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## PROGRAMME BOOK



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*Too Many Policy options, Not enough diversity?*

*A Typology of Tourism Policy Tools*

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**Abstract**

The design a typology of policy tools specifically aimed at tourism policy at the local level represents the main goal and the original contribution of this paper. Based on market failures theory and the tools approach, we analyze the Weimer and Vining's original typology supplemented by an empirical analysis of tourism policy tools adopted by local governments in Portugal. This empirical analysis uses a representative sample of 214 Portuguese local governments. The results suggest an alignment with Weimer and Vining's original typology but also the existence of specific situations in Portuguese local governments requiring the expansion of this typology. Besides that, the intervention by Portuguese local governments in tourism relies primarily in the use of direct provision. For most municipalities, direct provision is still the main, sometimes the only, set of policy tools employed when addressing tourism market failures.

Keywords: market failures; tourism market failures; public policy tools; typology of tourism policy tools

## **Introduction**

The evolution of Public Administration, in general, and Public Policy, in particular, has recognized that governments have at their disposal a wide range of policy tools, including much more than the traditional direct provision of public goods and services (Salamon, 1981, 2002; Blair, 2002; Weimer and Vining, 2010). In other words, these policy tools are social intervention techniques or means of control that governments can use to implement public policies (Howlett, 1991, 2005; Vedung, 1998). In this context, the development of the tools approach has enabled the design of several public policy typologies, in particular the typology presented by Weimer and Vining (2010), which is one of the most important in categorizing government interventions to solve market failures (Weiss, 1999). According to this author, markets constitute the organizational framework used to understand the causes of public problems, so government intervention becomes a substitute of markets forces when the results provided by them are not acceptable or when they fail to achieve what welfare economics theory describes as Pareto optimal. Thus, this typology corresponds to the context where market failures are addressed through government intervention and represents the main economic rationale for public sector involvement in private matters (Wolf, 1994; Michael, 2001; Fleischer and Felsenstein, 2000; Weimer and Vining, 2010).

Given the growing importance of the tools approach, tourism policy interventions can be examined in a more systematic way by resorting to the Weimer and Vining typology. In fact, tourism activity is clearly inseparable from market context and the literature has pointed out that the main reasons for government intervention in the economy are recognized as being applicable to tourism activity (Fayos-Solá, 1996; Michael, 2001; Andersson, and Getz, 2009). The goal of this paper is to develop a typology of tourism policy tools based on Weimer and

Vining's original typology supplemented by an empirical analysis of tourism policy tools adopted by local governments in Portugal.

The paper proceeds as follows. First, we contextualize the tourism activity as an imperfect market, with a strong presence of public goods, externalities, natural monopolies, and asymmetric information and the main policy tools suggested by the literature to solve specific problems related with these market failures. Next, we present the context of tourism policies in Portuguese local governments. Third, we formulate the main arguments that guided our empirical analysis, and present and discuss the exploratory results. Lastly, we introduce our revised typology of tourism policy tools followed by a short set of conclusions and implications for tourism policy and development in Portugal and elsewhere.

### **Tourism Market Failures and Public Policy Tools: The Literature**

From an economic point of view, the tourism activity is regarded as an imperfect market, with a strong presence of public goods, externalities, natural monopolies and asymmetric information (Michael, 2001). The author refers to tourism as an economic activity more predisposed than other industries to market failures, because it depends on the output of many industries to deliver its own product; this requires some form of public intervention to restore the parameters of competition. The standard reasons for public intervention in the economy are perfectly applicable to tourism activity (O'Fallon, 1993; Fayos-Sola, 1996). In this sense, the following subsections summarize tourism market failures and present key policy tools employed to solve inefficiencies caused by these failures.

### ***Public Goods***

In the case of pure public goods, i.e., goods characterized by non-rivalry and non-excludability, it is possible to identify several authors who advocate the existence of tourism goods or services with such characteristics: tourism promotion, tourism infrastructures, tourism coordination, and tourism planning (Blake and Sinclair, 2007). The promotion of national tourism and/or destinations is the most distinct example of a non-rival and non-exclusive good in the tourism market (Mak and Miklius, 1989). The financial resources used to promote a destination will benefit all the companies of such destination, regardless of their support for this promotion (non-rivalry). As a result, firms tend to minimize their investments on promotion in the expectation that other firms will invest. Any benefits from these investments will be shared by all firms in the tourist destination – non-excludability (Cooper and Hall, 2008). In other words, if some companies were to advertise their destination collectively, other companies would still be able to free ride on this promotion. As a result, no firms have the incentive to pursue such a voluntary pattern (Dwyer and Forsyth, 1992, 1993; Lundtorp, 2003; Mak, 2004; Hall, 2005; Shi, 2012). Thus, this kind of behavior produces an inadequate allocation of economic resources, due to underfunding of tourism promotion (Mak, 2006). In light of this, it seems to be consensual that tourism promotion requires some form of public intervention, since it is extremely difficult to determine accurately who benefits from tourism promotion (Bonham and Mak, 1996; Cunha and Abrantes, 2013).

