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Travel & Tourism: Export of Tomorrow

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While economic development strategies in the new service economy become more complex, state policy-makers may want to consider a new investment in a promising field - tourism. This \$582 billion industry will be more competitive both domestically and globally in the years ahead.

State leaders are always looking for new ways to stimulate economic growth. This not only means jobs and a higher quality of life, but a state revenue tax base to fund essential services.

But with the shift from a traditional manufacturing economy to a service economy, some economic development strategies may come in new, unexpected packages.

One state resource that deserves an investment that can pay off years into the future has been a "step-child" industry to many a policy-maker – tourism. But tourism should not be underestimated as a hot commodity for cities and states looking to increase their revenue base.

In recent years, states have looked to gaming, lotteries and luring manufacturing firms with tax and infrastructure packages as a way to ease the strains on their state budgets and strengthen their economies. But there are other resources states have that can be utilized for both domestic and international consumption. Today, tourism accounts for nearly 5 percent of our gross domestic product (GDP) -accounting for \$582 billion in the American economy. And the future only portends a greater impact – if we play our cards right.

The Growing Service Economy

Improved technology and stronger international trading markets have fueled the recent economic expansion – the longest in our country's history. One irreversible economic truth is the shift away from a manufacturing economy and

toward a service economy.

Looking at the GDP from 1995 to 2000, the U.S. experienced 33 percent growth. But manufacturing and agriculture grew far less rapidly, 21 and 23 percent, respectively. And what sectors exceeded the average and fanned our growth? The service sector led the way with 48 percent growth while retail trade - the financial and real estate sector - was close behind at 43 percent. A look at Table 1 shows the historic shift our economy is experiencing.

Of course, this does not mean we should turn our backs to the benefits of manufacturing and the importance of domestic production of food and fiber. But again, technological improvements and trade have caused this shift which ratifies the notion that an increasing amount of our economic growth will depend on the service industry to sustain and improve our standard of living. That's not to say that high-tech, computer chip manufacturing is on the outs. Just the opposite is true. But as it relates to our total economy, traditional manufacturing is taking a back seat in our new knowledge and service economy. Businesses that use contracts, tickets and software to package their prod-

ucts are more important to our future economic growth than those who use boxes and bushels.

The ratio of manufacturing's impact on our economy has dropped by 10.9 percent and agriculture has dropped 2.7 percent; while service industries have increased 11.6 percent. The one contributor to our 21st century service economy, which might be considered the Rodney Dangerfield of industries, is travel and tourism. It simply "gets no respect." States with the most to gain are certainly marketing their good fortunes. California, Florida, Hawaii and New York know what happens when tourists stop coming. People lose jobs and state revenues drop. Other states have seen the investment in promoting their convention trade and tourist destinations pay off. Advertising dollars may seem like fluff spending to some, but tell that to Pepsi and other companies that paid upwards of \$180,000 to air 30-second commercials during the Super Bowl this year.

Impact of Tourism

Our balance of trade with respect to travel and tourism has consistently been

Table 1: Industries as Percentage of GDP, by year

Year	Manufacturing	Agriculture	Service Industries
1960	27%	4%	9.7%
1970	24%	2.8%	11.6%
1980	21%	2.3%	13.5%
1990	17.9%	1.8%	18.4%
1999	16.1%	1.3%	21.3%

Compiled from data from the Bureau of Economic Analysis, U.S. Department of Commerce.

on the positive side of the ledger. Last year, international travelers to the U.S. spent \$14 billion more than U.S. citizens who visited other countries. In fact, throughout the 1990s, the average trade surplus in this industry was more than \$19.4 billion a year. Again, with a half-trillion dollar impact on the American economy, cities and states know the value of tourism - from hotel room taxes, state park fees, rental car taxes and the less obvious boost from sales in stores and restaurants.

In 2000, states spent \$168 million to promote tourism, out of total state spending that year of \$945 billion. Not to condemn this seemingly small investment; states do have more critical responsibilities with the costs of education, Medicaid, homeland security and the like. But investing in a growth industry is worthy of closer examination.

