DACIA AND THE ROMAN EMPIRE: TOURISM-LED GROWTH AND CATCHING-UP WITH MACRO-ECONOMIC CONSTRAINTS

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Abstract
For catching-up countries the convergence path is to be accurately monitored and
guided to non inflationary growth, especially for accession countries to the Eu. In
this paper, we argue that a strategic planning on the development of tourism for a
specific region within a wider macroeconomic and institutional context may help
accelerate a catching-up process provided some important risks are known and
“discounted” ex-ante.
In particular, the usual Keynesian multiplier and the balance of payments
channels might worsen the macroeconomic framework required for Eu accession.
Furthermore, tourism is founded on non-homogeneous capital with different
carrying capacities that should be accurately assessed and enhanced.
The main conclusion of the paper is that in order to guarantee a positive
contribution of tourism-led growth to a catching-up regional economy, the supply
side should keep pace with the demand side and a strategic planning by regional
authorities should be implemented because externalities and public goods are an
essential part of the tourist supply chain.

1. Catching-up countries and growth: contributions from the tourist industry
In 1958 an intriguing article by Benjamin Ward titled “The Firm in Illyria: Market
Syndicalism” appeared on the American Economic Review. It meant to enquire into the
Yugoslavian attempt to build up a different productive and distributive system, a “third way”
between a socialist central planned economy and capitalism. Illyria stood for a reference model
that could be implemented in the real world by Yugoslavian governments. Similarly, we have
used the metaphor of Dacia and the Roman Empire to enquire into the relationship between a
specific region and a wider institutional and economic framework with peculiar rules. In order
to become a civis romanus, a citizen from Dacia had to respect the laws of the empire, with
huge opportunities but, at the same time, with also some important constraints. In our reasoning,
Dacia could be considered the Romania of today, a specific region just entered into the wider
institutional context of the European Union, whose economic performances should be studied
accordingly.

The relationship between a region and its wider context will be analyzed with regards to a
specific industry, tourism, which seems to be a useful engine of economic growth, especially for
nowadays Romania in the process of closer and closer institutional, economic and monetary
integration within the European Union.

To be part of the European Union and possibly of the euro area in the future might be a
great opportunity for the tourist industry in Romania1. The country has already experienced

* Department of Public Institutions, Economics and Society, University of Rome 3. The paper was delivered at an
international meeting held at the Constantin Brancusi University, Romania, in November 2006. The Authors wish to
thank Alexandru Minea, Giuseppe Mastromatteo, Lilia Cavallari and an anonymous referee of the CREI Working
Paper series for useful comments on previous drafts. Although jointly planned and agreed upon, paragraphs 1, 2, 3
have been written by P. Bini and paragraphs 4, 5, 6 by F. Masini; conclusions are a common work.
extraordinary records in tourism in the last few years. From 2000 to 2004 the stayings of foreigners have increased by more than 50% and the arrivals of foreigners have almost doubled in the last ten years\(^2\). Such figures suggest that a very tourism boom seems on the run in Romania\(^3\).

The aim of our paper is twofold. The first is to suggest a framework of economic analysis\(^4\) to assess the contribution of tourism-led growth to a regional economy, with particular attention to the specific case of a region which is part of a wider macroeconomic and institutional context. Neoclassical growth models imply a convergence process leading catching-up countries to fill the output gap quicker than “advanced” economies due to the fact that progress (technology and knowledge) is a free good available internationally and costlessly. This can in turn be considered either as a human-capital-based progress (endogenous growth models) or as a technological-capital-based one. Several EU, OECD and UN Agencies official papers\(^5\) invite countries to promote their tourist systems as a sort of panacea to foster development. They imply a sort of benchmarking of success cases to be exported in catching-up countries. But successful experiences in promoting the tourist industry as a driving sector of growth should be cautiously exported, especially when the required convergence path, as for most of the accession countries to the EU, is narrowed by the Maastricht terms.

