State and territory tourism assistance

A zero sum game

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1. Introduction

Whether it is 'beautiful one day and perfect the next', the 'place to be' or 'no place like it', state and territory governments spend millions every year branding their jurisdiction in the battle for a share of the domestic tourism market. Governments claim that in terms of investment dollars, jobs and multiplier effects throughout the economy, these government subsidies benefit not just the tourism industry but the economy as a whole.

While industry assistance can be a legitimate way for governments to further the public good, it is difficult to justify the majority of government spending promotion of domestic tourism assistance. Most of the assistance that the states and territories provide merely promotes the tourism industry in one state over that of another – what one state gains another loses. Further, the subsidy that governments provide constitute a gift from taxpayers to tourism operators that generates very little public benefit. At best, state and territory tourism assistance amounts to a zero sum game in which taxpayers are the ultimate losers.

In this paper we look at state and territory spending for domestic tourism marketing and event attraction. These two forms of government assistance generally account for more than 50 per cent of total tourism assistance (Productivity Commission 2005, p. 4.6). They are also the principal means by which state and territories seek to increase their share of the domestic tourism market.

2. Industry assistance

Industry assistance has long been used by Australian governments. In essence, it is premised on the assumption that subsidies can be used to stimulate economic growth and employment, which benefits the population within the relevant jurisdiction (Baragwanath and Howe 2000, p. 6). Theoretically, industry assistance can be justified on the grounds that it can address market failures. For example, a government may provide financial assistance to defence industries because, in the absence of subsidies, there would be an undersupply of the goods and services that are needed to ensure the nation's security. In practice, these programs are generally sold to the public on the basis of employment benefits. That is, the assistance will increase the number of jobs available in the economy (Baragwanath and Howe 2000, p. 6). However, some commentators argue that industry assistance is nothing more than corporate welfare, where government assistance to the private sector amounts to giveaways that lead to inefficiencies (Laird and Reich 1998).

For any type of industry assistance the question for policymakers is whether government resources are being used to increase social welfare in a cost-effective manner (Baragwanath and Howe 2000, p. 1). In the case of domestic tourism assistance, the evidence indicates that these programs are usually a waste of taxpayers' money.

Research by the Industry Commission (now the Productivity Commission) has demonstrated that state government claims about the economic benefits associated with tourism assistance are often overstated (Industry Commission 1996). Similarly, members of the Sustainable Tourism Co-operative Research Centre's economic modelling group have raised questions about the perceived benefits of competitive bidding between states and territories. They point out that some of the positive effects for the host state occur only by drawing spending and resources away from other states (Forsyth *et al*. 2005).

Overall, state and territory tourism assistance is largely a zero sum game where the gains to tourism operators and 'winning' states are obtained at the expense of taxpayers and 'losing' states. While some assistance may increase domestic tourism expenditure, a significant proportion of it constitutes a gift from taxpayers to tourism operators that merely pits state against state. Indeed, both spending for domestic tourism marketing and major event attraction often serve only to shift tourists, events, jobs and associated revenue from one part of the country to another, at huge public expense.

An associated problem with state and territory industry assistance is that it is not transparent (Baragwanath and Howe 2000). This is particularly acute in the tourism sector where inter-state competition for market share means governments often do not detail where assistance is spent, nor do they provide information about the grounds on which it is given. For example, our requests to the relevant tourism agencies and government departments for information about domestic tourism marketing and event attraction were often met with claims that such information cannot be released because it is commercial in-confidence. Yet it is difficult to comprehend how disclosing details about the total amount of assistance that is provided could be used by 'rival' governments. The opaque reporting of tourism assistance undermines government transparency and accountability and puts the interests of state and territory tourism industries ahead of the Australian economy and taxpayers.

3. Counting the cost

In 2005, the Productivity Commission, for the first time, sought to quantify the forms of assistance to tourism provided by Australian governments. It estimated that tourism receives about $1 billion in assistance via budgetary outlays from all Australian governments each year. The vast majority of this assistance, almost 80 per cent, is provided by state and territory governments (Productivity Commission 2005, p. 7.3). However, as the Commission noted:

> [t]he unusual nature of the tourism industry and the assistance it receives, in conjunction with data limitations have made the estimation of assistance to tourism more problematic than estimating assistance to traditional industries (Productivity Commission 2005, p. 7.1).

The tourism industry in Australia is not easily identified. The principal problem is converting a consumption-based concept of 'tourism' into a production-based industry definition. Broadly speaking the industry is an amalgam of conventional industries including transport, accommodation and retail trade (Productivity Commission 2005, p. ix). Its fragmented nature has led some commentators to question the entire notion of a 'tourism industry' that largely refers to a group of well-established and well-defined existing industries (Ackland 2003).

The Australia Bureau of Statistics (ABS), which through the Tourism Satellite Accounts (ABS 2006) provides data on visitor numbers, employment, and the industry's contribution to GDP, uses a different definition of tourism to that adopted by the Productivity Commission (2005). In the ABS definition, tourism is not restricted to leisure activity and includes travel for business or other reasons such as education (ABS 2006). In contrast, the Productivity Commission uses a narrower definition which is closer to the common understanding of the word 'tourism' (Productivity Commission 2005).