Why haven't we done more to promote an industry with such huge benefits to our economies and tax base? A number of theories might suggest why. First, nothing tangible is produced by this leisure activity. The automobile industry manufactures cars and figuring their sales is easy to understand. The movie industry produces films, and box office receipts speak to this medium's economic impact. But leisure activity and tourism are different. As Moke McGowan, South Carolina's tourism director said, "Because it is not comprised of a single, standard industrial code, tourism is not an industry that is easy to get one's hands around." Many policy-makers think of tourism as something that happens two weeks a year for most Americans - usually in August when the kids are out of school.

Going back as a Capitol Hill legislative aide in the late 1980s, my impression of tourism initiatives equated the issue as the "red-headed step-child" in policy circles. But the tragic events of last year might just change that status for both states and the nation.

Post - 9/11

The terrorist attacks of Sept. 11 had a tremendous impact on the travel and tourism industry. The U.S. Department of Commerce estimated that the downturn in

international travel to the U.S. would be off by 13 percent. The 2002 estimate for domestic travel volume was also down, by 3.5 percent. Responding to this impact, the Bush Administration revitalized the Tourism Policy Council, an inter-department group, to monitor the industry. Additionally, a number of tourism-related organizations such as Travel Industry Association of America (TIA), the National Council of State Tourism Directors (NCSTD) and the International Association of Convention and Visitors Bureaus (IACVB), sought federal assistance on a number of initiatives to reinvigorate travel and tourism.

Governors stepped up to the plate as well. The Southern Governors' Association formed a task force in Oct. 2001 to make recommendations for both the short-term recovery and long-term opportunities of tourism. At their winter business meeting, governors adopted a six point policy resolution endorsing those recommendations.

Summary of the SGA Policy on Travel and Tourism adopted by the Southern Governors' Association February 26, 2002:

- Federal Funds to supplement state government expenditures on tourism advertising;
- A \$500 individual tax credit for personal travel expenditures;
- Development of a "national tourism policy;"
- A substantial federal investment in an international advertising and marketing program;
- Funding of the "In-Flight Survey" and National Travel and Tourism Satellite;
- Account to collect important statistics on international travelers and other tourism data; and
- Ensuring travelers' efficient expedition, comfort and convenience while sustaining security.

According to the SGA tourism task force, in the aftermath of Sept. 11, many states aggressively moved forward to address the challenges presented from the

loss of international and interstate travelers. The strategies and initiatives undertaken included: increased spending for tourism advertising, public service announcements by governors to bolster travel, polls and surveys to assess traveler confidence, altering marketing strategies to appeal to the intra-state and drive markets and assisting the newly unemployed workers within the travel and tourism industry.

But beyond that report's finding and recommendations comes a reason to put a renewed focus on travel and tourism. Essentially, three social and demographic factors, both domestic and global, speak to the importance of seeing this stepchild industry taken more seriously.

Three Factors for the Future

Three markets are emerging that should put more focus on tourism dollars in state houses across the country: retirees who are living longer, healthier and more active lives; families and individuals with more resources and fewer encumbrances from traveling; and international travelers who spend more money when coming to visit us.

Retirees

Everyone knows we are a nation that is getting older. Today, one out of eight Americans is older than 65. But by 2040, that ratio will shift to one out of five. While part of that phenomenon is due to dropping birth rates after the "baby boom," the other factor is that Americans are living longer and healthier. Turning 65 no longer means packing up for the "old-folks home." Improvements in preventative health, fitness regimens and healthier living mean that more of us will have active years in which to "see the world."

Another fact is that more and more Americans do not wait until 65 to retire. With smarter savings in 401(k)'s and other retirement plans, a number of workers can retire at 55 or 60 - working part-time if they must - but saving that extra time to relax and travel. Furthermore, that travel includes more than just driving to a state or national park over a weekend. Now it means bus trips across several

states, an Alaskan cruise or taking the grandkids to Disney World.

