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DISCUSSION PAPER



TOURISM — ECONOMIC PERFORMANCE

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DISCUSSION PAPER



Canada, Dept. of Industry, Trade and Commerce

TOURISM — ECONOMIC PERFORMANCE

RECOMMENDATIONS ON TRAVEL

Travel Time

Cost

Quality

CONTRIBUTION OF TOURISM TO ECONOMIC GROWTH

Number of Tourists, Industry and Travel Expenses

Cost and Price Performance — Comparison with Other Countries

Quality of Services — Comparison with Other Countries

Industry of Domestic Tourist

IMPACT OF RECEIVED REVENUE ON TOURISM

Industry Expenses

Taxation

Cost of Living

Market Demand

Energy Consumption

At-Home Expenditure

FACTORS ACCOUNTING FOR THE TRAVEL DEFICIT

Travel — Expenditure on Imports

The Travel Deficit and Economic Growth

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TOURISM — ECONOMIC PERFORMANCE

INTRODUCTION

The recent increase in Canada's international deficit in travel, particularly with the United States, has aroused concern. This study examines some of the factors that have contributed to this increased deficit. It finds that income and price factors have been especially significant since 1974 in bringing about the substantial increase in Canadian travel expenditures abroad and in the slower growth of travel expenditures by Americans in Canada. It suggests also that a number of federal and provincial policies may have adversely affected the competitive position of the Canadian tourist industry.

The effective performance of the Canadian tourist industry is also important because of its important role in the economies of all provinces. Various aspects of the Canadian tourist industry have been examined. Some aspects of the industry have not been covered in this report. These include changes in the nature of travel demand due to changes in taste or to changes in the composition of population and the question of whether the tourist industry is responding effectively to these changes in demand. For instance, this report has not considered such aspects of tourism's effectiveness as plant quality, the degree of intra-industry competition and marketing budgets. Nor does the paper treat the important social, as distinct from economic, aspects. It is also recognized that the value of tourism services is not always related to price and cost (i.e., economic factors).

OUTLINE

This report begins with an examination of the balance of payments performance of the tourist industry in the last two decades, dealing separately with the United States and the rest of the world. Attention is particularly focussed on the last three years when Canada's travel account with the United States has shown a deficit for the first time since 1961. Significant features of the travel expenditures of Canadian residents both in Canada and abroad and of the travel expenditures of nonresidents in Canada are then considered. The economic impact of both domestic and foreign travel on the Canadian economy as a whole and on the various regions is analyzed.

The report then examines relevant features of the Canadian tourist industry, its seasonality, its cost and price performance in relation to the cost and price performance of the Canadian economy in general and also in relation to other major industrial countries, most notably the United States. It considers the possible consequences for the Canadian tourist industry of a number of government policies at both the federal and provincial levels.

The final section of the report measures the impact of price and cost factors on the current Canadian travel deficit and suggests what is likely to be the future balance of payments performance, given the depreciation of the Canadian dollar. It identifies the general policy implications of this development.

CANADA'S INTERNATIONAL TRAVEL ACCOUNT

This section indicates that the deficit on Canada's travel account has risen sharply in the last three years to nearly \$1.7 billion in 1977. After more than a decade of surpluses a deficit developed with the United States in 1975 which reached around \$800 million in 1977. This section also shows that Canadians spend relatively much more in the United States than Americans spend in Canada.

TABLE 1

PER CAPITA INTERNATIONAL TRAVEL EXPENDITURES, 1970 AND 1975

Country	Per capita expenditures (U.S. \$)		Compound growth rate (% per annum)
	1970	1975	
Canada	66.14	93.69	7.2
U.S.	19.11	30.23	9.6
W. Germany	41.10	137.51	27.3
France	20.82	58.33	22.9
Britain	16.67	34.33	15.5
OECD ¹	19.88	47.59	19.1

¹Excludes Ireland.

It must first of all be recognized that, partly for reasons of geography, Canadians are major international travellers with per capita expenditures for international travel well above the average for other high-income countries. Indeed, a few years ago Canadian expenditures were the highest in the world. Now Canada has been surpassed by West Germany but is still about twice the average for OECD countries (see Table 1). The international travel expenditures for both Canada and the United States grew far more slowly than those of other industrial countries since 1970.

Moreover, just as in commodity trade, Canada's travel expenditures abroad are concentrated in the United States, standing at 63 per cent of the total in 1976. Similarly, 70 per cent of Canada's travel receipts in 1976 came from U.S. residents. The per capita travel expenditures of Canadians in the United States are far greater than those of Americans in Canada (\$85.14 in 1976, compared to per capita expenditures of \$6.37 of Americans in Canada).

Balance of Payments

In the last quarter century, there has been a consistent deficit in Canada's travel account with countries other than the United States, and four distinct periods in our travel account with the United States: a surplus up to 1952; ten years of deficits until 1962 and devaluation, then thirteen years of surpluses followed by the current period of mounting deficits which began in 1975 (see Table 2). It will be demonstrated later that there has been a close relationship between the balance in Canada's travel account with the United States and the Canadian dollar exchange rate.

