Review of Economic Analysis 2 (2010) 256-271 1973-3909/2010271

Destination Unknown. Is there any Economics Beyond Tourism Areas?

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In recent years, several papers have been focussing on various aspects of tourism destinations. The destination is a central issue within tourism studies, embodying in one single concept all the specific and problematic features of tourism, such as its systemic nature in which "space" plays a fundamental role.

In this paper we argue that tourism economics shapes itself as an independent discipline within applied economics through the analysis of destinations. Firstly, destinations are neither microeconomic agents nor macroeconomic aggregates, but territorial systems which supply at least one tourism product (a bundle of goods and services) able to satisfy the complex needs of tourism demand.

Secondly, the economic analysis of destinations can identify two specific theorems, the love of variety theorem and the coordination theorem which allow to interpret the tourism destination as a particular type of economic district, which shares some of the features of the industrial district and some others of the cultural district.

Keywords: Tourism economics, tourism areas, destination management, industrial districts, cultural districts

JEL Classifications: L1, L83, R3, R5

1 Introduction

The related literature has established the destination as a central concept within tourism economics and, in recent years, several articles have been focussing on various aspects of the destination. Nowadays, research on destinations is one of the "hot issues" in tourism studies. Although a rough indicator, the number of entries in Google Scholar allows to provide some

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anecdotal evidence on this point: in this search engine "tourism destination(s)" have 18,730 entries (on 31st of July, 2009) while, on the same day, "tourism firm(s) have 1,538 entries, "tourism demand" 6,480 and "tourism market(s)" 14,750. More precise searches in specific databases might clearly lead to slightly different results, but the suggested bottom line is that research in tourism studies pivots around the organisation, the management, the development, the sustainability and, we claim, the economics of tourism destinations.

Although everyone has an image of what a tourism destination is, more difficult is the attempt to define it; early definitions are rather unsatisfactory:

> "a tourism destination might be a single district, a big city or a small town, a rural, mountain or a coastal area, clearly shaped" (Davidson and Maitland, 1997).

Such definition does not focus on the intrinsic characteristics of tourism areas, since there is a huge variety of destinations around the world. More recently, Cooper et al., (2008) identify the following common features of the destination:

- The destination is a "product" in itself, with an economic value;
- Such economic good is perishable: seasonality, the overload of tourists over its carrying capacity, the unsustainable use of natural resources etc. can reduce its economic value, thus leading the destination out of the market.
- In the destination, tourists and residents compete for a limited amount of available resources;
- The variety of goods and services which compose the tourism product must be of the same quality to guarantee the economic success of the destination.

By merging and reshuffling these features, the destination can be defined as:

> "a territorial system supplying at least one tourism product able to satisfy the complex needs of the tourism demand" (Candela and Figini, 2010, Our translation).

This definition is useful because it embodies in one single concept (the destination) all the specific and problematic features of tourism, such as its systemic nature, in which "space" plays a fundamental role (Leiper, 1990). It is indeed in the destination that tourism supply meets tourism demand; it is in the destination that environmental and cultural resources, attractions, the hospitality industry etc. are located; it is in the destination that tourism demand reveals itself. Therefore, the destination is the trait d'union between the complexity of the sector, the complementarity of the many goods and services which constitute the tourism product, and the intangibility stemming from the supply of the territory.

Hence, one might conclude that the economics of destinations can be identified with the economics of tourism. Although we will argue in the remainder of the paper that tourism economics shapes itself as an independent discipline mainly because of the analysis of destinations, such equivalence would, however, be misleading.

To justify the lack of equivalence between the destination and tourism for the economist' point of view, to begin with, we need to distinguish those aspects that are specific of single firms or tourists, those that characterise the whole sector and those that are specific of the destination. Therefore, we identify:

- The microeconomics of tourism, which refers to the analysis of markets in which the elementary items composing the tourism product are supplied, demanded and exchanged: accommodation, package tours, transport, etc. The typical tools of economics, particularly of industrial organisation and consumer theory, are applied in this field of study. In such microeconomic framework, the destination is nothing more than the location in which markets work and show their effects.
- The macroeconomics of tourism, which refers to the aggregate analysis of tourism demand and production and their effects on national income, the balance of payments, growth and development. Again, the typical tools of economics (i.e., the multiplier, endogenous growth theory, international trade models etc.) can be applied.
- The economics of destinations, which refers to the relationship between demand and supply of the whole tourism product, for the different types of tourism hosted in the destination.