In this respect our paper is partly (although our subject differs in that it tackles with a “regional” economy) intended to contribute to the recent debate on the so-called “tourism-led growth hypothesis”. Such literature appears to be split between two opposite attitudes: some Authors (Balagues, Cantarella-Jorda 2002; Vanegas, Croes 2003; Durbarry 2004; Cortes-Jimenez, DeHaan, Pulina 2007; Hyun Jeong, Ming-Hsiang, SooCheong 2006) have studied cases where a positive correlation between the growth of the tourist sector and the overall economic performances of specific countries has emerged.

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\(^1\) On the questions of development strategies for tourism in Romania there have been some recent studies on specific sectors and/or areas, particularly related to the opportunities deriving from the institution of natural parks to promote local economic growth, although only some of them have (marginally) considered aspects of tourism concerning questions relevant for economic theory and policy. Most of such contributions have been published on *Tourism Geographies*, on *GeoJournal* and on *Political Geography*. The most recent contribution on the role of tourism in Romania seems to be Vaughan R. (2007), “Images of Romania as a potential holiday Destination”, *International Journal of Tourism Policy*, Volume 1, Number 1, June: 1-16.


\(^3\) Following Gil-Pareia, Llorca-Vivero, Martinez-Serrano (2007) we should probably expect the boom to increase even further when the dynamic process of Romania towards the euro will start. This might be the case but enquires such as the one just cited should not be taken too seriously as they suffer from the myopic view of those who only look for economic correlations forgetting that the euro was adopted just three months after 11 September 2001 and presumably most European tourist flows to the States were diverted within the Union. For a wider and more complex utility function in tourism consumer’s preferences we would suggest to refer to the brief note by Masini (2005).


\(^5\) In Solow (1956) catching-up countries experience rising growth rates tending to the ones of the more advanced countries. In the extreme version by Barro, Sala-i-Martin (1995) leading countries experience a slower growth rate than catching-up countries.

\(^6\) As in Solow (1956) himself.

Some others have rejected any such causality (Oh 2005; Sahli, Novak 2007), in some cases pointing at specific conditions to be met in order to verify a sustainable correlation in the long run, such as the empowerment of human capital (Bramwell, Hallam 2005).

The second point of our paper is policy-oriented and can be considered within this latter approach: a positive correlation between tourism development and economic growth in a regional economy within a wider macroeconomic institutional contest is subject to specific policy conditions; in particular, in order to benefit from increasing tourism demand, the tourist supply side of a regional system should be organized so as to match the same growing trend. The usual positive effects attributed to tourism are in fact linked to a very peculiar framework (mainly concerning tourist supply) which should be created, maintained and possibly improved. And, especially if - as in the case we consider - the region is an accession member to Eu (and later to the Euro pool), the convergence path is to be accurately monitored and guided to balanced and non inflationary growth.

We will try to illustrate this recalling first the main features concerning the role of tourism on economic growth. We will then introduce a model intended to help understand the difficult task of keeping the growth opportunities deriving from tourism within the boundaries set by a wider institutional framework oriented to overall macroeconomic stability. Finally, we will make some considerations concerning the main actors of the process of tourism-led growth, where the monitoring and restructuring of the whole productive system is implied. We will argue that in such a contest, private enterprises can play an important but only partial role: the high degree of externalities and public goods that characterize the tourist production require a strategic planning concerning the development of the tourist industry within the specific region considered. Only in this case - and provided some important risks are known and "discounted" ex-ante - tourism may help accelerating the catching-up process so that Dacia - Romania could profit from the tourist boom in the Roman Empire - European Union macroeconomic context.

2. Demand-push through multipliers: growth opportunities and outflows risks.

One of the most important contributions tourism can give to the development process of a "region" is through multipliers. The term “region” is here meant as an economically significant unit (in terms of policy choices) irrespective of strictly administrative boundaries. It is the minimum efficient unit on which the tourist market can be organized, whatever wideness this may imply. From the operational point of view this definition might lack of concrete indications but a trial-and-error process of tourist policy might in the long run help find the best boundaries and competences. In the economic literature, some Authors have underlined the existence of four phases of tourism development: 1) tourists arrivals, 2) tourism consumptions, 3) tourism take-off, 4) detachment from tourism. Looking at the official data, Romania seems to be in the second phase, where the region of tourist destination benefits from tourist consumptions which rise local incomes and, through local consumptions, reinforce the multiplier effect.

