# Part I
## Introduction

# 1
# Economic perspectives

Travel broadens the mind. – Proverb, early twentieth century

It also costs money and takes up time.

This chapter examines the fundamental economic factors that affect all aspects of the travel and tourism business. The perspectives provided by this approach will provide a framework for understanding how travel industries are defined and fit into the larger economic picture and will also highlight 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 spending 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. In recent years, though, the boundaries between these categories have become

increasingly blurred. For instance, what is loosely known as "leisure time" is widely considered as being time in which people are free from having any sense of obligation or compulsion to do anything.[1] Yet the term *leisure* might as easily be characterized as 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 both to produce and to 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 weekends and in the evenings. (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 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.[2]

Table 1.1. *Average weekly hours at work, 1948–2008*[a] *and median weekly hours at work for selected years*

| Average hours at work | | | Median hours at work | |
|---|---|---|---|---|
| Year | Unadjusted | Adjusted[b] | Year | Hours |
| 1948 | 42.7 | 41.6 | 1975 | 43.1 |
| 1956 | 43.0 | 41.8 | 1980 | 46.9 |
| 1962 | 43.1 | 41.7 | 1987 | 46.8 |
| 1969 | 43.5 | 42.0 | 1995 | 50.6 |
| 1975 | 42.2 | 40.9 | 2004 | 50.0 |
| 1986 | 42.8 | | 2008 | 46.0 |

[a] Nonstudent men in nonagricultural industries.
*Source:* Owen (1976, 1988).
[b] Adjusted for growth in vacations and holidays.
*Source:* Harris (1995), http://www.Harrisinteractive.com for median hours at work.

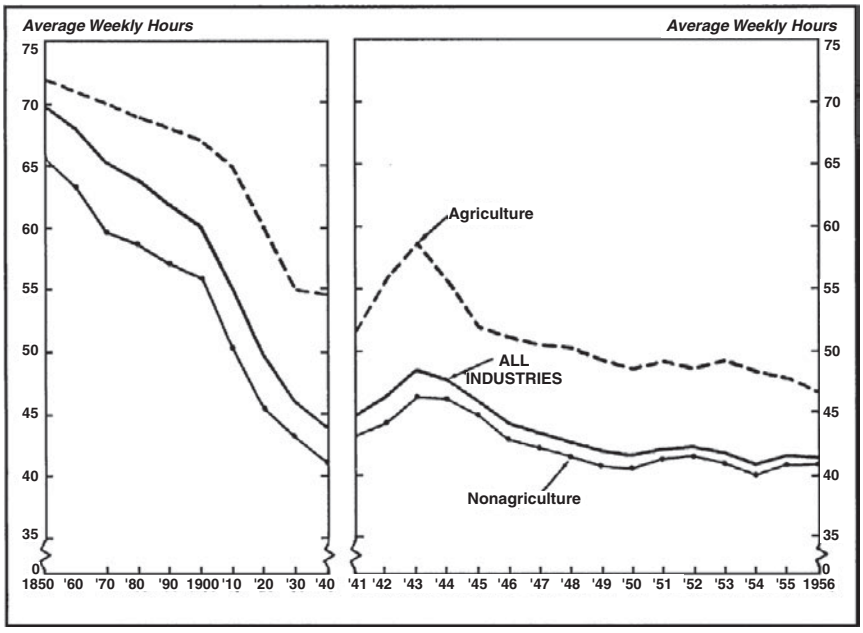
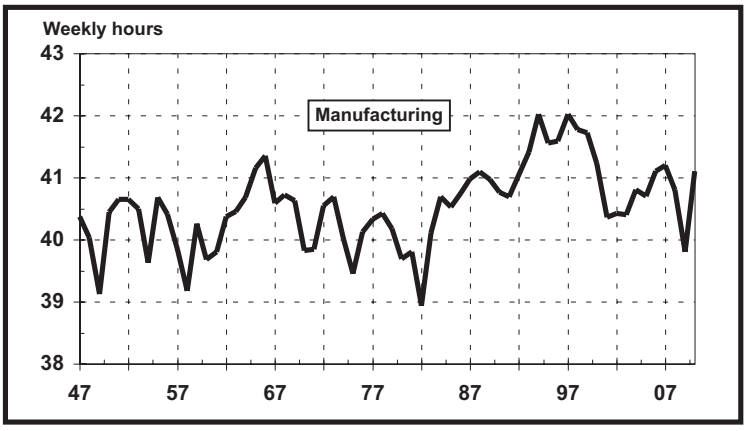
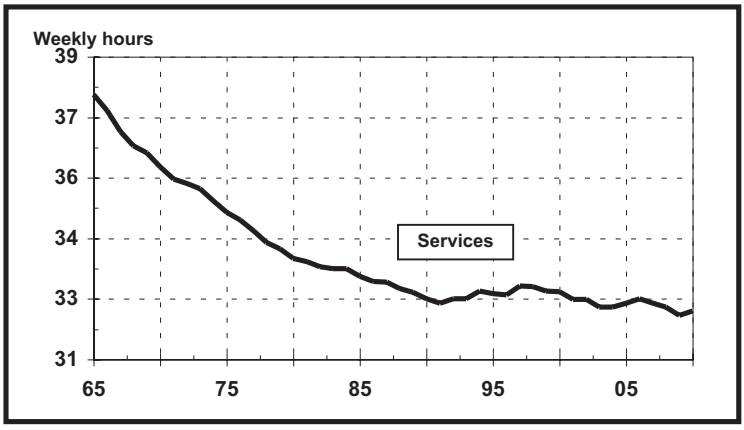