Such distinction allows us to classify the recent literature on destinations, by separating: i) the papers for which, paraphrasing Lundberg et al., (1995, p. 4): "[destination] is an umbrella concept" nothing more than a geographical location, an unnecessary framework for the analysis carried out; ii) the papers which, on the contrary, study specific features of the destination at such intermediate level of analysis between the micro and the macro.

Among the first group, most of the economic content of this literature can be easily explained by applying the standard models and tools of microeconomics and macroeconomics. Although it is not the aim of this paper to provide a literature review of tourism microeconomics, recent papers on such issues deal with problems such as quality uncertainty (Candela and Cellini, 2006; Calveras and Orfila, 2007), price structure (Aguilò et al., 2003; Haroutunian et al., 2005) product differentiation (Calveras and Vera-Hernandez, 2005; Garcia and Tugores, 2006), price strategies (Candela et al., 2009), information asymmetries (Clerides et al., 2008), strategic interaction between firms (Wachsman, 2006), consumer behaviour (Figini and Vici, 2009), tourism demand (Durbarry and Sinclair, 2003), externalities (Punzo and Usai, 2007), public goods (Rigall-i-Torrent and Fluvià, 2007) etc. In such context, the destination seldom represents something different from the concept of the market in which firms and tourists meet.

When the theory calls for public intervention, it does so by using the standard tools advocated to the allocation bureau (Musgrave, 1959) to solve microeconomic inefficiencies: market regulation, antitrust and competition authorities, contract theory, taxation etc. Tourism economics is, in this sense, a sound field of application of well known microeconomic principles.

Similarly, at the macroeconomic level, the impact of tourism (in particular international tourism) on the whole economy can be explained by using standard concepts as the Keynesian multiplier or international trade theory (Sahli and Nowak, 2007); the effect of specialisation in tourism on economic growth can be analysed through extensions of endogenous growth models (Lanza and Pigliaru, 1995; 2000; Candela and Cellini, 1997); the long run effect of tourism on the environment as a whole can be studied by applying the concepts of sustainability to tourism (Cerina, 2007; Lozano et al., 2007). Again, in this literature, destinations can be seen as economic systems where to apply sound (and well-known) economic principles. In such framework, the public intervention completely overlaps with the aims of the stabilisation bureau to solve macroeconomic inefficiencies at the country or regional level.

Among the second group of papers, the ones focussing on specific features of the destination, however, the economic content is often negligible and such literature belongs to other disciplines, such as management, marketing and organisation. Concepts such as the life-cycle of tourism areas (Butler, 1980), destination management (Laws, 1995), destination marketing (Heath and Wall, 1992), destination branding (Morgan et al., 2004), web management of the destination (Choi et al., 2007; Wang, 2008) have been developed over the years, with the identification of original and specific features, both theoretically and in terms of practical applications.

Therefore, we might conclude that the papers on destinations rarely have an economic content and papers of tourism economics seldom deal with intrinsic and specific features of the destination. It is straightforward to wonder whether the intersection between destinations and economics is an empty set or not. Does, in other words, something such as the economics of destinations exist? Our answer is positive, and our thesis is based upon the following rationale:

a) There are some particular economic features in the tourism sector that call for a novel and independent analysis;
b) Those economic features appear at the destination level;
c) It is the existence of such economics of destinations that allows tourism economics to be defined as an independent discipline within applied economics.

While point (c) is discussed in another paper (Candela and Figini, 2009), we focus, in the remainder of the paper, on the discussion of points (a) and (b). In particular, the two specific features of the tourism product which are interesting for the economic analysis are described in Section 2, while the core of the economics of destinations is outlined in Section 3. Section 4 concludes and discusses the policy implications of our analysis.

