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ECONOMICS OF TOURISM: MISUNDERSTANDINGS AND A LACK OF UNDERSTANDING

Summary

The economics of tourism is a well-known concept in the theory of tourism. However, scientific positions which have attempted to define the concept in different periods have not only differed, but have even been contradictory. In the countries of East Europe, the concept of economics of tourism has existed since the end of World War II. Western tourism literature began to use the term only at the end of the 20th century, but a defined position on this, let alone a consensus, has still not been found. This paper presents a retrospective of scientific views on the economics of tourism over the last sixty years and polemically discusses the views published in the *International Handbook on the Economics of Tourism* (L.Dwyer and P. Forsyth).

Key words: theory of tourism, economics of tourism

INTRODUCTION

Scientific and would-be scientific debates on tourism have been going on since the very beginnings of tourism, for more than two centuries now. However, real scientific debate on tourism began when the consequences of tourist movements became apparent, or at least more apparent than previously, both to tourism experts and to the rank and file. We can certainly state today that tourism brings a large number of diverse impacts: economic, spatial, sociological, cultural... However, at its beginnings, two types of impacts were most noticeable: economic and spatial (some would say geographic). It is understandable that most discussion focused on these two groups of effects of tourism travel. Since other aspects were not touched upon, or not adequately, it can be inferred that most of these effects were unknown, or were hardly known.

The economic effects of tourism development soon appeared and became interesting even to the average observer. Visitor arrivals at a certain resort meant the opening of guesthouses, restaurants, various shops, and sports facilities. This gave rise to the opportunity to earn income and find additional employment. Many local communities still have the same basic problems of finding a way to earn revenue, and have so far not managed to find a solution. However, the size of tourism traffic, and particularly the consumption generated by this traffic at that time, was not strong enough to prompt serious debate about the opportunities offered by tourism. For those who wrote about it, it was sufficient to point out in the title of their paper that their work dealt with the economic issues of tourism traffic. The authors thus distanced themselves from an “analysis” from “another perspective”, and there was no need to talk about a specific, let alone a scientific, discipline dealing with the “economic side” of tourism.

An observation is appropriate here. Other tourism disciplines followed the same path, but the significance of economics of tourism for an understanding of the tourism phenomenon was greater and more pronounced. For this reason, I have chosen to analyse the discipline of economics of tourism in this paper.

THE CONCEPT OF ECONOMICS OF TOURISM AND WHAT IT USED TO MEAN IN CROATIA

We have already seen that the concept of economics of tourism has not taken equal hold in the theory of tourism in the world, and is not everywhere an accepted term. When it was used, neither its scope nor its content were unequivocally defined and did not reflect a universal standpoint. On the contrary, its interpretation changed depending on the environment, and from one author to another. The range of interpretations has been enormous: from total denial to unreserved acceptance. Rarely has an environment remained indifferent to it, but the arguments for and against were not offered publicly, particularly not through polemics; the term itself was simply not used in a particular environment, or by certain authors. Such controversial standpoints appeared in other disciplines as well, which all had an impact on the subject matter of university courses on tourism

It has to be stressed here that the standpoints of Croatian, and before that Yugoslav, academics greatly differed from the concepts held by their western counterparts. From almost the earliest papers on tourism in Croatia, the term economics of tourism was accepted without specific debate, and especially without opposition. The concept and the term itself acquired a general, all-embracing meaning, like the theory of tourism, and was often used in place of the latter term.

For many years, economics of tourism was an established term denoting tourism as a phenomenon generally, one of a universal nature, and not just one of its aspects – the economic aspect, as the term would suggest. Economics of tourism, as a discipline, was for the first time taught at Croatian schools and universities fifty years ago, and is the oldest discipline in the field of tourism in educational institutions in Croatia. The term itself is rather specific for this part of the world, because, besides Croatia, it was used in other East European countries after World War II. The appearance of this discipline in school curricula coincides with the development of tourism in former Yugoslavia. In order to analyse the status of this discipline in Croatia at that time, we need to: a) analyse the circumstances in other republics of the former state and in their schools; b) analyse the real content of the term economics of tourism in the former Yugoslavia and in other countries.

