

# Do tourism policy tools boost local tourism development? The case of Portuguese municipalities

CLÁUDIA COSTA \* [claudia@ipb.pt]

ANTÓNIO TAVARES \*\* [atavares@eeg.uminho.pt]

**Keywords** | Tourism market failures, tourism policy tools, local tourism development

**Objectives** | Based on market failures theory and the tools approach, this research extends the analysis of local governments intervention in tourism activity, exploring the relationship between tourism policy tools and the development of local tourism (Duncan, 1995; Cooper & Flehr, 2006; Blake & Sinclair, 2007). The engagement of the public sector in the development of tourist destinations is seen as understandable, in particular, the case of local initiatives aiming at the mitigation of tourism market failures (Elliott, 2002; Pearce, 2011). The goal of this research is to identify which tourism policy tools provide the greatest contribution to the development of local tourism in Portuguese municipalities.

**Methodology** | This research attempts to answer one central question: to what extent do tourism policy tools promote local tourism development? Based on our theoretical framework, one generic and three operational hypotheses are derived:

*H1: Tourism policy tools affect local tourism development.*

*H1a: Nonmarket mechanisms used in the context of tourism public goods produce the best results in local tourism development.*

*H1b: Taxes employed in the context of tourism negative externalities produce the best results in local tourism development.*

*H1c: The direct provision (nonmarket mechanisms) used in the context of tourism information asymmetry produce the best results in local tourism development.*

These hypotheses are supported by the main argument that tourism policy tools can boost local tourism development (Richins & Pearce, 2000; Dredge, 2001; Logar, 2010). For each market failure, we assume that policy tools taken as primary solutions in Weimer and Vining's typology (2015) are the ones who provide the greatest contribution to local tourism development. If these policy tools are the

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\* **Ph.D. in Administrative Sciences** from the School of Economics and Management at the University of Minho in Braga. **Assistant Professor** at the School of Public Management, Communication and Tourism (EsACT), Polytechnic Institute of Bragança. **Associated member** of the Research Center in Political Science at the School of Economics and Management, University of Minho.

\*\* **Ph.D. in Public Administration** from the Reubin O'D. Askew School of Public Administration and Policy at Florida State University. **Associate Professor** w/ Habilitation in Political Science. **Member** of the Research Center in Political Science at the School of Economics and Management of the University of Minho in Braga.

most appropriated to mitigate tourism market failures, they are also the most suitable to boost the tourism development in Portuguese municipalities. To accomplish this analysis, we define a multi-methods research plan, using questionnaires and interviews as data collection techniques, and inferential statistical analysis, factor analysis, cluster analysis, and multiple linear regression models, as data analysis techniques. Specifically, based on information gathered from in-depth interviews, we create and apply a questionnaire to 308 Portuguese municipalities, assuming these as our unit of analysis. We also elaborate a composite index of local tourism development (dependent variable).

**Main Results and Contributions** | The main results of this research should have important implications to public policies aiming to promote local tourism development. In the case of coordination/planning problems, Portuguese municipalities have the potential to act as brokers to stimulate local agents to create and/or participate in tourism structures or networks that bring together all agents present in the market. Similarly, the use of hybrid forms (public-private arrangements) in the context of the dissemination of tourist information is also relevant to the promotion of local tourism development and a supplementary policy tool in the dissemination of tourism information. Moreover, while municipal policies are characterized by a conspicuous absence of tourist taxes, it is important to emphasize the importance attribute by the literature to these tools for mitigating externalities, especially in areas where the intensity of tourist activity is more evident. Thus, despite the controversial debate that this type of taxation has generated in Portugal, local officials should be aware that proper design and implementation of tourist taxes can be an effective tool in minimizing externalities and contributing to improve social welfare.

**Limitations** | The main limitation of this research concerns data collection. In the specific context of the elaboration of the composite index of local tourism development, we faced significant difficulties in obtaining statistical information disaggregated at the municipal level.

**Conclusions** | This research contributes to an underexplored topic in the literature, highlighting the relationship between tourism policy tools and local tourism development. In the specific context of Portuguese municipalities, we can conclude that municipal intervention in tourism policy should not be restricted to direct provision and, with proper adaptation to specific situations, should promote other policy tools as valid alternatives.

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