TABLE 2

CANADA'S BALANCE OF INTERNATIONAL PAYMENTS ON TRAVEL ACCOUNT, 1949-1977

	With the United States	With other countries (millions of dollars)	Total
1949	102	-10	92
1950	67	-18	49
1951	12	-18	-6
1952	-37	-29	-66
1953	-25	-38	-63
1954	-37	-47	-84
1955	-60	-61	-121
1956	-82	-79	-161
1957	-78	-84	-162
1958	-104	-89	-193
1959	-97	-110	-207
1960	-87	-120	-207
1961	-24	-136	-160
1962	93	-136	-43
1963	161	-137	24
1964	109	-159	-50
1965	112	-161	-49
1966	102	-162	-60
1967	537	-114	423
1968	182	-211	-29

TABLE 2 (Continued)

1969	72	-286	-214
1970	156	-372	-216
1971	194	-396	-202
1972	104	-338	-234
1973	87	-383	-296
1974	132	-416	-284
1975	-250	-477	-727
1976	-610	-581	-1,191
1977 ⁽¹⁾	-800	-875	-1,675

⁽¹⁾Includes forecast for fourth quarter.

Trends in Foreign Travel — Canada and the United States

One of the best ways to analyze foreign travel expenditures is to relate it to personal disposable income, that is, the personal income that is available after paying direct taxes. In the past twenty years, about 2¹/₄ per cent of the personal disposable income of Canadians has been spent abroad. This percentage has shown some fluctuation but the trend in the last decade up to 1975 was down. Since then, a sharp rise in the percentage of personal disposable income being spent abroad has occurred (see Table 3).

TABLE 3

EXTERNAL TRAVEL EXPENDITURES AS PERCENTAGE OF PERSONAL DISPOSABLE INCOME, CANADA, 1956-1977

Average annual of year	Expenditures in United States (per cent)	Other countries	Total
1956-60	1.76	0.56	2.32
1961-65	1.47	0.66	2.13
1966-70	1.57	0.74	2.31
1971	1.50	0.92	2.42
1972	1.35	0.80	2.15
1973	1.35	0.84	2.19
1974	1.29	0.85	2.14
1975	1.47	0.88	2.35
1976	1.55	0.92	2.47

There have been distinctly different trends in Canadian travel expenditures abroad between those made in the United States and those in other countries. The proportion of personal disposable income of Canadians spent on travel in the United States trended downwards until 1975 while that spent in other countries has, as consistently, increased. The proportion of Canadian personal disposable income spent in the United States increased significantly in 1975 and 1976 but was still lower than in the latter 1960s and the latter 1950s.

There are some marked differences between the Canadian pattern and that of the United States. It has already been noted that Americans spend a much smaller proportion of their income on travel abroad than do Canadians. But contrary to the Canadian trend, this proportion rose in the 1950s and 1960s. There has been a distinct downward trend in the 1970s similar to that in Canada but without the upward turn in 1975 and 1976 (see Table 4).

TABLE 4

EXTERNAL TRAVEL EXPENDITURES AS PERCENTAGE OF PERSONAL DISPOSABLE INCOME, UNITED STATES, 1956-1977

Average Annual or Year	Expenditures in Canada (per cent)	Other Countries	Total
1956-60	0.11	0.36	0.47
1961-65	0.13	0.38	0.51
1966-70	0.15	0.40	0.55
1971	0.15	0.44	0.59
1972	0.13	0.50	0.63
1973	0.13	0.48	0.61
1974	0.14	0.47	0.61
1975	0.12	0.47	0.59
1976	0.12	0.46	0.58

The proportion of U.S. personal disposable income being spent on travel in Canada has declined slightly in the 1970s but is still slightly higher than it was in the latter 1950s.

A more detailed analysis of Canada's international travel is even more revealing. It indicates that the long-term decline in the share of Canadian personal income being spent on travel in the United States was due not to a decline in the ratio of Canadians travelling to the United States⁽¹⁾ but to a decline in the proportion of income being spent (see Table 5). Moreover, the proportion of Canadians travelling abroad to countries other than the United States has increased far more sharply than the income data would suggest, having quadrupled since 1961. But the rise in the number of travellers overseas has been offset by a sharp decline in the proportion of income being spent on each trip.

Similar data on United States to Canada travel show a fairly stable pattern for both the ratio of travellers to population and of the ratio of expenditures per traveller to income (see Table 6).

RELATIONSHIP BETWEEN INTERNATIONAL AND DOMESTIC TRAVEL

This section shows that domestic travel by Canadians has grown more strongly over the 1970's than Canadian expenditures abroad but that there was a marked shift abroad in 1975 and 1976. This section also shows that Canadian expenditures abroad are much more centred on pleasure and recreation than are Canadian expenditures on domestic travel.

Canada

Total Expenditures

Data on foreign travel of Canadians are more complete than those for domestic travel. The first and only complete annual survey of domestic travel was undertaken in 1971⁽²⁾ while annual and quarterly data on foreign travel have been prepared for many years. Similarly, estimates of trips and of expenditures by nonresidents in Canada have been published for many years.

⁽¹⁾Travellers to the United States for a period of less than one day have been excluded.

⁽²⁾This covered trips of 100 miles or more. Two additional partial surveys on domestic travel have been made, one on trips of 100 miles or more for the third quarter of 1974 and the other on trips of 50 miles or more for the second quarter of 1977. These two partial surveys collected data on number of trips but not on expenditures.