The scientific community recognizes the direct involvement of governments (national, regional, and local) in the provision and funding of tourism promotion (Mak and Miklius, 1989; Mak, 2004; Rigall-I-Torrent, 2008). Despite the importance of this direct public intervention, the increase of public budgetary restrictions has led to a set of alternative policy tools to public provision and financing of tourism promotion, namely (Cooper and Hall, 2008;

Hall, 2008): i) forcing businesses to pay a funding levy; “user pays”/cooperative funding systems; tax on foreign exchange earnings; tax on tourism investment; and a commercial bed tax, among others. Nonetheless, several authors continue to advocate that the most appropriated policy tool is direct intervention and public funding of tourism promotion (Bonham and Mak, 1996; Cooper and Hall, 2008; Hall, 2008). This can be justified by three arguments. First, it is difficult to capture the benefits of tourism promotion activities due to the fragmented nature of tourism activity. Second, the alternative tools will reinforce the free rider problem, according to which firms that do not support financially tourism promotion will benefit as much as cooperating firms. Finally, the benefits of tourism promotion are scattered throughout the community.

The provision of tourism infrastructures is another example of a public good (Perry, 2003; Wanhill, 2005; Sakai, 2006). Given the concepts of infrastructure and tourism superstructure<sup>1</sup>, it is obvious that they represent an important part of the tourism product and therefore require provision in order to increase the competitiveness of tourist destinations (Dwyer and Kim, 2003). However, despite the fact that the private sector guarantees the provision of some infrastructures, it has no incentive to provide infrastructures with public good characteristics, particularly those that are non-excludable (Blake and Sinclair, 2007). In this sense, the efficient level of provision of tourism infrastructures requires some form of government intervention. For instance, the scientific community identifies several policy tools that may be used: direct provision; public and private capital co-financing; financial and fiscal incentives; and taxation of tourism infrastructures (Bird, 1992; Jamieson, 2001; Jeffries, 2001; Benner, 2013). Nevertheless, and despite the diversity of these tools, some authors insist that the

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<sup>1</sup> The literature distinguishes between tourism infrastructure and tourism superstructure. Tourism infrastructure “covers the subordinate facilities, equipment, systems and processes that provide a foundation for a wide range of economic needs”. “The tourism superstructure represents the additionally created assets which rest upon this infrastructure and which serve visitor-oriented needs and desires” (Ritchie and Crouch, 2003: 21).

efficient level of provision of tourism infrastructures results from direct government intervention (Perry, 2003; Wanhill, 2005; Sakai, 2006; Blake and Sinclair, 2007).

The co-ordination of tourism activity represents another form of public good (Blake and Sinclair, 2007). Tourism is an extremely complex activity that brings together a wide range of activities and products and involves a large number of public and private actors (Jeffries, 2001). Due to this significant fragmentation, it is very common to find co-ordination problems in tourism activities. The lack of co-ordination is a phenomenon so characteristic of tourism activity (Jamal and Getz, 1995; Okazaki, 2008), which often occurs an unplanned way and without any institutional arrangement (Hall, 2008). At the same time, this co-ordination if performed by private actors would be non-excludable and therefore companies could benefit by free riding on the benefits provided by others (Blake and Sinclair, 2007; Hall, 2008). Thus, the development of policy tools aims to achieve co-ordination between various public actors of different levels of government, between public and private actors, and also among private actors (Jamal and Getz, 1995; Fayos-Sola, 1996; Candela and Figini, 2012; Cunha and Abrantes, 2013). In this regard, the literature unanimously recognizes the important action of co-ordination taken up by national, regional, and local governments (Jamal and Getz, 1995; Benner, 2013). Hall (2008) considers co-ordination as a political activity and therefore can be extremely difficult to achieve, especially in the case of tourism, due to the large number of actors involved in the decision-making process. In this case, it is impossible to accomplish co-ordination without government intervention (Fayos-Sola, 1996). Jamal and Getz (1995), Fernandes and Sousa (2002) and Benner (2013) refer that public actors should definitely adopt a common view of tourism development involving the participation of the most relevant public and private stakeholders. The authors also consider several types of policy tools to mitigate the co-ordination problem, namely: direct provision;



co-ordination structures created by government that operate closer to the market logic; and co-ordination structures totally independent of public power.

