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Tourism and income distribution: Evidence from a developed regional economy

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HIGHLIGHTS

- The Galician SAM proposed is elaborated for tourism policy evaluation.
- In the earnings channel, capital revenues play a more important role than wages.
- Redistributive effect from governments does not compensate the earnings channel.
- Inbound tourism contributes to a slight increase in income inequality in Galicia.

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ABSTRACT

The ways in which tourism consumption affects income distribution involves three channels: changes in prices, earnings of households and government revenues. In this paper, we focus our analysis on the latter two channels through a social accounting matrix (SAM) model of Galicia for the year 2008. This SAM, which is elaborated with a special design for the evaluation of tourism policies, incorporates data for a wide variety of households (eight different types disaggregated by level of income), two governments (regional and central), four types of taxes, four wage earners (classified by education skill) and 29 sectors, among other figures. Furthermore, with the purpose of going deeper into the distributive effects, the traditional multiplicative and additive SAM multiplier decompositions are presented. Results show that the positive effects on all income groups are significant. However, high-income households benefit more than low income ones, contributing to a slight increase in income inequality within the region.

1. Introduction

Tourism contributes to the growth of regional economies, providing a source of income for both resident households and local firms. This is particularly relevant for developing and the least developed countries (LDCs). In fact, the UNWTO (2005) declaration titled "Harnessing Tourism for the Millennium Development Goals" recognized tourism as a major force for socioeconomic development. However, as explained in Blake (2008), if the low-income households are not involved in tourism (actively or passively), tourism activities will help to make social inequalities deeper and enlarge the gap between those with access to capital and those who are on the threshold of subsistence (Cleverdon & Kalisch, 2000).

International and regional experiences reveals that tourism can cause significantly positive direct and indirect effects at the local level by generating production and employment, as well as increasing wages and capital revenues (Archer & Fletcher, 1996; Frechtling & Horvath, 1999). However, some of these beneficial impacts may affect to people and factors of production outside the region (Archer, 1982). This leakage will depend on the structure of the economy (the amount of imports needed in the production process) and on the type of products consumed by visitors. Moreover, in order to take into account also distributional effects, it is necessary to consider the mechanisms in which tourism consumption affects the distribution of labourand capital revenues to the different socio-economic agents.

In fact, we can identify different forces in one way or another that suggests that tourism can have different distributional effects depending on the backward and forward linkages of the tourism activities with the rest of the economy, the characteristics of the labourmarket or on how the government transfers and taxes

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affects households and firms, among others. Evidences from developing countries confirm that a tourism expansion could not be pro-poor (Blake, 2008; Blake, Arbache, Sinclair, & Teles, 2008; Wattanakuljarus & Coxhead, 2008).

First, tourism consumption could be redistributive since it mainly tends to employ lower-skilled wage earners that usually belong to poorer households.[2] However, depending on the degree of tourism specialisation of the region, the amount of self-employment in accommodation and restaurant services can be relatively high. Second, tourism consumption could be redistributive since it means more revenues for governments. It will depend on the tax rate of tourism products and on the expenditures made with these new revenues by the government. Moreover, tourism consumption could be negative for income redistribution since the increase of prices is transmitted mainly to food and beverages, real estate services, and primary products, which are basic products for the poorest households, but also to accommodation services and cultural and recreational services mainly consumed by wealthier households.[3]

Therefore, our main research hypotheses can be summarized in two questions:

- Has tourism consumption the same effect on income distribution for developing and developed economies? It would be expected that the low-income households are more involved in tourism, both directly (through labour market) and indirectly (through government actions). Additionally, it is expected that they have more relative access to capital or services in comparison with those of the developing countries.
- Is the government channel enough to compensate the earnings channel in terms of income inequality? Distinguishing between channels it is expected that the earnings channel causes income inequality, depending on the degree of tourism specialization of the region. The less specialized the region is, the higher the amount of capital revenues relative to wage-earners (Pérez-Dacal, 2013) and then, the higher income inequality it would generate. It would also depend on the type of visitors arriving. If they are mostly international visitors, it is also expected that tourism related businesses would hire trained workers with language skills. In the other hand, the government channel should be redistributive. Depending on the tax rate of tourism products (as well as on how these new revenues are expended) and on the amount of domestic tourism in the economy, this channel would compensate or not the negative effect of the earnings mechanism explained before.