TABLE 5

**CANADIAN TRAVEL PROPENSITY AND EXPENDITURE PER TRAVELLER IN RELATION
TO INCOME 1961-1975
(FOR TRIPS OF MORE THAN ONE DAY)**

	Canadian travellers as a percentage of Canadian population ⁽¹⁾		Expenditure per Canadian traveller as a percentage of Canadian GNP per Capita ⁽²⁾	
	To United States	To Other Countries ⁽³⁾	To United States	To Other Countries ⁽³⁾
1961	30.0	1.5	3.4	31.1
1962	26.6	1.7	3.2	26.6
1963	26.3	1.8	2.7	24.2
1964	26.7	2.0	3.1	23.1
1965	31.8	2.3	2.7	20.2
1966	36.3	2.5	2.5	18.3
1967	38.2	2.6	2.2	16.5
1968	38.2	3.1	2.2	13.8
1969	41.0	4.1	2.3	12.7
1970	42.2	5.2	2.2	12.2
1971	42.1	5.5	2.0	10.9
1972	39.6	5.2	1.9	10.2
1973	38.9	6.2	1.9	9.2
1974	37.6	6.4	1.8	9.0
1975	42.4	6.8	1.9	9.3
1976				

Source: Department of Finance

⁽¹⁾Crews are excluded post 1971

⁽²⁾Expenditure per crew member is excluded post 1971

⁽³⁾Includes Hawaii

There is also a problem of comparability. There are many categories of domestic travel (to and from work, for purposes of shopping, recreation or other needs, intra-urban, inter-urban, overnight trips, single day trips, etc.) and no one or combination of them precisely matches the category of foreign travel by Canadians. For years other than 1971, this report will use the estimates of domestic travel expenditures by Canadians prepared by the Office of Tourism. These cover travel expenditures by Canadians for trips of 25 miles or more for purposes other than employment. They include both single day and overnight trips.

Travel expenditures by Canadians in Canada are thus estimated at \$7.3 billion in 1976 compared to Canadian travel expenditures abroad of \$3.1 billion (see Table 7).

From 1971 to 1976, Canadian travel expenditures in Canada are estimated to have increased faster than Canadian foreign travel expenditures, by 128 per cent compared to 116 per cent. It is estimated that Canadian domestic travel expenditures increased faster until the end of 1974 after which foreign travel expenditures by Canadians sharply accelerated while domestic travel expenditures grew more slowly.

TABLE 6**UNITED STATES TRAVEL PROPENSITY AND EXPENDITURES
PER TRAVELLER IN RELATION TO INCOME TRAVEL TO CANADA, 1961-1975
(FOR TRIPS OF MORE THAN ONE DAY)**

	U.S. residents travelling in Canada as a percentage of U.S. civilian population⁽¹⁾	Expenditure per U.S. traveller in Canada as a percentage of U.S. GNP per capita⁽²⁾
1961	5.2	1.4
1962	5.5	1.5
1963	5.6	1.5
1964	5.9	1.4
1965	6.2	1.4
1966	6.6	1.3
1967	7.9	1.6
1968	5.7	1.5
1969	5.9	1.5
1970	6.4	1.5
1971	6.7	1.4
1972	6.3	1.2
1973	6.5	1.2
1974	6.1	1.4
1975	5.9	1.3

Source: Canada Department of Finance

⁽¹⁾Crews are excluded post 1971

⁽²⁾Expenditure per crew member is excluded post 1971

On the same basis, the total magnitude of travel expenditures in Canada in 1976 is estimated at \$9.2 billion, composed of \$7.3 billion by residents and \$1.9 billion by nonresidents (see Table 8). This estimate is heavily dependent on the definition of tourism employed. If only trips of 100 miles or more are included, domestic travel expenditures for 1976 would be estimated at around \$4.5 billion.

Domestic travel expenditures by Canadians have risen as a share of Gross National Expenditures in the 1970s, rising to a peak of four per cent in 1975 but travel expenditures by nonresidents have been declining, falling to only about one per cent in 1976.

Purposes of Travel

The purposes of international travel by Canadians differ significantly from domestic travel. Business travel and visiting friends and relatives are less important components of international travel than of domestic travel amounting to only 10 and 22 per cent of trips respectively for foreign travel compared to 17⁽¹⁾ and 39 per cent for domestic travel according to the 1971 travel survey (see Tables 9 and 10).

⁽¹⁾Data from the 1974 travel survey suggest that business travel may even have been understated in the 1971 travel survey.

TABLE 7**TRAVEL EXPENDITURES BY CANADIAN RESIDENTS**

	In foreign countries (millions of dollars)		In Canada (%) Percentage change from preceding year	
	In foreign countries (millions of dollars)	In Canada	In foreign countries (%)	In Canada
1971	1,448	3,200	-	-
1972	1,464	3,878	1.1	21.2
1973	1,742	4,700	19.0	21.1
1974	1,978	5,696	13.5	21.2
1975	2,542	6,700	28.5	17.6
1976	3,121	7,300	22.8	9.0
			Percentage change from 1971-76	
			115.5	128.1

TABLE 8**TRAVEL EXPENDITURES IN CANADA, AND IN RELATION TO GNE**

	In foreign countries (millions of dollars)			In Canada (per cent of GNE)		
	Residents	Non-Residents	Total	Residents	Non-Residents	Total
1971	3,200	1,246	4,446	3.39	1.32	4.71
1972	3,878	1,230	5,108	3.69	1.17	4.85
1973	4,700	1,446	6,146	3.80	1.17	4.97
1974	5,694	1,694	7,390	3.87	1.15	5.02
1975	6,700	1,815	8,515	4.05	1.10	5.15
1976	7,300	1,930	9,230	3.84	1.02	4.86

TABLE 9**TRAVEL EXPENDITURES BY PURPOSES OF TRIP, CANADA, 1971 TRAVEL SURVEY
(Trips of 100 miles or more)**

Purpose	Millions of dollars	Person-trips (thousands)	Expenditures (per cent of total)	Person-trips
Business and convention	507	7,180	27.5	16.5
Visiting friends and relatives	527	17,164	28.6	39.4
Outdoor recreation	174	5,653	9.4	13.0
Sightseeing	158	2,979	8.6	6.8
Entertainment and indoor sports	46	1,220	2.5	2.8
Shopping	57	855	3.1	2.0
Personal	166	3,982	9.0	9.1
Other	207	4,513	11.2	10.4
Total	1,843	43,547	100.0	100.0