8 See the seminal works by Archer, Owen (1971) and Archer (1982). See also Wanhill (1994). Hughes (1994) has underlined the necessity to be cautious when handling multipliers to investigate into the macroeconomic impact of tourism.

9 See for example Candela (1996: 451-5).

To show this, let us quickly recall\textsuperscript{11} that extending a simple Keynesian macroeconomic model we have:

\[ Y^D_j = C_j + I_j + Go_j + (E-M)_j + (CG_j - CH_j) \]

where:

- $Y^D_j$ is the aggregate demand function for the $j$-region;
- $C_j$, $I_j$ and $Go_j$ are the $j$-region consumption, investment and public expenditure functions by local subjects; $I_j$ (which are net private investments) and $Go_j$ are considered exogenous with respect to income, whereas $C_j$ depends on the available income $= C_0 + c_j Y_j (1 - t_j)$;
- $(E-M)_j$ is the trade balance of the $j$-region with the outside world; $E$ is exogenous; $M_j = m_j Y_j$ where $m_j$ is the propensity to import on the general income (not the available income to families because we assume that also the public sector can import);
- $CG_j$ is the consumption of guests in the region considered for only goods produced in the region;
- $CH_j$ is the consumption of residential outgoing tourists outside the region considered and is a direct function of local income $= ch_j Y_j (1 - t_j)$, where $ch_j$ is the propensity of residents to spend abroad part of their available incomes;
- $[t_j$ is the average fiscal rate on incomes produced in the $j$-region.]

Let us consider now the side of resources allocation: $Y^S_j = C_j + CH_j + S_j + TA_j$, where:

- $Y^S_j$ is the aggregate supply function for the $j$-region;
- $C_j$ and $S_j$ are the $j$-region consumption and saving functions by local subjects, depending on available income $C_j = C_0 + c_j Y_j (1 - t_j)$ and $S_j = s_j Y_j (1 - t_j)$; it is here assumed that only the private sector saves the residual net income once paid for consumptions (at home and abroad);
- $CH_j$ is the consumption of residential outgoing tourists as considered before;
- $TA_j$ is the amount of taxes raised by public authorities.

We can now match $Y^D_j = Y^S_j$ and have:

\[ C_j + I_j + Go_j + (E-M)_j + (CG_j - CH_j) = C_j + CH_j + S_j + TA_j \]

If we assume $Go_j = TA_j$

\[ I_j + E_j - m_j Y_j + CG_j - ch_j Y_j (1 - t_j) = s_j Y_j (1 - t_j) + ch_j Y_j (1 - t_j) \]

and considering $I_j + E_j = \alpha$ as the autonomous expenditure (without tourists expenses), we have:

\[ \alpha_j + CG_j = Y_j [s_j (1-t_j) + 2ch_j (1-t_j) + m_j] \]

\textsuperscript{11} Each manual on the economics of tourism has its version of the tourist multipliers, and all of them are obviously analogous to each-other.
hence, if we define \( tm \) as the Keynesian multiplier when the tourist sector is explicitly considered:

\[
\begin{align*}
\text{[2]} \quad tm_j &= 1/[(1-t_j)(s_j+2ch_j) + m_j] \\
\text{[3]} \quad Y_j &= tm_j (\alpha_j + CG_j)
\end{align*}
\]

The tourist multiplier is the partial derivative \( \delta Y / \delta CG \) and expresses the variation of income due to a variation of the tourists expenses.

The multiplier \( tm \) is obviously negatively correlated to taxes, imports and to the average propensity to spend abroad by outgoing tourists, whereas it is positively correlated to the average propensity to consume by locals. Hence, if it is greater than one, an additional unit (i.e. euro) of tourist expenditure determines an increase higher than a unit (i.e. euro) of the regional income.