Underlying this co-ordination problem, tourism planning<sup>2</sup> also possesses public good features (Choy, 1991; Costa, 2001). Although short-term tourism development may be attractive, this process should result from medium and long term planning, in order to maximize the potential of investments and avoid possible negative impacts (Hall, 2008). Given that the interrelations and interdependencies with various sectors of activity produce a highly fragmented activity, tourism planning cannot be provided by private firms alone (Mason, 2003; Cunha and Abrantes, 2013). Firms also develop planning exercises in tourism, but with goals targeted at profit or return on investments, which do not correspond to the goals of planning by public entities (Mason, 2003). In this sense, many governments have taken up an active role in tourism planning, adopting plans at the national, regional and/or local levels dedicated exclusively to tourism (Bramwell and Sharman, 1999; Dredge, 2001; Simpson, 2001; Hall, 2005).

### ***Externalities***

Due to its importance and magnitude, tourism activity generates a vast number of impacts, which the literature commonly describes as externalities or external effects (Mathieson and Wall, 1982; Ap and Crompton, 1998; Candela and Figini, 2012). An externality represents either a benefit or a cost being incurred by a third party due to a decision made by two parties involved in a voluntary transaction (Blake and Sinclair, 2007). In other words, such cost or benefit is not transmitted through the price mechanism (Schubert, 2010; Tribe, 2011). In this sense, the external effects of tourism activity are likely to be either positive or negative and

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<sup>2</sup> Given the complementarity of co-ordination and planning activities, we choose to address these forms of public good in conjunction.

usually are categorized as economic, socio-cultural or environmental effects (Mathieson and Wall, 1982; Biagi and Detotto, 2012; Sharpley, 2014). The external effects caused by tourism activity create differences between the private optimum and the social optimum, thus requiring some form of government intervention in order to internalize those effects (Schubert, 2010). Generally, the scientific community suggests two groups of policy solutions. The first group assumes that governments can take an active role in the market through direct control, regulating the tourism activity, or indirect control, by changing the cost structure through price-based policy mechanisms. Such policy tools can take the form of taxes or subsidies (Candela and Figini, 2012). Despite some differences, various authors have pointed out the use of Pigouvian taxes as the most efficient solution to address the problems caused by externalities (Palmer and Riera, 2003; Piga, 2003; Liang and Wang, 2010; Paziienza, 2011; Rinaldi, 2012). Besides the internalization of external effects, these taxes generate higher revenues governments may use to provide infrastructures and new services for residents (Rinaldi, 2012). In turn, the second group of policy tools assumes a completely different solution to correct external effects. According to the Coase Theorem, with clearly defined property rights and negligible transactions costs, externalities can be corrected through market mechanisms, as long as both assumptions prevail (Candela, Castellani and Dieci, 2008; Hojman and Hiscock, 2010). Therefore, government's actions should be limited to the definition of property rights in order to allow economic agents to achieve efficient solutions to the externality problem (Jensen and Wanhill, 2002; Candela, Castellani and Dieci, 2008; Santos, 2012).

### ***Natural Monopoly***

The third tourism market failure discussed is commonly referred as natural monopoly. A natural monopoly occurs when an industry has economies of scale throughout its relevant

extension of production, so that the average costs are lower when a single firm produces for the entire market (Baumol, 1977; Santos, 2012). In this context, competition between firms is considered socially undesirable, since the existence of various firms will result in the unnecessary multiplication of investments. It is more efficient that market demand is satisfied by a single producer (Santos, 2012). Several authors indicate the presence of natural monopolies in tourism activity (Veal, 2003, 2006; Sakai, 2006; Tribe, 2011). The main argument focuses on characteristics of tourist attractions, particularly its scarcity, uniqueness, immobility, and regional differences, which result in natural monopoly situations (Veal, 2003, 2006; Liang and Wang, 2010). In other words, the “iconic” nature of many tourism products, in terms of typology and quality of tourist attractions, suggest the presence of a natural monopoly (Forsyth and Dwyer, 2002; Gooroochurn and Sinclair, 2005). As mentioned by Veal (2003; 2006) there can only be one Parthenon, one Niagara Falls, one London Tower, one Grand Canyon and one Eiffel Tower, which are all described as social monopolies. This author emphasize that leisure organizers can take advantage of the natural monopoly, making use of historical advantage of such tourist attractions. Generally, natural monopolies create two major problems: excessive profit, to the disadvantage of the consumer, and limitation of supply (Veal, 2003, 2006; Liang and Wang, 2010). In these situations, some form of government intervention is required in order to avoid the exploitation of monopolistic advantage by private agents. Veal (2006) points out the governmental control and ownership of these types of tourist attractions, also considering economic regulation as a useful alternative to monopoly power (Liang and Wang, 2010). In turn, Gooroochurn and Sinclair (2005) also suggest the use of taxation to alter the incorrect allocation of resources.

