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**TOURISM POLICY INSTRUMENTS: AN EMPIRICAL ANALYSIS OF
PORTUGUESE LOCAL GOVERNMENTS**

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ABSTRACT

Is quite acceptable that tourism activity is intensely subject to market failures and, naturally, requires government intervention. At the same time, it's points out that government intervention is another source of policy failure. Attending this situation, we investigate the importance of public policy instruments in Public Administration field, as a new approach to solving public problems related with market failures, while considering possible negative impacts of the intervention itself. These public policy instruments have been applied to several issues, including tourism policy. In this sense, we intend with this work to examine the tourism policy instruments applied to the Portuguese municipalities context.

1. INTRODUCTION

It is widely accepted among the scientific community the involvement and the relevance that national, regional and local governments play in tourism and the development of that activity (Baum and Szivas, 2008; Dregde, 2001; Mifsud, 2006; Pearce, 2001; Scott, 2011). Several authors advocate that all governments have a policy for tourism due to its theoretical and practical importance, whether it represents an active role or a passive approach (Baum and Szivas, 2008; Dimitris, Aimilia and George, 2005; Scott, 2011). In this sense, Kerr (2003) considers that government involvement is widespread and a good tourism public policy requires involvement of all levels of government. Elliott (1997) also refers that only governments have the power to provide the political stability, security and the legal and financial framework which tourism requires.

If, on one hand, the literature argues that tourism policy is an important field of research, it is also true that governments are interested in tourism due to the magnitude of its economic, social and environmental impacts (Akama, 2002; Scott, 2011). Tourism activities are very complex in nature and it is unlikely that the private sector can satisfy entirely government policy purposes (Candela, Figini and Scorcu, 2005; Wanhill, 2005). Thus, Wanhill (2005) states that historically, governments have intervened in order to both assist and regulate tourism activity.

But, what are the motivations for this intervention? Why do governments engage in the formulation of tourism policy? One reason is strongly suggested by the literature of market failure theory (Baum and Szivas, 2008; Dimitris, Aimilia and George, 2005; Fayos-Sola, 1996; Fleischer and Felsenstein, 2000; Hartley and Hooper, 1993; Michael, 2001; Monge-González, River and Tijerino, 2010; Scott, 2011; Sinclair, 1998; Smeral, 1998; Wanhill, 2005;). These authors point out that tourism activity is recognized in literature as an activity that is particularly subject to market failures and, as a result, presents several reasons that justify government intervention.

In response to market failure theory, it is possible to find in the scientific literature arguments supporting government failure theory derived from the public choice perspective (Sinclair, 1998). While acknowledging that market imperfections can be solved through internalization and allocation of property rights, considering government intervention as unnecessary (Coase, 1960), this work also points out government intervention as the main source of policy failure (Sinclair, 1998). Government actions may not be able to correct a market failure or can create additional distortions (Michael, 2001; Monge-González, River and Tijerino, 2010). In sharp contrast with market failure theory, proponents of the public choice approach have argued a strongly critical attitude of the government's interventionist role (Michael 2001; Sinclair, 1998). As pointed out by Baum and Szivas (2008), Wanhill (2005) and Wolf (1994), markets and governments should not be seen as mutually exclusive mechanisms, but rather complementary.

In this way, we consider the importance of public policy instruments as the tools of government to solve problems associated with market failures, while considering possible negative impacts of the intervention itself. This new approach has raised a growing interest as demonstrated by several studies in the existing literature (Peters and Van Nispen, 1998). According to Blair (2002), since the 1980s, it is possible to refer to the existence of a research line on the instrumental approach. Given the importance that policy tools research has acquired, it has been applied to various areas, among which we can find tourism policy (Bramwell, 2005; Dimitris, Aimilia and George, 2005; Hall and Jenkins, 1997; Jordan, Wurzel and Zito, 2005; Logar, 2010; Prideaux, 2005; Scott, 2011; Zito, Radaelli and Jordan, 2003).

In this sense, given that Portugal has recently approved a statutory framework for tourism policies and the tools for their implementation, we consider appropriate to evaluate the impact of policy instruments in tourism management at the municipal level, contributing to the new framework of those instruments. The relevance of this research can be seen in a couple of ways. Firstly, and compared to the extant international literature (Blair, 2002; Logar, 2010; Peters, 2000; Peters and Van Nispen, 1998), it is possible to note a growing importance in the analysis of those instruments as new ways of operating in political action. On the other hand, the increasing application of policy tools to various areas, including tourism, has created the opportunity to investigate which instruments are used by Portuguese municipalities and what are the underlying determinants of that choice. As a result, this research contributes to an unexplored topic in the literature. This work aims to achieve the following objectives: i) to analyse and explain the use of policy tools; ii) to identify the tourism policy tools; iii) to contextualize tourism public policies at the national and local levels; iv) to describe and explain the tourism policy tools most often used by

Portuguese municipalities; v) To identify the main determinants of policy tool adoption.

Thus, we intend to answer two fundamental questions, one descriptive and the other analytical, respectively: i) what tourism policy tools are most often used by Portuguese municipalities? ii) What policy tools do Portuguese Local governments adopt to address market failures? In order to conduct this research, we engage in quantitative research methods. Based on our theoretical framework, we design a series of hypotheses and subject them to empirical tests using data collected for this purpose. To evaluate which tourism public policy tools are most frequently used by Portuguese municipalities, we will employ a survey questionnaire applied to all municipalities.

2. LITERATURE REVIEW

According to the welfare economics approach, when markets operate in perfect competition, no government intervention is required to achieve Pareto efficiency, i.e., a situation in which no single economic agent or group can improve its welfare without worsening the welfare of other agents or groups (Michael 2001; Monge-González, Rivera and Tijerino, 2010; Weimer and Vining, 2005). In others words, Pareto efficiency occurs through voluntary actions without any need for public policy (Weimer and Vining, 2005). As Michael (2001) denotes in a perfect world the competitive market ensures that productions costs are equal to real social costs. In practice, the economic reality rarely corresponds, perfectly, to the assumptions of an idealized/perfectly competitive model (Weimer and Vining, 2005).

The violations of these assumptions generated market failure theory. As stated by Stiglitz (2002), Michael (2001) and Wolf (1994) argue that market failures justify government intervention, since the supply of public goods and the allocation of social costs are functions that can only be effectively carried out by governments. Weimer and Vining (2005) also point out that market failures result from circumstances in which social surplus is larger under some alternative allocation to the one resulting under market equilibrium. In these situations, government intervention can be justified as a way of getting a result as close as possible to the Pareto optimum (Monge-González, River and Tijerino, 2010).

2.1. Market Failures

The markets are usually the best available mechanism for allocating resources. However, some markets are subject to imperfections or failures that distort prices and undermine the market's ability to achieve an efficient allocation of resources (Blake and Sinclair, 2007 and Ishwaran and Cimato, 2009). As the authors point out the

economic efficiency depends on a number of key assumptions: markets being complete, markets being perfectly competitive, and all agents in the market making decisions based on full information.

