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Government Advertisement of Tourism: Recent Action and Longstanding Controversies

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Government Advertisement of Tourism: Recent Action and Longstanding Controversies

Summary

The federal government's role in promoting U.S. tourism through advertisements has waxed and waned during the past four decades. In 1961, Congress established an office within the Department of Commerce dedicated to promoting tourism to the United States, but in 1996 it abolished that office. In February 2003, in the wake of a decline in U.S. tourism, Congress established the United States Travel and Tourism Promotion Advisory Board (USTTAB) and provided $50 million for the Secretary of Commerce to use in an advertising campaign. Before the campaign began, however, Congress rescinded all but $6 million of the appropriation. In September 2003, legislation was introduced (H.R. 3164) to abolish USTTAB.

These contrasting congressional actions demonstrate that the federal funding of tourism advertisements, like government advertising generally, is controversial. Proponents of federal tourism advertising argue that it is good economic policy. Federal tourism advertising, they say, boosts the number of foreign visitors to the United States, which brings economic benefits. Proponents make four arguments in favor of federal tourism advertising: first, federal tourism promotion is a tool for helping U.S. tourism industry firms increase sales; second, it is a necessary response to foreign nations' marketing of their own countries as tourist destinations; third, tourism advertising is a tool for reducing the United States' trade deficit with the rest of the world; and, fourth, it is a reasonable response to a tourism slump caused by extraordinary events, such as the attacks of September 11, 2001.

Critics respond that there is little evidence that federal tourism advertising policy has increased visits to the United States. Critics also take issue with federal tourism advertising on four grounds: first, there is no market failure to justify the intervention of the federal government; second, federal tourism advertising is unnecessary because the United States already is a top destination for tourists; third, the U.S. trade deficit is not a result of lagging foreign tourism to the United States; and, fourth, the U.S. tourism industry is recovering from its slump on its own and does not need federal advertising to boost it. Critics further contend that tourism promotion is not an effective policy because macroeconomic factors are far more powerful variables than advertising in affecting individuals' decisions to travel internationally.

This report concludes by considering the difficulty of assessing the results of government tourism advertising programs. Empirical evidence on the efficacy of federal tourism advertising is, surprisingly, in short supply. Many variables — such as safety, affordability, and ease of access — can affect the decision of an individual to travel, which makes it is very difficult to determine the power of advertisements to affect individuals' decisions to travel. There are no plans to update this report.

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Background

The Department of Commerce has had an office or administration to promote tourism to foreign citizens through advertisements for much of the past four decades.[1] President John F. Kennedy signed P.L. 87-63, the International Travel Act of 1961 (ITA), on June 29, 1961. It required the Secretary of Commerce to "develop, plan, and carry out a comprehensive program designed to stimulate and encourage travel to the United States by residents of foreign countries."[2] Prior to the enactment of ITA, a number of federal agencies promoted tourism through advertisements and other means. These programs, however, were small and often were undertaken without explicit authorization from Congress.[3]

ITA also established the U.S. Travel Service (USTS) within the Department of Commerce and authorized appropriations of $3 million for FY1962 and $4.7 million in following years.[4] The stated objective of the legislation was to redress the balance-of-payments deficit between the United States and the rest of the world.[5] At the time,

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[1] Federal tourism promotion goes back at least to the 1930s. Secretary Harold L. Ickes of the Department of the Interior established the U.S. Travel Bureau on Feb. 4, 1937. P.L. 76-744 (1940) empowered the National Park Service to promote tourism. Both the U.S. Travel Bureau and the National Park Service program were shuttered in 1941 and 1942 to conserve funds for the U.S. effort in World War II. Bruce MacNamee (Director of the U.S. Travel Bureau), "U.S. to Widen 'See America' Travel Drive," *New York Times*, Oct. 15, 1939, p. A9. On the origins of the National Park Service's tourism promotion programs, see testimony of Priscilla R. Baker, Assistant to the Director for Tourism, National Park Service, Department of the Interior, in U.S. Congress, Subcommittee on Business, Trade, and Tourism, Senate Committee on Commerce, Science, and Transportation, *Promotion of Domestic Tourism*, 99th Cong., 1st sess., Nov. 19, 1985 (Washington: GPO, 1986), pp. 17-20. On government advertising generally, see CRS Report RS21746, *Government Advertising Expenditures: An Overview*, by Kevin R. Kosar.

[2] P.L. 87-63, § 2.

[3] For a dated but still useful examination of the federal role in tourism promotion, see National Tourism Review Commission, *Destination USA: Volume 4: Federal Role* (Washington: GPO, June 1973).

[4] The year before, the Department of Commerce's very small tourism promotion program had a budget of just $165,000. David Halberstam, "Federal Travel Service Launched," *New York Times*, June 25, 1961, p. 1.