2 The Tourism Product and the Destination

By re-organising the four characteristics of the destination recalled in Section 1 and borrowed by Cooper et al. (2008), it is possible to summarise the fundamental economic problems of the destination as follows:

1. In the destination, it is necessary to coordinate the different production activities provided by independent firms.
2. In the destination, it is necessary to supply a variety of goods and services in order to meet tourists' needs and improve their satisfaction.
3. The destination needs to "complete" the tourism product through the supply of public goods (structures and infrastructures) and services (information) which cannot efficiently be offered by the private sector.
4. The destination needs to tackle problems of intra-spatial externalities (related to the co-existence of tourists and residents) and inter-generational externalities (between present and future tourists, i.e., sustainability).

Points (3) and (4) above are, however, "typical" market failures which require the intervention of a public authority, defined at the destination level. On such issues (particularly the n. 4) there already exists a vast literature, which has already been recalled, at least partially.[1]

In what follows, on the contrary, the focus will be on points (1) and (2) which, in our opinion, constitute the core on which the economics of destinations shapes itself. Before getting there, we first have to describe the two specific features for which the tourism product is an interesting object of study for economics: a) the tourism product is a bundle of goods; b) the territory is part of the production function.

The tourism product is a bundle of goods

The tourism product is a complex good, since it is composed of a set of elementary items (goods and services) demanded, in a relationship of complementarity, by the tourist during the experience of the holiday. Hence, in a technical sense, the tourism product is a bundle of several goods (accommodation, transport, shopping, natural attractions, events etc.).[2] The usual object of study, on the contrary, is the single good or service (in microeconomics) or aggregate production (in macroeconomics).[3]

The "bundle" is an important economic feature, being very useful in microeconomic theory (i.e., in consumption theory), in applied economics (to build price indices) and in macroeconomic theory (to estimate the aggregate value of production and income). However,

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[1] See also Candela and Figini (2010), chapters 14 and 15 for a more comprehensive analysis and for bibliographic references.

[2] In a non technical sense, the tourism product is what the sociology calls tourism experience.

[3] Due to such characteristics of the tourism product, neither the market criterion nor the technological criterion can be used to identify a tourism sector in the system of national accounts. Satellite accounts have to be developed in order to measure the extent of tourism and its impact on the economy.

in all those applications, the consumption bundle is a tool, rarely an object of study in itself.[4] In tourism economics, on the contrary, that particular bundle of goods and services called tourism product is the object of study, from which peculiar effects and behaviours of demand and supply derive.

The territory is part of the production function

In the economic analysis, demand and production meet in markets: abstract institutions which location is irrelevant. Only rarely, and recently, the spatial boundary of economic processes is considered a relevant object of study.[5]

In tourism economics, the measurement of tourism flows involves the spatial definition of the destination: arrivals, nights spent, length of stay, and tourist expenditure from the demand side; carrying capacity and accommodation capacity from the supply side. In other words, the "quantity" of the tourism market is measured at the destination level, which is neither a firm nor an industry, but a system: a mix of heterogeneous firms providing different goods and services which compose the elementary items of the tourism product. Therefore, the main "agent" in tourism economics is the destination, neither the firm nor the consumer.

3 The Economics of Destinations

Having defined a particular object of study (the tourism product) produced by the destination (a territory defined as a system of firms producing the elementary items of the holiday),[6] we are able to shed light on two theorems which can constitute the bulk of the economics of destinations: the love of variety theorem and the coordination theorem.

The love of variety theorem

Destinations can gain by increasing the degree of diversification of the tourism product, defined as the variety of goods and services included in the holiday. The greater the variety, the higher the tourists' willingness to pay, the higher the profits of the firms operating in the destination (Andergassen and Candela, 2009).

Anecdotally, the love of variety theorem would push the destination to supply at the same

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[4] An important exception is the theory of Lancaster (1971) which gave rise to the hedonic price approach. Not surprisingly, such approach finds in tourism a natural field of application (see Aguilò *et al*., 2003).

[5] For example, in the new economic geography (among the many see Krugman, 1995), in regional and transport economics (Nijkamp, 1986), in the theory of industrial and cultural districts (Becattini, 1987; Santagata, 2002).