Figure 1.1. Estimated average weekly hours for all persons employed in agricultural and nonagricultural industries, 1850–1940 (ten-year intervals) and 1941–56 (annual averages for all employed persons, including the self-employed and unpaid family workers).
*Source:* Zeisel (1958).




(a)




(b)

Figure 1.2. Average weekly hours worked by production workers in (a) manufacturing, 1947–2010, and (b) service industries, 1964–2010. *Source:* U.S. Department of Commerce.

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 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."[3]

If findings from public-opinion surveys on Americans and the arts are to be believed, the number of hours available for leisure may actually at best be holding steady.[4] Schor (1991, p. 29), however, says that between 1969 and 1987, "the average employed person is now on the job an additional

Table 1.2. *Aggregate weekly hours worked per person (+15), 1950–2000*

| Year | Avg. Weekly Hours Worked | | Employment-to-Population ratio (%) |
|---|---|---|---|
| | Per person | Per worker | |
| 1950 | 22.34 | 42.40 | 52.69 |
| 1960 | 21.55 | 40.24 | 53.55 |
| 1970 | 21.15 | 38.83 | 54.47 |
| 1980 | 22.07 | 39.01 | 56.59 |
| 1990 | 23.86 | 39.74 | 60.04 |
| 2000 | 23.94 | 40.46 | 59.17 |
| % change, 1950–2000 | 7.18 | −4.56 | 12.30 |

*Source:* McGratten and Rogerson (2004), U.S. Dept. of Commerce, Bureau of the Census.

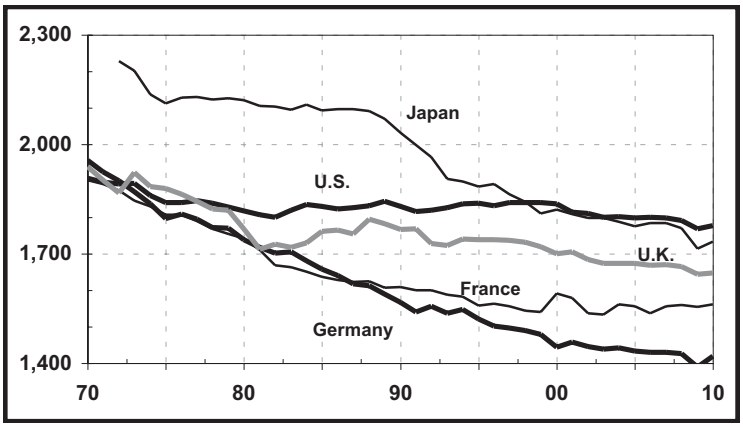



Figure 1.3. Average annual hours worked in the United States versus other countries, 1970–2010. *Source:* OECD Employment Outlook.

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."[5]

Aguiar and Hurst (2006) argue the opposite. And as shown in Table 1.2, McGrattan and Rogerson (2004) find that since World War II, the number of weekly hours of market work in the United States has remained roughly constant, even though there have been dramatic shifts in various subgroups.

Robinson (1989, p. 34) also measured free time by age 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.[6]

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

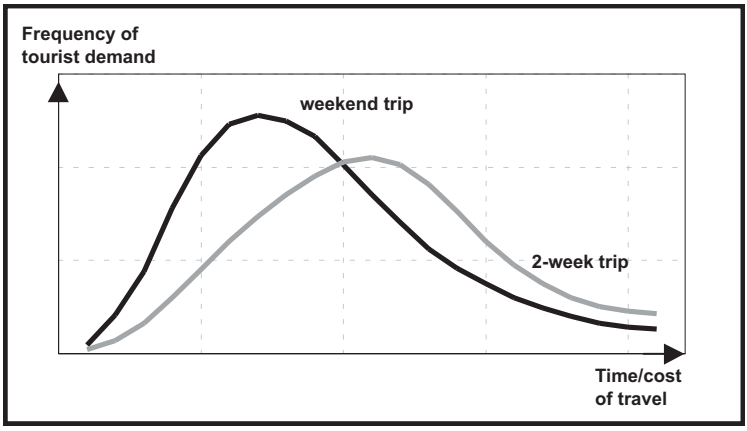



Figure 1.4. Distance-decay function for tourist travel.