[5] The balance of payments refers to the sum of the current account balance and the capital

(continued...)

the United States was spending $3.5 billion more abroad than foreigners were spending in the United States, and $1.1 billion of that gap was attributed to Americans' travel and tourism spending abroad.[6] One consequence of the deficit was the build-up of dollar liabilities to foreigners. In the 1960s, the balance of payments was a major political issue because a lingering payments deficit raised the possibility of a "gold drain."[7] That is, foreign central banks that held U.S. dollars could exchange those dollars for gold held by the United States. Since the amount of U.S. dollars in circulation was linked to the amount of gold in U.S. reserves, a rapid outflow of gold could bring about a decline in the amount of U.S. dollars in circulation, decrease spending in the United States, and set the stage for a recession. To combat the gold drain problem, USTS (and its successor, the U.S. Travel and Tourism Administration, USTTA), aggressively promoted U.S. tour destinations in foreign countries.[8] USTS opened overseas outreach offices, provided translation services, bought advertisements in foreign newspapers and media, and, generally, worked closely with the U.S. tourism industry to draw international visitors.[9]

As a policy, federal tourism advertisement lost some of its initial *raison d'etre* in the early 1970s. Between 1971 and 1975, the United States moved from a fixed exchange rate linked to gold to a floating dollar with no linkage to gold. This meant that foreign central banks could no longer draw gold from U.S. reserves in exchange for dollars they held.[10] Thus, the gold drain problem had disappeared.

Nevertheless, federal advertisement of tourism continued because many in Congress viewed the program as a useful tool for luring international visitors (and their spending) to the United States. Appropriations for USTS climbed until 1977, when a series of congressional and presidential actions began to reduce the federal

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[5](...continued)
account balance and provides a systemic accounting of the United States' international economic tranactions. For further information, see CRS Report RL31220, *The Balance of Payments: Meaning and Significance*, by Gary J. Wells.

[6] Halberstam, "Federal Travel Service Launched," *New York Times*, June 25, 1961, p. 1.

[7] The balance of payments problem was perceived to be of sufficient magnitude that President Kennedy felt obliged to send a lengthy message to Congress in July 1963 that advocated a number of policies designed to reduce the "mounting balance of payments deficits" and stem the "large gold outflows." Five years later, President Lyndon B. Johnson did likewise. "The Text of Kennedy's Message Proposing to Cut Balance of Payments Deficits," *New York Times*, July 19, 1963, p. 30; "Text of President's Statement on Balance of Payments Problem and Steps to Meet It," *New York Times*, Jan. 2, 1968, p. 15.

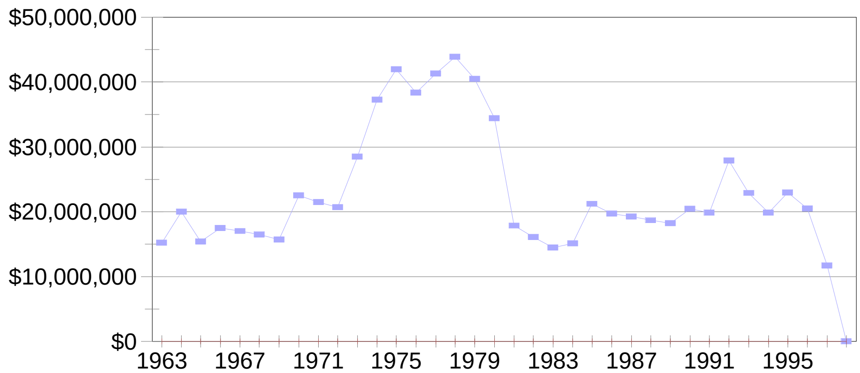
[8] In 1981, Congress replaced USTS with the USTTA (P.L. 97-63).

[9] For an introduction to some of the promotional activities undertaken, see U.S. Travel and Tourism Administration, *Marketing U.S. Tourism Abroad: A Manual of Cooperative Marketing Programs in USTTA Markets, 1993-1994-1995* (Washington: U.S. Department of Commerce, 1993.

[10] At the time, gold reserves had shrunk to about $10 billion, "not nearly enough to redeem the $35 billion believed held by foreign governments." Richard F. Janssen, "Altering the Course: Nixon Devalues Dollar; Sets 90-Day Freeze on Wages and Prices," *Wall Street Journal*, Aug. 16, 1971, pp. 1, 3.

government's role in advertising tourism (see **Figure 1**). Congress temporarily ended the federal role in advertising tourism in 1996 when it abolished the U.S. Travel and Tourism Administration (USTTA), successor to USTS. The duty of keeping statistics on international tourism to the United States was transferred to the new Office of Travel and Tourism Industries (OTTI) within the Department of Commerce; and there were no more appropriations for tourism advertising until 2003.[11]

Figure 1. USTS/USTTA Appropriations, 1962-1997
(in 2003 dollars)



Source: Budget of the U.S. Government

Recent Action

Events of the past few years have reinvigorated congressional interest in the federal advertisement of tourism. The attacks of September 11, 2001, the outbreak of the SARS virus, and other factors helped push down U.S. tourism receipts nearly 12% between 2001 and 2003. Employment in tourism related industries fell sharply, with 390,000 jobs lost.[12]

In February 2003, Congress responded.[13] The Consolidated Appropriations Resolution, 2003 (P.L. 108-7, Sec. 210) authorized the Secretary of Commerce to

> award grants and make direct lump sum payments in support of an international advertising and promotional campaign developed in consultation with the private sector to encourage individuals to travel to the United States consisting of radio, television, and print advertising and marketing programs.[14]

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[11] Anthony Faiola, "Funding Shortfall Cuts Agency's Trip Short," *Washington Post*, Feb. 7, 1996, p. A.17.