TABLE 10**PERCENTAGE DISTRIBUTION OF CANADIAN RESIDENTS
TRAVELLING ABROAD BY PURPOSE OF TRIP, 1974, 1975**

	1974	1975
	(Per cent of trips)	
Business, convention and employment	10.0	10.1
Visiting friends and relatives	24.5	22.2
Other pleasure recreation or holiday	60.3	60.3
Other	5.2	7.4
Total	100.0	100.0

TABLE 10a**TRAVEL EXPENDITURES BY U.S. RESIDENTS⁽¹⁾**

	In Foreign Countries (billions of dollars)	In U.S.	In Foreign Countries Percentage Change from Preceding Year (%)	In U.S.
1972	5.0	46.1	-	-
1973	5.5	n.a.	10	-
1974	6.0	60.3	9	-
1975	6.4	75.2	7	25
1976	6.9	98.5	8	31

⁽¹⁾For Trips of 100 miles or more

United States

United States residents spend much more of their travel dollar at home than do Canadians. Estimates of domestic travel expenditures by Americans are made for trips of 100 miles or more (see Table 10a) but if these were adjusted to be more comparable to the Canadian data for trips of 25 miles or more we would find that United States residents in 1976 spent less than 5 per cent of their total travel expenditures abroad compared to 30 per cent for Canadians.

It is also to be noted that domestic travel expenditures by U.S. residents have increased much more strongly than expenditures abroad in 1975 and 1976. This is the reverse of the situation in Canada.

REGIONAL DIMENSIONS OF TRAVEL

This section shows that tourism is a widely dispersed industry in Canada playing a significant part in the economy of every province but is somewhat more important in the Atlantic Region than any other province. It also shows that residents of Ontario have generally spent more in other provinces than residents of other provinces spend in Ontario. Other provinces have tended to be net recipients of domestic travel expenditures.

Total Travel Expenditures

Of the industries which play a significant role in Canada's international trade, tourism is the most widely dispersed, playing a significant part in the economy of every province. Indeed, apart from Prince Edward Island where travel expenditures are estimated to have made up to 20 per cent of GDP in 1976, the range as a proportion GDP was from 3.9 per cent in Alberta to 7.0 per cent in Nova Scotia and Manitoba (see Table 11). What is interesting to note is the apparent eastward displacement of the importance of tourism in the economy of each province. Between 1971 and 1976, indeed, travel expenditures represented an increased proportion of GDP for the provinces of the Atlantic Region (with the exception of New Brunswick) and of Central Canada, and for Manitoba, but a decreased proportion for the three most westerly provinces.

TABLE 11

TRAVEL EXPENDITURES⁽¹⁾ BY PROVINCE AS PER CENT OF GROSS DOMESTIC PRODUCT, 1971

	Travel Expenditures (millions of dollars)		Travel Expenditures per cent of GDP at factor cost	
	1971	1976 ^e	1971	1976 ^e
Newfoundland	78	166	6.7	6.9
Prince Edward Island	41	83	18.0	19.8
Nova Scotia	138	286	6.6	7.0
New Brunswick	95	194	6.0	5.8
Québec	885	1,846	4.4	4.6
Ontario	1,767	3,674	5.1	5.4
Manitoba	229	480	6.5	7.0
Saskatchewan	217	452	6.8	6.0
Alberta	350	729	4.9	3.9
British Columbia and Yukon and North West Territories	635	1,320	6.8	6.6
Canada	4,446	9,230	5.4	5.4

^eEstimates based on extrapolation of inter-provincial tourist flow patterns of 1971 and 1976, and on estimates of GDP made by the Conference Board in Canada.

⁽¹⁾Domestic travel expenditures on trips of 25 miles or more plus estimated provincial distribution of expenditures by nonresidents.

International Travel

For a recent year, 1975, when Canada's international travel account was in deficit, the estimated international travel account of the Atlantic region showed a slight surplus; all other regions were in deficit. Saskatchewan, Manitoba, Alberta and Quebec showed, in that order, the relatively greatest deficits (expressed as a proportion of expenditures abroad by Canadian residents). See Tables 12 and 13.

TABLE 12

EXPENDITURES⁽¹⁾ BY CANADIANS ABROAD BY PROVINCE OF RESIDENCE, 1975

	United States	Other countries (millions of dollars)	Total	United States per cent of total (%)
Atlantic	54	25	79	68.4
Québec	271	177	448	60.5
Ontario	499	351	850	58.7
Manitoba	53	24	77	66.8
Saskatchewan	29	14	43	67.4
Alberta	91	48	139	65.5
British Columbia	173	77	250	69.2
Total	1,171	717	1,888	62.0

⁽¹⁾After a stay of one or more nights

TABLE 13

EXPENDITURES⁽¹⁾ BY INTERNATIONAL TOURISTS IN CANADA, 1975

	United States	Other countries (millions of dollars)	Total	United States per cent of total (%)
Atlantic	69	14	83	83.1
Québec	219	65	284	77.1
Ontario	474	145	619	76.6
Manitoba	28	8	36	77.8
Saskatchewan	10	3	13	76.9
Alberta	62	25	87	71.3
British Columbia	154	46	200	77.0
Canada	1,104	317	1,421	77.7

⁽¹⁾For one or more nights

There are other differences among the provinces. For instance, only about 60 per cent of travel expenditures abroad by residents of Ontario and Quebec were made in the United States. For other provinces, the proportion was closer to 70 per cent (see Table 12).