While debates have raged inside and outside the industry over definitions of tourism, for the purpose of this paper we are only concerned with determining the amount of assistance provided by state and territory governments through dedicated tourism authorities. The intention is to evaluate how much money is being provided for a form of industry assistance that provides little public benefit. As the Productivity Commission has stated:

> [i]t is important that support to tourism be rigorously reviewed from time to time to ensure that it addresses genuine instances of market failure or inequity, does so in an efficient manner and that it is associated with net benefits for the community (Productivity Commission 2005, p. 7.10).

Taking up this task, we consider two forms of tourism assistance that do not appear to be providing a good return on the public's investment: domestic tourism marketing and event attraction.

(i) Domestic tourism marketing

All state and territory governments have a tourism agency that provides dedicated tourism promotion and marketing.[1] The primary responsibility of these agencies, as the Federal Minister for Tourism puts it, is 'promoting their own states to Australians' (Baily cited in Gregg 2006). To justify this form of assistance, tourism operators and governments may argue that it is necessary to overcome market failure caused by a free rider problem. Tourism operators who choose to fund marketing campaigns that promote a state or other region are unable to exclude other businesses in the area from

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[1] It should be noted that local governments also provide tourism assistance. However, due to the comparatively small outlays and the difficulties collecting data , this paper does not include local government assistance.

many of the benefits associated with the campaign. This reduces the incentive for tourism operators to market an area, which ultimately leads to worse outcomes for all of the relevant businesses and the local economy.

Although this argument may have some superficial appeal, it does not stand up to closer scrutiny. First, the benefits derived from domestic tourism marketing accrue almost exclusively to those in the industry, with marginal benefits for those outside the tourism sector. It is unfair to ask all taxpayers to subsidise activities for which there is little public gain where the main beneficiaries are established businesses and their shareholders. Second, publicly funded tourism campaigns lower the costs of tourism operators by externalising some of their marketing expenses. This leads to an oversupply of tourism services, which reduces social welfare. Third, domestic tourism marketing can result in a zero sum game where the gains to one state are obtained largely at the expense of other states. This problem is hinted at in the Federal Government's Green Paper on tourism where it states that:

> State and Territory domestic tourism promotion and marketing strategies have generally focussed on maintaining, or increasing, each State's or Territory's domestic market share (Federal Government 2003, p. 20).

In this light, if domestic tourism marketing is to be undertaken it should be funded by the tourism industry and not the tax payer. If this occurs, it may be desirable for government to play a coordinating role to overcome the aforementioned market failure. This could involve government, in cooperation with the tourism industry, imposing a compulsory levy on tourism operators to finance a domestic marketing fund. While there are various ways in which governments could assist with the coordination of marketing efforts, domestic tourism campaigns that are funded by the public cannot be justified on either equity or efficiency grounds.

Despite the absence of a compelling justification, state and territory governments continue to spend millions each year on domestic tourism marketing. In 2005, state and territory governments provided an estimated $134.7 million in tourism assistance specifically dedicated to domestic tourism marketing – see Table 1. Tourism New South Wales provided the most assistance ($22.3 million), followed by South Australia ($19.9 million) and Western Australia ($19.4 million). Per capita, the Northern Territory Government outlaid the largest amount of funding for domestic tourism marketing, spending $12.3 million.

Table 1 State and Territory Government assistance for domestic tourism promotion, 2005

Government	$ million
New South Wales*	22.3
Victoria*	19.1
Queensland	18.3
South Australia	19.9
Western Australia*	19.4
Tasmania*	15.1
Northern Territory	12.3
Australian Capital Territory*	8.3
Total	**134.7**

Source: NSW Government (2005), Tourism Victorian (2005), Tourism Queensland (2005), South Australia Government (2006), Western Australian Tourism Commission (2005), Tourism Tasmania (2005), Northern Territory Tourism Commission (2005), Australian Capital Tourism Corporation (2005).
*For those states and territories where specific outlays on domestic tourism promotion are not disclosed, the figure included is a 45 per cent share of revenue for the relevant tourism body, less any specified outlays for international promotion. This share is derived from the equivalent share of domestic tourism marketing as a proportion of total revenue in those states where a figure for domestic tourism marketing is disclosed, namely Queensland, South Australia and the Northern Territory. These estimates are considered conservative given that the primary role of state and territory tourism authorities is to promote their jurisdictions to the domestic tourism market. These estimates also do not include other additional grants that are provided by governments.

Each state and territory tourism authority expends these funds as they attempt to brand their state to other jurisdictions. For example, Tourism Victoria had the ‘Melbourne. You’ll never want to leave campaign’ which ran 60 second television advertisements in ‘key interstate markets’ (Tourism Victoria 2005, p. 13). Similarly, South Australia has the ‘Brilliant Blend’ campaign, Tasmania the ‘Pure Tasmania’ slogan, and so on (Macken 2006).