[12] CRS Report RL32016, *The Tourism Industry and Economic Issues Affecting It*, by M. Angeles Villarreal.

[13] Congress also appropriated $2.9 billion in aid to the airline industries (P.L. 108-11).

[14] P.L. 108-7, § 210.

This law also established the United States Travel and Tourism Promotion Advisory Board (USTTPAB), which would advise the Secretary on this advertising campaign, and provided a one-time $50 million appropriation (to remain available until expended) for the campaign.[15]

OTTI is responsible for overseeing this "Visit America" advertising campaign. Initially, OTTI planned to target five countries (Canada, Germany, Japan, Mexico, and the U.K.) with advertisements.[16] Before the campaign began, however, Congress rescinded $44 million of the appropriation.[17] OTTI has scaled back its proposed activities and now is aiming the $6 million campaign at the United Kingdom alone.[18] On March 19, 2004, Edelman, a Chicago-based public relations firm, was awarded the contract to develop and implement the Visit America campaign.[19]

In September 2003, H.R. 3164 was introduced in Congress. The bill proposes abolishing a number of governmental entities and programs, including the USTTPAB. The bill, which "provide[s] for the reduction of the Federal budget

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[15] USTTPAB is composed of 15 U.S. travel industries executives. Present board members are listed on the website of the Office of Travel and Tourism Industries at [http://tinet.ita.doc.gov/about/us_promo_campaign/advisory_board.html]. The law also included appropriations for other tourism related projects: $1 million for the Black Hills Rural Tourism Marketing Program and $1.5 million for the Center for Tourism Research (P.L. 108-7, §625).

[16] Chris Walsh, "U.S. Tourism Board Faces Funding Cuts," *Rocky Mountain News*, Dec. 9, 2003, p. 17B.

[17] P.L. 108-199, Title VII, enacted Jan. 23, 2004, included a $40 million rescission of funds for the advertising program in Title VII. Section 215 of the law further rescinds $100 million in unobligated Department of Commerce funding, some $4 million of which, according to OTTI, was taken from the promotional campaign, leaving $6 million for the Visit America campaign. A review of the hearing and the reports on the appropriation bills preceding the law that rescinded these funds did not reveal any disapproval of the advertising campaign; indeed, a number of Members and travel and tourism industry representatives voiced their enthusiasm for it. Exactly why these funds were rescinded is unclear; according to some reports, the funds were rescinded in the course of an effort to locate budget offsets. U.S. Congress, House Committee on Energy and Commerce, Subcommittee on Commerce, Trade, and Consumer Protection, Travel and Tourism in America Today, hearing, 108th Cong., 1st sess., April 30, 2003 (Washington, GPO, 2003); U.S. Congress, House Committee on Appropriations, *Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Bill, Fiscal Year 2004*, report to accompany H.R. 2799, 108th Cong., 1st sess., H.Rept. 108-221 (Washington, GPO, 2003); and U.S. Congress, Senate Committee on Appropriations, *Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Bill, Fiscal Year 2004*, report to accompany S. 1585, 108th Cong., 1st sess., S. Report 108-44 (Washington, GPO, 2003).

[18] Ibid.

[19] Office of Travel and Tourism Industries press release, "U.S. Department of Commerce Names Marketing Contractor for International Tourism Promotion Campaign," March 19, 2004, [http://tinet.ita.doc.gov/tinews/archive/20040319.html], visited May 4, 2004.

deficit by reducing wasteful government spending," was referred to multiple committees on October 6, 2003, but has not received further action.[20]

Federal Advertisement of Tourism: Longstanding Controversies

Like other forms of government advertising, the federal advertisement of tourism has been controversial.[21] Since its inception, advocates have contended that tourism advertising is a valuable export-promotion policy that increases tourism and aids the U.S. economy. Critics, meanwhile, have argued that it is an unnecessary government intervention in the economy and is unlikely to increase visits to the United States.

Arguments in Favor of the Federal Advertisement of Tourism

The Need for Federal Coordination. Proponents of federal tourism advertising have argued that the United States is not able to attract as many tourists from abroad as it might. When airlines, hoteliers, restauranteurs, and transportation providers each attempt to sell their services to the foreign consumer at a price sufficient to cover the advertising costs, the result is high-priced trips that too few foreigners are able to purchase.[22] Moreover, these disparate media messages often fail to convince the would-be traveler that the United States is easy to visit. As the national chair of the Travel Industry Association of America (TIAA) told Congress in 1994:

> [P]eople around the world know about the United States.... But they do not know that it is accessible. They do not know that it is easy to get to and that there are packages available. They see [the United States] as this huge bewildering country almost the size of Europe.... We [the United States] need to be out there in the newspapers and the television — packaging our country ... in ways that they can understand it and they can buy it.[23]

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[20] Committees include the House Committees on Government Reform, Energy and Commerce, Resources, and Science.

[21] CRS Report RS21746, *Government Advertising Expenditures: An Overview*, by Kevin R. Kosar. Beyond the question of whether or not the federal government should advertise tourism, debates have arisen over distributional issues: i.e., which of the 50 states and thousands of cities and attractions should be promoted? On the disparate levels of international tourism to individual states, see the data available on OTTI's website at [http://tinet.ita.doc.gov/view/f-1996-22-001/index.html].