On the other hand, the proportion of foreign tourist expenditures coming from the United States has been surprisingly uniform, being slightly lower in Alberta than the national average and slightly higher in the Atlantic region (see Table 13).

Domestic Travel

The importance of the tourist industry to the Atlantic region as a net earner of income is again indicated by data on domestic travel expenditures from the 1971 travel survey. The survey indicated that the Atlantic region received about twice the amount spent on travel by its residents in other provinces. But British Columbia and the Prairie region were also net recipients of travel expenditures. Ontario had the only deficit in domestic travel expenditures while Quebec was in approximate balance (see Table 14).

TABLE 14

**TRAVEL EXPENDITURES BY PROVINCE, TRAVEL SURVEY 1971
(Trips of 100 miles or more)**

	Expenditures of residents in other parts of Canada (millions of dollars)	Receipts from visiting residents of other provinces	Net flow
Newfoundland	5.7	6.6	0.9
Prince Edward Island	6.4	11.4	5.0
Nova Scotia	13.0	23.4	10.4
New Brunswick	13.6	16.3	2.7
Québec	54.4	57.9	3.5
Ontario	125.1	60.2	-64.9
Manitoba	25.4	30.1	4.7
Saskatchewan	34.5	25.0	-9.5
Alberta	44.6	60.9	16.3
British Columbia	40.2	66.4	26.2

DETERMINANTS OF TOURISM'S PERFORMANCE

This section shows that the price and cost performance of the Canadian economy began to grow markedly out of line with the United States in 1974 with a particularly wide divergence in 1976. This was also true of wage costs in sectors of the tourist industry. Travel prices as a whole increased considerably more in Canada than in the United States. This section also indicates that our cost and price performance vis-à-vis other countries has generally been better in the same period.

Nature of the Tourist Industry and Travel Expenditures

The tourist industry may be defined as those industrial establishments which provide goods and services to "tourists", that is to travellers who go a certain distance from home for purposes other than employment. Therefore it is clear that the industry includes such establishments as hotels, restaurants, taverns, buses, airlines, service stations and museums and such forms of capital investment as highways, airports and parks. It may also be taken to include features of the natural environment. It is equally clear that many of these establishments and capital goods also serve nontourists. But this is not important as long as the price and cost factors affect tourists and nontourists to the same extent.

On the cost side, three items are of dominant consideration for the tourist; transportation, accommodation (for those who stay overnight) and restaurant and tavern services. Travel surveys conducted in both Canada and the United

States indicate that transportation comprised more than one-third of travel expenditures with gasoline for private automobiles making up 60 per cent of transportation costs. Restaurant and tavern services made up about 20 per cent of travel expenditures while accommodation made up 15 per cent. Recreational services and goods and apparel purchases and cleaning were distinctly secondary with about 10 per cent each.

Travel is a heavy user of both capital and labour. Major capital investments for travellers are made in highways and airports, airplanes, trains and buses, hotels, restaurants and museums. The use of these facilities has a high labour content.

Important components of the travel complex are supplied by governments with or without direct user charges but the rest are typically operated commercially. In Canada, the tourist industry is made up of 80,000 inter-related, but competitive businesses, most of them small. It includes, among other things:

190,000	hotel and resort rooms,
78,000	motel rooms,
29,000	cabins,
23,000	outfitters' units (and commensurate number of campground capacities),
2,000	travel agents,
100	tour wholesalers and operators,
1,500	or so events and attractions,
43,000	eating places,
2	national airlines,
5	regional air carriers,
200	local air service operators,
68	bus companies,
2	national railway companies,
8	regional railway lines,
50	shipping lines,
8	major car rental firms.

These tourist-related industries employed close to 700,000 people in 1971 out of a total employment in Canada of 8,117,000 (see Table 15). In 1976, tourist-related employment is estimated to have reached around 830,000 people, a five-year increase of 20.5 per cent, which was somewhat faster than in the increase of 17.5 per cent in total employment which is estimated at 9,526,000 in 1976.

TABLE 15

**EMPLOYMENT IN SELECTED INDUSTRY GROUPS RELATED TO TRAVEL,
TOURISM AND RECREATION, 1971⁽¹⁾ and 1976⁽²⁾**

	1971	Estimated 1976
Accommodation and food services	331,500	408,000
Amusement and recreation services	75,065	109,000
Service stations	74,545	92,000
Transportation, communication and other utilities	98,265	120,000
Construction	65,300	63,000
Miscellaneous manufacturing	9,970	11,000
Transportation equipment	32,080	25,000
TOTAL	686,725	828,000

Source: ⁽¹⁾Census of Canada

⁽²⁾Estimates based on the application of 1971 ratios of Census over Employment survey data to the employment figures obtained from the monthly survey of employment in larger establishments for the year 1976.

Of course, these total employment data by industry are not generated solely by travel and tourism activities. This is especially true in restaurants and taverns which represented about 60 per cent of total employment in the accommodation and food services sector in 1971, and where a large proportion of employment comes from nontourist activities.

Cost and Price Performance — vis-à-vis the United States

The competitive performance of the Canadian tourist industry has been clearly affected by price and cost developments in the Canadian economy in general, particularly in relation to the United States. In 1974 overall labour costs in Canada began to grow sharply out of line with those in the United States with a gap of about four per cent which widened by an additional eight per cent in 1975 and a further five per cent in 1976. Thus, in three years, because of the cumulative effect, labour costs in Canada on the average increased 21 per cent more than in the United States. Exchange rate movements in the period slightly worsened the Canadian position (see Table 16).