The inclusion of this discipline in the Croatian educational system has, probably unintentionally, played a vital role. It clearly demonstrated that general knowledge in the field of economics does not suffice for students who would work in a specific sector of the economy, and it was necessary to offer them a curriculum containing specific disciplines for particular economic sectors. Thus, clearly delineated major fields of study were established which first provided students with general economic background knowledge and then, building on this base, provided the specific knowledge and skills necessary for various sectors of the economy. Today, the described situation may look somewhat unreal, but after World War II, when tourism was in its infancy and was not yet bringing any substantial returns, the ideas of “general economic education” were widespread in most tertiary level schools of economics in the whole of the former Yugoslavia. Indeed, some expressed that there were dangers in “pushing ahead with specific majors at tertiary level”. The Business School for Tourism in Dubrovnik was among the first to use the term economics of tourism. The first modern ideas in this field were introduced in 1962 by Mijo Mirković, an academician. He set up two specialist postgraduate study programmes at the Faculty of Economics in Zagreb: Economics of Tourism, and Economics of a Commune. The programme was partly changed

after 1982, after the merging of the Faculty of Economics with the Faculty of Foreign Trade in Zagreb. The new Faculty kept the name Faculty of Economics. As the Faculty of Foreign Trade had well-defined, specialised majors, among which was Tourism, after the 1982 integration a major was established under the same name, as a full-time study programme at the Faculty of Economics.

The name of the discipline, economics of tourism, was widely used as the title of books and university textbooks for students of tourism at the secondary and tertiary level in Croatia and in the whole of Yugoslavia. Although the term became a popular book title, the works did not necessarily cover the real content of the scientific discipline of economics of tourism.

The first Croatian lexicographical edition in the field of tourism was the *Dictionary of Tourism* (2001). It defines the term economics of tourism as “part of the science of economics which analyses, explains and relates phenomena and relations in tourism from the point of view of their effects and repercussions”. This explanation validates the existing situation in Croatia where economics of tourism has developed as an independent discipline dealing with only one aspect of the tourism phenomenon. For many, this aspect is the dominant one that lends importance and weight to the whole discipline. Such views have a negative connotation as well, at least to some extent, since they may deny the multidisciplinary nature of the tourism phenomenon. Over a relatively long period of tourism development in Croatia, the name of this discipline, economics of tourism, was a synonym for the entire knowledge of the tourism phenomenon. This can easily be seen in the curriculum of the courses on economics of tourism, and in the contents of the textbooks used in these courses, particularly at universities and business schools.

The concepts and views of economics of tourism in Croatia, as a separate scientific discipline, followed the ideas and principles that predominated in economic theory throughout the world. Generally speaking, the views on tourism put forward at the beginning of tourism development were really reduced to studying the economic effects that tourism traffic brought to the industries of catering, transportation and travel agencies. In education settings, tourism was studied in general courses, for example Tourism Basics. However, when the volume and quality of these changes became more evident and more significant in a certain economic sector, a separate scientific discipline under the title Economics of Tourism was accepted in many education institutions, and the discipline focused exclusively on the economic characteristics of tourism phenomena. An analysis of the discipline centred mainly on the macro plan: the long-term impact of the phenomenon, particularly of aggregate tourism consumption, and the multiplying effect and other macroeconomic effects of tourism development. The contents of almost all the textbooks in the whole of former Yugoslavia which bore the title Economics of Tourism followed the same pattern. The authors were the following: Janez Planina, Milan Mazi, Zora and Srđan Marković, Slobodan Unković, Momčilo Vukičević, Jelena Kabiljo, and Ante Cicvarić. The last mentioned and the Marković pair were the only ones from Croatia. Later developments in the understanding of tourism widened the field and the subjects of interest of this discipline. Indeed, it started to embrace all economic sectors connected with tourism and tourism development. It also included all the regions and places where tourism was developing. The discipline called Spatial Economics paid particular attention to tourism at that time.