[22] William McPherson, "Travel Eggs Belong in One Basket: Sen. Javits Would Expand the U.S. Travel Service to 'Orchestrate Official Tourism Efforts,'" *Washington Post*, July 25, 1965, p. G9.

[23] Testimony of Robert H. Dickinson, National Chairman, Travel Industry of America, in U.S. Congress, Subcommittee on Foreign Commerce and Tourism, Senate Committee on (continued...)

Federal tourism advertising supporters also argue that small firms, especially in less well known parts of the United States, are discouraged from tapping the international market by the complexity and cost of an international advertising campaign.[24] Due to these problems, tourism advertising proponents say, tourism industry firms, despite their ability to provide desirable attractions and services, sell far less than they might.

Thus, proponents say, the federal government can play a helpful role as coordinator and promoter. It can encourage firms to lower their prices a little, bundle them together as package plans, and market them to foreign nationals. USTS performed this function in the 1960s; it opened travel offices in a number of major foreign cities (such as London, Mexico City, Paris, and Sydney) that worked with bus, airline, hotel, and travel companies to create low-priced package plans that were advertised in foreign media.[25]

Foreign Competition for Tourism. Supporters of federal tourism adevrtising also say that in order for the United States to get its "fair share" of the international travel market, the federal government must take an active role. Other nations have national tourism bureaus that spent millions of dollars advertising tourism worldwide; the United States should do so as well.[26] The United States should provide citizens of other nations with information on where to go in the United States, what to see, and how to get there — just as it did in the past. For example, USTS distributed posters to travel agents in foreign nations that encouraged foreign travelers to visit the Statue of Liberty, the Grand Canyon, and other U.S. attractions.[27]

At present, the United States ranks third in the number of foreign visitors per year (40.4 million), behind France (75.0 million) and Spain (52.5 million).[28] Advocates of federal tourism advertising also point out that the U.S. share of annual world visitors has dropped from 7.9% (1996) to 5.8% (2003) since federal tourism advertising was ended in 1996 (see **Table 1**).

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[23](...continued)
Commerce, Science, and Transportation, *Current Tourism Policy Activities*, 103rd Cong., 2nd sess., July 13, 1994 (Washington: GPO, 1995), pp. 48-49.

[24] Testimony of Richard L. Seely, Assistant Secretary of Commerce for Tourism Marketing, U.S. Travel and Tourism Administration, U.S. Congress, Senate Committee on Commerce, Science, and Transportation, Subcommittee on Foreign Commerce and Tourism, *Tourism Marketing*, hearings, 100th Cong., 1st sess., Oct. 8, 1987 (Washington, GPO, 1988), p. 6.

[25] E.g., USTS worked with Greyhound and Trailways bus companies to create an unlimited bus pass, which allowed the foreign visitor to ride as much as he pleased for 99 days for $99. "U.S. Agency Helps Aliens to Cut Rates," *Washington Post*, Dec. 28, 1963, p. B8.

[26] In 1997, Spain spent $150 million to promote itself as a tourism destination. Statement of Rep. Cliff Stearns, in U.S. Congress, House Committee on Energy and Commerce, Subcommittee on Commerce, Trade and Consumer Protection, *Travel and Tourism in America Today*, hearings, 108th Cong., 1st sess., April 30, 2003 (Washington: GPO, 2003), p. 2.

[27] Posters depicted in the *New York Times*, April 29, 1962, p. 235.

[28] TIAA website, [http://www.tia.org/ivis/worldtourism.asp], viewed Aug. 23, 2004.

Table 1. International Tourism: The Number of Tourists

Year	World Arrivals (millions)	U.S. Arrivals (millions)	U.S. Share
1984	318	27	8.5%
1985	329	25	7.6%
1986	341	26	7.6%
1987	360	28	7.7%
1988	385	34	8.8%
1989	426	36	8.4%
1990	456	39	8.5%
1991	461	43	9.3%
1992	502	47	9.3%
1993	515	46	8.9%
1994	536	45	8.4%
1995	550	43	7.8%
1996	580	46	7.9%
1997	602	48	8.0%
1998	621	46	7.4%
1999	643	48	7.4%
2000	687	51	7.4%
2001	684	45	6.6%
2002	703	42	6.0%
2003[pr]	694	40	5.8%

Note: pr = preliminary data.
Source: U.S. Department of Commerce, International Trade Administration, Office of Travel and Tourism Industries & Bureau of Economic Analysis (BEA).

Unless the federal government undertakes a new tourism advertising campaign, proponents argue, the U.S. share of the tourism market may continue to fall. As a travel industry representative testified before Congress in 2002:

> [W]e face stiff competition in the global marketplace. Other countries have recognized the value of international travelers, and they are growing their market shares while our share is declining. In order to increase our share of worldwide travelers, the United States needs to engage in a tourism promotional campaign.[29]

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[29] Statement of Fred Lounsberry, National Chair, Travel Industry of America, in U.S. (continued...)

The Trade Deficit. The trade deficit — also known as the current account deficit — is the negative net measure of U.S. international transactions in goods, services, investment income, and unilateral transfers. In 2003, the trade deficit was $541.8 billion, and preliminary figures for 2004 are no better.[30] In order to reduce the trade deficit, proponents have argued that the United States should increase the number of international visitors to the United States. Since travel and tourism purchases are a portion of international trade, they reason, the federal government can reduce the trade deficit by boosting international visits to the United States. Tourism, as **Table 2** shows, is a positive contributor to the U.S. current account, with exports consistently outstripping payments.