Growing Affluence

Just as retirees are increasingly healthier and wealthier, placing them firmly in the marketing plans for state tourism planners, working families are looking for relaxation, as well. Since claiming the informal title of economic superpower, the United States continues to see improvements in the standard of living of its citizens. While the challenges of job displacement, homelessness and poverty persist, a higher proportion of Americans are on economic solid ground.

Just this year, the U.S. Department of Commerce released figures showing U.S. homeownership at 68 percent - a significant indicator of the growing affluence of Americans. And for their hard work, Americans will continue to experience wanderlust - that instinctive desire to travel and see what the nation and world has to offer.

Higher incomes and a more stable national birthrate - just more than 2 children per family - make it easier for working families to get up and go. Additionally, we just learned from the latest census that fewer Americans are getting married; single people outnumber marrieds. Again, this seeming freedom from the duties of marriage and family make for a higher portion of those who can, and will, travel.

One additional factor makes travel easier and more attractive than ever before. Less than a decade ago, most of us used a travel agency or called an airline to find good rates for a desired travel destination. Now, the Internet makes shopping for travel options and bargains quicker and easier. "Priceline," "Cheaptickets," "AirDeals," and "FareDeals" are the dot-coms that bring the air bargains into our homes and desktops. Airlines will even e-mail discount fare information to their frequent flyers, tempting them with a destination to visit.

International Market

Perhaps the most promising market for

states, beyond our own 285 million plus countrymen and women, is the billion-plus global travelers who dream to see the United States. And last year, over 50 million international visitors did. The value of this "export" is strong indeed. Total international visitors in 1999 accounted for \$94.6 billion in export revenue to this country - a third of our total service exports that year (of \$272 billion). That \$94 billion more than accounted for the \$83 billion balance of trade surplus in the service sector - the total amount of services, including tourism, we bought from other countries.

More to the point, each international visitor carries an "export value" of \$1,500, as they stay longer and spend three times as much as domestic tourists do in our own country.

Who visits the U.S. now? Non-resident arrival figures to the U.S. in 2001 showed that 34 percent came from Canada; 9 percent from Mexico; 23 percent from Western Europe; and, 56 percent from total overseas visitors (including Western Europe). In the overseas markets in 2000, our top "trading partners" for foreign tourists were Brazil, France, Germany, Japan and the United Kingdom.

It wasn't that long ago that a number of national policy-makers and editorial writers derided our reliance on Japanese cars and electronics. But the rhetoric about the trade deficit does not seem as important when budget deficits are gone (or low), employment is high and the economy is good. Perhaps one reason for lessening scrutiny of our once-bitter trading partner is due to where tourism is on the ledger. In 1999, 1.2 million U.S. citizens visited Japan, while four times that number of Japanese visited the U.S.

Foreign tourists will have more time and more money to visit the U.S., as well. From the 1990s to 2030s, life expectancy will average from 80.5 years to 82.6 in the U.S., Canada, France, Germany, Italy, Japan and the United Kingdom. A recent study points out that improved working conditions, better healthcare and nutrition, and healthier lifestyles all add up to more years with more leisure time on our

hands.

But the Sept. 11 terrorist attacks cut into that international market. Twenty-one percent fewer Japanese visited this country in 2001 - due primarily to that event. And what happened to the traveling public from Japan? Did they just stay home? No! Other countries, such as Australia, tried to fill the void left by the fear Japanese felt about traveling to the U.S. They aggressively advertised to the traveling public in Japan, with great success. With the growing affluence of our international neighbors, the market for foreign visitors will increase. The question is, will they come to the U.S. in the same or greater numbers, or will they visit our competitors? States that set up trade offices overseas to promote their products are wise to do so, but they should not forget to promote their travel destinations as well.

Conclusion

So why are we still hiding our tourism candle under a bushel? Clearly, most policy-makers are aware that our states are increasingly being fueled by the new, service-based economy - due in part to a growing reliance on technology and a global marketplace.

However, beyond our efforts to enhance the industries of the New Economy, states have an opportunity to invest in the other service export that fills their state coffers: tourism.

Bio

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