TABLE 16

PERCENTAGE INCREASE IN UNIT LABOUR COSTS — THE ECONOMY

	National currency		U.S. dollars	
	Canada	U.S.	Canada	U.S.
1971	3.2	3.6	6.7	3.6
1972	5.2	4.0	7.3	4.0
1973	7.8	6.0	7.8	6.0
1974	15.8	11.5	18.4	11.5
1975	15.5	7.6	11.1	7.6
1976	9.7	5.0	13.2	5.0
1977	8.5	6.5	1.5	6.5
1973-76	46.7	26.0	48.9	26.0

In 1977, there was only a slight further deterioration in the Canadian position. After allowing for the depreciation of the Canadian dollar there was in fact a considerable improvement, leaving the cost deterioration at about 18 per cent since 1973. A further improvement will show up in 1978 but, on the average, labour costs in the Canadian economy would still be 12 to 15 per cent worse than in the United States in 1978.

What is the impact on the tourist industry specifically? It may well be more severe than these data for the economy as a whole suggest. The cost deterioration for manufacturing, for instance, was less severe than that for the economy as a whole. By 1978 the depreciation of the Canadian dollar will probably restore Canadian manufacturing to about the same cost position it held in relation to U.S. manufacturing in 1973. This implies that the whole service sector in Canada of which the tourist industry is an integral part has, in the period 1973-77, increased its wage costs about 20 per cent faster than in the United States, and that the margin may still be between 15 and 18 per cent in 1978.

This is supported by wage and salary data for hotels, restaurants and taverns. From 1973 to 1976, average hourly earnings in Canadian hotels, restaurants and taverns increased by 53 per cent compared to 23 to 26 per cent for the United States. In 1977, the increase in average hourly earnings has even been slightly less than in the United States in national currency terms. After depreciation of the Canadian dollar, there has been about a 10 per cent improvement during the year. But this still leaves the Canadian wage cost position vis-à-vis the United States about 20 per cent higher than it was in 1973 (see Table 17).

It should be emphasized that nonwage costs for employees are significantly larger in the United States than in Canada. A confidential study undertaken for the department indicates that employer payments in hotels and restaurants for such costs as unemployment insurance, hospital benefits and social security amounted to about 18 per cent of wage costs in New York State and 26 per cent in Ohio compared to eight per cent in Ontario and five per cent in Quebec.

TABLE 17**AVERAGE HOURLY EARNINGS IN TOURIST-RELATED INDUSTRIES**

	CANADA Hotels, restaurants and taverns		UNITED STATES Hotels, tourist courts and motels		Eating and drinking places
	\$ Canada	\$ U.S.			
1970	1.75	1.67	1.97		1.86
1971	1.95	1.93	2.13		1.96
1972	2.08	2.10	2.27		2.03
1973	2.30	2.30	2.40		2.15
1974	2.65	2.71	2.62		2.34
1975	3.08	3.03	2.81		2.50
1976	3.51	3.56	3.03		2.64
1977 (Aug.)	3.80	3.54	3.20		2.89
Percentage increases		(%)			
1970-73	31.4	37.7	21.8		15.6
1973-76	52.6	54.8	26.2		22.8
Aug. 76 - Aug. 77	7.6	-1.1	7.4		9.9

TABLE 18**AVERAGE HOURLY EARNINGS — CONSTRUCTION, 1970-77**

	Canada (dollars-national currency)	U.S.
1970	4.21	5.24
1971	4.75	5.69
1972	5.15	6.03
1973	5.66	6.37
1974	6.43	6.75
1975	7.53	7.35
1976	8.68	7.74
1977 (August)	8.57	8.08
Percentage increases		(%)
1970-73	34.4	21.6
1973-76	53.4	20.6
Aug. 76 - Aug. 77	14.9	4.4

A similar cost deterioration has occurred in the construction industry which is important for hotels and restaurants. Average hourly earnings in construction had increased faster in Canada from 1970 to 1973 but from 1973 to 1976 they increased more than twice as fast in Canada (53 per cent compared to 21 per cent in the United States). Thus, in only three years, a disparity of 32 per cent emerged (see Table 18). Moreover, the rate of wage inflation in construction has not decelerated in Canada in 1977 contrary to what has happened in hotels and restaurants.

A more favourable picture emerges for intercity transportation wage rates, where for the entire period from 1970 to 1976 average weekly earnings in Canada increased only 14 per cent more than in the United States.

These differentials in the rates of increase of tourist-related wages in Canada and the United States are not fully reflected in prices. A roughly comparable Travel Price Index shows that from 1973 to 1976 travel prices increased by 41 per cent in Canada compared to 31 per cent in the United States, a difference of only 10 per cent compared to more substantial differences in wage rate increases (see Table 19).

TABLE 19
INCREASES IN TRAVEL PRICES, CANADA AND UNITED STATES 1973-76

	Canada	United States
Consumer Price Index	32.1	28.1
Travel Price Index ⁽¹⁾	41.2	30.6
Auto operation	46.6	
Plane fares	46.4	
Train fares	49.3	
Bus fares	24.6	
Meals and beverages in restaurants	47.2	
Accommodation ⁽¹⁾	n.a.	
Gasoline	48.3	50.7
Motor Oil	34.7	24.9

Source: Partly from Statistics Canada confidential report.

⁽¹⁾In the Travel Price Index, the Consumer Price Index is used for accommodation prices in the absence of a better indication of price.

While the Travel Price Index in the United States has increased roughly in line with consumer prices in general, in Canada there has been a significantly faster rate of increase in the Travel Price Index than in consumer prices in general. This is due to the high rates of increase in all transportation costs with the exception of bus fares and in cost of meals and beverages in restaurants.