The demand from tourists \( CG \), as any other autonomous component of the local demand and provided some hypotheses are fulfilled (in particular when resources are not fully employed), rises income, thus promoting economic growth in the region. In this respect, there is no doubt that a tourist-led growth may show up, due to a multiplying process based on a cumulative transmission signal of tourists expenses on local incomes and local consumption.

Yet, it may happen that: a) the revenues on items sold to tourists within the region considered are appropriated by foreign firms, thus generating demand abroad, via imports and capital exports (as will be seen in the following paragraph); b) incoming tourists consume (their) home-made products. In all these cases, the multiplying mechanism takes place towards other regions. This implies that multipliers risk to be diverted to foreign producers.\(^{12}\)

The above conditions might seem hardly significant. We in fact think they are very important, especially if we consider a dynamic process. Point a) concerns two crucial aspects of the same phenomenon: money spent within the region that crosses the borders and pushes the economy abroad. The main outflow channel is via imports. The factors inducing locals to import more are mainly in the weakness of the supply side of the regional economy.

There might be likely a transition period when higher demand will be satisfied through imports: a process of import substitution can be achieved only when the producers will be able to face a higher and more diversified demand for goods and services, and this might take longer than the time period of income boom. In the transition period \( m \) is likely to rise significantly, reducing \( tm \) accordingly. Only in a further phase\(^{13}\), when we have a tourism take-off, the whole

\(^{12}\) Just for completeness, we should also consider a third case, when locals consume abroad high shares of their income (high \( ch \)); this effect is likely to be initially week but reinforce as local incomes rise. The higher will tend to be the available income and the stronger will be the substitution effect of free time over working time, freeing also resources to buy tourist experiences abroad.

\(^{13}\) At that stage, an input-output analysis to assess Leontieff’s multipliers might become necessary for a better understanding of the whole interdependencies among the various sectors of the economy and the feedbacks on
local productive system will learn to “internalize” the tourism-induced pressures on demand and the sectors interdependencies will increase.

The case b) is likely to be significant for low-level and mass tourist destinations, where the tourist demand is mainly by low-income people with scarce expense capacity. This is the main problem in destinations targeted by caravans, which might be the case for some new tourist destinations. This is also the case of “tourist enclaves”, that is where the whole tourist consumption and production processes are completely detached from the consumption and production processes of the destination.

3. Foreign currencies, the balance of payments and internal inflation.

The multipliers approach seems to indicate that, provided the supply side of the economy is well rooted in the territory considered, the positive externalities generated by tourists’ expenses can remain within the region, rising local income, output and employment. But there are different approaches that can help assessing the impact of tourism on a regional economy.

Let us consider investments. Some Authors have underlined the existence of a “super-multiplier” effect, meaning that an initial impulse on the aggregate demand may be reinforced with the attraction of further investments. As in the core-periphery models, the success of tourist destinations rises the marginal efficiency of capital inducing more investments in the sector.

But this may take place in different ways. If it is locals that invest on their territory, this can happen (in the short run but also in the long run if resources are fully employed) at the cost of postponed consumptions (higher savings with lower \( c_j \) and a reduction of \( tm_j \)). Private investments “crowd-out” private consumption, with no effect on the aggregate demand and with a lower propensity to consume that implies less efficacy in fiscal expansion policies.

Alternatively, these investments might be implemented through borrowed resources by locals or from foreign capitals. In the first case (which we are not examining here in detail) there is no immediate crowding-out effect but future sustainability problems arise in financial terms. In the latter case, the initial demand push determines a capital inflow for direct investments from abroad that does not crowd-out local consumption but the profits generated by the regional production generated by the increase in demand. Such an analysis is more empirically oriented and is therefore outside the domain of this work.