Market failure, i.e., situations in which market behaviour does not lead to Pareto efficiency, forms the basic economic rationale for public sector involvement in private affairs (Field, 1997; Fleischer and Felsenstein, 2000; Weimer and Vining, 2005). Traditionally, the scientific community commonly recognizes four market failures: public goods, externalities, natural monopolies, and asymmetric information (Gooroochurn and Sinclair, 2005; Michael, 2001; Sinclair and Stabler, 1997; Smeral, 1998; Wolf, 1994; Weimer and Vining, 2005).

Public goods were firstly defined by Samuelson (1954) as possessing two characteristics: nonrivalrous in consumption and nonexcludable in use (Smeral, 1998; Weimer and Vining, 2005). The same authors state that a good is nonrivalrous when the consumption by one individual does not disturb its accessibility to others consumers. For its part, a good is nonexcludable when it is technically impossible or very expensive to prevent potential consumers from benefiting from it. Once the good is provided for one individual, it becomes available to all.

Additionally, Weimer and Vining (2005) refer a third characteristic of public goods: existence of congestion. A good is congested if the marginal social cost of consumption exceeds the marginal private costs of consumption. Some goods may only be nonrivalrous over some range of usage, but at some higher level of use, consumers begin to impose costs on each other (for example, the highways).

The presence of these features can lead to the failure of markets to achieve Pareto efficiency: the market either undersupplies or fails to supply at all (Smeral, 1998). As pointed out by Sinclair and Stabler (1997), the markets have little or no incentive to supply such goods, as it is difficult to exclude consumers. Even when such exclusion is possible, some individuals, known as free riders, adopt a strategy of not paying, for instance when payment is voluntary (free rider problem).

Externalities, as a second market failure, are almost an indissoluble part of public goods (Dolan and Lindsey, 1987; Sinclair and Stabler, 1997). As Smeral (1998) and Weimer and Vining (2005) denote an externality represents a situation where consumption or production activity has an indirect effect on other consumption or production activities, which is not reflected directly in market prices. This indirect effect can be positive (positive externalities) or negative (negative externalities). Weimer and Vining (2005) reserve the label externality problem for those situations in which the good conveying the valued impact on non-consenting parties is the by-product of either the production or consumption of some good; such as for example open resources and ambient public goods.

Usual examples of negative externalities involve air and water pollution generated by firms in their production activities and the cigarette smoke that non-smokers must breathe in public places (Weimer and Vining, 2005). According to the traditional economic theory, the existence of negative externalities justifies government intervention to restrict or penalize the activity in question so that offenders take into account the costs imposed upon third parties (Alves and Moreira, 2004). Common examples of positive externalities include vaccinations that reduce everyone's risk of infection disease and education support (Weimer and Vining, 2005). The positive externalities also justify government intervention in order to promote or encourage these activities.

A natural monopoly is the third type of market failure mentioned. This monopoly occurs in an industry in which total cost are kept to a minimum by having just one producer serve the whole market (Dolan and Lindsey, 1987). Depoorter (1999) argues that a natural monopoly exists in an industry where a single firm can produce output such as to supply the market at a lower per unit cost than can two or more firms. In the same vein, Weimer and Vining (2005) argue that natural monopoly happens when the average cost slowly declines over the relevant range of demand and is characterized by a single firm that can produce the output at lower cost than any other market arrangement. The authors also refer that a natural monopoly involves an undersupply problem and may include additional social surplus losses. As Joskow (2005) pointed out, markets with natural monopoly characteristics are assumed to lead to a variety of economic performance problems: excessive prices, production inefficiencies, costly duplication of facilities, poor service quality, and to have potentially undesirable distributional impacts. In these situations it is not possible to achieve Pareto efficiency.

Dolan and Lindsey (1987) argue that the intrinsic problem raised by this type of monopoly is how to keep the industry from taking advantage of its position to raise prices and restrict output as it has no incentives for efficiency and its main interest is profit maximization. The solution presented by the literature in order to improve market efficiency is the government intervention. The government allows just one firm to operate but regulates the price at which the firm can sell its output (Dolan and Lindsey, 1987).

The last well-known market failure is asymmetric information. Weimer and Vining (2005) suggest that information is involved in market failure due to the existence of several situations where the amount of information about a good's attributes varies in relevant ways across individuals. For example, information asymmetry exists between buyer and seller or between externality generator and affected party. In this context, the inefficiency due to asymmetric information is associated with potential social

surplus losses. In the same vein, Smeral (1998) refers that if consumers do not have accurate information about market prices or product quality, the market system will not operate efficiently. This lack of information may give producers an incentive to supply too much of some products and too little of others. In other cases, some consumers may not buy a product even though they would benefit from doing so, while other consumers buy products that leave them worse off. In others words, the consumers can underestimate or overestimate the quality of a good, leading to overconsumption or underconsumption situations (Weimer and Vining, 2005).

In summary, these are the traditional markets failures representing situations in which the market is not perfectly efficient and fails to produce the Pareto optimum. As we already mentioned, the welfare economics literature argues that government intervention can potentially increase efficiency through the use of public policy instruments. The table 1 reviews those traditional market failures and their implications for efficiency.

Table 1 - Market Failure and Implications for Efficiency

Market Failure	Implications for Efficiency
Public Goods	The market either undersupply or doesn't supply at all (undersupply) The free rider problem (overconsumption)
Externalities	Positive externalities (undersupply or underconsumption) Negative externalities (oversupply)
Natural Monopoly	Declining average costs (undersupply)
Asymmetric Information	Quality overestimation of goods (overconsumption) Quality underestimation of goods (underconsumption)

Source: Adapted form Weimer and Vining, 2005

2.2. Public Policy Instruments

The various changes experienced in public administration have also affected the way of providing public goods and services. In the past, government activity was restricted to direct provision; currently, government action involves various policy instruments (Salamon, 2002; Blair, 2002). This new approach to solve public problems led to a growing interest in the analysis of policy instruments as demonstrated by several studies in the existing literature (Blair, 2002; Field, 1997; Salamon, 2002; Peters and Van Nispen, 1998; Weimer and Vining, 2005). According to Blair (2002), since the 1980s, it is possible to mention the existence of a research line on the instrumental approach. Policy instruments became very popular as solutions for market failures because they are the most politically feasible options; even if in some situations they are not the most economically efficient solution (Monge-González, River and Tijerino, 2010).

This approach, originally developed in Germany, Denmark, Holland and Anglo-Saxon countries, is based on the evaluation of the transformation of political intentions into administrative proceedings, i.e., considers that governments use certain instruments to influence the economy and society and the choice of instruments has different impacts on the success of those intentions (Blair, 2002; Peters, 2000; Peters and Van Nispen, 1998). Howlett (1991) defines precisely the instruments as techniques of social intervention or means of control that are available to governments to implement varied public policies. Policy instruments, or tools of government, are not neutral, their choices are rarely reduced to simple technical criteria and policy makers usually do not enjoy complete freedom in their selection (Peters and Van Nispen, 1998).