### *Asymmetric Information*

The last well-known form of tourism market failure is asymmetric information. In this context, tourism has been widely described as a market prone to information asymmetries (Crane and Jackson, 2000; Smeral, 2006; Schwartz, 2007). Information asymmetry means that tourism firms may provide false information or conceal disadvantage factors to damage tourist benefits (Liang and Wang, 2010). Usually, this leads to adverse selection and moral hazard problems (Liang and Wang, 2010). The fragmented nature of tourism market and the separation between the origin of tourism firms and tourist destinations, it can be expected that information asymmetries will be felt with great intensity (Cacomo and Solonandrasana, 2001; Cunha, 2006). According to Baggio and Baggio (2011), as tourists cannot test the product before buying it, they are not able to assess its quality in full and the decision to buy will be based on incomplete information made available by providers and intermediaries. Under information asymmetry, market adjustment mechanisms fail to take effect, justifying the intervention of governments in the regulation of information provided to tourists (Chen, Mak and Li, 2013). Indeed, governments may carry out quality grade standards for tourist attractions and other normative criteria, such as official hotel classification systems as one of the best examples of this type of policy (Clerides, Nearchou and Pashardes, 2008; Núñez-Serrano, Turrion and Velázquez, 2014). In addition, Nicolau and Sellers (2010) suggest the definition of quality standards resulting from certification processes by non-governmental and specialized agencies as another set of tools to reduce the negative effects of asymmetric information in tourism activities. Liang and Wang (2010) suggest that governments can provide tourism information directly through their own structures and/or encourage private agents to assist in the dissemination of such information (Clerides, Nearchou and Pashardes, 2008). Finally, several authors emphasize other forms of public intervention, such as the use of information and communication technologies and the Internet as useful tools in the

dissemination of tourist information (Fernández-Barcala, González-Díaz and Prieto-Rodríguez, 2010).

In summary, a large body of work is consensual about the existence of market failures in tourism markets. Most scholars suggest that government intervention is crucial to improve resource allocation in tourism markets, and several policy tools appear as possible solution to accomplish this goal. Next, we present the context of tourism policies in local governments in Portugal.

### **The Context of Tourism Public Policy in Portuguese Local Governments**

Historically, local governments in Portugal have assumed an important role in this policy area. The current Basic Law of Tourism Public Policies (Law-Decree 191/2009, August 17) identifies local authorities (including municipalities) as public tourism agents along with other national and regional authorities. Indeed, municipalities are local entities with responsibilities in planning, development and implementation of tourism policies, whose role is to promote tourism development through coordination and integration of public and private initiatives in order to achieve the goals of the National Strategic Plan for Tourism (article 1.1 and 2). Another source that corroborates the importance of Portuguese municipalities in tourism policy is the document that establishes the legal framework transferring competences from the national government to local governments (Law 69/2015, July 16). Competencies related to rural and urban infrastructures, energy, transport, heritage, culture, among others, are just a few examples of competences that are connected, directly or indirectly, to tourism. In this sense, Costa (1998: 209) and the National Association of Portuguese Municipalities (2004: 6) defined a set of strategic areas in tourism where municipalities can play an active role, namely: i) To create or participate in local institutions aiming at the promotion of tourism; ii)

To build infrastructures of interest to tourism and local communities, ensuring, for example, water supply, sewage, and refuse collection; iii) To develop tourism planning strategies; iv) To co-ordinate tourism activity, integrating other institutions with direct or indirect interest; v) To assess economic, sociocultural, and environmental tourism effects; vi) To provide tourism information.

In this regard, many strategic areas of municipal intervention are related to tourism market failures already documented in the previous section and local governments in Portugal play an important role in addressing these market failures. Next, we formulate the main arguments that guide the empirical analysis of policy tools employed by local governments in Portugal to mitigate tourism market failures.

### **Tourism Policy Tools in Portuguese Local Governments**

The goal of this paper is to develop a typology of tourism policy tools based on Weimer and Vining's original typology. In order to achieve this goal, we employ an empirical analysis of tourism policy tools adopted by local governments in Portugal, which is based on a set of theoretical arguments presented below. As we noticed, the previous section enables us to contextualize tourism market failures in Portuguese municipalities (Costa, 1998; National Association of Portuguese Municipalities, 2004). In addition, other studies suggest that local governments in Portugal actively engage in the direct provision of public goods and services (Rodrigues Tavares and Araújo, 2012). Given this background, we consider reasonable to argue that municipalities display an active role in addressing tourism market failures.