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14 See Dewailly, Flament (1993) to illustrate that such cases are much more frequent that one might think.
15 The concept of “well rooted” might seem (and in fact is) vague: we here simply mean that the regional economic system be so organized as to minimize the need for imports and incentives for capital exports. This has, in turn, to do with the existence of several favourable “institutional” conditions such as high propensity to invest locally, a qualified labour supply, an efficient public services system, etc.
16 See for example Candela (1996).
17 The term super-multiplier derives from the fact that if also investments are considered endogenous (they rise as the income rises) a further parameter, \( i \), the propensity to invest, enters the multiplier formula and widens the range of figures that make the multiplying effect work. It should also be noticed that some Authors (for example Prud’homme 1986) have underlined the risk of a crowding-out effect of tourist investments and production over the other economic sectors.
18 In such models (Krugman 1991), tourism expansion is centred on the supply-side dynamic, as it considers the proliferation of tourist destinations according to two opposite forces. The first is centripetal, consisting on the capacity of attraction of first coming firms/destinations working with growing returns to scale, the other is centrifugal depending on the transportation costs for consumers, which in the long run determines higher margins for positive returns on investments in new destinations. The very idea of positive scale economies outside the firm but within the sector can be traced back to Alfred Marshall, in his studies on agglomeration effects in industrial districts.
tourist success will tend to pour outside the borders through capital exports. This brings us directly to a critical point.

If we look at these flows along a time line, in a first phase foreign currency inflows for investments through the super-multiplier effect (but this can happen also for tourists consumptions) determine a rise in the quantity of money in that region. This can have several effects, mostly depending on the monetary regime the region is using.

If the region coincides with a currency autonomous unit, the rise in the quantity of money determines a surplus in the balance of payments and this might help paying for higher imports without tensions on the exchange rates. At the same time, if no other major disturbances occur an increased local demand will rise local incomes, which will in turn boost a higher demand for money (for transactions purposes) matching the higher supply, with no effect on prices.

If we abandon the favourable hypotheses of a non-inflationary growth of real income and the region is part of a wider monetary system (i.e. if the Dacia abandons its money for the sesteritum), the rise of money supply determined by tourist expense, tends to pass on to prices with negative influences on the competitiveness of the region.

Furthermore, the price effects affect the income distribution, both on a sector and on a territorial basis. The sectors and the destinations most “flooded” by foreign currencies and higher demand pressures might experience higher inflation rates which bias the whole economy and change the social patterns. As happens in most of the successful tourist destinations of the world, local prices rise and so does the cost of living for all those who do not enjoy the rise of income from tourism demand. The more people will be working in the sector and sharing the profits from tourism the less social tensions will be experienced. The geography of the regional economy may undergo a deep transformation, leading to tourism-induced production specialization.

Hence successful attempts in various parts of the world to create local network systems in which the tourist destination is “spread” around particular “attractors”, thus enhancing a fairer distribution of wealth effects.

In a longer run, capital exports might be more significant, reducing demand and inflation pressures but lowering the multiplying process of the tourist industry.

4. Tourism and capital accumulation

As we have shown, tourism creates positive and negative pressures upon a local economy. From one side, it pushes demand, incomes and employment, also rising the incentives for a supply-side investment policy. But on the other hand it tends to inflate the local system, with important distributional effects.

This is the typical situation that may be represented through a razor-blade model of growth. In a simplified model\textsuperscript{19}, we will consider the following equilibrium equations (the variables are referred to flows within a specific time interval):

\[
\begin{align*}
Y^D &= tm (I + Z + CG) \\
Y^S &= AK
\end{align*}
\]

where:

\( tm \) is the Keynesian multiplier
I are investments
\( Z \) is the autonomous expenditure of the previous paragraphs \( \alpha \) minus the investments
CG is the tourists expenditure on regional goods
A is a variable indicating the capital productivity (linked to the existing technology)
K is the capital (a vector of inputs) in the production function

For the equilibrium condition to be met, we have:

\[ AK = tm(I + Z + CG) \]

and dividing for \( K \), we have:

\[ A = tm \left( \frac{I}{K} + \frac{Z}{K} + \frac{CG}{K} \right) \]

Be:

\[ \frac{I}{K} = g_k \] the rate of net capital accumulation (without considering depreciation);
\[ \frac{Z}{K} = z \] the share of autonomous expenditure on capital;
\[ \frac{CG}{K} = h \] the share of tourist expenditure on capital.