The research developed has identified several types of instruments, including direct government, government-sponsored enterprises, economic regulation, social regulation, government insurance, public information, supply and demand fees and charges, licensing, securities market, contracting, concession, grants, loan and loan guarantees, tax expenditures, vouchers and tort liability (Blair, 2002; Peters, 2000; Peters and Van Nispen, 1998). In this sense, Peters and Van Nispen (1998) refer that the instrumental approach has stimulated many scientists to design comprehensive typologies of policy instruments. As the same authors point out in the literature we can find typologies by Doern and Phidd (1983), Hood (1983), Salamon (2002), and Vedung (1998) and Weimer and Vining (2005). In this literature review we will primarily consider the Weimer and Vining typology; probably one of the most quoted and broader typologies of policy instruments, which the authors define as generic policies.

Weimer and Vining (2005) group the policy tools in five general categories: i) freeing, facilitating and simulating markets; ii) subsidies and taxes to alter incentives; iii) rules; iv) nonmarket mechanisms; and v) insurance and cushions. In the following paragraphs I summarize this specific policy tools, considering the different categories within each of these groups.

Group I: Freeing, Facilitating and Simulating Markets

The first group of policy tools identified by Weimer and Vining (2005) encompasses market mechanisms, i.e., it advocates that markets offer the potential for efficiently allocating goods, but only if there is no inherent market failure. In this situation, it is possible to take advantage of market exchange between private citizens and firms in dealing with policy problems; the governments must adopt an active role in enabling the market to function. In this sense, the authors identified three types of market mechanisms: freeing markets, facilitating markets and simulating markets.

Freeing regulated markets assumes, unlike facilitating markets, the existence of a market with relatively minor efficiencies. In other words, government intervention is eliminated. The process of freeing markets has an underlying wide range of terminology. The authors consider deregulation has the most general term and distinguish among deregulation, legalization and privatization. It's very natural that government engaged on price, entry and exit regulation of competitive markets. However, it is also possible to identify various forms of government failure, particularly legislators responding to rent seeking by industries. In this context, market deregulation is needed to eliminate or simplify government controls, rules or regulations in order to achieve a free and efficient market. In turn, legalization refers to freeing a market by removing criminal sanctions. The most visible examples are the legalization of a prostitution and drug markets. In these situations the government can also generate new sources of tax revenues. Finally, the freeing of private markets assumes either denationalization, the selling of state-owned enterprises to the private sector, or demonopolization, the process by which the government reduces or eliminates restrictions that prevent private firms from competing with government bureaus or state-owned enterprises (Weimer and Vining, 2005).

Facilitating markets, as the authors denote, presumes the creation of a functioning market by either establishing property rights to existing goods or creating new marketable goods. The allocation of property rights is justified in contexts of free public goods that can lead to an inefficient open-access situation (open access resources). Tenuous property rights promote negative externalities because either the rights to exclusive use are incompletely specified or the costs of enforcing the rights are high relative to the benefits. In these situations, the government should delineate property rights that allow private transactions to eliminate the economic inefficiency and, consequently, promote a more efficient use of such goods. For its part, the government can also create new marketable goods. The most common example is tradable permits. These goods address the commons problem by rationing access to the resource and privatizing the resulting access rights. The first step involves setting a limit on user access to the resource. This limit defines the aggregate amount of access to the resource that is authorized. Depending on the specific system these rights may be transferable to other users and/or bankable for future use. Users who exceed limits imposed by the rights they hold face penalties up to and including the loss of the right to participate (Tietenberg, 2002).

Finally, simulating markets. As Weimer and Vining (2005) pointed out that simulation occurs when efficient markets cannot operate but government can simulate market processes. The most visible example is auctioning and it can be applied in the provision of goods with natural monopoly features and also in the allocation of rights for the exploitation of publicly owned natural resources.

Therefore, freeing, facilitating and simulating markets are efficient tools in absence of market failure. However, they can prove insufficient if market failure pervasive or other values are important besides the efficiency. In these cases, a more interventionist approach is required (Weimer and Vining, 2005).

Group II: Subsidies and Taxes to alter incentives

The second group of policy instruments is composed of subsidies and taxes. They aim to induce behaviour rather than command it. This group, unlike the first one, presumes a more interventionist approach by the government. Subsidies and taxes are market-compatible forms of direct government intervention (Weimer and Vining, 2005). The authors state subsidies and taxes that change incentives by altering the relative prices of goods. In others words, they consider the use of taxes to raise the private costs of goods or services that are too abundant from the social perspective and the use of subsidies to lower the private costs of goods or services that are too scarce from the social perspective. In this sense, the authors divide subsidies and taxes into four general types: i) supply-side taxes; ii) supply-side subsidies; iii) demand-side taxes and iv) demand-side subsidies.

The supply-side taxes incorporate two categories: output taxes and tariffs. The first instrument is commonly used to solve negative externality problems. When Coasian market solutions are not possible, government intervention is desirable to balance marginal social benefits and costs. The idea that an appropriate tax leads to an efficient internalization of a negative externality can be attributed to Pigou and is often referred to as the Pigouvian tax solution. These taxes allow firms or consumers to choose how much to reduce production or consumption to limit their tax payments (Weimer and Vining, 2005). Markiw (2009) pointed out two reasons that justify the popularity of the Pigouvian tax. First, they are often the least invasive way to correct a market failure. They can restore an efficient allocation of resources without requiring a harsher government intervention into the specific decisions made by households and firms. Second, they raise revenue that the government can use to reduce other taxes.

Weimer and Vining (2005) define tariffs as a form of tax on imported, and occasionally exported, goods. The most common argument that justifies the use of tariffs is that there are positive externalities from protecting a fledgling industry. The argument is that a domestic industry can have a potential comparative advantage that cannot be initially internalized due to the mobility of production factors.

Supply-side subsidies are applied in situations where it is necessary to increase the supply of specific goods. These can assume a form of tax expenditures or grants-in-aid and are used to internalize positive externalities. In the presence of a positive

externality, an appropriately defined subsidy to the supplier generates an increased supply of the good, reducing the undersupply caused by the externality and, consequently, improving social welfare (Weimer and Vining, 2005).

The authors define grants-in-aid as a subsidy used by central government to induce a local government to supply more of a specific public good. Besides that, subsidies can also be used to internalize a negative externality, i.e., it is possible to pay firms to reduce the level of the externality itself. However, these subsidies are vulnerable to opportunistic behaviour of suppliers because the firms have an incentive to increase their own level of externality. Finally, the subsidies can also be used to solve a natural monopoly market failure. Functioning as an alternative to auctions it is possible to stimulate the natural monopoly to price efficiently by providing a subsidy that gives the monopolist a positive rate of return (Depoorter, 1999; Weimer and Vining, 2005).

