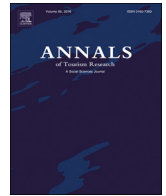


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A round trip on decentralization in the tourism sector

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ABSTRACT

Although the performance of the tourism sector has been investigated extensively, the effects of institutional governance have largely been unexplored. This study uses a quasi-natural experiment setting owing to differences in tourism policy devolution between special and ordinary statute Italian regions. Using panel data for the period 1995–2010, we first assess the efficiency of each region by a smoothed bootstrapped Data Envelopment Analysis (DEA) and an order- m frontier estimator. Next, we adopt a difference-in-difference strategy and a fully non-parametric approach to assess whether decentralization affects the performance of regions as tourism destinations. We find that regions affected by decentralization worsened their performance, compared to unaffected regions. The results are robust to different estimators and empirical specifications.

Introduction

Tourism is a sector with significant economic relevance in several countries. In Italy, tourism is a strategic industry accounting for 6% of the total added value and employing approximately 10% of the total workforce. Between 2001 and 2010, the number of arrivals and bed nights increased, and the added value of the tourism sector grew twice as much as the GDP (FederCulture, 2015), with major differences among regions. Cultural tourism represents a meaningful share of the total tourist demand; in 2015, cultural tourists and tourists to sea and/or mountain destinations accounted for 69% of all tourists. In the same year, 36% of tourist arrivals were registered in historic cities (Osservatorio Nazionale del Turismo, 2016). Italy ranks eighth in terms of travel and tourism competitiveness, which is driven by its cultural (5th) and natural (12th) resources (World Economic Forum, 2017).

Tourism is recognized as an important source of regional growth (Organization for Economic Co-operation and Development – OECD, 2018; Pablo-Romero & Molina, 2013; Paci & Marrocu, 2014; Parrilla, Font, & Nadal, 2007). Therefore, “tourism is not simply the preserve of central governments, but encompasses all levels of government” (OECD, 2018, p. 12). A growing body of literature has attempted to ascertain the benefits and pitfalls of decentralization—the devolution of decision-making authority to sub-national governments—in the tourism sector. It is widely accepted that decentralization may enhance policymaking because it makes policies more responsive to residents’ demands (an aspect sometimes neglected by centralized tourism planning; see Moscardo, 2011), takes local differences into account (Ruhanen, 2007), empowers local communities (Hampton, 2005), and strengthens political accountability (Escobar-Lemmon & Ross, 2014). Decentralization can also improve the tourism performance of regions by stimulating competition (Cracolici & Nijkamp, 2009) among governments that have to use their resources efficiently to outshine alternative tourism destinations (TDs), for example, fostering location-specific tourism innovation (Rodríguez, Williams, & Hall, 2014). However, the benefits of decentralization are occasionally disputed (Treisman, 2007; Webster & Ivanov, 2014), and they may not emerge as expected due to several factors such as insufficient local economic resources (Yüksel, Bramwell, & Yüksel, 2005), inadequate

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regional governance (Zahra, 2011), or failure in coordination among the main stakeholders (Pforr, 2006; Scott, Cooper, & Baggio, 2008).

The literature converges on the importance of the governance system in the performance of the tourism sector (Hall, 2011; Mosedale, 2014). Previous research evaluating the performance of regions as TDs (Barros et al., 2011; Benito, Solana, & Lopez, 2014; Botti, Peypoch, Robinot, & Solonadrasana, 2009; Cracolici, Nijkamp, & Rietveld, 2008; Cuccia, Guccio, & Rizzo, 2016, 2017; Figueroa, Herrero, Báez, & Gómez, 2017; Guccio, Lisi, Martorana, & Mignosa, 2017; Suzuki, Nijkamp, & Rietveld, 2011) takes the institutional system as given. However, assessing the impact of decentralization on the performance of the tourism sector is necessary to glean implications for institutional reform in countries where tourism policy is still centralized, but there is a mounting call for devolution of authority (see, Hampton, 2005, for Indonesia; Kimbu & Ngoasong, 2013, for Cameroon; Pastras & Bramwell, 2013, for Greece; and Yüksel et al., 2005, for Turkey). Furthermore, such an assessment is useful in already decentralized settings for the political discourse emphasizing tourism while claiming larger autonomy (Chaney, 2015). However, these studies do not assess the performance of tourism policies *after* decentralization.