For simplicity, we will consider these ratios to remain constant along time. Then we can write:

\[ A = tm \left( g_k + z + h \right) \]

and define \( g_k \) the equilibrium rate of net accumulation (hence ERNA) as a function of A:

\[ [4] g_k = A/tm - (z + h) \]

The ERNA \( g_k \) is positively correlated to productivity. It is negative for: \( A < tm(z+h) \).

Above the equilibrium growth line we have excess demand and potential inflation; below the line we have excess supply (that is a demand constrained economy).

Consider now the graph, where three equilibrium-rate functions have been traced for different values of the main parameters. The starting ERNA function is \( g_k^0 \). Let us suppose that \( tm \) rises. The slope of the [4] is \( 1/tm \), which implies that an increasing value of \( tm \) determines a less steep function, widening the potential inflation area. This brings the ERNA to \( g_k^1 \).

Let us assume now that what is changing is not \( tm \) but the value of \( (z+h) \). This obviously brings the line downwards, also increasing potential inflation. In order to keep the previous ERNA, higher productivity rates are required, especially in the second case.

This means that when the region becomes a success tourist destination this is likely to rise \( h \), the share of tourist expenditure on capital, therefore challenging the stability of the local economic system. The higher is in fact \( (h+z) \) and the more the local economy is in excess demand also for very low growth rates (even negative ones!).

8
This happens because – at least in the short period, with a given productive capacity, without the possibility to use unemployed resources – there is a sort of trade-off between investment growth and the demand from tourists if some low-inflation requirements are to be met. In order to keep the ERNA constant (or increasing) without major disturbances on prices, it would be necessary to rise the productivity (for example, $A^2$ instead of $A^0$). But this might take a long time and, in the meanwhile, inflation will occur (or the rate of accumulation should be reduced if external constraints forbid an adjustment through prices increase).

The tourist success of some destinations may therefore endanger the price stability of the regional economy and jeopardize the positive effects of higher demand for those who are more exposed to inflation costs.

In the long run, some homeostatic mechanisms should be working, namely that growth rises the stock of capital and this in turn means that $z$ and $h$ might not grow significantly, thus counteracting the lowering of the ERNA curve. The big question is whether such long run process might be too long for a transition economy to adjust to the social and productive pattern changes. Everything depends, obviously, on the evolution of the relative increase of $Z$, $CG$ and $I$ (which cumulatively rises $K$). Again, we can see that in order to remain within the macroeconomic stability provisions set by the institutions governing the monetary area, sufficient and equivalent growth rates of capital and of its productivity are required.

And to stay on an optimal evolutionary path for the dynamic relationship between equilibrium growth and productivity the macroeconomic framework in which tourism development takes places should be accurately monitored. The fact that the public expense can crowd out investments or consumptions and, generally speaking, that the tourist multiplier may generate an aggregate demand excess, means that variables such as saving and investment propensities, tourist flows and other micro and macro economic elements should be paid extreme heed.
5. Non-homogeneity of tourist capital and the carrying capacity question.

We have till now assumed that $K$ is a homogeneous variable. But tourism is a very special industry. It does not sell a fridge or potatoes but emotions, feelings, experiences. This implies that the capital entering the “production function” of a tourist product is highly heterogeneous. It includes natural, cultural, social, human capital as well as the usual material and technological factors and other immaterial items such as the beauty of urban architectures, infrastructures efficiency, etc. This heterogeneity bears some important consequences.

First, the “production process” of the tourist product is not irrespective of the environment in which it is produced. Fridges can be produced everywhere and production may even be fragmented in worldwide micro-processes for a final assemblage in a specific factory. In tourist products, all capital components are strictly linked to each other and to the specific place in which the tourist experience is consumed. It is the efficiency and the quality of each and all the components of the local tourist capital that are relevant for the success of the local tourist product. Tourism might and should therefore be a particularly environment-friendly industry, as its success is strictly dependent on the maximization of environmental quality functions.