The tax expenditures are described by Weimer and Vining (2005) as deductions to taxable income and credits against taxes otherwise owed under corporate income taxes. In the same vein, Burman (2003) argues that the term tax expenditure refers to departures from the normal tax structure designed to favour a particular industry, activity, or class of persons. This kind of subsidy is useful to solve public goods problems associated with certain aspects of research and development and positive externalities (Weimer and Vining, 2005). The authors consider that research and development have public goods features and are supplied at inefficient levels unless government subsidizes these activities in an attempt to raise them to a social optimum level.

Weimer and Vining (2005) divide demand-side taxes into two principal categories: commodity taxes and user fees. Commodity taxes are used to internalize the impacts of goods with negative externalities (Pirttilä and Tuomala, 1997; Weimer and Vining, 2005). The main idea is to reduce the consumption of demerit goods like alcohol or tobacco (Weimer and Vining, 2005). User fees (or congestion taxes) consist in marginal social cost pricing and are used to internalize negative externalities and to price public goods, specifically in the context of nonrivalrous, excludable, congested public goods and open-access resources (Weimer and Vining, 2005).

Lastly, as Weimer and Vining (2005) denote, demand-side subsidies, unlike supply-side subsidies, are applied in situations where it is necessary to increase the consumption of specific goods by reducing their prices to final consumers. The authors identify two main categories: vouchers and tax expenditures. The main argument for government intervention is a concern with positive externalities. Vouchers allow selected consumers to purchase marketed goods at reduced prices (Weimer and Vining, 2005). In the same vein, Bradford and Shaviro (1999) define vouchers as subsidies assigned for particular commodities such as education, day care, food and nutrition,

environmental protection and housing. Tax expenditures, unlike supply-side subsidies, are frequently used to motivate individual demand for housing, education, medical care and childcare. The main idea is lowering the after-tax price of a specific good (Weimer and Vining, 2005).

In short, subsidies and taxes are efficient tools to solve market failures in which government intervention is crucial. The principal argument is to induce behaviour rather than control it. The policy tools that have as a main goal to command the individual's behaviour are the so-called rules (Weimer and Vining, 2005).

Group III: Rules

The third group of policy tools documented by Weimer and Vining (2005) is the establishment of rules, i.e., tools that governments use to coerce individual behaviour. The authors divide rules into two types: framework rules, which include both civil (especially liability rules) and criminal law; and regulations, encompassing restrictions on price, quantity, direct information provision and indirect controls relating the registration, certification, and licensing of market participants.

Frameworks rules simplify private choice in competitive markets and can be used to solve problems associated with market failures. Weimer and Vining (2005) suggest that a competitive market and the establishment of property rights can be seen as public goods that will be undersupplied if left exclusively to private activity. In this sense, contract law, tort law, commercial law, labour law and antitrust law are framework rules, which direct markets to an efficient allocation. A tort law system can also be usefully to solve problems of asymmetric information. As pointed out by Cherry (1999) and Singh (2002) when the product market is competitive and consumers have perfect information about the risk associated with the product, market relationships between consumers and firms will ensure efficient outcomes. The price of the product will adjust to reflect the equilibrium residual risk and the liability. However, when consumers are imperfectly informed about the product related risk, market mechanisms alone will not lead to efficient outcomes and tort liability is required for efficiency. In the same vein, Weimer and Vining (2005) denote that in situations of information asymmetry, a tort system lowers the expected loss that consumers experience from collateral damage and prevents some risky behaviour by producers. Finally, a civil and criminal system is suitable to address negative externalities (Weimer and Vining, 2005). As Rubin (2005) denotes tort law and criminal law protect property rights from intentional or unintentional harm. The primary purpose of these laws is to induce potential tortfeasors or criminals to internalize the external costs of their actions.

Regulations seek to alter choices that producers and consumers would make in competitive markets. Normally they operate through command and control (Weimer and Vining, 2005). Price regulation is employed as a tool to avoid natural monopolies from charging rent-maximizing prices (Depoorter, 1999; Joskow, 2005; Weimer and Vining, 2005). The authors mention that the main goal of price regulation is that there are costly market failures whose social costs can be mitigated by implementing appropriate government regulatory mechanisms and, consequently, by inducing allocative and productive efficiency.

The regulation of quantities represents another form of regulation (Hepburn, 2006; Weimer and Vining, 2005). Hepburn (2006) refers that this includes quotas, targets, or specific commands, such as a regulation banning an activity. This kind of tools is helpful to correct market failures caused by negative externalities and public goods (Weimer and Vining, 2005). As Hepburn (2006) denotes when public goods are free at the point of use (open access resources) demand will often exceed supply with services becoming rationed. The author states that this rationing may be quite deliberate. Weimer and Vining (2005) argue that quantity regulation is desirable in situations where the cost of error is great. If an externality involves a good with potentially catastrophic or irreversible consequences, directly limiting it may be the most desirable approach.

Direct information provision through disclosure and labeling is another kind of regulation (Weimer and Vining, 2005). This is a viable response to situations of pure information asymmetry. It is an attractive policy solution because the marginal costs of both providing the information and enforcing compliance tend to be low. Governments tend to engage in either direct supply of information to consumers or by requiring suppliers to provide the information themselves. Subsequently, Petrakis, Sartzetakis and Xepapadeas (2005) and Weimer and Vining (2005) argue that direct information can also solve negative externalities associated with information asymmetry distortions.

Finally, the last type of regulation is the indirect information provision. This category of regulation is applied to provide information about the quality of services, which is not available through direct provision; as the quality of services is not fixed, it becomes necessary to search for indirect forms of providing information (Weimer and Vining, 2005). The authors present licensing or certification as the common policy approaches to provide information about service quality. Like direct information, indirect information provision is also useful to solve market failures caused by asymmetric information and negative externalities (Weimer and Vining, 2005).

In conclusion, rules are the most pervasive form of government policy in society. In fact, there is no doubt about the importance of government regulation of direct or indirect providers of good and service (Weimer and Vining, 2005).

Group IV: Nonmarket Mechanisms

Weimer and Vining (2005) allude that this specific group of policy tools encompasses alternative forms of nonmarket mechanisms, i.e., governments can supply goods directly by bureaus, or indirectly by independent agencies or several forms of contracting out (direct or indirect contracting out).

The authors point out that direct production of goods or services by bureaus, for example facilitating commerce, managing public lands, laws and justice or social services is as old as government itself. In this sense, much of this production can be justified by some market failures, including public goods, positive externalities and natural monopolies. The welfare economics argument is still the same: government intervention aims to improve economic efficiency.

As we already mentioned, the independent agencies represent an indirect form of production. Weimer and Vining (2005) divide them into two categories: government corporations and special districts. The authors consider that government corporations generally operate with their own sources of revenue under a charter that gives them some independence from legislative or executive interference in their day-to-day operations. Becker (2008) defines government corporations as entities created by the government to provide a public good or service; they are legally a private organization with unique connections to the government. Some are private corporations wholly owned by the government, others are only partially owned by the government and some of them are not owned by the government at all. As pointed out by Becker (2008) and Weimer and Vining (2005), government corporations tend to be used in sectors in which natural monopoly and positive externalities suggest the need for government intervention.