The literature shows that nonmarket mechanisms are relevant policy tools to solve all market failures, perhaps with the exception of tourism externalities. However, this is not surprising if

we consider that typology presented by Weimer and Vining (2010) provides as primary solution, for externalities, the use of regulation and subsidies and taxes. In fact, and in the case of tourism public goods, the use of nonmarket mechanisms meeting a greater consensus between scientific community. In particular example of tourism promotion, several authors argue that the most appropriate way to promote a tourism destination is through direct intervention and public funding (Mak and Miklius, 1989, Bonham and Mak, 1996; Mak, 2004, 2006). In a similar way, it is also argued that the provision and funding of tourism infrastructures should be a public sector initiative (Jamieson, 2001; Sakai, 2006; Blake and Sinclair, 2007). Finally, and despite the reference to other policy tools, it is more appropriate that tourism coordination/planning is carried out through direct government intervention (Fayos-Sola, 1996; Jeffries, 2001). Given the demands and complex nature of tourism activities, we argue that only governments are able to assume a coordinating, planning, facilitator and integrator role of all relevant public and private actors (Fayos-Sola, 1996; Cooper and Hall, 2008; Benner, 2013). In this regard, we expect that nonmarket mechanisms are used most frequently in the resolution of problems associated with tourism public goods.

Related to tourism externalities, much of the literature points out that the most common and simplest policy tool is the use of taxes or subsidies in tourist industry and/or visitors. Blake and Sinclair (2007) and Gooroochurn and Sinclair (2005) state that regulation and market mechanisms are not the most efficient solutions because they fail to target the source of the problem. The authors defend the use of Pigouvian taxes is more efficient, since it allows the effective resolution of the situation and not just its remediation. In this sense, we argue that Portuguese local governments employ this type of taxes aiming to internalize the costs of tourism activity.

Lastly, concerning information asymmetry in tourism, regulation constitutes a primary solution proposed by Weimer and Vining (2010). However, and considering not only the importance of direct provision of tourism information as another possible policy tool, but also the limited competences of Portuguese local governments in the regulation of tourism information, we expect that local governments are involved directly in the provision of tourism information through nonmarket mechanisms.

Given these arguments, we defined a multi-methods research plan, using questionnaires and interviews as data collection techniques to help achieve the main goal of this paper. Specifically, based on information gathered from interviews<sup>3</sup>, we created and applied a questionnaire to the 308 Portuguese municipalities and obtained a response rate close to 70% (214 municipalities). The next section presents and discusses the results. For each tourism market failure, we defined a set of policy tools divided by several groups inspired by the Weimer and Vining typology. For each group, we added all the policy tools mentioned by the municipalities and divided them by the number of policy tools in each group to obtain the average value use for each group, thus allowing comparisons between groups of policy tools.

### **Empirical Analysis**

Concerning tourism promotion, the results show that local governments in Portugal opt primarily for nonmarket mechanisms (see Table 1). On average, 166 municipalities out of 214 marked this group of policy tools. In fact, these results seem to confirm the theoretical argument that tourism promotion activities should be primarily ensured by local governments through direct provision and public financing to avoid the free-rider problem (Mak and Miklius, 1989; Rigall-I-Torrent, 2008). In addition, it is also important to notice that these

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<sup>3</sup> We conducted 16 interviews in Portuguese municipalities, involving a total of 23 interviewees.



results suggest an addition to the typology of tourism policy tools. As we can see, regulation represents a new group of policy tools added to our typology. As a unique set of policies, regulation complements the group of nonmarket mechanisms and characterizes a specific situation of Portuguese local governments.

The use of market mechanisms by a few municipalities, an alternative policy tool to public financing of tourism promotion, is not, according several authors, the most appropriate solution for this type of market failure. This option may be the outcome of budgetary restrictions in Portugal’s local government setting, as suggested by Mak (1996) in other contexts, or possibly indicate the existence of greater collaboration between private agents and Portuguese local governments. However, this solution may fail to solve the free rider problem. Only a mandatory participation system with the creation of “tourism promotion market”, as proposed by Blake and Sinclair (2007), could solve or minimize the fact that some agents who do not contribute financially to the tourism promotion still benefit from such promotion.

**Table 1. Tourism Policy Tools, Tourism Promotion**

<b>Policy tools of tourism promotion:</b>	<b>Policy tools groups</b>	<b>Average value use* [N= 214]</b>
Municipal budget for tourism promotion		
European Union funds		
Preparation of promotional materials		
Tourism brand		<b>166</b>
Participation in national tourism promotion fairs	<b>Nonmarket mechanisms</b>	(165+184+207+100+ 168+161+178)/7
Participation in international tourism promotion fairs		
Logistical support to private local actors in the different promotional activities		
Tourism marketing plan	<b>Regulation</b>	<b>58</b> (36+80)/2
Plan for tourism promotion		
Tourism promotion funding by private local actors	<b>Market mechanisms</b>	<b>46</b> (46/1)

\* The average value use of policy tools groups is rounded to the unit and results from the sum of municipalities that indicate the policy tools of tourism promotion, divided by the number of items in each policy tools group.

