A REVIEW OF THE MACKINAC CENTER FOR PUBLIC POLICY PAPER: *"AN ANALYSIS OF STATE-FUNDED TOURISM PROMOTION"*

JUNE 26, 2017

In 2016, The Mackinac Center for Public Policy published research based on economic modeling that concluded that state-funded destination marketing produced minimal economic benefits and a negative fiscal return on investment. Oxford Economics, through our Tourism Economics team, has reviewed this research and found it to be fundamentally flawed in its assumptions, approach, and therefore, its conclusions.

In summary, the Mackinac model is designed to reach the conclusions it appears the organization has set out to prove. The model that was developed is inconclusive for the following reasons:

1. The approach suffers from the logical fallacy of "negative proof". That is, because the particular model developed by the authors fails to show a positive impact of state destination marketing, they conclude that no such impact exists. This assumes that the econometric method employed is valid and/or is the only approach available to measure impact. By taking this approach, the authors commit one of the most basic errors in philosophical logic.

2. The Mackinac model seeks to identify the causal link between state tourism budgets and overall gross state product in the accommodations, entertainment, and recreation sectors. This is a very bold attempt given the relatively small size of these budgets compared to the size of the industries analyzed. In 2012, state tourism budgets represented 0.12% of U.S. GDP in these sectors. As a result, the ability to isolate the impacts of these budgets on the broader economy would be nearly impossible in any circumstance. This issue was flagged in a review by renowned University of Pennsylvania economics professor, Dr. Robert Mariano as he summarized that the Mackinac model suffers from "data limitations due to the range of the magnitude of state expenditures on tourism promotion (relative to income) that is covered in the study."[1]

---

[1] Insufficient Econometric Evidence - Comments on the Mackinac Study – "An Analysis of State-Funded Tourism Promotion" Roberto S. Mariano, Professor of Economics Emeritus, University of Pennsylvania, March 15, 2017

3. The authors fail to control for economic cycles and how they affect both tourism demand and state tourism budgets. State tourism budgets, in particular, tend to fall during recessions as they did by 13% in the 2008-09 fiscal year. In addition, the model fails to factor in the economic performance of traveler source markets as a prevailing driver of industry performance. These source markets vary by state, including a mix of in-state, other domestic and international traveler markets. Given the relatively small size of tourism marketing budgets, it is unlikely that their impacts would be identifiable against the weight of the economic performance (in terms of employment, income, confidence) of origin travel markets. This flaw was also noted by Dr. Mariano as he summarized that the Mackinac model suffers from a "failure to adequately correct for the fact that state-funded tourism promotion is actually affected by state sector product or income."[2]

4. The Mackinac model also does not recognize that the majority of the arts, entertainment, and recreation sector output is related to local consumption and is not tourism-related. The BEA Travel & Tourism Satellite Account indicates that just 34% of the sector's output is generated by tourism. As a result, the Mackinac model is seeking to find a relationship between state tourism marketing funding and a sector that is largely not related to tourism.

5. State destination marketing is often conducted in concert with local destination marketing organizations. These programs regularly leverage the platforms and brands developed at the state level. The Mackinac research does not take this into account, which limits its view of potential impact as well as the market dynamics generated by these other marketing streams. The same is true in regards to the private tourism sector, which also leverages state tourism marketing messages and channels, while investing significantly more than the public sector.

6. The Mackinac Center research ignores dozens of primary research programs that have found a significant lift in travel activity among representative samples of travelers who have seen destination marketing campaigns. These research programs are less esoteric than the model put forward and consistently indicate that destination marketing is effective at influencing travel activity.