Concerning special districts, Scutelnicu (2010) defines them as independent, special-purpose units of local government that have administrative and financial independence from general-purpose governments such as counties and cities. In a similar vein, Foster (1997) defines special districts as autonomous local governments that provide one or a limited number of public services. Weimer and Vining (2005) describe them as single-purpose government entities that usually are created to supply goods that are believed to have natural monopoly, public goods, or negative externalities characteristics (Scutelnicu, 2010).

Finally, Weimer and Vining (2005) designate the tool of contracting out (privatization) as a form where private firms became responsible for the provision of a good or service that was previously produced by a government bureau. The authors consider two different forms of contracting out: governments can contract out to for-profit firms or they can contract out for services provided by non-profit organizations (indirect contracting out). Direct contracting out is a reasonable instrument to solve public good market failures whereas indirect contracting is usefully to solve positive externalities.

In sum, these tools represent alternative forms of nonmarket supply. Finally, government interventions can also provide protections against misfortune using one last group of policy instruments: insurance and cushions (Weimer and Vining, 2005).

Group V: Insurance and Cushions

This last group of policy tools is divided into two categories: insurance and cushions (Weimer and Vining, 2005). The insurance is an agreement where, for a stipulated payment called the premium, one party agrees to pay to the other a defined amount upon the occurrence of a specific loss (Anderson and Brown, 2005). As Weimer and Vining (2005) refer the insurance consists in the reduction of individual risk through pooling. The authors identified two categories of insurance: mandatory or subsidized insurance. They also argue that, in considering adverse selection, moral hazard, and limited experience that can lead to incomplete insurance markets, government has an important role in some insurance markets because insurances can be used in conjunction with liability laws to deal with problems caused of asymmetric information. This is the specific case of subsidized insurance. Government can provide insurance subsidized premiums when myopia, error, or other factors appear to be promoting underconsumption (Weimer and Vining, 2005).

Finally, cushions are also considered as a policy tool. Although it is not applied in market failure resolution we find it coherent to make reference to this type of instrument. Unlike insurances, with cushions individuals receive ex post compensation for unfavourable outcomes that occur (Weimer and Vining, 2005). The authors divide them into three categories: stockpiling, transitional assistance or cash grants.

In conclusion, it is possible to highlight the diversity of policy tools that can be used to address market failures. Table 2 summarizes the main instruments within each of the five groups and the perceived market failure that generic policies might appropriately address.

Table 2 – Generic Policies and Perceived Market failures

Policy Tools		Perceived Market Failure
GROUP I		
Freeing markets	Deregulate	No market failure
	Legalize	No market failure
	Privatize	No market failure
Facilitating markets	Allocate through property rights	Negative externalities
	New marketable goods	Public goods (open access resources)
Simulating Markets	Auctions	Natural monopolies Public goods
GROUP II		
Supply-side Taxes	Output taxes	Negative externalities
	Tariffs	Positive externalities
Supply-side Subsidies	Grant-an-aid	Positive externalities
	Tax expenditure	Public goods
Demand-side Taxes	Commodity taxes	Negative externalities
	User fees	Information asymmetries
Demand-side Subsidies	Vouchers	Positive externalities
	Tax expenditures	Positive externalities
GROUP III		
Frameworks	Civil laws (Tort liability)	Negative externalities Information asymmetries Public goods
	Criminal laws	Negative externalities Public goods
Regulations	Price regulation	Natural monopolies
	Quantity regulation	Negative externalities Public goods (open access resources)
	Direct information provision	Negative externalities
	Indirect information provision	Information asymmetries
GROUP IV		
Direct Supply	Bureaus	Public goods Positive externalities Natural monopolies
Independent Agencies	Government corporations	Natural monopolies Positive externalities
	Special districts	Natural monopolies Local public goods Negative externalities
Contracting Out	Direct Contracting Out	Public goods (local public goods)
	Indirect Contracting Out	Positive externalities
GROUP V		
Insurance	Mandatory insurance	No market failure
	Subsidized insurance	Information asymmetries
Cushions	Stockpiling	No market failure
	Transitional assistance	No market failure
	Cash grants	No market failure

Source: Adapted from Weimer and Vining, 2005

Attending the information above explicit, it is possible conclude that several policy tools exist that are mostly likely to provide potential solutions for each type of market failure. In many cases, more than one policy tool can provide potential solutions for the same problem (Weimer and Vining, 2005). However, these solutions are never perfect; they must be personalized to the concrete situations and evaluated in terms of the relevant goals. Table 3 reviews this diversity of solutions.

Table 3 – Generic Solutions to Market Failures

Policy Tools Market Failures	Market Mechanism	Incentives	Rules	Nonmarket mechanism	Insurance and Cushions
Public goods	✓	✓	✓	✓	
Externalities	✓	✓	✓	✓	
Natural Monopolies	✓	✓	✓	✓	
Information Asymmetries			✓	✓	✓

✓ - Possible solution

Source: Adapted from Weimer and Vining, 2005

In conclusion, as we previously mentioned, the policy tools approach acquired a significant importance in the context of mitigating problems associated with market failures. In this sense, this approach has been applied to various areas, among which we can find tourism policy (Bramwell, 2005; Dimitris, Aimilia and George, 2005; Hall and Jenkins, 1997; Jordan, Wurzel and Zito, 2005; Logar, 2010; Prideaux, 2005; Scott, 2011; Zito, Radaelli and Jordan, 2003). The next section reviews the main arguments that address tourism as an activity subject to market failures and, consequently, requires government intervention using different policy tools.

3. THEORETICAL FRAMEWORK

Many different authors and institutions have highlighted different concepts of Tourism (Blake and Sinclair, 2007). However, the most common definition used internationally was devised by the World Tourism Organisation, which defines tourism as the activities of a person travelling outside his or her usual environment for less than a specified period of time and whose main purpose of travel is other than to exercise an activity remunerated from the place visited (World Tourism Organization, 1991).

In this sense, it is not surprising and it is widely recognized the involvement and the role that governments, at different levels, play in tourism development and

management. Scott (2011) claims that besides the importance of tourism activity it is also true that governments are interested in tourism because it constitutes an activity with economic, social and environmental impacts. In the same vein, Blake and Sinclair (2007) and Sinclair (1998) emphasize that tourism activity has an important role in economic development. Tourism has become a major economic activity with positive contributions, such as for example the provision of hard currency to alleviate a foreign exchange gap and to finance imports of capital goods; the expansion in the numbers of full-time and part-time jobs, in gross national product and personal incomes; and the provision of tax revenues for government.