More detail on changes in airline fares is provided in Table 20. This shows the considerably higher increases in airline economy fares within Canada than within the United States or Europe. It also shows that Canadian domestic rates have increased faster than Canada-United States rates (see Table 20).

Cost and Price Performance — vis-à-vis Other Countries

Canada's price performance in respect to other industrial countries has been distinctly better than in relation to the United States. Using consumer prices as a proxy for travel prices, it is indicated that only in West Germany would costs for tourists have increased more slowly than in Canada (see Table 21).

In some instances these differences have been at least partially offset by exchange rate movements which have been particularly large in the case of Italy and Britain.

Seasonality of Canadian Tourism

Canadian tourism is known for its high seasonality, which means that there is appreciable underutilization during periods of low activity that results in poor productivity performance. Seasonality, however, also is an opportunity for governments who could rectify a situation for which they are partly responsible — that of the institutionalization of seasonal patterns in vacation habits. The 1971 travel survey showed that of non-business domestic tourism, approximately 50 per cent was spent in the third quarter of the year with 14 per cent in the first quarter, 20 per cent in the second and 16 per cent in the fourth. A compensating factor was expenditures for business and convention purposes which were quite uniform throughout the year.

TABLE 20**CHANGES IN AIRLINE ECONOMY FARES*
JANUARY 1973 TO DECEMBER 1976**

<i>Route-Groups</i>	<i>Per cent increases</i>	
Within Canada		53.4 ⁽¹⁾
Québec-Toronto	68.4	
Regina-Victoria	50.8	
Ottawa-Saskatchewan	48.4	
Toronto-Vancouver	49.2	
Halifax-Vancouver	50.0	
Canada-U.S.		27.0 ⁽¹⁾
Toronto-Chicago	41.2	
Vancouver-San Francisco	29.8	
Montréal-Miami	23.4	
Toronto-Los Angeles	24.0	
Vancouver-Honolulu	16.6	
Within the U.S.		26.2 ⁽¹⁾
Chicago-Pittsburgh	39.2	
Chicago-Denver	25.2	
New York-Denver	21.2	
New York-San Francisco	19.2	
Canada-Mexico/Caribbean		32.7 ⁽¹⁾
Montréal-Nassau	42.7	
Toronto-Antigua	42.1	
Vancouver-Mexico City	13.4	
Canada-Europe		50.3 ⁽¹⁾
Halifax-London	57.7	
Toronto-Frankfurt	50.4	
Edmonton-Amsterdam	42.8	
Within Europe		21.3 ⁽¹⁾
London-Geneva	23.8	
London-Istanbul	18.7	

Source: CGOT - Passenger Air Transportation and Tourism in Canada

⁽¹⁾Unweighted averages

*For scheduled services/round trip economy fares

TABLE 21**PERCENTAGE INCREASE IN CONSUMER PRICES, 1970-76**

	Canada	France	Germany	Italy	Britain	Japan
1970-73	15.9	19.9	18.8	22.8	28.0	24.0
1973-76	32.1	39.2	18.5	62.6	67.8	52.1

On the other hand, international travel to Canada is even more seasonal than nonbusiness residential tourism with only nine per cent in the first quarter, 24 per cent in the second quarter, 52 per cent in the third and 15 per cent in the fourth as measured by 1971 data (see Table 22).

TABLE 22**TOURISM EXPENDITURES IN CANADA, BY QUARTERS, 1971**

Residents	1Q	2Q	3Q (millions of dollars)	4Q	Total
Business and convention	120 ¹	139 ¹	132 ¹	116 ¹	507
Nonbusiness	191 ¹	272	659	214	1,336
Total residents	311	411	791	330	1,843
<i>Nonresidents</i>	118	297	644	187	1,246
TOTAL	429	708	1,435	517	3,089

PERCENTAGE DISTRIBUTION BY QUARTER

<i>Residents</i>					
Business and convention	23.7	27.4	26.0	22.9	100.0
Nonbusiness	14.3	20.4	49.3	16.0	100.0
Total residents	16.9	22.3	42.9	17.9	100.0
<i>Nonresidents</i>	9.5	23.8	51.7	15.0	100.0
TOTAL	13.9	22.9	46.5	16.7	100.0

¹Data subject to substantial sampling error

The seasonality of nonresident tourism in Canada has changed little in the last six years, a fact which suggests that attempts at encouraging winter travel to Canada have not met with success (see Table 23).

TABLE 23**SEASONALITY OF NONRESIDENT TOURISM EXPENDITURES IN CANADA, 1971-76**

	(percentage distribution)				
	1Q	2Q	3Q	4Q	Total
1971	9.5	23.8	51.7	15.0	100.0
1972	8.5	24.2	51.3	15.9	100.0
1973	9.1	24.8	50.6	15.6	100.0
1974	9.4	25.6	49.4	15.6	100.0
1975	9.6	25.1	50.1	15.2	100.0
1976	9.5	24.8	50.8	14.6	100.0

This seasonality of travel results in a pronounced seasonal pattern in employment. For example, in the industry group "Accommodation and Food Services", employment of both full-time and part-time employees reaches a peak in July, with the months of lowest employment being January and February. The difference between the two is about 21 per cent of total employment. The same phenomenon exists in other tourist related industries such as amusement and recreation services.

Related to the seasonality of employment is the high incidence of part-time employment in major tourist related industries. Part-time employment makes up about 40 per cent of total employment in amusement and recreation services and 27 per cent in accommodation and food services (see Table 24).