In this paper, we focus our analysis on the earnings of households and governments revenues mechanisms through a regional social accounting matrix (SAM) model of Galicia[4] for the year 2008. To our knowledge, there is not any study that calculates how the income that tourism consumption generates in a developed region is distributed among their residents. The SAM proposed in this work, which is elaborated with a special design for tourism policy evaluation, allows us to examine not only production impacts but also the effects on the generated income in the labour market (considering four different types of wage-earners classified by education and also capital revenues, which includes self-employed workers) and the disposable income of the households, among other institutional sectors. Therefore, the aim of this paper is to assess the economic significance of both foreign inbound tourism consumption and national inbound tourism consumption for 2008. Moreover, with the purpose of going more in depth on the distributive effects, the traditional multiplicative and additive SAM multiplier decomposition are presented.

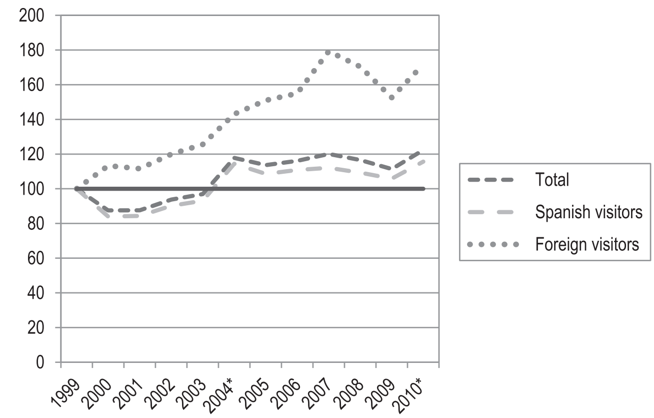

Fig. 1. Evolution of Galician overnight stays (1999–2010) (Year 1999 = 100). Source: Own elaboration from data of the Spanish Hotel Occupation Survey. * Holy year or "Año Xacobeo".

In recent years, the evolution of tourism consumption in Galicia has experienced significant changes. From 1999 to 2010, the foreign inbound tourism overnight stays have grown more than 70% (from 0.8 to 1.4 million overnight stays) while the national inbound tourism has grown just 15% (from 5.8 to 6.8 million overnight stays) despite being the main touristic profile for Galicia, as can be seen in Fig. 1.

Moreover, if we take a look at the expenditures made by these two profiles in Table 1, we can see that they have slightly different consumption patterns. Following the Spanish Tourism Satellite Account (TSA), foreign inbound tourists spend a relatively higher part of their budget on hotels and similars, transport by plane, transport rental services, and on other transport services. In the case of the national inbound tourism consumption, they spend more on real estate services, transport by train, bus, or car, and on travel agency services.

After combining the two aspects we have described, a deeper analysis of the economic significance and distributional effects of these two tourism consumption profiles seems to be needed. The amount of income generated by tourism consumption depends directly on the kind of products they acquire on their visits, affecting the economic contribution to a region.

The rest of the paper is divided into four additional sections. In the first we analyse the work related to tourism impact particularly that which is focused on distributional effects and on poverty relief. In the second section our objective is to describe the specification of the SAM model that is going to be used in the simulations. We also explain the SAM decompositions and the main features of the Galician SAM for the year 2008. After that, we present the main results obtained in terms of economic contribution and distributional effects. Finally, the last section explains the main conclusions that have been reached through this paper.

[2] Moreover, as explained by Fernández, Pena-Boquete, and Pereira (2009), when a region is highly specialised in hospitality, workers in that sector have a small probability of receiving low wages.

[3] Blake et al. (2008) identify three channels in which tourism consumption affects income distribution: changes in prices, earnings of households, and government revenues. In developed regional economies with excess of capacity, as can be the Galician case, any demand shock would be absorbed through quantities and not through prices (so, the price channel would not have a substantial effect). To illustrate this fact, according to the Hotel Occupancy Survey data (elaborated by the National Statistic Institute), in the particular case of some tourism activities such as accommodation services, the occupancy rate in the Galician hotels is around 35% in 2010.

[4] Galicia is the northwesternmost of the 17 regions in Spain. Its 29,434 km^2 surface area (similar to Belgium) represents the 5.80% of the Spanish territory. In 2010, it represented 5.95% of the Spanish population (2,797,653 inhabitants). In terms of GDP, Galicia means the 5.39% of the Spanish total. Among other sectors, hospitality accounts for the 5.11%; primary sectors for the 4.33%; mining and energy related sectors for the 17.43% and construction for the 11.40% of the total production. According to Eurostat, Galicia is the 58th region (out of 272) by total overnight stays in 2010.