Blake and Sinclair (2007) add that tourism includes all the activities that tourists undertake, and this is what makes the government's role in tourism different from its role in other industries. But, what are the goals of these interventions in tourist markets? Why do governments participate in tourism policy? Jeffries (2001) considers six explanations for government intervention in tourism: wider objectives, the importance of transportation policy, the complexity of tourism, market failures, public sector provision of leisure services and conflict resolution. Given the main goal of this work, I concentrate on tourism market failures and, subsequently, on the tourism policy instruments employed by governments. The analysis of tourism market failures and policy tools is mainly based on efficiency criteria. In other words, and considering Musgrave (1939)¹ and Peterson's (1981)² typologies, it is possible to view government intervention in tourism activity as an allocation/affectation function. In other words, government intervenes in tourism because the market fails to an optimal resource allocation. As Candela, Figini and Scorcu (2005) and Whanill (2005) argue tourism activity is very complex in nature, so that the private sector by itself is unable to secure economic efficiency gains, which requires government policy interventions to direct the market towards its full economic potential. Field (1997) also refers that the difference between market values and social values justifies public intervention to achieve social efficiency.

3.1. Tourism Market Failures

Tourism activity is recognized in literature as an activity that is particularly subject to market failures, including the traditional market failures identified above: public goods, externalities, natural monopoly and asymmetric information (Aradhyula and Tronstad, 2003; Blake and Sinclair, 2007; Dimitris, Aimilia and George, 2005; Fleischer and

¹ Musgrave (1939) define the three main functions of government activity: resource allocation, macroeconomic stabilization, and income redistribution.

² Peterson (1981) identifies three types of politics: the politics of development, the politics of allocation and the politics of redistribution.

Felsenstein, 2000; Gooroochurn and Sinclair, 2005; Jeffries, 1999; Michael, 2001; Sinclair and Stabler, 1997; Sinclair, 1998; Sharma, 2004; Veal, 2002; Wanhill, 2005).

As Michael refers (2001) tourism is an economic activity more predisposed than other industries to market failures, because it depends on the output of many industries to deliver its own product; this requires some form of public intervention to restore the parameters of competition. Also Fayos-Sola (1996) considers that the standard reasons for public intervention in the economy are perfectly applicable to tourism activity. It would be difficult to find sectors of this magnitude where external effects play such an important role.

Public Goods

Public goods are products (goods or services) that exhibit two important characteristics: non-rivalry and non-excludability. Many touristic natural resources are public goods with free access and can often be used excessively (Sinclair, 1998). In general, public goods must therefore be provided or managed collectively in some form (Blake and Sinclair, 2007; Veal, 2002). Blake and Sinclair (2007) consider four aspects in the context of what can be considered tourism public goods: destination and national promotion, infrastructures, co-ordination and planning.

From the point of view of authors the destination and national promotion suffers from being a public good. The destination promotion has a goal to attract more tourists in the region and that will mean more costumers. If some companies were to collectively advertise their destination other companies would be able to free ride on this promotion, and the original companies would have no incentive follow such a voluntary pattern (Blake and Sinclair, 2007). Therefore, destination promotion needs some form of public involvement. As the authors denote, the public good aspect of destination promotion applies on a larger scale to national promotion, having as main purpose to attract international visitors; this is a public good with the inherent incentive to free ride on the provision of promotion by other businesses.

Concerning the infrastructures, these are an important part of the tourism product (Blake and Sinclair, 2007). Sakai (2006) defines that capital-intensive, long-lived physical assets provide benefits to the general public and promote economic development. She discusses specific types of infrastructure, such as for example, roads and highways, airports, convention centres, stadia and arenas and Olympic cities. As Blake and Sinclair (2007) pointed out the private sector has no incentive to provide many of these infrastructures since they are non-excludable. In this sense, the efficient level of infrastructure provision depends on government intervention. With the same purpose, Candela, Figini and Scorcu (2005) underline the need to finance tourist public

goods, namely infrastructure necessary to complete the tourism product and to enhance competitiveness of the whole destination for which markets fail. Relatively to the tourism product, Gooroochurn and Sinclair (2005) and Wanhill (2005) express a similar idea, arguing that the tourism product (composed by several products and services) is unlikely to be provided in sufficient quantity by market mechanisms. The market fails due to the existence of items within the tourist product that all individuals can enjoy in common and that are equally available to all, which implies non-rivalry in consumption. These public goods also have feature of non-excludability, resulting from the lack of or incompleteness of property rights.

Co-ordination represents another public good problem, since these services are essential to several different companies that supply tourism (Blake and Sinclair, 2007). If a destination is to develop an image as having a particular type of tourism, it must co-ordinate amongst its various activities and private actors. Such co-ordination, if performed by a private company would be non-excludable, and therefore firms could benefit by free riding on the benefits being provided. Thus, government has increasingly taken on the role of developing tourism products and marketing them, a role that includes the coordination of various elements of the tourism industry to support a change in the product offered to tourists. Candela, Figini and Scorcu (2005) also note that government intervention is important in the resolution of potential coordination problems that arise when private firms supply different goods and services that compose the complete tourism product.

Finally, long term planning for tourism also possesses public good features (Blake and Sinclair, 2007). Long-term planning at the destination cannot be made by private companies. It requires a body that can reasonably and believably promise to construct infrastructure and fund marketing in the future for private companies to want to invest. Otherwise, these private companies are unlikely to invest in developing accommodation and other service facilities on the chance that another private company might or might not construct infrastructure and fund destination marketing in the future (Blake and Sinclair, 2007).

In conclusion, touristic products have public good characteristics and, as a result, cannot be provided by the private sector. If heavily depend on market adjustment mechanisms, tourism companies will not produce and supply public tourism products efficiently. Therefore, government intervention is needed to increase the production and supplies of these public goods (Liang and Wang, 2010).

Externalities

In addition to public goods, many scholars also suggest externalities as market failure applied to tourism (Fleischer and Felsenstein, 2000; Hartley and Hooper, 1993; Sinclair, 1998). Externalities, or external effects, involve either a benefit or cost being incurred by a third party due to a decision made by two parties involved in a voluntary transaction (Blake and Sinclair, 2007). The authors consider that the economic, environmental and social impacts caused by tourism have externality features.

From the point of view of economic impact, tourism expenditures on promotion not only have direct impacts on the firms engaged in these promotion activities, but also a range of indirect impacts on all the firms. In other words, when a firm undertakes promotional activities, it attracts tourists that will spend money outside that firm at the same destination with additional benefits to others firms. As Blake and Sinclair (2007) refer this broader economic impact is a positive external effect to the firms not engaged in promotional activities and a negative external effect to the firms engaged in promotional activities; they will not spend as much as they would if the benefits accrued only to the firm. In this sense, the externalities lead to a firm's level of spending on promotional activities that is below the social optimum; positive externalities combined with the public good nature of destination promotion justifies public sector intervention to correct market failures and produce efficient outcomes. In the absence of that intervention the level of promotional activities in tourism would be considerably below the social optimum.