[6] In our approach we mainly have in mind the independent tourist who composes his/her own holiday by directly buying the elementary items from firms located in the destination. However, the framework proposed in this paper also holds for package tourists: the only difference is that, in this latter case, the holiday is produced *in house* by a single firm, the tour operator.

time a seafood restaurant and a pizzeria in the food and beverage sector, a golf course and an amusement park in the attraction sector etc. Variety, in this sense, is different from the typical concept of variety stemming from horizontal differentiation models. In those models, differentiation has the scope of increasing the willingness to pay of consumers by supplying the good closer to their preferences, but each consumer prefers one single variety. In the love of variety theorem, on the contrary, tourists' willingness to pay increases because, within the same holiday, tourists can enjoy a seafood meal at lunch and a pizza at dinner, a day on the golf course, and another spent on the roller coaster etc.

While we refer to Andergassen and Candela (2009) for the formal demonstration of the theorem, four our purposes it is sufficient to describe the assumptions and the intuition of the model. They consider a representative tourist with a constant elasticity of substitution (CES) utility function (Dixit and Stiglitz, 1977). The arguments of the utility function are: i) the length of stay in the destination, proxied by the number of overnight stays consumed in the (only) accommodation firm; ii) the consumption of a local product, which is produced in n varieties by the n firms located in the destination (they constitute the different tourism attractions); iii) the consumption of non-tourism goods. Such set-up allows, in line with Section 2, to represent the tourism product as a bundle of different goods, including accommodation and a variety of local goods.

Under general assumptions (the local goods and accommodation are gross complements, the local goods and non-tourism goods are gross substitutes, the different varieties are gross substitutes, the local goods are produced in competitive markets) Andergassen and Candela show that total utility of tourists increases with the variety of local goods. As a consequence, the demand for accommodation and the share of budget spent in the destination both increase with the strategy of diversification.

In the literature this result is not new: Dixit and Stiglitz (1977) seminal paper is the founding result of monopolistic competition and gave birth to a fertile literature on love of variety, particularly related to international trade.[7] What is new, for economics, is the policy implication stemming from the application to tourism economics. The “central planner” which we call destination management and which represents the system of firms, can use some tools to increase “its” firms' profits. If the tourist loves diversifying experiences in the holiday, the destination should increase the variety of local goods and services accessible to tourists, (i.e., by favouring the development of local firms, or merging in districts, i.e., the Sistema Turistico Locale in the Italian legislation).

A corollary of Andergassen and Candela's model is that the love of variety also means the preservation and the availability to tourists of natural resources that enter as public (or

[7] See, for example, Krugman (1979) and Rodríguez-Clare (1996). For a survey of monopolistic competition and love of variety, Lancaster (1990).

common) goods the utility function, and for which tourists do not pay. As a consequence, the destination has to raise funds to finance such preservation, and this should come from taxation of the firms' extra-profits stemming from diversification.

The coordination theorem

Within the destination, the tourism product is successful if the many firms offering single parts of the holiday are coordinated. This theorem stems from the existing complementarity between the single items which compose the holiday; i.e., lodging in a hotel is a complement good of the meal offered in the restaurant and, in general, of all the other goods offered by local firms.

This is tantamount to say that each firm owns the right to accept or refuse the tourist in the destination. To be simple, should the hotel refuse the accommodation, it would produce a negative externality on the restaurant, since tourists would not travel to the destination at all. The assumption of a good on which many agents share the same property right defines the anticommon.[8]

It is interesting to notice that such a case of fragmentation of property rights is exactly the opposite of the common good, in which property rights are not defined (Hardin, 1968).

Hence, the central question is whether there is a tragedy of the anticommons in the destination.

We believe there are three different reasons for the answer to be "yes", stemming from three different dimensions of the coordination problem. In fact, firms have to coordinate in quantity, quality, and price. We present very briefly the first two aspects, then focussing on the third aspect, price coordination.

Coordination in quantities

Coordination in quantity simply means that the carrying capacity of one firm has to match with the carrying capacity of its complements, otherwise tourists would not gain the physical access to the destination. This involves, for the destination management, the right to plan the (sustainable) development of the territory in the long run, and the possibility to use pricing and booking strategies in the short run to counteract phenomena such as seasonality, overbooking etc.