Table 2. U.S. International Tourism and Travel Balance, 1993-2003
(in billions of dollars, adjusted for inflation)

Year	Exports	Imports	Travel Surplus
1990	$58.305	$47.880	$10.425
1991	$64.239	$45.334	$18.905
1992	$71.360	$49.155	$22.205
1993	$74.403	$52.123	$22.280
1994	$75.414	$56.844	$18.570
1995	$82.304	$59.579	$22.725
1996	$90.231	$63.887	$26.344
1997	$94.294	$70.189	$24.105
1998	$91.423	$76.454	$14.969
1999	$94.586	$80.278	$14.308
2000	$103.087	$88.979	$14.108
2001	$89.819	$82.833	$6.986
2002	$83.593	$78.013	$5.580
2003[pr]	$80.652	$76.754	$3.898

Note: pr = preliminary estimate as of April 2004.
Source: U.S. Department of Commerce, International Trade Administration, Office of Travel and Tourism Industries & Bureau of Economic Analysis (BEA).

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[29](...continued)
Congress, Senate Commerce, Science, and Transportation Committee, Subcommittee on Consumer Affairs, Foreign Commerce, and Tourism, *State of the Tourism Industry One Year After September 11th*, Sept. 25, 2002, 107th Cong., 1st sess., available at [http://commerce.senate.gov/hearings/092502Lounsberry.pdf], visited Aug. 27, 2004. See also Statement of Jonathan Tisch, Chairman of the Travel Business Roundtable, in U.S. Congress, Senate Commerce, Science, and Transportation Committee, Subcommittee on Consumer Affairs, Foreign Commerce, and Tourism, *State of the Tourism Industry One Year After September 11th*, Sept. 25, 2002, 107th Cong., 1st sess., available at [http://commerce.senate.gov/hearings/092502tisch.pdf], visited Aug. 26, 2004.

[30] CRS Report RL31032, *The U.S. Trade Deficit: Causes, Consequences, and Cures*, by Craig Elwell.

Finally, proponents contend that the United States, vis-a-vis other nations, has an inherent advantage in tourism that must be maximized through governmental action. The United States is, in short, a large and very attractive place. As one Member of Congress put it:

> No other country can boast the diverse set of attractions that we are so fortunate to possess. From our coasts to our mountain ranges, from our national parks to our first-rate metropolitan cities, America has it all.... Our task now is to determine how best to lure visitors to our country's tourist attractions.[31]

Proponents say that it is a basic truth about trade that nations, in order to reap maximum economic gain, should concentrate in those industries in which they have a comparative advantage vis-a-vis other nations.[32] So smart policy means undertaking actions (such as advertising) that increase the United States' comparative advantage in tourism.

Responding to the Economic Slump. Advocates of tourism advertising point out that foreign tourism to the United States has declined dramatically since 2000, from 51 million to 43 million. The cause was not poor performance by the companies and people in the U.S. tourism industry. Rather, the cause lies in extraordinary shocks to the tourism market, such as the SARS virus, the attacks of September 11, 2001, and the world economic slowdown.

In the face of such shocks, proponents argue that it is appropriate that the federal government take action to help the tourism industry get back on its feet. This, proponents say, is not a giveaway to corporate interests; rather, it is a program to create widespread benefits. Foreign tourism to the United States generates jobs and contributes billions in tax revenues to local, state, and federal governments.[33] In the year 2000, for example, international travel was a $103 billion industry in the United States that supported 1 million jobs.[34]

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[31] Statement of Rep. Gene Green, in U.S. Congress, House Committee on Energy and Commerce, Subcommittee on Commerce, Trade, and Consumer Protection, *Travel and Tourism in America Today*, hearings, 108th Cong., 1st sess., April 30, 2003 (Washington: GPO, 2003), p. 6.

[32] David Ricardo, *On the Principles of Political Economy and Taxation* (London: John Murray, 1821), chapter 7, at [http://www.econlib.org/library/Ricardo/ricP.html].

[33] Testimony of Rolf Lundberg, in U.S. Congress, House Committee on Energy and Commerce, Subcommittee on Commerce, Trade, and Consumer Protection, *Travel and Tourism in America Today*, hearings, 108th Cong., 1st sess., April 30, 2003 (Washington: GPO, 2003), p. 8. The Travel Industry Association of America reports that tourism — both domestic and international — "directly generated more than 7.2 million jobs with over $158 billion in payroll income for Americans, as well as $94.7 billion tax revenue for federal, state and local governments." TIAA, "Economic Research: Economic Impact of Travel and Tourism," available at [http://www.tia.org/Travel/EconImpact.asp], viewed Aug. 23, 2004.

[34] Testimony of Linda M. Conlin, Assistant Secretary of Trade Development, Department of Commerce, in U.S. Congress, House Committee on Energy and Commerce, Subcommittee on Commerce, Trade, and Consumer Protection, *The State of the U.S. Tourism Industry*, 107th Cong., 1st sess., Oct. 17, 2001 (Washington: GPO, 2001), p. 41.