Blake and Sinclair (2007) also make reference to the environmental impacts in the tourism context. The authors consider that if a touristic activity has a negative impact on the environment, this negative externality requires some kind of correction. Tourism negative social impacts, such as an increase in crime rates, lead to negative attitudes of the host population towards tourists. Liang and Wang (2010) and Blake and Sinclair (2007) consider specifically the externality provoked by congestion. If tourists exceed a certain limit, they tend to not only have a negative impact on the environment and local society but also to deter, through images of overcrowding, future tourists.

Additionally, Liang and Wang (2010) make reference to more types of externalities: crowdedness effect and excessive utilization of common pool resources³ and environment pollution around common pool resources. According to the authors, self-

³ As Liang and Wang (2010) refer Healy in 1994 was the first to introduce the concept of "common pool" into tourism studies. The author uses property rights theory and discusses the solutions to the dilemma of public tourist attraction from three aspects: resource privatization, government management and institution of public property rights.

interested tourism companies usually will not decrease resource use, which, in turn, leads to an unreasonable use of public goods. Furthermore, the same companies sacrifice the environment in exchange for short-term economic gains. However, the cost of damaging the environment is not included in the firm cost schedule.

In a similar vein, Dwyer and Forsyth (1997) suggest that tourism can create undesirable externalities that could affect tourism, such as an increased pressure on fragile environments, unwelcomed socio-cultural effects, road congestion or the crowding out of attractions. Veal (2002) points out that these negative externalities arise when facilities, such as pubs, nightclubs, resorts or tourist traffic imposes noise or congestion costs on neighboring properties. Dwyer and Forsyth (1997) also refer that tourism as promoting positive externalities, such as a greater consciousness of the environment and local culture, conservation of human man-made monuments and wildlife preservation.

In short, market mechanisms cannot correct external inefficient behaviors and effectively avoid crowded externality of public goods (Liang and Wang, 2010). As a result, government intervention is necessary to internalize the impacts of positive and negative externalities.

Natural Monopoly

Market power exists when a supplier of a product can exercise influence on the price it receives for its output (Blake and Sinclair, 2007). One specific area of market power that is explicit to tourism is that of market power in export markets. It is common from a tourism perspective to consider countries either as mainly import markets or mainly export markets. Countries that mostly export receive more tourists (measured by the amount of international tourism receipts) than the residents of that country visit another countries. In this sense, as argued by Blake and Sinclair (2007), export countries allow governments to extract an economic rent from the market power they have and improve the welfare of the domestic economy by levying higher taxes on tourism than on other sectors.

In a similar vein, Gooroochrun and Sinclair (2005) state that it is possible to find several countries that have some monopoly power over international tourism. Such market power arises because of the differentiated nature of products. Liang and Wang (2010) also point out that a tourist attraction is characterized by its scarcity, uniqueness, immobility, and regional differences, which result in a natural monopoly. Gooroochrun and Sinclair (2005) refer that tourism product differentiation occurs in terms of types and quality of attractions, goods, and services in the country and, citing Gray (1987),

the authors mention that tourism that involves seeing or doing something that is unique to the destination tends to exhibit a higher degree of product differentiation and hence higher market power, leading to economic rents.

In sum, tourism activities can also create situations of monopoly power. As Blake and Sinclair (2007) refer the market power that can exist through purchasers of a product being able to exert influence, and in some countries the ability of foreign tour operators and travel agents to exert downward pressure on the prices that they pay for accommodation, is an issue for government involvement.

Asymmetric information

The remaining market failure applied to the tourism activity is information asymmetry (Asero and Patti, 2009; Blake and Sinclair, 2007; Caccomo and Solonandrasana, 2001). As stated by Asero and Patti (2009), a typical asymmetric information problem occurs in situations where one economic agent knows something that another economic agent does not. The relationship between sellers and buyers of tourist products is often characterized by asymmetric information. If we consider that tourist products are comprised of several goods and services, asymmetric information problems increase. In fact, when tourists choose the travel package they can face asymmetric information. At the moment of purchase, the tourist does not know what will happen during the travel; he/she can only trust the travel agent or tour operator. Alternatively, the tourist can trust a well-known brand and its reputation or a friend to ascertain the quality and features of the tourist product or service (Asero and Patti, 2009). How can we resolve the asymmetric information problem? The authors consider that sellers can invest in quality. In the tourism activity, quality assumes a relevant role to direct consumer choices in the sense that it guarantees the market. This argument becomes much more important in the context of tourism products; these are composed by packages of products/services whose quality can only be determined in part by the consumer in advance.

Caccomo and Solonandrasana (2001) also present a paper that investigates the existence of asymmetric information in context of tourism activities. The authors conclude that asymmetric information generates price distortions between tourist products that have similar characteristics. Liang and Wang (2010) consider that tourism enterprises take advantage of more complete information they have got and provide false information or obscure certain details to damage tourists' welfare. Thus, under a situation of information asymmetry, market adjustment mechanisms fail to take effect. Tourist products cannot be allocated efficiently so that government involvement is required.

Markets failures applied to the tourism context characterize circumstances in which the market fails to produce efficient outcomes and the Pareto optimum. Table 4 reviews the traditional market failures applied to the context of tourism.

Table 4 – Tourism Market Failures

Tourism Market Failure	Examples	
Public Goods	Open access resources Destination and national promotion Infrastructures Co-ordination Planning	
Externalities	Positive externalities - Tourism expenditures - Wildlife preservation - Conservation of human man-made monuments - Consciousness of the environment and local culture	Negative externalities - Increase in crime rates - Negative attitudes of the host population towards tourists - Congestion (overcrowding) - Crowdedness effect - Excessive use of common pool resources -Environmental pollution around common pool resources
Natural Monopoly	Export markets Tourism product differentiation Tourist attraction	
Asymmetric Information	Tourist products	

As we already mentioned, the public policy instruments have grown in importance as tools to solve tourism inefficiencies caused by market failures. But, what are the main tools purposed by the scientific community and employed by all levels of government? I attempt to answer this question in following paragraphs.

3.2. Tourism Policy Tools

In the specific case of public goods, Liang and Wang (2010) state that the market for tourism will not operate efficiently to produce and supply tourism products. As a result, government is forced to take policy measures to increase the production of public goods and services, directly invest and develop public tourist attractions, or use regulation to compensate and inspire tourism companies actively involved in the supply of public tourism products. In a similar vein, Blake and Sinclair (2007) consider that public goods must be provided collectively in some form, either through direct government provision or through compulsory membership patterns.

Gooroochrun and Sinclair (2005) argue that taxation is another policy tool option in the context of public goods. The influx of tourists may impose extra public costs relating to the provision and maintenance of some amenities. As nonresidents, tourists do not pay to finance these extras. In that sense, a tax may rectify the balance, so that the burden falls on those who are responsible for increasing the costs of the provision of public goods.

Concerning externalities, Blake and Sinclair (2007) highlight that only strict social regulation, including a Pigouvian tax, and the definition of property rights or program approval allow the government to transform the fee caused by external uneconomic behavior into the enterprise internal cost, which can effectively avoid crowded externality of public goods. Liang and Wang (2010) and Gooroochrun and Sinclair (2005) also argue that externalities can be address by taxation.