Coordination in quality

If there is a luxury hotel in the destination its guests would probably ask for a luxury restaurant. If, instead, there is only a pizzeria, or a take-away, tourists would probably not come to the destination at all. This case of quality coordination can be easily considered as a

[8] The anticommon has been introduced by Michelman (1982) and developed by Heller (1998 and 1999). See also Parisi *et al.* (2000) and Parisi *et al.* (2004).

specific case of point (A), if we define quantity as "quantity of the complementary item asked by a particular type of tourism". A complication arises when, at the same time, the destination hosts different types of tourism. In such case, the destination has to offer a range of different qualities (and varieties) in order to match the specific demands.

Coordination of quality allows to consider the destination as a club, with the well-known problems of quality maintenance of clubs that the destination management has to face (Cuccia and Santagata, 2004).

Coordination in prices

While the implication of point (A) is obvious, and point (B) has already been tackled by the literature of cultural economics,[9] point (C) might provide some new insights into the coordination problem.

Consider, in line with Candela et al. (2008) a very simple set up in which quality is the same throughout the destination and there are no capacity constraints. Moreover, the single firms operating in the complementary markets have some monopoly power: in the simplest case, consider two monopolist firms.

Candela et al. easily show that, without coordination among firms, the final price paid by the tourist is too high, the number of overnight stays too low and, what is more important from the destination point of view, profits of the firms are not maximised. This is tantamount to say that, without coordination, there is a market failure stemming from the anticommon property.

This inefficiency requires the intervention of the destination management, which has to: i) coordinate the firms offering the single parts of the holiday; ii) fix the price of the whole tourism product (the holiday); iii) impute the price of each single component of the tourism product and then redistribute to local firms the extra-profit stemming from coordination. With such effort of coordination, profits and overnight stays increase.

It can be highlighted that the coordination offered by the destination management (which can be either a public authority or a private association of firms) is not the only solution to the anticommon problem. An alternative solution can be provided by the tour operator through the market.[10] In such case, the tour operator sells a package holiday by: i) coordinating the firms which produce the single parts of the good in a single all-inclusive holiday; ii) fixing the price of the holiday; iii) offering a payment to the single firms (this price would be lower than the market price but, if the participation constraint has to be satisfied, would allow them to reach at least the same level of profits gained in absence of coordination; iv) keeping the extra-profits, which are not redistributed to the local firms.

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[9] For a reference in the literature of tourism economics see Calveras and Vera-Hernandez (2005).

[10] On coordination provided by the tour operator, see Calveras and Orfila (2007).

To summarise, the coordination theorem states that, when the good has the anticommon property, coordination among firms, which can either be provided by the destination management or by the tour operator, increases total profits. In the latter case, however, profits of the local firms are lower than in the case of coordination provided by the destination management. The type of coordination chosen in the destination is therefore not distribution neutral. Should the tour operator be a foreign firm, the market coordination would move a share of total profits outside the destination, with negative implications on social sustainability, particularly for developing countries.

This theorem explains two important facts of the tourism sector: the need of a centralised destination management to coordinate single firms and/or the development of a decentralised firm offering the holiday, the tour operator.[11]

The two theorems separately consider the incentives stemming from variety and from coordination where, in real-world destinations, these two features unfold together. The search of a theoretical framework in which variety and coordination can be jointly analysed is one of the open issues in the economics of destinations research agenda. It can be maintained that these two goals can co-exist, although the work of the destination management would become more difficult: by aiming at more variety, a higher degree of complexity in the management of coordination should be accepted.

The economic goal of the destination

A recent debate has developed around the economic goal of the destination (see Dwyer and Forsyth, 2008; Scott and Breakey, 2007). What is the measure of yield which applies to the destination and which can evaluate its competitiveness? Theoretically, stemming from the theorem of coordination and from imitation of the tour operator, the goal of the destination management should be to maximise total profits. However, a central planner does not have all the information needed to reach such goal (i.e., it does not know the cost function of firms).

Therefore, an operational proxy should be identified. The proxy generally considered in the literature is revenue maximisation or, which is the same, tourists expenditure.[12] Revenue maximisation imposes to set the Cournot price, a holiday price for which the elasticity of demand is equal to one in absolute value.

