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ABSTRACT

With the increase in personal income and leisure time, the leisure business has received increased attention during the last two decades at both the national and local levels. Business principles must be used appropriately if resources are to be allocated to their best use, so as to maximize satisfaction and standard of living. This need is discussed for the government, private and education sectors.

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INTRODUCTION

There is a certain amount of glamour associated with leisure activities and business. With the increase in personal income and leisure time, the leisure business has received increased attention during the last two decades at both the national and local levels.

For example, the United States Travel Service was established within the Department of Commerce in 1961. In 1970, the position of Director of U.S.T.S. was elevated to Assistant Secretary of Commerce for Tourism. The primary efforts of U.S.T.S. were initially limited to international travel. Its authority and funding were expanded in 1976 to include domestic tourism development. Senate Resolution 347 (June 24, 1974) authorized the Senate Commerce Committee to undertake a National Tourism Policy Study.

Research by the author, and others, indicates that various levels of interest and emphasis are placed on tourism among the states. Some states have expanded their role and others have reduced theirs. New Jersey created a new Division of Travel and Tourism in 1977. New York provided a significant increase in its promotion budget in the mid-70's. In 1976, Tennessee elevated its program to a Department of Tourism Development. About the same time California abolished the department that was tourism-travel promotion and development. Maine reduced her role considerably. Mississippi created a Legislative Tourism Study

Commission to evaluate and make recommendations to the Legislature regarding tourism.

That study shows that the involvement of state governments in tourism varies considerably.(7) A response from one state stated the belief "...that tourism is essentially a private business, and, as such, should not be promoted by the state," and thus, "...the states' involvement in tourism has been limited to responding to requests for information." On the other end of the scale, some states are involved in advertisement, promotions, incentive programs, and/or state ownership and operation of resort facilities in competition with private enterprise.

The attention to leisure activities has not been limited to governmental units. Private enterprise and universities have given the subject considerable attention. Several major facilities and many lesser ones have been developed. Some have been successful and others have gone by the wayside. Universities have increased courses and in some cases established programs related to the leisure industry.

Private, academic, and governmental interests are reflected through The Travel Research Association, U.S. Travel Data Center and others. At least, individuals and organizations are members and/or participate in their programs.

If resources are put to their best use, so as to maximize satisfaction and standard of living, business principles and concepts must be used appropriately. This would seem to be obvious. However, elaboration on a few points seems in order.

GOVERNMENT SECTOR

First, consider the governmental sector. The economic basis for government involvement is where the market system fails to attain ideal allocation efficiency. This could stem from economic externalities, public goods, poor information and misrepresentation, and monopoly. Government involvement does not, however, insure that the situation will be improved. For example, the cost of establishing a governmental mechanism that could "potentially" capture the gain may exceed the benefits. Also, if the economic and business concepts are not used properly, such actions will be counterproductive.

It seems that some individuals who head government departments related to tourism and other leisure activities feel that the more the government is involved in tourism the better. For example, one state travel director at the Seminar on Travel and Tourism in Atlanta, Georgia, May, 1978, sponsored by the Council of State Governments, indicated that he uses the methods, reports, data, etc., which he considers most effective in "selling" tourism and travel to the legislature of his state to get more money for his department.

The Travel Department in Arkansas reported that tourism is the third largest industry in the state. Upon inquiry as to the method used for such ranking, we were referred to a copy of the 1976 Tourist Activity Report by the Arkansas Department of Parks and Tourism. A review of the report did not reveal any clear method or sources for specific data cited.(6) The report defined a tourist as "an out-of-state resident who enters Arkansas in pursuit of recreation-related activities, whether here or en route to another state." It states that "tourism is now the third major income producer for the State." A review of personal income by major sources, published by the Bureau of Economic Analysis, U.S. Department of Commerce for Arkansas, raised serious questions regarding that conclusion. It is also in conflict with the findings in a study of the "Economic Impact of Travel and Tourism in Arkansas" by Troutman and Opitz.(5) Troutman's study shows that "the present impact of tourism on the State's personal income accounts is minor, only eight-tenths of one percent. A doubling or tripling of the size of the industry would be a major accomplishment requiring a tremendous development effort. Even then, tourism would be relatively unimportant to the overall economy of the State, accounting for only 1.5 to 2.4 percent of total personal income." The Director of Arkansas's travel department also states, "We know that the dollars a tourist spends are literally turned over seven times in our economy," inferring an economic multiplier of seven.(1) In contrast to this implied multiplier of seven, Troutman estimated an income multiplier of 1.65 for Arkansas. Troutman's report is relatively specific in terms of methodology and sources of data. Bill Anthony, with the U.S. Department of Commerce, in a well documented study, estimated the gross national product travel multiplier to be 1.62.(2) Mississippi's Travel Director tends to agree with the views of his counterpart in Arkansas. For example, while the Mississippi Tourism Study Commission was preparing a report to the Legislature, he issued a release stating that "Tourism is the third largest industry in Mississippi" and that "Tourism is only second to oil as being the largest industry in the world."(4) No documentation as to method used to arrive at the rankings nor sources of data were provided with the release. The analysis by the Mississippi Tourism Study Commission does not support such a claim.