In turn, natural monopolies can also be address by taxation. According to Gooroochrun and Sinclair (2005), the economic rents provoked by a monopoly situation can be corrected by using taxation to shift the misallocation of resources. Liang and Wang (2010) consider that economic regulation has to be carried out as well, in order to control excessive monopoly power and enhance social welfare.

Finally, asymmetric information can be solved by regulation. Liang and Wang (2010) argue that governments must adopt tourism information disclosure mechanisms or carry out quality grade standards for tourist attraction and other normative criteria in order to weak the degree of information asymmetry between two parties involved in tourism deals. Table 5 condenses the main policy tools used to solve tourism market failures.

Table 5 – Generic Policy Tools to Address Tourism Market Failures

Tourism Market Failures	Generic Solutions
Public Goods	Direct Supply Regulation Taxation
Externalities	Social regulation (Pigouvian tax) Taxation
Natural Monopoly	Economic regulation Taxation
Asymmetric information	Regulation

These are the main policy tools presented by the literature to solve specific problems related with market failures. However, it is possible to find more references to tourism policy tools, even if the studies in question do not refer to any market failure in specific. Nevertheless, the following tools are very important due to the economic, social and environmental impacts caused by tourism activity. Bramwell (2005), for example, believes that policy instruments that government can use in order to

promote a sustainable tourism activity can be categorized into four categories: government encouragement; government financial incentives; government expenditures and government regulations.

The first one includes information, education, and general persuasion directed at operators, tourists, or communities in tourist areas in order to encourage them to voluntarily adopt more sustainable behaviors (Bramwell, 2005).

The second group consists in altering prices facing businesses, tourists, or host communities for environmentally or culturally damaging or beneficial behavior. The author defends the use of taxes or subsidies in order to make some resources more or less expensive than others, so that activities change as a consequence. Hunter and Green (1995) refer some examples: user fees for entry into natural or cultural sites, local tourist taxes designed to raise revenue for environmental work or to control visitor pressure by deterring visitors, and charges for water consumption by hotels that are intended to encourage water conservation. Subsidies offer positive incentives, such as providing payments to hotels that introduce energy-saving techniques.

Government expenditures are the third policy tool. Government expenditures are actions taken directly by government or state-owned agencies, such as spending on public transport, land purchase, and conservation measures in national parks, and on community development initiatives and waste management (Bramwell, 2005).

Lastly, the author defines government regulations as tools that either forbid or require a particular behavior, but which do not involve financial incentives or direct government expenditures. As Jacobs (1991) refers these policy tools induce tourism businesses or tourists to obey, with disobedience likely to involve judicial punishment.

Logar (2010) presents another group of policy tools. Considering a sustainable tourism activity, the author analysed the effect of several types of instruments: market-based (eco-taxes, user fees, financial incentives and tradable permits building), regulatory or command-and-control instruments (zoning and quotas) and institutional tools (eco-labels and changes in property rights). Hall and Jenkins (1997) list eighteen tools with the aim of promoting a particular type of tourism, including command-and-control, voluntary instruments, expenditures, financial incentives and non-intervention decisions. In turn, Jordan, Wurzel and Zito (2005) and Zito, Radaelli and Jordan (2003) and considered what the literature calls the new policy instruments, including benchmarking, co-regulation, voluntary codes of conduct and negotiated agreements, voluntary agreements and environmental management systems. Prideaux (2005) points out that the policy instruments that may affect tourism include interest rates, anti-inflation policies, exchange rate controls and the impact of indirect taxation.

Taking in account the different policy tools applied to the tourism context and the instrument typology presented by Weimer and Vining (2005) this work aims to fill a gap in the literature and provide a broader typology of tourism policy tools. With this contribute I investigate which instruments are used by Portuguese municipalities to address traditional market failures.

3.2. Hypotheses

Based on our theoretical framework above and considering a generic perspective, I derive two preliminary hypotheses:

H1: Tourism policy tools of a regulatory nature are used more frequently than market policy tools.

H2: Market-type policy tools produce better results to solve tourism market failures.

These hypotheses are supported by two main arguments. Firstly, the literature that advocates that command-and-control tools are used to a significantly greater degree than market-type tools, despite the economists consistent endorsement of the latter (Keohane, Revesz and Stavins, 1998). Secondly, Portuguese local governments are traditionally involved in direct provision of public goods and services (Rodrigues, Tavares and Araújo, 2011). In this sense, it is expected that local governments will play an active role in solving tourism market failures.

Other hypotheses will be developed to account for specific attributes of the Portuguese local reality and tourist market. These hypotheses will be tested using variables and indicators describing the economic, political and environmental setting where policy adoption takes place.

These hypotheses will be subject to empirical tests using data collected for this purpose. The first goal is to identify which tourism policy tools are most frequently used by Portuguese municipalities. In order to accomplish this task, I will employ a survey questionnaire to all municipalities (308). This questionnaire will be elaborated considering the typology of Weimer and Vining (2005) and the policy tools that the literature identifies as relevant in the tourism area (Bramwell, 2005; Dimitris, Aimilia and George, 2005; Hall and Jenkins, 1997; Jordan, Wurzel and Zito, 2005; Logar, 2010; Prideaux, 2005; Scott, 2011; Zito, Radaelli and Jordan, 2003). After the questionnaire is pre-tested and ready, it will be sent to the tourism department in each municipality. Once this task is completed, our dependent variable – the policy tools adopted by Portuguese municipalities – will be refined. The dependent variable will be measured either as a dichotomous variable – the policy instrument is either present or absent in

each municipality. Probit models will be used to estimate the likelihood of adoption of each policy instrument.

The independent variables underlying this research are all the variables that can be identified as determinants of policy tool adoption. Many of these variables will be measured using the questionnaire mentioned above. For example, to characterize natural monopoly situations, I will investigate the existence of tourism product differentiation in each municipality. As mentioned by Gooroochrun and Sinclair (2005) the existence of a tourism product that allows seeing or doing something unique or exclusive signals market power. Examples of this product differentiation include river beaches, thematic parks, local festivals, city-spas or radical sports. Public goods can be tackled by either providing the good directly as with infrastructures, co-ordination and planning strategies or by using market-based incentives. The research will investigate indicators of open access resources as beaches, natural parks or environmentally preserved areas as predictors of the adoption of specific policy tools to address public goods problems. The negative externalities are also considered. I explore, for example, the existence of beach police to reduce crime rates that increase in periods of higher influx of tourists. Finally, information asymmetries can be addressed in a number of different ways. Local governments can have tourism offices that allow tourists to get reliable information about where to go, which places to visit or what products to consume. Indicators regarding the number of tourist operators, the publication of information regarding the reputation of tourist operators, the type of tourist attractions, and the typical tourist packages can be regarded as indicators of information asymmetries that need to be addressed by local governments using tourist offices or other policy tools towards a similar end.

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