In the case of tourism infrastructures, Portuguese municipalities selected nonmarket mechanisms as the primary set of policies, closely followed by the use of subsidies and taxes (see Table 2). In general, the results support the literature stating that provision and financing of tourism infrastructures should be secured directly by governments (Perry, 2003; Wanhill, 2005; Sakai, 2006; Blake and Sinclair, 2007). We also confirm prior findings of the literature that taxes and subsidies are employed by a considerable number of municipalities and should be used as complementary policy tools, or secondary solutions, in the perspective of Weimer and Vining (2010).

**Table 2. Tourism Policy Tools, Tourism Infrastructures**

<b>Policy tools of development of tourism infrastructures:</b>	<b>Policy tools groups</b>	<b>Average value use* [N= 214]</b>
Municipal budget for tourism infrastructures		
European Union funds		
Banking protocols with financial institutions		
Structure to support promoter of tourism investment	<b>Nonmarket mechanisms</b>	<b>121</b>
Preparation and provision of guidelines to support promoter of tourism investment		(148+191+86+105+74)/5
Financial incentives		
Fiscal incentives		
Charging of entry fees	<b>Subsidies and taxes</b>	<b>111</b>
Charging of infrastructures fees		(76+92+88+188)/4

\* The average value use of each group of policy tools is rounded to the unit and results from the sum of municipalities that indicate the policy tools of development of tourism infrastructures, divided by the number of items in each group of policy tools.

The results related to tourism coordination/planning are also worth mentioning. Table 3 shows that regulation is the most widely used group of policy tools to address this market failure. In fact, nonmarket mechanisms are scarcely used by municipalities. These findings partially contradict the main arguments by tourism scholars. Since tourism coordination/planning have public good characteristics, the main policy tool referenced to minimize the effects of this market failure consists in direct government intervention (Fayos-Sola, 1996; Jeffries, 2001). In contrast, we find that Portuguese municipalities prefer market mechanisms as policy tools to solve coordination/planning failures. The absence of specific structures oriented towards the

coordination of tourism activities, reflected by the reduced average value use of nonmarket mechanisms (36), partly explains the difficulty that Portuguese municipalities have in coordinating a diverse set of tourism stakeholders. In this sense, it seems reasonable that regulation (through planning) constitutes the most widely used set of policy tools to address coordination/planning problems. Furthermore, the coordination of activities is performed by municipalities focusing its political action in the development of plans and without specific structures created to that effect. In similar way to tourism infrastructures, the results of tourism coordination/planning do not reveal any specific situation in Portuguese local governments that can contribute to the improvement of our typology of tourism policy tools.

**Table 3. Tourism Policy Tools, Tourism Co-ordination/Planning**

<b>Policy tools of tourism co-ordination/planning:</b>	<b>Policy tools groups</b>	<b>Average value use* [N= 214]</b>
Co-ordination advisory body involving the participation of public and private actors	<b>Nonmarket mechanisms</b>	<b>36</b> (24+67+16)/2
Oriented co-ordination structure involving the participation of public and private actors		
Co-ordination structures created by government that operate closer to the market logic		
Co-ordination structures totally independent of public power	<b>Market mechanisms</b>	<b>53</b> (53/1)
Tourism Development Plan/Strategic Plan Municipal Master Plan	<b>Regulation</b>	<b>86</b> (68+103)/2

\* The average value use of each group of policy tools is rounded to the unit and results from the sum of municipalities that indicate the policy tools of tourism co-ordination/planning, divided by the number of items in each group of policy tools.

With regard to the adoption of plans dedicated to tourism activities, we conducted an additional analysis testing the existence of differences between the types of plans preferred by municipalities of different sizes<sup>4</sup>. According to the results in Table 4, and assuming a significance level of 10%, we find statistically significant differences in preferences for different plans. Indeed, large municipalities<sup>5</sup> favor the development of plans specifically oriented towards tourism (*Strategic Plans*), whereas small and medium size municipalities

<sup>4</sup> We conducted a similar analysis to all other tourism market failures, but only the results related to tourism plans reveal statistically significant differences.

<sup>5</sup> We adopted a classification suggested by Carvalho, Fernandes, Camões e Jorge (2013), separating Portuguese municipalities into three independent samples, depending on their size in terms of population, namely: small size – with population less or equal to 20 000 inhabitants, medium size – with population greater than 20,000 inhabitants and less than or equal to 100 000 inhabitants; and large size – with populations greater than 100,000 inhabitants. We employ a nonparametric Kruskal-Wallis test to compare these independent samples.

prefer to integrate tourism activities in their *General Master Plans*. This situation is hardly surprising, considering the structures, interests and impacts of tourism activities in large municipalities. In addition, it is also not surprising that small and medium sized municipalities elect the Municipal Master Plan as the key planning policy tool for tourism. These results can also be explained because, contrary to the longer tradition of Municipal Master Plans, Tourism Strategic Plans are a relatively recent policy tool for most municipalities. In short, the Municipal Master Plan is the main policy tool employed in the context of tourism coordination/planning.