from home work to market work with nearly all the difference attributable to changes in the total hours worked by women.[7] A similar conclusion as to average annual hours worked was also reached by Rones, Ilg, and Gardner (1997).[8] However, as Jacobs and Gerson note (1998, p. 457), "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 – and recently for Europeans too – leisure time is not expanding.[9] Indeed, the comprehensive compilation of research by Ramey and Francis (2009) suggests that "per capita leisure and average annual lifetime leisure increased by only four or five hours per week during the last 100 years . . . leisure has increased by 10 percent since 1900." Still, whatever the actual rate of expansion or contraction may be, there has been a natural evolution toward repackaging the time set aside for leisure into longer holiday weekends and extra vacation days rather than in reducing the minutes worked each and every week.[10]

Particularly for those in the higher-income categories – conspicuous consumers, as Veblen (1899) 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, and the changes in such apportionment between 1970 and 2011, are indicated in Table 1.3.[11] 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 function captures the fact that while traveling, an opportunity cost of time rather spent doing

Table 1.3. *Time spent by U.S. adults on selected leisure activities, 1970 and 2011 estimates*

| | Hours per person per year[a] | | % of total time accounted for by each activity | |
|---|---|---|---|---|
| Leisure activity | 1970 | 2011 | 1970 | 2011 |
| Television | 1,226 | 1,776 | 46.5 | 41.6 |
| Network affiliates | | 640 | | 15.0 |
| Independent stations | | 8 | | 0.2 |
| Basic cable programs | | 1,049 | | 24.6 |
| Pay cable programs | | 79 | | 1.8 |
| Radio | 872 | 1,034 | 33.1 | 24.2 |
| Home | | 354 | | 8.3 |
| Out of home | | 680 | | 15.9 |
| Internet | | 882 | | 20.6 |
| Newspapers[b] | 218 | 94 | 8.3 | 2.2 |
| Recorded music[c] | 68 | 142 | 2.6 | 3.3 |
| Magazines | 170 | 62 | 6.5 | 1.5 |
| Leisure books | 65 | 79 | 2.5 | 1.8 |
| Movies: theaters | 10 | 10 | 0.4 | 0.2 |
| home video | | 38 | | 0.9 |
| Spectator sports | 3 | 18 | 0.1 | 0.4 |
| Video games: home | | 131 | | 3.1 |
| Cultural events | 3 | 6 | 0.1 | 0.1 |
| Total | 2,635 | 4,272 | 100.0 | 100.0[d] |
| Hours per adult per week | 50.7 | 82.2 | | |
| Hours per adult per day | 7.2 | 11.7 | | |

[a] Averaged over participants and nonparticipants.
[b] Includes free dailies.
[c] Includes licensed digital music.
[d] Totals not exact because of rounding.
*Source:* Wilkofsky Gruen Associates, Inc.

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, though, more leisure time availability is not a function of government decrees, labor union activity, or factory owners' altruism. It is a function of the rising trend in output per person-hour – in brief, the rising

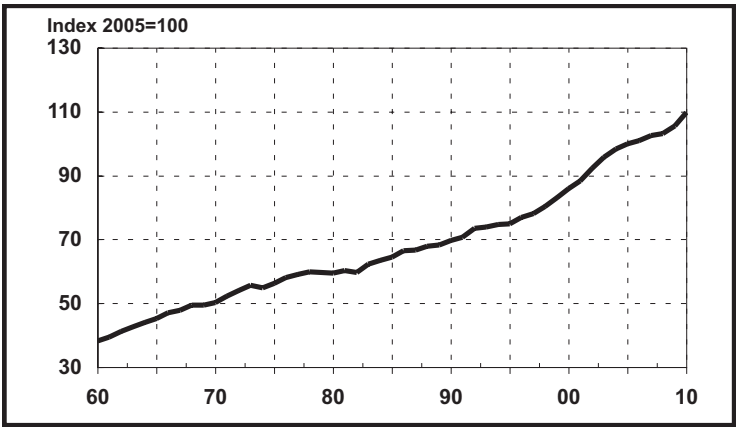



Figure 1.5. Nonfarm business productivity in the United States, shown by output per hour index (2005 = 100), 1960–2010. Bars indicate periods of recession.

productivity of the economy. Quite simply, technological advances embodied in new capital equipment and in the training of a more skilled labor pool allow 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).

Productivity growth rebounded, however, to an average annual rate of 2.0% in the 1990s, thereby implying that the *potential* for leisure-time expansion remained fairly steady in the last quarter of the twentieth century. This rate of gain was sustained in the first decade of the 2000s, when nonfarm business productivity rose by an annual average of approximately 2.5%. Meanwhile, the gap between European and U.S. labor productivity had continued to narrow until around 1995.[12]

## Demand for leisure

All of us can choose either to fully utilize our free time for recreational purposes (defined here as being inclusive of entertainment and leisure-travel activities) or to 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.[13] In effect, economists can treat demand for leisure as if it were, say, demand for gold, or for wheat, or for housing. And they