economic relevance, tourism has an important social role to play as it makes the world a wider but also more accessible place to live. As the famous French novelist Gustave Flaubert once said: “Travel makes one modest. You see what a tiny place you occupy in the world.” In fact, if taken as noble quality among wise men, modesty in this sense comes from greater knowledge and understanding of social and economic relations around the world – and the better we understand the world, the more we can do to make it a better place to be, which is, in turn, the ultimate goal of economic science.

References


2 According to Benjamin Franklin, “To be humble to superiors is duty, to equals courtesy, to inferiors nobleness.”
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