

CHAPTER 1. CAN THE STATE PROMOTE INNOVATION IN TOURISM? SHOULD IT?

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Abstract

A number of developed economies face growth problems in tourism. The tourism industry also suffers from below-average labour productivity. There is a lack of innovation in tourism. This text questions the existence of mechanisms, such as innovation processes, that can be put in place to help governments to support quality improvements and increased profitability and to overcome this weakness in growth. Can the State promote innovation in tourism? Should it?

Growth problems in the industrialised countries

Tourism is seen as one of the most promising areas of growth for the world economy. The World Tourism Organization expects international arrivals to increase by a respectable 4% in the next 20 years, *i.e.* about the same rate of growth as in the recent past. Since 1990 international arrivals have enjoyed an annual growth rate of about 4.3%.

If we take a closer look however we will see that the rate of growth over the past decade has varied considerably from one region of the world to another.

The Asia and Pacific region enjoyed the highest annual rate of growth with an average of 7.2%. Within this region three areas benefited from double-digit growth, namely Hong Kong, China (21%), China (11%) and Japan (10%). The growth in arrivals in North America was limited to 2.4%, with the United States as the world's leading destination showing signs of stagnation (-0.1%). The average growth rate for Western Europe was similar at 2.2%. In Switzerland there has been virtually no growth in international tourism for a decade.

While in developing countries tourism is frequently a motor for rapid growth, a number of tourism countries of the West face growth problems. This raises questions that are not easy to answer: Is this the result inevitable in countries that have been transformed into modern high-tech service economies? Are there mechanisms that can be put in place to help us to overcome this weakness in growth?

Innovation as the motor of growth

The United States is often described as the locomotive of growth for the economy of the entire world. The Geneva-based International Labour Organisation published a report¹ which puts the output per employed person in the United States at a remarkable USD 60 000. Europe's biggest economies achieve an output of between USD 40 000 and 45 000 per employed person. Their productivity is thus lower. The performance of the US economy is impressive. The fact that workers put in longer hours on the other side of the Atlantic does not detract from this achievement.

On-the-job discipline alone does not lead to growth and prosperity. It takes modern installations and machinery, as well as investment, to make labour efficient and increase productivity. The most developed countries scarcely suffer from any lack of effective capital. There is no indication that the dynamic growth found in the USA and a few other economies is above all due to more hard work or a greater input of capital.

Since the pioneering work of the Nobel Prize winning economist Robert Solow, if not before, we have known that an increase in investment does not always lead to an increase in output per hour and hence to economic growth. It is technological progress or innovation, which stimulates the wealth of nations. Solow demonstrated that at most only a fifth of productivity growth is attributable to capital input. The real source of growth, as identified by Solow, is technological progress². The Nobel Prize winning economist did not however take his analysis of the innovation process in the economy any further. He seems to have regarded it as a sort of black box. The first to take a look "Inside the Black Box," is Professor Rosenberg³.

1. See Key Indicators of the Labour Market (KILM).

2. SOLOW Robert (1970) *Growth Theory: an Exposition*, New York: Oxford University Press, p. 109.

3. See Innovation and economic growth, p. 38.

Tourism's productivity dilemma

The tourism industry is one of the least productive sectors in the economies of the most developed countries. We may take Switzerland as a typical example. The productivity of labour in tourism is USD 50 000 per employed person. Swiss banks achieve productivity of USD 250 000, the chemical industry USD 120 000 and the machine manufacturing industry USD 67 000. The proportions are similar for comparable sectors in most other industrialised nations.

Such differences in productivity must be interpreted with caution however. The branch of the Swiss economy with the greatest productivity is the electricity and water supply industry for example, with USD 280 000 per employed person. Here however, as with banks indeed, the input of capital per employed person is exceedingly high. Moreover no direct link can be found between these differences in labour productivity and such factors as the growth dynamic or the competitiveness of a given sector.

Indeed it is not the current rate of productivity or the level of prosperity that determines the future of an economy. An economy will above all be successful when its rate of innovation is high.

Branches that suffer from below-average labour productivity tend to face procurement problems in the factor markets. This is particularly true of tourism, which due to low productivity increasingly finds it hard to attract the necessary capital, and more difficult still to attract highly qualified staff. There are of course good reasons for this weakness in productivity, beginning with the fact that tourism is a labour-intensive industry. But that does not help us to solve the problem. We need to identify, and then to adopt, whatever measures are necessary to increase the productivity of this industry.

Inventions and patents do not in themselves produce growth

Tourism itself is not a field in which we can point to innovations that have changed the course of history. The invention of alpine tourism by adventurous English gentlemen in the 19th century did, it is true, begin a gradual process of development which over many decades transformed the impoverished villages of our mountains into the prosperous "jet set" destinations of today, such as Zermatt and St. Moritz. As inventions go however this development is not on quite the same level as the steam engine, the jet engine, the microprocessor or the laser.