The toolbox of the destination management

In the previous sub-sections we have stated that there are many economic reasons to justify the existence of the destination management, particularly when tourism flows are mainly composed of independent tourists, who do not buy from tour operators. Moreover, we have

[11] It is important to highlight that the anticommon problem has not been developed in tourism economics, but find in this field a perfect application.

[12] Theoretically, profit maximising is equal to revenue maximising if costs are the same for all firms.

identified the economic goal of the destination as revenue maximisation. Now, we briefly discuss the tools that can be used by its management.

Firstly, if the destination has a central management, it needs some power over the price setting (as already said, revenue maximisation imposes to find the Cournot price) and the pricing strategy. Three interesting corollaries can be outlined:

- destinations have to go where the wind blows, by raising the price if demand increases, and decreasing the price if demand falls;
- the price is the effect, not the cause of the type of tourism hosted. If a destination is selected by mass-tourism (which demand is more elastic) has an advantage in keeping the price low; if a destination is selected by élite-tourism (which demand is less elastic) has an advantage in keeping the price high.
- If the destination is concerned with the quality of the environment and the preservation of natural resources, ceteris paribus, the price has to be higher (Pintassilgo and Silva, 2007).
- Secondly, all the pricing and yield management strategies nowadays used by single firms thanks to the development of ICT (overbooking, price discrimination, first and last minute offers etc.) might also be used by the destination management.[13]

Thirdly, a vast literature studies the main tool used to finance the management (taxes), and the problems involving its distribution between tourists and residents and, among residents, between the tourism and non-tourism sectors.[14]

4. Discussion

The arguments developed in this paper allow us to support two conclusions.

Firstly, the tourism destination can be seen as a particular type of district, which shares some of the features of the industrial district (the positive externalities on costs stemming from agglomeration of firms) and of the cultural district (the positive externalities on quality stemming from belonging to a common club). Tourism destinations share both externalities: they increase the quality of the holiday, as it is perceived by tourists (and measured by their willingness to pay) if they invest in variety (love of variety theorem). They join a positive externality, with positive effects on profits of the local firms if there is coordination provided by the destination management or by the tour operator (coordination theorem). Such conclusion can be summarised as in Table 1.

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[13] The recent literature also suggests that several other instruments might be used to reach different targets. For example, in order to counteract the historical trend in the fall of the length of stay (which has negative consequences on the average quality of the holiday in the destination, Candela et al., 2003), the management might use a two-part tariff in order to affect tourists decisions with respect to the number and to the length of the holiday (Candela et al., 2009).

[14] For a recent survey, see Vaccaro (2007).

Secondly, the issues raised in this paper allow us to enter the debate on whether tourism economics can be considered a discipline. Different positions can be found in the literature, ranging from negative answers:

> "Tourism is found not to be a discipline" (Tribe, 2004, p. 48)
>
> "While tourism rightly constitutes a domain of study, at the moment it lacks the level of theoretical underpinning which would allow it to become a discipline" (Cooper et al., 2008, p. 5).

Table 1. A Comparison of Industrial Districts, Cultural Districts and Tourism Destinations

Type of district	**Reasons for the birth**	**Need for public intervention**	**Rationale of public intervention**	**Local community welfare**
Industrial district	Externalities	No	---	Welfare increases
Cultural district	Product idiosyncrasy	Yes	Remedy to the problem of *commons*	Welfare increases in case of success
Tourism destination	Tourism product as a bundle of goods	Yes	Remedy to the problem of anticommon*s*	Uncertain result depending on income distribution

Source: Own elaboration on Candela *et al*. (2008), Table 1.

Other positions are more open to identify tourism economics as a field of study:

> "Tourism is an established area of study in applied economics" (Papatheodorou, 2003, p. 407).

Our thesis is that tourism economics can be defined as an independent discipline within applied economics because it has a specific object of study, the holiday (a bundle of complementary goods and services) produced and consumed in a territorial system (the destination), a particular economic agent (different from the single firm or from the aggregate economic system) which its own goals, tools and theorems (Candela and Figini, 2009).

Therefore, tourism economics satisfies the four criteria needed to define a discipline (Hirst, 1974). Hence, re-quoting Papatheodorou (2003), we can conclude by affirming that:

> "the economics of tourism is an established economic discipline in applied economics".

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