Part I
Introduction

1
Economic perspectives

Travel broadens the mind.

It also costs money and takes up time.

In this chapter we examine the fundamental economic factors that affect all aspects of the travel and tourism business. The perspectives provided by this approach will enable us to see how travel industries are defined and fit into the larger economic picture. They will also form a framework for understanding the financial features that guide investments in this field.

1.1 Time concepts

Alternatives

You need time to get from here to there. And given that time-transport machines are still to be seen only in science fiction films, it is worth our while to spend a little time to understand the economic value of time.

Time for leisure or business travel comes out of a budget that includes time for work, time for play, and time for taking care of the necessities of life. But in recent years the boundaries between these categories have become increasingly blurred. For instance, we associate what is loosely known as

"leisure time," as time in which people are free from having any sense of obligation or compulsion to do anything.[1] Yet we could just as easily characterize the term *leisure* as simply time not spent at work. No matter what the definitional preference, however, the essential economic fact is that time has a cost in terms of alternative opportunities foregone.

Because time is needed to use or to consume goods and services as well as to produce them, economists have attempted to develop theories that treat time as a commodity with varying qualitative and quantitative cost features. As Sharp (1981) notes in his comprehensive coverage:

> Although time is commonly described as a scarce resource in economic literature, it is still often treated rather differently from the more familiar inputs of labor and materials and outputs of goods and services. The problems of its allocation have not yet been fully or consistently integrated into economic analysis. (p. 210)

Nevertheless, investigations into the economics of time, including those of Becker (1965) and DeSerpa (1971), have suggested that the demand for leisure is affected in a complicated way by the cost of time to both produce and consume. For instance, according to Becker (see also Ghez and Becker 1975),

> The two determinants of the importance of forgone earnings are the amount of time used per dollar of goods and the cost per unit of time. Reading a book, taking a haircut or commuting use more time per dollar of goods than eating dinner, frequenting a night-club or sending children to private summer camps. Other things the same, foregone earnings would be more important for the former set of commodities than the latter.
>
> The importance of forgone earnings would be determined solely by time intensity only if the cost of time was the same for all commodities. Presumably, however, it varies considerably among commodities and at different periods. For example, the cost of time is often less on week-ends and in the evenings. (Becker 1965, p. 503)

Availabilities

Most of us do not normally experience sharp changes in our availability of leisure time (except on retirement or loss of job). Nevertheless, there is a fairly widespread impression that leisure time has been trending steadily higher ever since the Industrial Revolution of more than a century ago. Yet the evidence on this is mixed. Figure 1.1 shows that in the United States the largest increases in leisure time – workweek reductions – for agricultural and nonagricultural industries were achieved prior to 1940. But more recently, the lengths of average workweeks, as adjusted for increases in holidays and vacations, have scarcely changed for the manufacturing sector and have also stopped declining in the services sector (Table 1.1 and Figure 1.2). By comparison, average hours worked in other major countries, as illustrated in Figure 1.3, have declined markedly since 1970.

Although this suggests that there has been little, if any, expansion of leisure time in the United States, what has apparently happened instead is that work schedules now provide greater diversity. As noted by Smith (1986), "A larger

Table 1.1. *Average weekly hours at work, 1948–1995,*[a] *and median weekly hours at work for selected years*[b]

Average hours at work			Median hours at work	
Year	Unadjusted	Adjusted[c]	Year	Hours
1948	42.7	41.6	1973	40.6
1956	43.0	41.8	1975	43.1
1962	43.1	41.7	1980	46.9
1969	43.5	42.0	1984	47.3
1975	42.2	40.9	1987	46.8
1986	42.8		1995	50.6

[a]Nonstudent men in nonagricultural industries. *Source:* Owen (1976, 1988).
[b]*Source:* Harris (1995).
[c]Adjusted for growth in vacations and holidays.