It is understandable therefore that private and public funds are first and foremost attracted to high-performance industries. Switzerland has invested above all in such fields as information and communication technology, biotechnology, life sciences and nanotechnology. For it is in these fields that the greatest productivity gains are to be expected. Switzerland indeed has the greatest number of patents per capita in the world. I would have preferred to be able to say at this point that we enjoy the highest rate of growth!

Major breakthroughs in technology are a rare occurrence. But they do not automatically lead to economic growth. When a group of researchers at the Geneva-based European Organisation for Nuclear Research (CERN) developed the forerunner of today's Internet in 1972, the world at large remained ignorant of this epoch-making event for years to come. The economic boom triggered by the dot-com start-ups was still 35 years away, although it was doomed to be short-lived. This new branch of the economy does however seem to be on the way to recovery, and heading in the direction of sustainable growth.

Even a fundamental innovation is not sufficient to ensure the sustainable growth of an economy. It is not so much the one "big leap" as the countless small steps following it that eventually lead to real growth. It is in this second stage of development that many new goods and services, that have no need of a patent, can be successfully launched on the market.

Breakthroughs in major scientific disciplines have without doubt done much to increase the general prosperity of the Western world. But it is not these advances in knowledge which in themselves bring growth. Innovation research has shown that economic growth depends not only on the creation of new knowledge in the form of innovations, but on their dissemination and application. Such fundamental innovations only bring significant growth when they begin to spread from one sector of the economy to another.

A key innovation like the internet has done more than stimulate growth in the field of information technology (IT). Sustainable economic growth is only possible when inter-industry multipliers come into play. In this view, the key innovation of the internet can only be transformed into economic success when other industries start to use and improve the new technology. In this inter-industry innovation process tourism can play a key role in translating high-tech innovations into economic growth. Tourism is already one of the most important sectors of e-business today.

A lack of process innovation in tourism

Technological improvements in the transport sector have more than once set in motion a rapid and irreversible process of change in the field of tourism. The construction of the first railways in the 19th century made it possible to travel long distances comfortably and at great speed for the first time in history. Mass production of the automobile brought about a further quantum leap in general mobility. The spread of the automobile was the *sine qua non* for the development of individual tourism among the masses. In the middle of the 20th century the jet airplane added a new dimension to travel, bringing the world closer to the state of a “global village”.

Today the countries that pioneered tourism are facing the consequences of this continuous rapid development. Europe’s leading position as prime mover in the field of tourism is threatened as distances continue to shrink. It is as if our protective patent had run out. A downward price spiral has been set in motion. The European tourist of today can choose between two weeks of skiing in the Alps or snorkelling in the turquoise waters of Bali -- all for the same price, and with comparable quality.

Even when the attraction of locations like the Matterhorn or Lake Lugano continue to provide competitive advantages, acting as barriers to market penetration, the traditional tourism countries would be foolish not to adapt as quickly as possible to the changing market conditions. In Switzerland we must learn to accept with good grace the fact that other countries have “Matterhorns” of their own.

In this new situation process innovations become essential for survival. Above all this means concentrating our efforts on bringing down costs. This should be the preamble to quality improvements, increased profitability and lower prices. Process innovations are indeed possible in a number of areas. Full use must be made of economies of scale in purchasing and marketing. The hotel trade needs to specialise to an even greater degree. Quality management must be extended beyond the individual level to cover the entire chain of services, from the time a guest arrives to the time of departure.

Can the State promote innovation? Should it?

The purpose of our meeting is to discuss the innovation process as applied to tourism, and to chart the paths that can lead us back to growth. Such a debate is long overdue in tourism. Switzerland is a paradigmatic example of a traditional, highly developed tourism country that is suffering from lack of growth. Many observers

have reassured us of course that Switzerland has lost none of its tourism potential. But you cannot live on potential. We need to become proactive, to develop new products and processes that will safeguard the future of Switzerland as a leading tourism country in the new millennium.

Many economists are sceptical when it comes to the promotion of innovation by the State. We must not be so naive as to think that the State is able to restore the faltering motor of innovation to its highest performance level. The Swiss government nevertheless supports innovative industry-wide tourism projects which are put forward by initiatives which are submitted by more than one operator. Its programme “Promotion innovation and cooperation in tourism” can be considered as a successful instrument to adapt Switzerland’s tourism offer to the new requirement of the world market.

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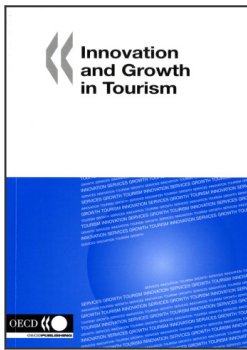
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