Tourism policy instruments: An empirical analysis of Portuguese local governments

CLÁUDIA CRISTINA S. COSTA * [claudia@ipb.pt]

Keywords | Market Failure Theory, Tourism Market Failures, Tourism Policy Tools.

Objectives | Tourism activity is intensely subject to market failures and, naturally, requires government intervention (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). However, government intervention is itself a source of policy failure. With this in mind, the research aims at analyzing the importance of public policy tools as an approach to solving public problems related with market failures, while considering possible negative impacts of the intervention itself. These public policy tools have been applied to several policy areas. This work extends these analyses to the context of tourism and applies the instrument typology presented by Weimer and Vining (2005) to fill an important gap in the literature and provide a broader typology of tourism policy tools. In addition, it is evaluated the impact of tourism policy tools in tourism management at the Portuguese municipal level.

Methodology | This research answers three fundamental questions; the first one is descriptive, whereas the other two are analytical: 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?; iii) to what extent does the adoption of specific tourism policy tools increase municipal economic development?.
Based on our theoretical framework, and considering a generic perspective, two preliminary hypotheses are derived:
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 argues that command-and-control tools are used more frequently 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. After the questionnaire is pre-tested and ready, it will be sent to the tourism department in each municipality.

* **Mestre em Administração Pública** pela Universidade do Minho, **Equiparada a Assistente de 1º triénio** do Instituto Politécnico de Bragança.

Once this task is completed, our key variable of interest – the policy tools adopted by Portuguese municipalities – will be refined. This variable will be measured 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. Examples 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. It is explored, 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. For example, local governments can have tourism offices that allow tourists to get reliable information about where to go or which places to visit.

Main results and contributions | The relevance of this research can be seen in a couple of ways. Firstly, and compared to the 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 tools as new ways of operating in political action. Secondly, 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. In this study, the analysis of tourism market failures and policy tools is mainly based on efficiency criteria. In other words, and considering Musgrave (1939) and Peterson's (1981) typologies, it is possible to view government intervention in tourism activity as an allocation function, i.e., government intervenes in tourism because the market fails to produce an optimal resource allocation.

Limitations | The main limitation of this research concerns the difficulty in obtaining relevant information to produce the analyses.

Conclusions | The rational for government intervention in tourism activities is justified by several market failures. In this sense, public sector involvement through policy tools is regarded as beneficial, providing an efficient provision of such goods and services (Blake and Sinclair, 2007). In addition, the effects of tourism as an economic activity are also predictable. As Cunha (2003) and Logar (2010) refer tourism activities can have important impacts in the economic development of a given region or country. It seems useful to identify which specific tourism policy tools promote municipal economic development and evaluate the impact of those tools in tourism management.

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