This study aims to fill this gap by providing an assessment of the effect of a major institutional reform toward decentralization on the performance of regional TDs. To the best of our knowledge, it is the first study to do so. Italy represents an ideal setting because the Constitutional Reform (Constitutional Law no. 3/2001) in 2001 extended legislative powers regarding tourism to all regions; previously, only a small group of them, namely, the special statute regions (SSRs), had extensive autonomy in the sector. Specifically, this study investigates whether decentralization of legislative powers regarding tourism affected the performance of Italian regions as TDs.

We employ a two-stage approach. In the first stage, we assess the efficiency of each region by using a smoothed bootstrapped Data Envelopment Analysis (DEA) (Simar & Wilson, 2000) and an *order-m* estimator (Cazals, Florens, & Simar, 2002) for panel data covering the period 1995–2010.

In the second stage, we estimate the relationship between the Constitutional reform and the efficiency of the Italian regions as TDs in a quasi-natural experimental setting, using regions with unchanged competences as the control group. The treatment effect is evaluated by a difference-in-difference estimator, which allows to address the counterfactual question of what would have been the efficiency path after 2001 in the group of TDs affected by the reform, had the decentralization not been introduced. To assess the robustness of our findings, we perform a large set of semi-parametric and fully non-parametric checks to ensure that any difference observed in the performance could be attributed to devolution and not to differences in the regional characteristics of the tourism sector.

Our results show that the performance of regions affected by the reform worsened compared to those unaffected by the reform.

Background

Literature review

This study relates to different strands of literature. First, it refers to the extensive literature on fiscal federalism. The traditional theory shows various sources and types of efficiency gains that can arise from decentralization. Local public administrations are expected to be more capable than the central government of providing services that conform to the preferences of the residents of their jurisdictions (Oates, 1972). Decentralization may also foster efficiency by promoting residential mobility (Tiebout, 1956) and by keeping Leviathan governments “under control” (Brennan & Buchanan, 1980). In contrast to this, primarily normative, approach, the political economy analysis put forth by the so-called “second generation” fiscal federalism depicts a more fragmented picture both theoretically and empirically. The assertion that decentralized policymaking is more efficient because of better control by citizens becomes less straightforward, while the incentives of the decision-makers and the institutional framework play a fundamental role in determining the policy outcomes (Oates, 2005; Qian & Weingast, 1997; Rodden, 2006; Weingast, 2009). The problem of the stability of federal structures is also relevant. Weingast (2008) suggests that stable federalism requires the central government to be strong enough to control lower governments, without being powerful enough to subdue them. It is worth noting that, perhaps not surprisingly, a comprehensive survey by Martinez-Vazquez, Lago-Peñas, and Sacchi (2016) shows that studies are divided regarding the impact of decentralization on efficiency and growth.

Second, our study connects two strands of literature: one investigating the role of decentralization in the tourism sector, and another evaluating tourism policy and examining the performance of Italian regions as TDs.

As mentioned above, there are several reasons to expect that decentralization would improve regional performance in the tourism sector. A number of studies analyze decentralization critically, warning that it may not be beneficial as expected, should some requirements be unfulfilled. Dredge and Jenkins (2003) examine the federal-state relations in New South Wales, and attribute the poor performance of federalism in the tourism sector to the presence of overlapping policy roles, lack of coordination, and vertical competition between state and federal governments. Yüksel et al. (2005) describe how the attempt toward decentralization in Belek (Turkey) was hindered mainly by the inadequate transfer of decision-making authority and fiscal resources from the central government and bureaucracy, and by overlapping responsibilities curtailing local planning. Regional planning is also emphasized in Baidal's (2004) analysis of the Spanish decentralization process initiated by the constitutional reform of 1978. Baidal (2004) concludes that while planning in the tourism sector contributes to the diversification of mature destinations, it requires better coordination. In contrast, Vernon, Essex, Pinder, and Curry (2005) emphasize the role of the public sector in promoting “bottom-up” forms of local governance for sustainable tourism in Britain. Candela et al., (2015) analyzed the question of the appropriate scale of governance—national vs. local—for the tourism sector. Using domestic tourism flows between Italian regions, they support the

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