Arguments Against the Federal Advertisement of Tourism

No Need of Federal Involvement. Critics respond that it is unclear whether there ever was a problem that justified government intervention.[35] Government, they argue, should intervene in a market only in the event of a market failure.[36] A market failure occurs when a market does not allocate resources efficiently. The challenges the tourism industry faced (as described above by proponents), they argue, were not public good, free rider, monopoly, or asymmetric information market failures. Thus, tourism service providers should have been allowed to sort matters out themselves and to produce their own advertisements.

Moreover, critics add, even if one were to concede that a market failure exists, that still does not necessitate the need for federal intervention. Other actors, such as state governments or industry groups, can intervene if needed; indeed, market failure or not, plenty of nonfederal actors have. Every state has an office of tourism that promotes tourism. States are doing this though toll-free phone numbers for visitor inquiries, promotional tours for the press, and more.[37] The state of Texas alone appropriated almost $20 million for its Department of Tourism Promotion in FY2001.[38] Industry associations, such as the Travel Industry Association of America (TIAA), also have regular, ongoing promotional activities. TIAA created the SeeAmerica.org website, at which a foreign would-be tourist may, at no cost to him, learn about destinations in the United States, search for bargain travel packages, and plan his trip. TIAA "develops and executes international marketing programs that benefit the travel industry while levering resources for all participants."[39] And travel firms themselves are competently marketing themselves to foreign consumers. They have created a plethora of packages and spend hundreds of millions each year marketing overseas.[40]

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[35] Critics have also called federal tourism advertising "corporate welfare." For example, see Rep. Dick Chrysler, "Why Should Government Subsidize America's Booming Tourism Industry?" *Roll Call*, Oct. 30, 1995. The pejorative term "corporate welfare" has been used to describe many different kinds of policies — subsidies, export promotion policies, tariffs, tax breaks, no-bid contracts, etc. — that benefit particular firms or industries.

[36] The Office of Management and Budget's (OMB's) guide on "good regulatory analysis" takes this position, as do many policy analysts. See OMB, *Circular A-4,* Sept. 17, 2003, pp. 4-5, available at [http://www.whitehouse.gov/omb/circulars/a004/a-4.pdf]; and, e.g., David L. Weimer and Aidan R. Vining, *Policy Analysis: Concepts and Practice* (Upper Saddle River, NJ: Pearson Prentice Hall, 2004).

[37] For example, the State of Ohio's Division of Travel and Tourism runs the "Discover Ohio" travel club, which anyone can join at no cost. Members can receive an email newsletter, get coupons for reduced rates at various Ohio destinations, and win trips to Ohio. See [http://www.ohiotourism.com/discover/join.asp].

[38] The Travel Business Roundtable, "Take Action! Destination Marketing," at [http://www.capitolconnect.com/tbr/summary.asp?subject=36].

[39] TIAA website [http://www.tia.org/Marketing/intmainpage.asp].

[40] For example, in 2001, the major airlines alone spent over $160 million advertising airfares (continued...)

Foreign Competition for Travel and Tourism. Opponents of the federal advertisement of tourism argue that it is not at all clear that the United States is underperforming against other nations in the world tourism market. It might be argued that the United States already is getting a "fair share" of the world tourism market. Among nations, the United States ranks first in total tourism receipts ($66.5 billion in 2002), far outpacing its nearest competitor, Spain ($33.6 billion in 2002).[41] As for proponents' concern that France and Spain attract more visitors, critics respond that this is not surprising: France and Spain are much closer to other European countries than the United States. For persons living in Europe or even much of Asia, traveling to France and Spain is easier and less costly than flying across the Atlantic or Pacific oceans to the United States.

Critics also argue that just because some foreign governments have tourism bureaus that undertake tourism promotional activities, that does not mean that the U.S. government should do likewise.[42] For one, critics say, there is little to suggest that the federal government could undertake tourism advertising more effectively than the private sector (which is already advertising). Moreover, any federal spending on advertising may encourage private firms to reduce their advertising expenditures, effectively shifting the cost of private sector advertising to the public.

But, more fundamentally, an economist would argue that when a nation subsidizes exports, the benefits accrue to the consumers of the exports rather than the producing nation. Thus, foreign nations' policies that subsidize international tourism benefit U.S. consumers while U.S. tourism subsidies benefit foreign tourists.[43]

The Trade Deficit. Critics note that tourism is one small factor affecting the $541.8 billion trade deficit. In 2003, travel and tourism made up about 8% of over $1 trillion in U.S. exports.

Furthermore, the effects of the recent decline in the tourism surplus has had little effect on the trade deficit. Critics concede that the tourism surplus declined over $22 billion between its peak in 1996 ($26.3 billion) and its trough in 2003 ($3.9 billion). But adding $22 billion in receipts to the $541.8 billion trade deficit would reduce it just 4%. And, to take a hypothetical, if one imagines that a federal advertising campaign doubled U.S. tourism receipts (to $160 billion) in 2003, the U.S. trade deficit would remain substantial: over $460 billion.

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[40](...continued)
to foreign markets. Travel Industry Publishing Company Inc., *Travel Industry World Yearbook 2002: The Big Picture* (Spencertown, NY: 2002), at [http://www.travelbigpicture.com/storyboard7.htm].