In summary, we concur with the review of Dr. Mariano:

> "Based on close reading of the whole document, this note concludes that the Mackinac study does not provide enough treatment of the substantive and econometric complications of the system it seeks to model. Consequently, the econometric evidence in the study is inadequate for policy formulation."[3]

[2] IBID
[3] IBID

In contrast to the Mackinac economic model, we have observed that concerted and well-funded destination marketing uniquely deals with two challenges that face the visitor economy. First, most leisure trips are inspired by an overall perception of a destination that supersedes any one attraction. Destination marketing meets this challenge by defining and conveying a brand message that is consistent with these consumer motivations in a way that individual businesses would struggle to do. Second, effective marketing requires scale to reach potential visitors. The majority of a state's visitor economy is made up of small and medium size businesses that do not have the capacity or budget to sustain marketing campaigns across national and international markets.

The acknowledgment of these realities is precisely why the private sector recently voted to increase its contribution to Visit California. Independent research has shown consistent returns on its marketing year after year. To argue otherwise is to imply that marketing is a non-essential part of doing business.

Some destinations have realized the importance of destination marketing the hard way. The state of Illinois stopped funding destination marketing for the better part of a year in 2015 and 2016 during a general budget impasse. During this time, Illinois fell from first to the third most visited mid-west state and inquiries about travel to the state fell an astounding 70%.

Similarly, Pennsylvania steadily reduced its funding of destination marketing to just $2 million in 2015/16 from an average of over $35 million a year from 2006-2009. Over this relatively short period of time, the state lost four percentage points of overnight visitor market share within the nine-state competitive region.

And Colorado stands as an iconic case study. Prior to 1993, the Colorado Tourism Board (CTB) had a $12 million marketing budget. Within two years of repealing its tourism funding in 1993, Colorado lost 30% of its US visitor market share, which translated into the equivalent of over $1.4 billion annually in lost revenues. By the late 1990s, this had escalated to $2.4 billion a year.

The decided view of our firm, based on more than twenty years of research, is that destination marketing is a critical part of the economic success of countries, states, and cities. Strong and consistent destination marketing is integral to the success of the visitor economy and those destinations who have ill-advisedly cut destination marketing have realized losses in competitiveness and market share.

Adam Sacks
President | Tourism Economics
An Oxford Economics Company
303 W. Lancaster Ave, Suite 2E, Wayne, PA 19087
Tel: +1 610-995-9600

asacks@oxfordeconomics.com

Company Overview

Oxford Economics was founded in 1981 as a commercial venture with Oxford University's business college to provide economic forecasting and modelling to UK companies and financial institutions expanding abroad. Since then, we have become one of the world's foremost independent global advisory firms, providing reports, forecasts and analytical tools on 200 countries, 100 industrial sectors and over 3,000 cities. Our best-of-class global economic and industry models and analytical tools give us an unparalleled ability to forecast external market trends and assess their economic, social and business impact.

Headquartered in Oxford, England, with regional centers in London, New York, and Singapore, Oxford Economics has offices across the globe in Belfast, Chicago, Dubai, Miami, Milan, Paris, Philadelphia, San Francisco, and Washington DC. We employ over 250 full-time staff, including 150 professional economists, industry experts and business editors—one of the largest teams of macroeconomists and thought leadership specialists. Our global team is highly skilled in a full range of research techniques and thought leadership capabilities, from econometric modelling, scenario framing, and economic impact analysis to market surveys, case studies, expert panels, and web analytics. Underpinning our in-house expertise is a contributor network of over 500 economists, analysts and journalists around the world and our heritage with Oxford University and the academic community.

Oxford Economics is a key adviser to corporate, financial and government decision-makers and thought leaders. Our worldwide client base now comprises over 1,000 international organizations, including leading multinational companies and financial institutions; key government bodies and trade associations; and top universities, consultancies, and think tanks.

Tourism Economics LLC is an Oxford Economics company with a singular objective: combine an understanding of tourism dynamics with rigorous economics in order to answer the most important questions facing destinations, developers, and strategic planners. By combining quantitative methods with industry knowledge, Tourism Economics designs custom market strategies, destination recovery plans, tourism forecasting models, tourism policy analysis, and economic impact studies.
With over six decades of experience of our principal consultants, it is our passion to work as partners with our clients to achieve a destination's full potential. Our team of 16 economists is focused exclusively on the interplay between the travel industry and the economy.