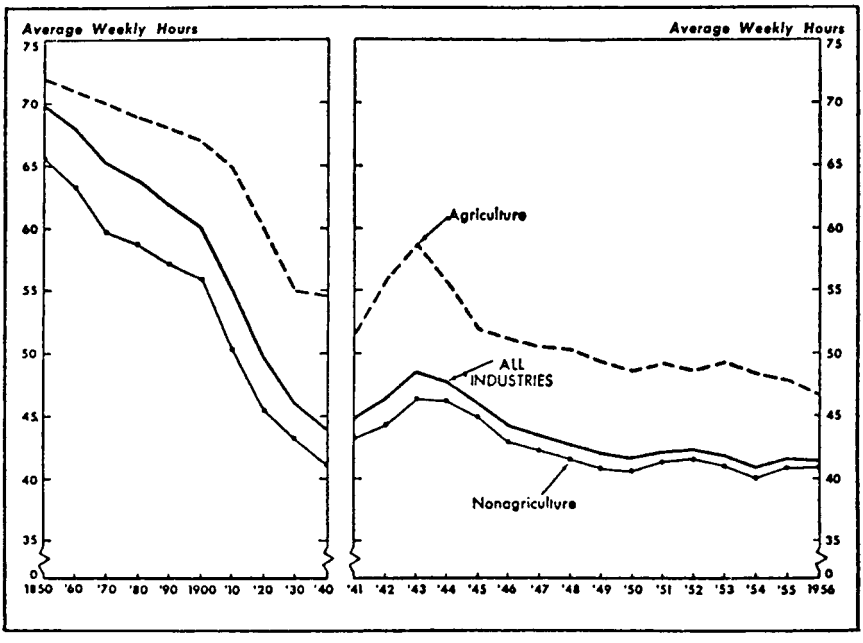
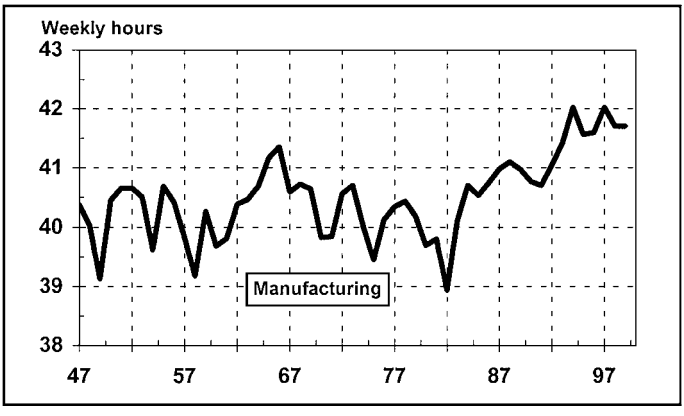
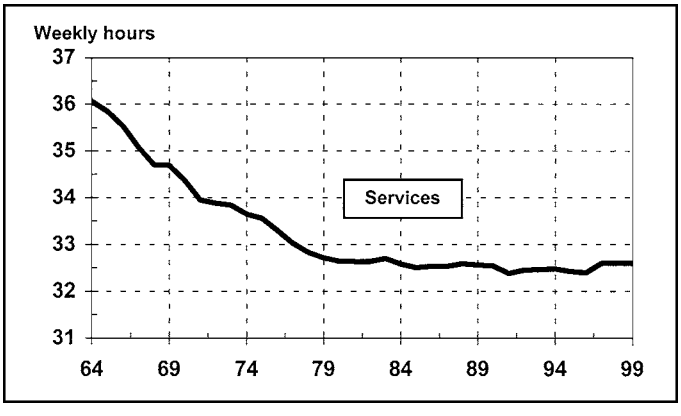


Figure 1.1. Estimated average weekly hours for all persons employed in agricultural and nonagricultural industries, 1850–1940 (10-year intervals) and 1941–56 (annual averages for all employed persons, including the self-employed and unpaid family workers). *Source:* Zeisel (1958).