[41] *The World Almanac and Book of Facts 2004* (New York, NY: 2004), p. 750.

[42] On other nations' spending on tourism promotion, see World Tourism Organization, *Budgets of National Tourism Administrations* (Madrid: World Tourism Organization, 2000).

[43] Paul Krugman and Maurice Obstfeld, *International Economics* (Reading, MA: Addison Wesley, 1997), p. 199. Like a tariff, an export subsidy also may adversely affect a nation's terms of trade. CRS Report RL32591, *U.S. Terms of Trade: Significance, Trends, and Policy*, by Craig K. Elwell, pp. 8-9.

Finally, when economists tally the balance of trade, travel and tourism are counted as services. In 2003, the U.S. ran a trade surplus of $59.2 billion in services. In the trade of goods, however, the U.S. had a deficit of $549.4 billion.[44] Thus, opponents of federal tourism advertising reason, the trade deficit is not a problem of insufficient foreign consumption of U.S. airline tickets, hotel rooms, or restaurant seats. Those who want to improve the balance of trade should not turn to federal tourism advertising.[45] Indeed, any policy that did not raise taxes in order to finance an export promotion program — such as federal tourism advertising — would affect macroeconomic conditions in a way that tends to widen the trade deficit.[46]

The Need to Respond to the Tourism Industry Slump. Even though the federal tourism surplus has decreased in recent years, critics of federal tourism advertisement note that the United States still has a travel surplus with the rest of the world. Despite the attacks of September 11th, SARS, the world economic slowdown, and the cessation of federal tourism advertising, the United States still exports $3.9 billion more in tourism per year than it imports[47] (see **Table 2**).

Moreover, critics argue that government intervention is unnecessary because the travel and tourism industry is recovering on its own. The Office of Travel and Tourism Industries, which collects statistics on travel to and from the United States, recently reported that "[t]he U.S. welcomed 3.1 million international visitors in March, a 20 percent increase over March 2003. Arrivals for the quarter ending March 2004 were up 12 percent. This marked the second consecutive quarter of positive growth, continuing from the 4th quarter 2003."[48]

Advertising Is Not a Powerful Variable. Critics argue that macroeconomic and policy variables are far more powerful than advertising in affecting individuals'

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44 CRS Report RL31032, *The U.S. Trade Deficit: Causes, Consequences, and Cure*s, by Craig K. Elwell.

45 Indeed, most economists see trade deficits as a result of capital — not product and service — flows. The trade deficit is rooted in broader macroeconomic forces related to domestic saving and investment. It is not a result of the relative attractiveness of particular exports. On the causes of trade deficit, see CRS Report RL30534, *America's Growing Account Deficit: Its Cause and What It Means for the Economy*, by Marc Labonte and Gail E. Makinen.

46 CRS Report RL31032, *The U.S. Trade Deficit: Causes, Consequences, and Cure*s, by Craig K. Elwell.

47 That is, travel receipts and exports (spending by international visitors within the United States on travel-related expenses) have been higher than travel payments and imports (spending by U.S. citizens outside the United States on travel-related expenses).

48 Office of Travel and Tourism Industries, "March 2004 and First Quarter International Arrivals to the U.S. — Second Consecutive Quarter of Growth", press release, June 10, 2004, at [http://tinet.ita.doc.gov/tinews/archive/20040610.html], visited August 3, 2004. Detailed statistics on monthly arrivals to the United States can be found at OTTI's website at [http://tinet.ita.doc.gov/research/programs/i94/index.html]. A study of consumer behavior found that airline ticket purchases drop deeply after a terrorist incident but then quickly recover to previous levels. See John T. Coshall, "The Threat of Terrorism as an Intervention on International Travel Flows," *Journal of Travel Research*, vol 42, Aug. 2004, pp. 4-12.

decisions to travel internationally. Major policy changes (such as deregulation of the airline industry) and macroeconomic forces (such as exchange rates) have helped coax more visitors to the United States by lowering the prices of air fares substantially.[49] Thus, the United States' move to a floating dollar with no linkage to gold caused a depreciation of the dollar, which made the United States a more attractive tourist destination. Moreover, as the world tourism industry has grown, so have international visits to the United States (see **Table 2**).[50] Even USTTA, critics suggest, admitted the power of macroeconomic variables: it blamed the 10% drop in international tourism to the United States between 1982 and 1983 on a strong U.S. dollar and "recessionary economies in major tourism-generating countries," not on greatly decreased federal tourism advertising expenditures since 1980.[51]

Additionally, critics argue that not everyone travels for pleasure; some travel out of obligation or need. Business travelers and those visiting relatives made up between one-quarter and one-third of visitors to the United States over the past decade.[52] It is not at all clear, critics say, that advertising will affect these individuals' decision to travel.

Is Federal Tourism Advertising Effective?

The debate over federal tourism advertising might be less sharp if two fundamental question could be answered: Have federal advertisements increased tourism? Have they produced more benefits than costs?