Secondly, each component of the tourist capital has its own carrying capacity which should be exploited at best in a sustainable way. If natural and social components are as important as other material ones for the tourism industry, they cannot be destroyed or even wasted once and for all. Severe inter-temporal consumption choices should be implemented and promoted in order to meet growth requirements in the future.

Although the neoclassical theory suggests that there is always an optimal inter-temporal pattern of consumption, even for finite resources (Hotelling 1931; Nordhaus, Houthakker, Solow 1973), a major part of the tourist capital requires a carrying capacity approach which not only assesses shadow prices of priceless resources in the attempt to work out a cost-benefit analysis, but puts certain halts on the physical consumption of particular capital items which are exhaustible, not reproducible and yet strategic for tourist attraction.

Recently, some attempts to incorporate in the neoclassical model an infinite time horizon has led to reconsider the discounting process of cost-benefit analysis. If the time series on which cash flows from an investment are sufficiently long, it is still possible to give an economic assessment even to a not-reproducible natural resource. But in such cases, the internal rate of return on investments used for the assessment should be so high that hardly any project could be implemented.

Of course price signals may in some cases accelerate diversification but not all tourist destination can do this. Once the Niagara falls should reduce to a shrinking torrent, nobody would simply demand that destination anymore, irrespective of efficient and diversified services which in the meanwhile might be supplied in the nearby.

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20 For a classification and some analytical models to tackle with the carrying capacity question in tourism see Costa, Manente (2000: 247 ff).
21 Shadow prices are built on the opportunity-cost concept: a wonderful, clean lake does not have a market price but can be evaluated as the sum of the opportunity costs of alternatives uses. An industrial plant jeopardizing the environment should be confronted, for example, with a tourist system based on the beauty of the lake. In this respect, such a lake might be highly worthy but still have some price over which whatever alternative use could be imagined and considered economically rational. A high-paying industrial plant might destroy the lake forever.
22 For some pioneering studies on this topic see Fisher, Krutilla (1972) and Canestrelli, Costa (1991).
6. Further questions: externalities, public goods, local returns on investment and public intervention.

Let us now briefly recall some further elements (externalities, public goods, territorial investment specificity), already considered in the literature on tourism and therefore do not need to be extensively detailed, which should induce a careful monitoring of the growth path of the tourist sector, especially when the question of the role and responsibility of the public sector is concerned.

In the last twenty years the attention of mainstream economics has concentrated on endogenous growth models considering public goods in the aggregate production function. Human capital formation, technological progress, organizational innovations are common examples of such public goods, together with “classical” ones like infrastructures.

In the case of the tourist industry, as we have suggested earlier, the quota of public goods within its production function is even higher than for any other sector. But, as in most of the other productive sectors, profits can be - and normally are - privately appropriable. A hotel on a rock by the seaside enjoys a rent due to the particular location thanks to a public natural capital, but the profits generated by such enterprise are entirely private (Krutilla 1967). While the production of public goods depends on a collective effort, the profits deriving from the exploitation of such public goods are entirely private.

On the one hand, this rises serious questions concerning resources redistribution and optimal public intervention on tourist capital through taxes and incentives. On the other hand, this opens a repeated game resembling a prisoner’s dilemma\(^{23}\), where each tourist entrepreneur tries to gain a competitive advantage from particular localization rents but at the same time collectively needs a supply of high-quality public goods without which the rents would simply not materialize. Two hotels on the same beach need its cleanness and un-crowdedness to be safeguarded but none of them might be prepared to bear the costs of it. The Public authorities should therefore impose a higher taxation on the use of natural resources in order to finance their preservation.

The public intervention should also help assuring true non rivalry in consumption of public goods which are de facto appropriated by private firms or make such non-rivalry paid by those who benefit from this change. When a tourist capital item is in fact used for tourist purposes it sometimes loses one of the two fundamental characters of public goods (non-rivalry in consumption). This happens because the tourist enterprise will try to maximize its clients private use of the public goods and will often partially succeed in this. Such goods are in fact club goods rather than public ones. On principle, a beach is consumable by everybody, but in fact overcrowding will discourage and even prevent further consumption. First comers will prevent later comers from consuming the same capital item. Public authorities might therefore prevent this to happen at all or ask the repeated private consumers of the such capital to pay for changing the public good into a club good.