(a)



(b)

Figure 1.2. Average weekly hours worked by production workers in: (a) manufacturing industries, 1947–97; and (b) service industries, 1964–99. *Source:* U.S. Department of Commerce.

percentage of people worked under 35 hours or over 49 hours a week in 1985 than in 1973, yet the mean and median hours (38.4 and 40.4 respectively, in 1985) remained virtually unchanged."[2]

But if findings from public-opinion surveys of Americans and the arts conducted in 1995 and earlier years by Louis Harris and Associates, Inc. are to be believed, the number of hours available for leisure may actually be declining.[3] This view has also been supported by Schor (1991, p. 29), with an estimate that between 1969 and 1987, "the average employed person is now on the job an additional 163 hours, or the equivalent of an extra month a year. . . and that hours have risen across a wide spectrum of Americans and in all income categories."[4]

However, these data also appear suspect, and some evidence to the contrary is provided by Robinson (1989, p. 34), who has measured free time by age

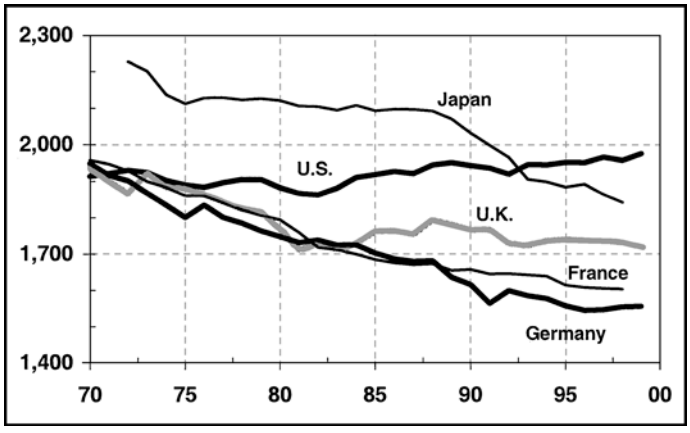


Figure 1.3. Average annual hours worked in the United States versus other countries, 1970–99. *Source: OECD Employment Outlook*.

categories and found that "most gains in free time have occurred between 1965 and 1975 [but] since then, the amount of free time people have has remained fairly stable." By adjusting for age categories, the case for an increase in total leisure hours available becomes much more persuasive.[5] In addition, Roberts and Rupert (1995) found that total hours of annual work have not changed by much but that the *composition* of labor has shifted from home work to market work with nearly all the difference attributable to changes in the total hours worked by women.[6] A similar conclusion as to average annual hours worked was also reached by Rones, Ilg, and Gardner (1997).[7] Yet, as Jacobs and Gerson (1998, p. 457) note, "even though the average work week has not changed dramatically in the U.S. over the last several decades, a growing group of Americans are clearly and strongly pressed for time."

In all, it seems safe to say that for most middle-aged and middle-income Americans, leisure time is not expanding.[8] However, no matter what the actual rate of expansion or contraction may be, there has been a natural evolution toward repackaging the time set aside for leisure into more long holiday weekends and extra vacation days, rather than in reducing the minutes worked each and every week.[9] Particularly for those in the higher-income categories – conspicuous consumers, as Veblen would say – the result is that personal-consumption expenditures (PCEs) for leisure activities are likely to be intense, frenzied, and compressed instead of evenly metered throughout the year. Moreover, with some adjustment for cultural differences, the same pattern is likely to be seen wherever large middle-class populations emerge.

Estimated apportionment of leisure hours among various activities in the United States, and the changes in such apportionment between 1970 and 1995, are indicated in Table 1.2.[10] In addition, many of the time and cost concepts that apply specifically to travel and tourism can be tied together in what has been dubbed a distance-decay function as shown in Figure 1.4. The

Table 1.2. *Time spent by adults on selected leisure activities, 1970 and 1995 estimates*

	Hours per person per year[a]		% of total time accounted for by each activity	
Leisure activity	1970	1995	1970	1995
Television	1,226	1,575	46.5	46.2
Network affiliates		836		24.5
Independent stations		183		5.4
Basic cable programs		468		13.7
Pay cable programs		88		2.6
Radio	872	1,091	33.1	32.0
Home		442		13.0
Out of home		649		19.0
Newspapers	218	165	8.3	4.8
Records & tapes	68	289	2.6	8.5
Magazines	170	84	6.5	2.5
Leisure books	65	99	2.5	2.9
Movies: Theaters	10	12	0.4	0.4
home video		45		1.3
Spectator sports	3	14	0.1	0.4
Video games: arcade		4		0.1
home		24		0.7
Cultural events	3	5	0.1	0.1
Total	2,635	3,407	100.0[b]	100.0[b]
Hours per adult per week	50.7	65.5		
Hours per adult per day	7.2	9.3		

[a] Averaged over participants and nonparticipants.
[b] Total not exact due to rounding.
Source: CBS office of Economic Analysis, Wilkofsky Gruen Associates, Inc.