For as long as the production and publication of textbooks for students of tourism remained limited, books and textbooks for Economics of Tourism courses were omnibus reading. In foreign literature, such a subject matter was called An Outline of Tourism, or just Tourism, or

Tourisme, or *Grundriss der Tourismus*. In Croatia, it meant that the subject matter of books under the titles Economics of Tourism, Tourism Basics, or even Tourism Geography overlapped. The impression given was that economics of tourism implied all these subject matters, particularly economic ones, and not only macroeconomic ones, as we advocate in this paper.

In the second half of the 20th century, several Croatian theoreticians of tourism wrote about the economic effects of tourism development without discussing the content of the term economics of tourism. They made numerous critical theoretical observations, in particular about the results of tourism development in Croatia, which also implied economic results. Such works included those of Ante Kobašić, Boris Pirjevec, Ante Radnić, Ivan Antunac, Boris Vukonić, Miroslav Dragičević, Ante Dulčić, and others. Some schools and universities used these works to replace works with the title Economics of Tourism. They started to be used as basic literature for the course Economics of Tourism.

In the meantime, tourism showed interest in the views of other economic disciplines, since they helped form a clearer understanding of the phenomenon, of economic relations in tourism, and of the behaviour of other economic entities on the tourism market. The emergence and subsequent practice of marketing brought a great number of innovations in the discipline of Economics of Tourism, probably more than any other discipline. Marketing emphasised the need to analyse market relations not only on the micro level, but on the macro level as well. Many fundamental theoretical principles of today's economics of tourism could hardly have claimed the right to be considered a scientific discipline in such a short period without the help of the knowledge of marketing applied in tourism. The rapid development of tourism, and the fast independent development of individual economic disciplines, of which marketing is the showcase, pushed the doors wide open to an independent marketing discipline within tourism to satisfy specific tourism needs: Marketing in Tourism. At that moment, marketing became the subject matter of research outside the discipline of Economics of Tourism. Some authors could not, or did not want to, accept this transition, so educational curricula remained burdened with matter no longer pertaining to the discipline of Economics of Tourism.

THEORETICIANS OF TOURISM AND THE CONCEPT OF ECONOMICS OF TOURISM AROUND THE WORLD

Interest in the economics of tourism around the world has been particularly strengthened by the attention that less developed and developing countries have paid to tourism and to the potential positive impacts that its development could bring. This has certainly widened global interest in studying the economic effects of tourism development, which has, in turn, significantly encouraged economic research and analyses of the tourism phenomenon. In some parts it has brought into existence a new scientific discipline, Economics of Tourism. The fundamental subject matter of research in this discipline has been defined as the economic characteristics of the tourism phenomenon and the effects of its development. In other parts of the world, such tourism development has not necessarily led to the building of a separate scientific discipline, but research on tourism economics has been conducted within economic research, often in specialised research and educational institutions. It is probably of

greater importance for the knowledge of tourism, and particularly for the knowledge of the economic implications of tourism development, that such research was actually carried out, rather than that a separate, independent discipline had been created.

In the *Encyclopedia of Tourism* (2001), the first work of such a kind published in the 160 years of the history of tourism, the term economics of tourism is not explicitly mentioned in any context. However, the explanation of the term economics suggests that tourism should be viewed from the economic aspect as well, both from a microeconomic and macroeconomic perspective, from the regional perspective, from the perspective of economic development, and from that of investment and employment. The omission of an entry on economics of tourism in the first tourism encyclopedia in the world probably best illustrates the views held on this concept, admittedly those of American academia, but also of western tourism circles in the countries with developed tourism. It is interesting to note that the first books in the western world which have economics of tourism in their title appeared only in 1991 and in 1995 (written by Adrian Bull, and by Donald E. Lundberg, M. Krishnamoorthy and Mink H. Stavenga, respectively). In 1995, a scientific journal entitled *Tourism Economics* (ISSN 1334-8166) appeared in Great Britain, quite unexpectedly for many. It is particularly telling that the journal appeared in Britain, in the country which was the first to develop modern forms of tourism, and among the first that started to provide education for those who would work in tourism, and among the first to carry out research in the field of tourism and publish scientific studies on various aspects of tourism development.