**Table 4. *Kruskal-Wallis* Test Results for Three Samples, Tourism Planning**

Types of Plans:**	Municipality size in terms of population ***			Total [N=213]	<i>Kruskal-Wallis</i>	
	Small [n=119]	Medium [n=76]	Large [n=18]			
	Average value use *					
Tourism Development Plan/Strategic Plan	30	28	10	<b>68</b>	<i>chi-square</i>	5.268
Municipal Master Plan	62	34	7	<b>103</b>	df	2
<b>Total</b>	<b>92</b>	<b>62</b>	<b>17</b>	<b>171</b>	<i>p-value</i>	0.072

\* The average value use of policy tools groups has been rounded to the unit and result from the sum of absolute frequencies, divided by the number of actions, according to the size of municipalities.

\*\* Types of plans, is a nominal variable of two categories: 1 – Tourism Development Plan/Strategic Plan; 2 – Municipal Master Plan.

\*\*\* Municipality size in terms of population, is an ordinal variable of three categories: 1 – small; 2 – medium; 3 – large.

In sum, these results reveal that local governments in Portugal play a very active role in the provision of tourism promotion and infrastructures, displaying a somewhat lesser role in tourism coordination/planning.

Our argument concerning the use of policy tools to correct negative externalities from tourism is strongly rejected. The results presented in Table 5 show that local governments in Portugal prefer the regulation of negative externalities rather than the use of subsidies and taxes. These results seemingly contradict the theoretical arguments present in the literature. Even though regulation constitutes a political action recognized by the academics and practitioners in the field of tourism policy, the most commonly used policy tool is by far the adoption of taxes to

tourism industry and/or visitors, especially in areas where the intensity of tourism activity is more evident (Palmer and Riera, 2003; Rinaldi, 2012). The results confirm the conclusions of a study presented by Portugal’s Tourism Confederation (2013) pointing out that, contrary to what happens in many European countries, Portugal has failed to adhere to tourism taxes. Despite the controversies regarding to this kind of taxation, the literature argues that if tax design is properly and effectively implemented it can contribute to improve social welfare.

Besides that, it is also important to notice that these results suggest the need for revising the typology of tourism policy tools. According to the information obtained from our interviews, nonmarket mechanisms represent another group of policy tools employed to address negative externalities. Elected officials and managers interviewed suggest the use of direct provision in the internalization of negative external effects, such as reinforcing the collection of municipal solid waste, cleaning beaches and recreational areas, creating logistical support, among others.

**Table 5. Tourism Policy Tools, Negative Tourism Externalities**

<b>Policy tools to mitigate negative tourism externalities:</b>	<b>Policy tools groups</b>	<b>Average value use* [N= 214]</b>
Charging of entry fees		
Charging of infrastructures fees	<b>Subsidies and taxes</b>	<b>10</b>
Charging tourist fees (overnight rate)		(17+15+1+7)/4
Charging fees to local tourism industry		
Regulations and/or municipal ordinances	<b>Regulation</b>	<b>60</b> (60/1)

\* The average value use of groups of policy tools groups is rounded to the unit and results from the sum of municipalities that indicate policy tools to mitigate negative externalities divided by the number of items in each group of policy tools.

Our last argument relates to policy tools used to overcome information asymmetry in the market for tourism. The results suggest that municipalities opt for direct provision in the preparation and dissemination of tourism information rather than hybrid forms (Table 6). These results are consistent with the theoretical arguments present in the literature (Clerides, Nearchou and Pashardes, 2008; Liang and Wang, 2010).

**Table 6. Tourism Policy Tools, Tourism Information Asymmetry**

<b>Policy tools of disclosure of tourism information:</b>	<b>Nonmarket mechanisms</b>	<b>Average value use* [N= 214]</b>
Additional tourist offices distributed by major points of tourist interest		
Municipal tourist office		
Tourist guides		
Tourist maps		
Tourist brochures		
Tourist circuits		<b>164</b>
Tourist information in foreign languages	<b>Direct provision</b>	(128+169+151+199+208+
Tourist signposting (directional and information signs)		190+194+195+99+185+211+37)/12
Information and communication technologies in tourism		
Virtual social networks		
Institutional website		
Tourism institutional website		
Non municipal tourist office		
Official network of tourist information involving private local tourist actors		
Official network of tourist information involving public local tourist actors	<b>Hybrid forms</b>	<b>60</b>
Official network of tourist information involving non tourist actors		(58+71+73+38)/4

\* The average value use of policy tools groups has been rounded to the unit and result from the sum of municipalities that indicate the policy tools of disclosure of tourism information, divided by the number of items in each category of nonmarket mechanisms

Lastly, the results concerning situations of natural monopoly in tourism activities do not allow a definitive conclusion about the preferences of Portuguese local governments. The information collected from the questionnaires reveals that municipalities mentioned their main tourist attraction(s) rather than situations where natural monopolies were present. However, the information obtained in the interviews also suggests that municipalities employ market mechanisms as a group of policy tools to address natural monopoly situations.