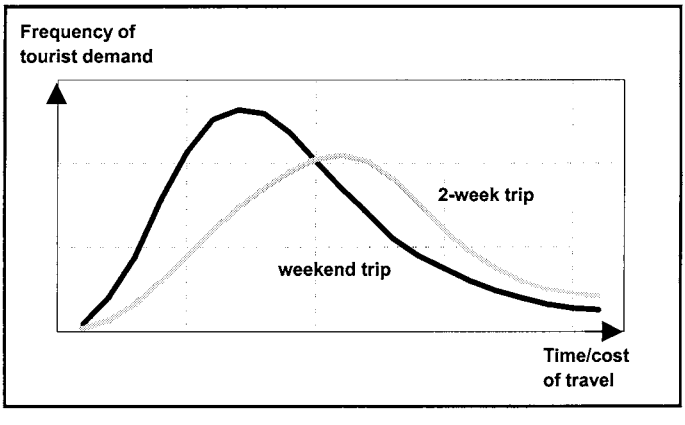


Figure 1.4. Distance-decay function for tourist travel.

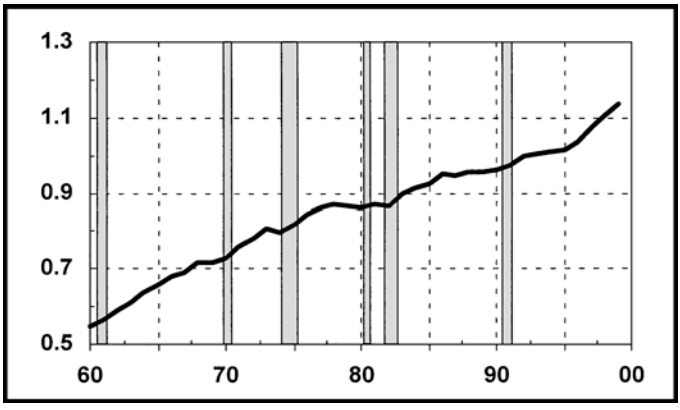


Figure 1.5. Nonfarm business productivity in the United States, shown by output per hour index (1992 = 100), 1960–99. Bars indicate periods of recession.

function captures the fact that while traveling, an opportunity cost of time rather spent doing something else is incurred. As Bull (1995, p. 45) suggests, a good proxy for physical distance is a composite variable that includes the opportunity cost of time *and* of the money-cost for a trip. Such a variable is inversely related to demand for tourist travel.

1.2 Supply and demand factors

Productivity

Ultimately, however, more leisure time availability is not a function of government decree, labor union activity, or factory-owner altruism. It is a function of the rising trend in output per person-hour – in brief, rising productivity of the economy. Quite simply, technological advances embodied in new capital equipment and in the training of a more skilled labor pool enable more goods and services to be produced in less time or by fewer workers. Thus long-term growth in leisure-time related industries depends on the rate of technological development throughout a nation's economy.

Information concerning trends in productivity, as well as other aspects of economic activity, may be derived from the National Income and Product Accounting (NIPA) figures of the U.S. Department of Commerce. According to those figures, overall productivity between 1973 and 1990 rose at an average annual rate of approximately 1.2% as compared with a rate averaging 2.8% between 1947 and 1973 (Figure 1.5). But in the 1990s, productivity growth rebounded to an average annual rate of 2.0%, thereby implying that the *potential* for leisure-time expansion remained fairly steady in the last quarter of the twentieth century.[11]

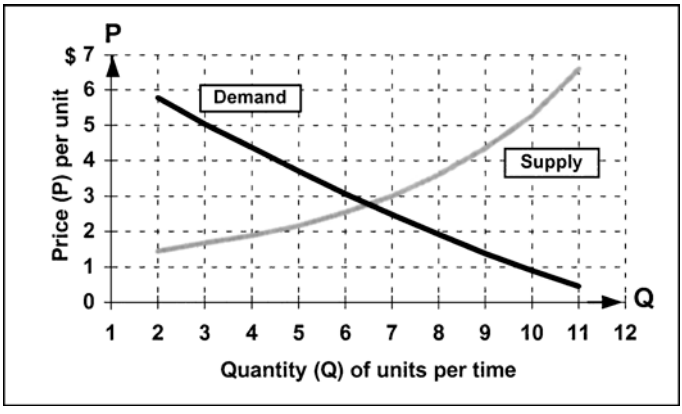


Figure 1.6. Supply and demand schedules.