However, the first book on the subject was not written by a Briton, but by an Australian. Its author, Adrian Bull, at that time lecturer in the Centre for Tourism, University of New England in Lismore, wrote a book entitled *Economics of Travel and Tourism*, published by Pitman, a publishing house which is a partner of the British Longman group, well known for their books on economics and on specialist literature on tourism. The book was printed by a famous American publisher, Wiley & Sons from New York, specialists in literature on tourism. Such a geographic combination of authors and publishers, the first in the western world with the words economics of tourism in the title, is intriguing. The publishers say that “emphasis is on microeconomic aspects and issues in the first part of the book. The second part tackles the macroeconomic level, and the author views the role of tourism within national economies and the international transactions of most countries.” These words clearly show how that part of the world understands the concept of economics of tourism.

A group of authors led by Professor Donald Lundberg (California State Polytechnic University) wrote and published a book entitled *Tourism Economics* (Wiley & Sons, 1995). Probably because of the title, the publisher wrote that this is “the first and the only comprehensive introduction to the economics of tourism”. The publisher adds that “despite the fact that tourism has become the world’s largest industry, until now there were no textbooks devoted to the economics of tourism”. Certainly, the publisher speaks about the circumstances on the market it knows. The book explains the important economic principles and concepts around the world, defines the basic specialist terminology in the field, and describes numerous analytical models and forecasting techniques. Of particular importance is the fact that the authors illustrated their theoretical concepts with a large number of cases from around the globe.

Recent theoretical works increasingly deal with the economic impact that tourist departures have on the emitting country or a region. Globalisation has enriched these views and has widened the field of interest of the discipline of economics of tourism.

CONTEMPORARY VIEWS

Have the views on the economics of tourism drawn closer together? Is there a theoretical consensus on what this discipline is, what it includes, and what it means in relation to other research in tourism? With no exaggeration, the answer is a resounding “No”. All the books and textbooks written and published so far repeat the old mistake: in their view, the concept of economics of tourism includes all types of economic analyses of tourism, from all fields of economic interest.

It seemed to me at one point that there was a chance to clearly differentiate economic standpoints, with valid arguments, at least on macroeconomic and microeconomic topics. An interesting initiative occurred: Australian professors from the University of New South Wales and Monash University, Larry Dwyer and Peter Forsyth, invited interested university teachers and scientists to join them in writing a textbook on the economics of tourism. The Australian professors wanted, with the co-operation of experts from different parts of the world, to offer a book which would not only cover opinions on the economics of tourism, but would serve as a relevant discussion of different misunderstandings that had so far accompanied and burdened economics of tourism. Thus, a comprehensive textbook on the economics of tourism might have been produced, appropriate for use everywhere in the world. With that objective, the following book was presented to readers: *International Handbook on the Economics of Tourism* (Edward Elgar Publishing, 2006).

Unfortunately, my expectations were not met. We were given encyclopaedic reading on different economic aspects of tourism and tourism development, but the main issue was not clarified: What exactly is economics of tourism, and how does this concept differ from all the other economic aspects of tourism development or from the tourism phenomenon itself? In other words, we had authoritative reading on different aspects of tourism, but not on the economics of tourism. Thus, the misunderstandings remain, but it is a real pity that a fine idea and an excellent opportunity for a final definition of the term were not used, despite the great efforts of the editors and all the contributors.

My argument, and my disagreement with the views of the editors, is merely directed against the content itself, or the criteria used in selecting the topics for a book which should, by its very nature, discuss the economics of tourism. Thus, the present comments do not take issue with any of the chapters individually or with their contents; they simply indicate that an opportunity was missed and that a textbook of this scope and with such expectations did not clarify the terms or define the real content of economics of tourism. If this had been achieved, it would have greatly helped schools and universities which teach the course on economics of tourism. Such institutions would be able to agree on topics pertaining to this discipline and avoid huge overlaps among certain disciplines. As this did not happen, several disciplines today “cover” economic aspects of tourism and expound either similar or the same content.