A further question specifically concerning tourist capital is its immobility. Most of its components are territorially-specific from the point of view of its value. A hotel in a beautiful place cannot be moved, and even if it could be theoretically possible to transfer it somewhere else, it would lose most of its value. As Fisher (1906) reminded, the value of an asset depends on the capacity of generating positive cash flows, not on production costs (whatever inputs one decides to consider).

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\(^{23}\) See the pioneering contribution by Delbono, Fiorentini (1987).
This implies that tourist capital has a strict relation to the physical territory. Tourist investments have therefore a high degree of territorial specificity. If this might discourage private investments, as they becomes more risky (the opportunity cost of alternative uses of the firm rises), it definitely favours public ones, as the benefits from social investments on natural capital remains within the community that pays for it.

Investments in formation, environmental protection, production and enhancement of local public goods (cultural resources, transports, service infrastructures) have an excellent local return and may therefore justify direct public intervention.

Such intervention may have several facets. A very popular one, especially where not directly forbidden by international constrains, is direct subsidisation. Through subsidies, local public authorities try to promote local private investments. And entrepreneurs are very sensitive towards direct subsidisation. Investments depend in fact on the marginal efficiency of capital, implying an objective discounting on the interest rate and a subjective assessment of future perspectives. Direct subsides change the expectations concerning the marginal efficiency of capital, thus influencing the investments function. But as the future perspectives of the firm rely much on the specific localization, the public intervention should avoid subsidising the firm-specific investments, privileging environmental (in a wide sense) ones. This might also be necessary to avoid subsidising over-investments interventions for unproductive and inefficient firms.

7. Conclusive remarks.

Tourism can be an impressive and very charming source of growth for an economy. Public authorities should promote it as a tool for pulling a whole economy to higher performances. It nevertheless rises serious problems of economic planning, as it is linked to the supply of several public goods, it shows many externalities, it requires private and public cooperation.

The impact of the tourist demand on a regional economy may also be ambiguous. To illustrate this, we have used a Domar-like model because, when considering Eu accession, inflation pressures must be kept under control; neoclassical models would not catch the “razor blade” situation characterizing tourism-led growth. Higher tourist consumptions should be accompanied by a reduction in local consumptions if a non-inflationary growth is required.

If inflation pressures are not avoidable, this might determine (especially in a currency union) a loss of competitiveness and the tourist money flows may be diverted from the region, with the failure of the tourist development project. During the transition to a common currency, the regional system may benefit from some autonomy for policy intervention but in the meanwhile the supply side should adequate to the coming constraints.

In the long run, some homeostatic mechanisms may occur and in a further phase, namely during the take-off (which according to the statistical data seems to be in the near future for Romania), it would also be necessary to take into account the economic interdependencies and the effects induced on production by the higher tourist demand.

Before such effects come into full operation, a public intervention into the regional economy is highly advisable. In particular, an organic and coherent programme of public investments in infrastructures, social and natural capital should be implemented. This requires an enormous financial effort that, given the limits imposed on public indebtedness by the Maastricht provisions, has to be supported by high degrees of private and public savings, which might reduce the demand pressures on prices but also the multiplying effect.
Demand and supply should therefore constantly monitored and matched. This demands a huge effort by both private and public sides which might be difficult to achieve and maintain. A “regional” network of tourist supply and an accurate analysis on demand evolutions should be backed by a private-public governing mechanism. Only through a continuous process of coordination it is in fact possible to avoid demand or supply discrepancies, leading to inflation, to the breaking of the balance of payments constraints or to over-investment.

Once these conditions are fulfilled, tourism can boost growth and represent a big chance for accelerating catching-up processes, especially where higher-than-average (with respect to the other countries) rates of growth are allowed in a required non-inflationary context.

References