Demand for leisure

All of us can choose to either fully utilize our free time for recreational purposes (defined here as being inclusive of entertainment and leisure-travel activities) or use some of this time to generate additional income. How we allocate free time between the conflicting desires for more leisure and for additional income then becomes a subject that economists investigate with standard analytical tools.[12] In effect, economists can treat demand for leisure as if it were, say, demand for gold, or for wheat, or for housing. And they often estimate and depict the schedules for supply and demand with curves of the type shown in Figure 1.6. Here, in simplified form, it can be seen that as the price of a unit rises, the supply of it will normally increase, and the demand for it decrease, so that over time, price and quantity equilibrium in an openly competitive market will be achieved at the intersection of the curves.[13]

It is also important to note that consumers normally tend to substitute less expensive goods and services for more expensive ones and that the total amounts they can spend – their budgets – are limited or constrained by income. The effects of such substitutions and changes in income as related to demand for leisure have been extensively studied by Owen (1970), who observed:

> An increase in property income will, if we assume leisure is a superior good, reduce hours of work. A higher wage rate also brings higher income which, in itself, may incline the individual to increase his leisure. But at the same time the higher wage rate makes leisure time more expensive in terms of forgone goods and services, so that the individual may decide instead to purchase less leisure. The net effect will depend then on the relative strengths of the income and price elasticities. . . .It would seem that for the average worker the income effect of a rise in the wage rate is in fact stronger than the substitution effect (p. 18).

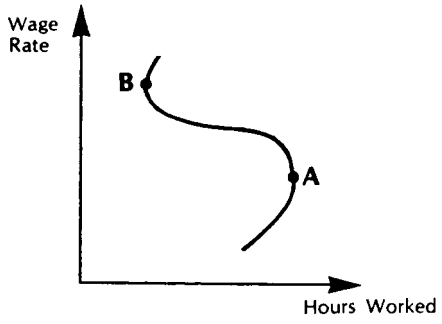


Figure 1.7. Backward-bending labor-supply curve.

In other words, as wage rates continue rising, up to point A in Figure 1.7, people will choose to work more hours to increase their income (income effect). But they eventually begin to favor more leisure over more income (substitution effect, between points A and B), resulting in a backward-bending labor-supply curve.[14] Although renowned economists, including Adam Smith, Alfred Marshall, Frank Knight, A. C. Pigou, and Lionel Robbins have substantially differed in their assessments of the net effect of wage-rate changes on the demand for leisure, it is clear that "leisure does have a price, and changes in its price will affect the demand for it" (Owen 1970, p. 19). Indeed, results from a Bureau of Labor Statistics survey of some 60,000 households in 1986 suggest that about two thirds of those surveyed do not want to work fewer hours if it means earning less money.[15]

As Owen (1970) has demonstrated, estimation of the demand for leisure requires consideration of many complex issues including the nature of "working conditions," the effects of increasing worker fatigue on production rates as work hours lengthen, the greater availability of educational opportunities that affect the desirability of certain kinds of work, government taxation and spending policies, market unemployment rates, and several other variables.[16]

Expected utility comparisons

Individuals differ in terms of the sense of psychic gratification experienced from consumption of different goods and services. Consequently, it is difficult to measure and compare the degrees of satisfaction derived from, say, eating dinner as opposed to buying a new car. To facilitate comparability, economists have adapted an old philosophical concept known as utility.[17] As Barrett (1974, p. 79) has noted, utility "is not a measure of usefulness or need but a measure of the desirability of a commodity from the psychological viewpoint of the consumer."

Of course, rational individuals try to maximize utility – in other words, make decisions that provide them with the most satisfaction. But they are