The short answer to these questions, unfortunately, is that nobody knows for certain. Surprisingly little is known about the efficacy of tourism advertisements —

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[49] James C. May, President of the Air Transport Association (which represents passenger and cargo airlines), testified that since airline deregulation, air travelers have flown nearly 80% more miles. Testimony in U.S. Congress, House Committee on Energy and Commerce, Subcommittee on Commerce, Trade, and Consumer Protection, *Travel and Tourism in America Today*, hearings, 108th Cong., 1st sess., April 30, 2003 (Washington: GPO, 2003), p. 14. A recent article estimates that airfares dropped 50% since 1978. Susan Carey and Scott McCartney, "Long Flight: How Airlines Resisted Change for 25 years, and Finally Lost," *Wall Street Journal*, Oct. 5, 2004, p. A1.

[50] On the growth and "democratization" of tourism, see John Naisbitt, *The Global Paradox: The Bigger the World Economy, the More Powerful Its Smallest Players* (New York: William Morrow and Co., Inc., 1994), pp. 103-146.

[51] United States Travel and Tourism Administration, *Second Annual Report* (Washington, DC: Department of Commerce, 1984), p. 5.

[52] Data available from OTTI's website at [http://ti-dev.eainet.com/view/f-2003-07-001/index.html]. USTTA expressed doubt as to its ability to affect business travelers' behavior. Testimony of Richard L. Seely, Assistant Secretary of Commerce for Tourism Marketing, U.S. Travel and Tourism Administration, in Senate Committee on Commerce, Science, and Transportation, Subcommittee on Foreign Commerce and Tourism, *Tourism Marketing*, hearings, p. 7.

be they private or publicly funded.[53] Neither USTS nor USTTA included in their annual reports or testimony before Congress studies substantiating the effects of their promotional activities.[54] Some anecdotal evidence exists. For example, a USTTA representative reported that a promotion run in West Germany, coordinated by USTTA and funded by the private sector at $2 million, brought $16.3 million in tourist spending to the United States.[55]

Apparently, only one study of federal tourism advertising has been undertaken. In 1979, the Office of Management and Budget sharply questioned USTS claims about the effects of its promotional activities and, more generally, took issue with federal tourism promotion as a public policy. Specifically, OMB said:

> [USTS] data involving the number of foreign arrivals generated through direct Federal promotional activities is highly questionable and very difficult to validate.... [F]ederal funding of promotional activities in support of tourism is just not a cost-effective expenditure of the taxpayer's money.[56]

The difficulty in discerning advertisements' effects are inherent in the nature of the phenomenon being investigated, namely, why persons choose to travel. Obviously, many considerations can be operative. For example, TIAA seeks to gauge consumer demand for leisure travel with its "traveler sentiment index." To this end, it surveys individuals' interests and their assessments of their available time, finances, and their perceptions of the affordability and service quality of travel destinations.[57] Meanwhile, studies have identified many other variables that can affect the decision of an individual to travel internationally, such as exchange rates, personal wealth and consumer confidence, price of travel and lodging, ease of visa acquisition, consumer perceptions of travel safety, weather desirability, dining

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[53] For an overview of this subject, see David W. Butterfield, Atif A. Kubursi, and Kenneth R. Deal, "Measuring the Returns to Tourism Advertising," *Journal of Travel Research*, vol. 37, no. 1, Aug. 1998, pp. 12-20.

[54] See, for example, U.S. Congress, House Committee on International Relations, Subcommittee on International Economic Policy and Trade, *The Effectiveness of U.S. Overseas Programs to Promote Tourism and Travel to the United States* (Washington: GPO, 1997). Title notwithstanding, no evidence was presented as to the efficacy of federal promotional efforts at this hearing.

[55] Statement of Richard L. Seely, Assistant Secretary of Commerce for Tourism Marketing, U.S. Travel and Tourism Administration, in U.S. Congress, Senate Committee on Commerce, Science, and Transportation, Subcommittee on Foreign Commerce and Tourism, *Tourism Marketing*, p. 18. Similarly see Testimony of Senator Daniel K. Inouye, in U.S. Congress, Senate Committee on Commerce, Science, and Transportation, *National Tourism Policy Study*, hearings, 96th Cong., 1st sess., Mar. 2, 1979 (Washington: GPO, 1979), p. 125.

[56] For reasons unknown, OMB's study was not inserted into the public record. Testimony of Associate Director for Economics and Government, Office of Management and Budget, Franklin D. Raines, in U.S. Congress, Senate Committee on Commerce, Science, and Transportation, *National Tourism Policy Study*, pp. 121-122 and 125.

[57] Press Release, "TIA'S Second Quarter Traveler Sentiment Index Declines: Consumers Perceive Travel to Less Affordable," at [http://www.tia.org/Press/pressrec.asp?Item=326].

quality, and more.[58] Any effort to discern the power of federal advertisements to affect foreign consumers' decisions to travel to the U.S., then, faces a considerable methodological challenge — disentangling the influences that a large number of variables may have on consumers' travel decisions.

[58] See, for example, Joaquín Alegre and Llorenç Pou, "Micro-Economic Determinants of the Probability of Tourism Consumption,"*Tourism Economics*, vol. 10, no. 2, June 2004, pp. 125-144; Geoffrey I. Crouch, "The Study of International Tourism Demand: A Survey of Practice," *Journal of Travel Research*, vol. 32, no. 4, spring 1994, pp. 41-63; and Teresa Garn-Munoz and Teodosio P. Amaral, "An Econometric Model for International Tourism Flows to Spain," *Applied Economic Letters*, vol. 7, 2000, pp. 525-529.