The competition between states and territories is fierce, which enables the various tourism industry bodies to play state against state as they lobby for increased subsidies. For example, criticism of the 2006 Queensland state budget by industry groups was framed in reference to the competition from other states. The Tourism and Transport Forum argued that despite growing competition from destinations around Australia, budgets for tourism marketing in Queensland had been stagnant (Gregg 2006).

The end result is that millions of dollars of taxpayers’ money is given to the tourism industry for little public gain. All Australian governments should work together to end the wastefulness associated with these schemes.

(ii) Event attraction

Publicly funded event attraction is even less justifiable than marketing assistance. Often dubbed ‘competitive federalism’, competition between state and territory governments for major events can be likened to a private auction for real estate, where governments adopt a beggar thy neighbour mentality as they make secret bids with taxpayer money for the supposedly lucrative economic returns of hosting a major event (Baragwanath and Howe 2000, p. 24).

However, the belief by government in the benefits of competitive bidding is misplaced. As Gary Banks, Chairman of the Productivity Commission points out:

> [t]he facts are that these sorts of deals are difficult to justify on economic grounds. … [T]he purported gains for the State are often illusory, and even when they are positive there will often be negative outcomes nationally (Banks 2002).

Despite a growing body of evidence showing that event attraction provides few benefits and that it often results in a net loss to taxpayers the practice persists.[2] In 2003, state and territory governments spent approximately $101.5 million on event attraction – see Table 2.[3] Victoria, the self-proclaimed home of major events, outspent its rivals by more than four to one. The Victorian Government spent an estimated $56 million on event attraction, its closest rivals, Queensland and South Australia, spent $12 million each.

Table 2 State and Territory Government assistance for event attraction, 2003[4]

Government	$ million
New South Wales	1.5
Victoria	56.0
Queensland	12.0
South Australia	12.0
Western Australia	8.0
Tasmania	4.0
Northern Territory	4.0
Australian Capital Territory	4.0
Total	**101.5**

Source: Productivity Commission (2005, p. 4.15).

Few events can match the waste associated with shifting the Australian Formula One Grand Prix from South Australia to Victoria. Although South Australia already hosted the event and had provided millions in assistance for infrastructure and other costs, Victoria outbid South Australia in 1993 and secured the rights at a cost of about $100

[2] See, amongst others, Banks (2002), Baragwanath and Howe (2000) and Forsyth *et al*. (2005).

[3] While more recent figures are available for some States, for others like Victoria, it is very difficult to estimate the precise funding for event attraction. Hence, as shown in Table 2, figures are derived from Productivity Commission estimates for 2003.

[4] In estimating tourism subsidies, the Productivity Commission only allocates a proportion of funding for event attraction to tourism assistance. The premise is that this funding also assists non-tourism activities. In this paper all government funding for event attraction is labelled as tourism assistance. This is because this funding is outlaid as dedicated tourism assistance. Further, without more precise information it is impossible to determine to what extent funding for event attraction does promote non-tourism activities. For a full discussion see chapter four, Productivity Commission (2005).

million (Gill 1994). Victoria also had to buy 'Grand Prix assets' from South Australia at more than $12 million (Lynch 1994). A similar example of the waste associated with event attraction was the V8 Super Car Event in Canberra. In 2001, the ACT Government spent over $5 million staging the event, yet the ACT Audit Office found that this cost was more than double the returns from the event (Banks 2002).

Despite the fanfare that surrounds major events, the reality is that state and territory governments are often spending large sums of taxpayer money in attempts to divert events, tourists, jobs and associated revenue from one part of Australia to another. A large proportion of the gains that Victorians may receive from the $56 million that their Government spent on event attraction are likely to be obtained at the expense of neighbouring states. Further, the evidence shows that when a government hosts or develops a major event, the net impact on the economy is often relatively small.

4. Implications

Together, domestic tourism promotion and event attraction cost Australian taxpayers around $245 million annually with no benefits to the nation. State and territory governments claim that in terms of investment dollars, jobs and multiplier effects throughout the economy this assistance benefits not just the tourism industry but the economy as a whole. Yet all of the available evidence suggests that domestic tourism assistance constitutes a poor use of taxpayer resources. Rather than enhancing the welfare of Australians, domestic tourism outlays by state and territory governments serve only to enhance the welfare of an industry that plays state against state in the fight for a share of the domestic tourism market. Any gains that one state or territory may receive are often offset by the loss of another. In subsidising the tourism sector, these schemes also lead to inefficiencies by prompting an oversupply of tourism services. Further, when states and territories provide public assistance for event attraction the promised economic gains rarely materialise and taxpayers are left to foot the bill.

This raises the question why state and territory governments persist with tourism subsidies when the evidence shows that it is not economically efficient. It appears states are caught in a prisoners' dilemma because the perceived losses of ending assistance stymie attempts for cooperation. While this situation persists, domestic tourism assistance will continue to benefit hotel owners and others in the tourism industry, while providing no public benefit.

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