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The Political Economy of Tourism and Approaches to Forecasting

By the end of this chapter, the reader will be able to:

- Describe the difference between political economy and economics
- Identify and describe the differences among Keynesian economics, Neoliberalism and Marxist perspectives
- Explain the difference between quantitative and qualitative forecasting models.

Introduction

While there is a vast literature on issues related to political economy, tourism scholars have generally paid little attention to this area of research. This chapter discusses some of the underlying debates related to political economy to provide a window into the fundamental role that economic forces play in the operation, sustainability and profitability of the global tourism system. In the near future, the need to transition to a carbon-neutral production system (see Chapter 15), and the immense difficulties that will be faced in reining in our increasing use of diminishing resources, will generate considerable discussion on the merits of various production systems such as Neoliberalism, socialism, neo-Marxism and post-Keynesian.

This chapter also considers a range of models used to forecast tourism activity, a task that is an important element in future tourism investment and planning activities.

The current production system is firmly embedded in the market driven capitalist system of economic production and for this reason, the following discussion will focus on capitalism. This chapter provides a neo-Marxist perspective to demonstrate a counter view to the predominate interpretation of capitalism through a neoliberal lens. Degrowth (see Chapter 15) also offers another vision for organizing a future economic system of production. Understanding how we arrived at our system of economic production is important and provides insights into the next stage of economic evolution, which will most likely to be based on a carbon-neutral economic production system.

So what is the difference between political economy and economics? Political economy is concerned with the process of production and its impact on national income and wealth, and the conflicts, inequalities and problems that arise in trade, law and government (Bianchi, 2018; Williams, 2004). Scholars generally approach the study of political economy from perspectives that include Liberalism, Keynesianism, Marxism, Socialism and Neoliberalism (and the many sub-branches of these schools). Economics on the other hand is concerned with production, distribution and consumption of goods and services and leaves aside political and social considerations although as Bianchi (2018) observed, the distinction between political economy and economics has become blurred because of the political nature of significant areas of neoliberal thought.

■ Capitalism

Fletcher, Fyall, Gilbert and Wanhill (2018: 615) define capitalism as “a social system based on individual rights where goods and services are produced and exchanged with minimal government interference”. This simple definition encapsulates three important elements: a social system, exchange, and minimal government interference. Obviously, this definition is not a universal. The understanding of the term ‘capitalism’ has changed over time, is contested and continues to evolve. Views on the role that government should play in marketplace operations constitute the key points of difference in the standpoints adopted by various schools of economists. Li, Liu and Song (2019) identify three standpoints, the first being those who believe that the market is able to operate efficiently with little or no government intervention. This viewpoint is typified by the *laissez-faire* approach advocated by Adam Smith in the 18th Century and more recently by the neoclassical school that rose to prominence in the 1980s. The second group is broadly identified as the Keynesian school that believe that government intervention is essential for stabilising economic activity. The most

recent standpoint is characterised by new Keynesian economics which models macroeconomic operations with micro foundations. In their analysis, Li et al. (2019) ignored the neo-Marxist school which takes a contrasting view of economic organisation based on the role of labour and capital.

Leaving aside issues related to the structure of 'social systems' outlined in Fletcher et al.'s (2018) definition of capitalism, many economies operate with a mix of State Owned Enterprises (SOE) and Privately Owned Enterprises (POE) and with varying levels of government intervention in the economy. The Chinese version of capitalism for example features both SOEs and POEs, both of which are subject to high levels of state oversight. Other countries such as the USA and the UK practice a version of capitalism that lies much closer to the principles of classical *laissez-faire* capitalism where labour markets are largely deregulated, and the state has largely withdrawn from operating state-owned enterprises. From a tourism perspective, an understanding of the form of capitalism adopted by specific countries is important. In China for example, POEs generally have close connections with state agencies and actors and are sometimes assigned roles in carrying out government policy (Milhaupt and Zheng, 2015). This is not the normal practice in western economies.

■ **Laissez-faire economics**

Adam Smith, an 18th Century scholar often referred to as the father of economics, postulated that competition and rational self-interest can lead to prosperity. His theories advocated minimal intervention by governments in the market, in the belief that removal of government controls would lead to ever-increasing prosperity. His theories underpinned the emergence of the capitalist economic system in the late 18th Century and economic liberalism, described as an economic and political philosophy that advocated support for private property and the market economy. The contributions by Smith and other scholars including David Ricardo, John Stuart Mills and Thomas Malthus led to the emergence of classical economics where the so-called natural law of production and exchange lead to a largely self-regulating economic system such that government intervention is not required. By extension, classical economics is the antithesis of non-capitalist economic systems of production such as planned economies and socialism.

The problem with this form of economic organisation is that crisis events (such as wars, major natural disaster, political upheaval, monopolies and pandemics) can severely disrupt self-regulating economic systems forcing government intervention. The COVID-19 pandemic provides an example of how a self-regulating economy is unable to deal effectively with crisis events where the solutions involved public health considerations rather than economic considerations (Prideaux, Thompson and Pabel, 2020). During the COVID-19 pandemic many