Types of the rationales and economics used to persuade state legislatures of the value of allocating more resources to tourism and other leisure programs is that which came out of the travel and tourism seminar sponsored by the Council of State Governments held in Atlanta in May, 1978. The Council presented the following data on sales and advertisement.

	Total Sales (000,000)	Advertising Budget (000,000)
TRAVEL	$110,000	$ 17*
Proctor and Gamble	6,512	445
General Foods	3,642	275
General Motors	36,000	225
McDonalds	3,063	105
American Brands	4,125	87
General Electric	13,500	70
Seagram	2,049	66

*50 states.
Source: Preliminary Report, The Council of State Governments, Lexington, Kentucky, p. 1, May 12, 1978.

The point was made that state governments should increase the amount of money they spend for advertising travel based on the expenditures for advertisement versus the implied return. Upon questioning, it was revealed that the amount of sales shown were sales by private enterprise in each case. On the other hand, the advertising budget for travel is that of state governments only. In contrast, the advertising budgets for the other items are those of private enterprise. If a common variable were used to compare the advertising budgets (as was the case with sales), the conclusion would most likely be different. For example, if the states' expenditures to promote sales of the firms related to travel had been compared to the states' expenditures to promote sales of the products of the other firms, the conclusion may have been that the states are spending too much to advertise travel. Moreover, it can be shown that private enterprise advertising budgets are much greater for promoting tourism and travel than those at the state level.

Of course, this kind of tourism cost/benefit logic has been used many times in the past. For example, a former director of Mississippi's Travel Department commented that "Mississippi gets back in direct taxes over $80 for every dollar spent in tourist advertisement."(3) A Texas representative made a similar claim at the Seminar on Travel and Tourism in Atlanta, Georgia, which is referenced above. Quite obviously, if such returns were true, these states could literally spend themselves rich by investing in tourism promotion. The key point is that such logic and presentations are invalid and are serving to misallocate resources from areas that no doubt have much higher priorities in terms of a state's future development and growth.

BUSINESS SECTOR

The type of glamour associated with leisure business may be different for the businessman than for a bureaucrat or politician. For example, by sponsoring the Miss U.S.A. Pageant, top state officials in Mississippi get to be on national T.V. Part of the glamour to politicians seems to be the hope of voter popularity. The glamour to the business is the expectation of making a profit by providing a product desired by consumers.

Nevertheless, it is as important to use business concepts correctly in private enterprise in order to meet their objectives within the market system as it is for the government in attempting to improve resource allocation. Investors stand the chance of making a profit or suffering a loss. A proposed leisure related project in Mississippi folded. Thus, the investors apparently lost some, if not all, of their capital investment. It is not known whether the failure resulted from over estimating the potential benefits, underestimating the costs, improper promotion, poor management, or other factors.

Perhaps the need for good business practices is more important for business survival during a recessionary period and a period of declining inflation than during economic growth and increasing inflation. Some increase in demand and increases in prices may overcome mistakes and excessive costs. For example, suppose an item costs $20.00 and the selling price is $21.00. There would appear to be a $1.00 profit. Now assume that due to improper inventory control, too many items are purchased and must remain in inventory for an extended period of time. Depending upon the interest rate, length of extended time in inventory, etc., profits could be reduced or eliminated. If the increased cost were, say, 10 percent ($2.00), profits would be eliminated. Instead of making a profit of $1.00 per unit, a loss of $1.00 per unit would occur. On the other hand, if inflation permitted prices to be increased 15 percent ($3.15), profit would increase from $1.00 per unit ($21.00-$20.00) to $2.15 per unit ($24.15-$22.00).

Consider the case of advertisement as an example. Some people, expecially in government, apparently consider the return on advertisement to be gross values in relation to advertisement. This is apparently what took place in the examples cited above. Take the case in Mississippi where it was alleged that Mississippi gets back in direct taxes over $80 for every dollar spent in tourist advertisement. Data show that total taxes collected from total travel-related sales was about 80 times the amount spent by the State on tourist advertisements. The return on such advertisement was, of course, not 80 to 1. The appropriate evaluation in both government and private enterprise expenditures would be only the increase in income per dollar increase in advertisement. In other words, what the income would be without the advertisement must be subtracted from the income with advertisement in order to obtain the returns to advertisement expenditures.

ACADEMIC SECTOR

If people in government and business are to use business concepts correctly, they must be taught. Of course, the training could come from universities or other schools, on the job training, or the school of hard knocks. Thus, the academic sector has a role to play. It has a responsibility to see that the students have an opportunity to learn the appropriate business concepts. This is not to say that all students should be business majors.

There are trade-offs in the academic sectors, just as there are in the private and governmental sectors. A resource used for one purpose cannot be used for another purpose. For example, if a given anount of money is spent by the government to advertise travel, that money cannot be used to finance public education. If a business spends a given amount of money to build a marina, that same money could not be used to improve or expand the parking lot, etc. Likewise, if a student is taking one course, it is not possible to take another at the same time. Thus, it is important to have the right mix of subjects in a given academic program.

In most cases, the price system will direct resources to the best use. In some cases, value judgements are required. When attention is given to the pertinent factors of an issue, the probability of the right allocation being made through the price syste, or otherwise, is enhanced. It is hoped that the thrust of this article will assist in achieving the objective of better allocation of resources.

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