In the preface to the *International Handbook on the Economics of Tourism*, the editors point out that the economics of tourism had developed extensively in the previous decade. The

mistake they made was not only in setting this time period, but in listing the issues they believed economics of tourism embraced within that period. Although it is true that the interest shown by western tourism experts in economics of tourism had arisen in the ten years preceding the publication of this book, the rest of the world had been paying attention to this discipline from much earlier, as suggested above.

Professors Dwyer and Forsyth explain that economics of tourism is not so much a new field of economics, but is “more a sector which relates to the development in economics understood generally, and is applied to it”. They immediately add that “tourism economics draws on several, mainly microeconomic, branches of economics and econometrics, such as demand modelling, taxation theory, environmental economics, human capital theory and industrial organizations. More recently, it has been drawing on trade theory and general equilibrium modelling”. We might agree with the stated opinion that these fields are of interest to the economics of tourism, but we can hardly agree with the contents of the book which, as its title says, is about the economics of tourism, when it goes on to deal with tourist motivation and choice, tourism intermediaries, the airline industry, passenger aviation, special events as elements of an offer, information technology, competitiveness of destinations, and so on.

It is reasonable to ask what the subjects of other economic disciplines are if economics of tourism deals with all the mentioned topics. What, then, is the subject of marketing in tourism, of the economics of an enterprise in tourism, etc? Or what is the general subject of microeconomic disciplines? The editors want to persuade us that some fields were traditionally of interest to economics of tourism, such as demand analysis and forecasting, but now, with the increased use of econometrics, these areas of study are becoming the subject of research of economics of tourism! Interesting views, but without real facts and arguments to back them up and to convince the reader of their validity.

There are other interesting statements, including “some areas of the economics of tourism are relatively new”, among which the authors mention measuring the economic impact of tourism, or the “additional impact of tourism on a national economy”, or even promotion! Those who have known the literature on tourism for more than ten years will certainly know that it was in the 19th century and even earlier that some authors wrote about these topics. Admittedly, nobody spoke then about “economics of tourism”, but there was a clear distinction between “microeconomics” and “macroeconomics”. Therefore, I do not see why anybody today, with a host of theoretical works on the economic aspects of tourism, would include typical microeconomic topics in the scope of macroeconomics.

POSSIBLE OUTCOMES

I have indicated above that these many years of misunderstandings and differences in opinion might have been reconciled in the *International Handbook on the Economics of Tourism*. Since this did not happen, we can only restate in this paper certain evident facts and then offer several focused views.

Today, there is a series of disciplines besides economics of tourism which deal with economic factors and the effects of tourism development. This very fact vividly demonstrates that all economic observations on tourism do not pertain only to one discipline. With the

development of research into tourism, theoreticians have been gaining ever new insights on what led to the development of different disciplines of tourism today. Among them is certainly economics of tourism. Let me repeat: if economics of tourism covered all economic topics, then there would be no need for other economic disciplines. Since there is no doubt that these disciplines study only one narrow segment of the economics involved in tourism, we can reasonably conclude that economics of tourism also studies a narrow segment in the sphere of economics and its interest in tourism.

It remains to be defined which “narrow segment” economics of tourism studies or should study. If we approach this task by eliminating all those economic fields and disciplines which deal with a certain specific area of (economic) interest, then the only one not dealt with is the macroeconomic aspect. We believe it is acceptable to suppose that economics of tourism can and should deal with the macroeconomic relations between tourism and the economy. In other words, it should “describe, analyse and relate the phenomena and relations in tourism from the point of view of their macroeconomic effects and repercussions”. Such a definition is indeed provided in the *Dictionary of Tourism* (2001), the first Croatian lexicographic work in the field of tourism.

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