Table 7 displays a new typology of tourism policy tools to correct a set of standard market failures in tourism markets. This typology was inspired by Weimer and Vining's original contribution and updated based on prior findings present in the literature and our own findings obtained from an empirical study of Portuguese local governments. Column 2 includes all

policy tools presented by the literature to solve tourism market failures. Column 3 includes the policy tools employed by Portuguese local governments and identified in our empirical study. Column 4 presents a comprehensive typology of tourism policy tools resulting from all the contributions identified.

### **Conclusions and Future Research**

The adoption of tourism policy tools in Portuguese local governments is closely aligned with Weimer and Vining's typology and with most tourism policies reported in the literature. However, local governments also display some innovative elements, which distinguish them from conventional practices. For some market failures, the policy tools used by Portuguese municipalities suggest a revision and upgrade of tourism policy tools present in the literature. This revision involves the inclusion of regulation for tourism promotion, the use of nonmarket mechanisms to address negative externalities, and the option for market mechanisms to solve natural monopoly situations. Furthermore, our study suggests that the intervention by Portuguese municipalities in tourism markets relies primarily in the use of direct provision. For most municipalities, direct provision is still the main, sometimes the only, set of policy tools employed when addressing tourism market failures. In this sense, the next logical step in this research agenda is to investigate the relationship between these policy tools and the development of local tourism. Local initiatives to encourage tourism development are related to the mitigation of tourism market failures. Future work will explore this relationship attempting to identify which policy tools provide the greatest contribution to the development of local tourism.

**Table 7. Tourism Market Failures and Public Policy Tools**

<b>Market Failures (1)</b>	<b>Tourism Public Policy Tools (2)</b>	<b>Portuguese Local Governments (3)</b>	<b>Typology of Tourism Policy Tools (4)</b>
<b>Tourism public goods</b>			
	Direct provision of tourism promotion	Direct provision of tourism promotion	Direct provision of tourism promotion
	Taxes charged to tourism activities	Taxes charged to tourism activities	Taxes charged to tourism activities
Tourism promotion	Financial participation by private agents	-----	Financial participation by private agents
	-----	Tourism marketing plan and Plan for tourism promotion	Tourism marketing plan and Plan for tourism promotion
Tourism infrastructures	Direct provision of tourism infrastructures	Direct provision of tourism infrastructures	Direct provision of tourism infrastructures
	Financial incentives	Financial incentives	Financial incentives
	Fiscal incentives	Fiscal incentives	Fiscal incentives
	Tourist taxes	Tourist taxes	Tourist taxes
	Users charges or entry fee	Users charges or entry fees	Users charges or entry fees
	Direct provision of co-ordination/planning	Direct provision of co-ordination/planning	Direct provision of co-ordination/planning
Tourism co-ordination/planning	Co-ordination structures created by government that operate closer to market logic	Co-ordination structures created by government that operate closer to market logic	Co-ordination structures created by government that operate closer to market logic
	Co-ordination structures totally independent of public entities	Co-ordination structures totally independent of public entities	Co-ordination structures totally independent of public entities
	Tourism activity plans	Tourism activity plans	Tourism activity plans
<b>Tourism externalities</b>			
	Regulation of tourism activities	Regulation of tourism activities	Regulation of tourism activities
Positive/negative	Tourist taxes	Tourist taxes	Tourist taxes
	Definition of property rights	-----	Definition of property rights
	-----	Direct provision	Direct provision
<b>Natural monopoly in tourism activity context</b>	Direct provision of tourist attractions with natural monopoly characteristics	Direct provision of tourist attractions with natural monopoly characteristics	Direct provision of tourist attractions with natural monopoly characteristics
	Price regulation	Price regulation	Price regulation
	Taxation of profits of private agents	Taxation of profits of private agents	Taxation of profits of private agents
	-----	Absence of regulation or direct provision	Absence of regulation or direct provision
<b>Tourism information asymmetry</b>	Direct provision of tourism information	Direct provision of tourism information	Direct provision of tourism information
	Official network of tourist information (hybrid forms)	Non municipal tourist office (hybrid forms)	Non municipal tourist office (hybrid forms)
		Official network of tourist information involving private local tourist agents (hybrid forms)	Official network of tourist information (hybrid forms)
			Official network of tourist information involving private local tourist agents (hybrid forms)
	Regulation of tourism information (by governments)	-----	Regulation of tourism information (by governments)
	Regulation of tourism information (by private agents)	-----	Regulation of tourism information (by private agents)



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