TABLE 24**EMPLOYMENT IN ACCOMMODATION, FOOD AND RECREATIONAL SERVICES 1971-72**

Accommodation and food services

— Full-time employees	211,141
— Part-time and casual employees	77,560
TOTAL	288,701

Amusement and recreational services

— Full-time employees	36,144
— Part-time and casual employees	28,286
TOTAL	64,430

IMPACT OF SELECTED POLICIES ON TOURISM

This section indicates: (1) that minimum wages in Canada have increased much faster than in the U.S., (2) that federal sales taxes on alcoholic beverages are considerably higher in Canada than in the U.S., (3) that provincial sales taxes are on the average 3 to 4 per cent higher than in the U.S., (4) that municipal property taxes are typically higher in large Canadian cities than in the U.S., (5) that gasoline taxes are higher in Canada, (6) that there have been larger increases in the last four years in airline excursion fares in Canada than in the U.S.

Among the variety of government policies which exert an influence on the loosely-defined tourism industry, four are particularly important either in terms of the cost structure of the industry or the prices charged to the consumers, or both. These are minimum wage policy, taxation policy, energy policy and air transportation policy.

Minimum Wage Policy

The current operations of many components of the tourism industry are labour-intensive. Furthermore, many sectors of the industry pay relatively low wages and are largely composed of small businesses. Nevertheless, there are sectors such as air transport which pay among the highest wages of any industry. Moreover, even where wages are relatively low or where employment is part-time, the industry provides useful opportunities for people who might otherwise remain unemployed. It is suggested that minimum wage legislations will have, overall, a significant impact on the cost structure of the industry.

Indeed, various studies indicate that hotels, restaurants and taverns have high proportions of employees earning below or just slightly more than the minimum wage. For instance, a federal study in 1966 estimated that 70 per cent of the work force in hotels under federal jurisdiction was being paid the federal minimum wage or slightly more, compared to five per cent and 10 per cent for workers in air and water transportation respectively. A study conducted for the government of Ontario in 1967 indicated that industries in the service sector, particularly hotels, restaurants and taverns, would be most severely affected by an increase in the provincial minimum wage. It was calculated that 65 per cent of the employees in that industry would have been directly affected by the proposed minimum wage in that year. Another study carried out for the government of Manitoba yielded the same conclusions; it was estimated that 53 per cent of the employees in hotels, motels, restaurants and taverns would be directly affected by the proposed increase in the minimum wage in 1970.

Minimum wages in Canada have sharply outpaced those in the United States in recent years. The Canadian federal minimum wage which was 12 per cent below the United States rate in 1967 was 26 per cent above it in 1977 (see Table 25). During this period, the Canadian federal minimum wage grew at an annual compound rate of 8.8 per cent, while the rate was significantly lower in the U.S. at 6.1 per cent.

About 70 per cent of the work force in the U.S. comes under federal jurisdiction and the federal minimum wage is therefore the most important. In Canada, between five and eight per cent of the Canadian work force is under federal jurisdiction.

It is provincial minimum wage legislation in Canada which has the most significant impact on the tourist industry. In the last ten years provincial minimum wages, without exception, have increased even more rapidly than federal minimum wages (see Table 26). The federal minimum wage, which was the highest in 1965 when it was originally established, has now been surpassed by those in the four Western provinces and Québec. On the other hand,

TABLE 25**FEDERAL MINIMUM WAGE RATES PER HOUR
CANADA AND UNITED STATES
1967-1977**

	Canada (Can. dollar)	United States (U.S. dollar)
1967	1.25	1.40
1968	1.25	1.60
1969	1.25	1.60
1970	1.65	1.60
1971	1.75	1.60
1972	1.90	1.60
1973	1.90	1.60
1974	2.20	2.00
1975	2.60	2.10
1976	2.90	2.30
1977	2.90	2.30

TABLE 26**PROVINCIAL MINIMUM WAGE RATES PER HOUR
1967 and 1977
\$**

	1967	1977	Annual average growth rates (per cent)
	(dollars)		
Federal	1.25	2.90	8.8
Newfoundland	.70	2.50	13.6
Prince Edward Island	1.10	2.70	9.4
Nova Scotia	1.10	2.75	9.6
New Brunswick	.90	2.80	12.0
Québec	1.05	3.15	11.6
Ontario	1.00	2.65	10.2
Manitoba	1.10	2.95	10.4
Saskatchewan	1.00	3.00	11.6
Alberta	1.15	3.00	10.1
British Columbia	1.25	3.00	9.2

in the United States only a few states have minimum wages which exceed the federal rate. All provinces in Canada, even low-income provinces like Newfoundland and Prince Edward Island, have minimum wages that exceed the federal minimum wage in the United States. Certain provinces, like Québec, had in 1977 a wage differential as high as 85 cents. As of January 1, 1978, this differential will narrow somewhat, to 62 cents, as the U.S. federal rate will be increased to \$2.65 per hour, while the rate in Québec will be increased to \$3.27 per hour. (These rates apply to adults. There are, in general, lower rates for students in both Canada and the United States. Also, there are in many cases special lower rates for employees in the food serving industry. These special rates are not believed to reduce the disparity between Canadian and U.S. rates).

The minimum wage level itself does not indicate the full extent of the wage disadvantage under which some portions of the Canadian tourist industry labour in comparison with their United States neighbours. In the United States, federal legislation and most states have tip differential clauses which allow for payments as much as 50 per cent below the minimum wage. In Canada, only two provinces — Québec and Ontario — provide this type of tip differential adjustment in their wage scale, but only up to 10 per cent⁽¹⁾. The importance of this clause cannot be ignored. It is estimated that about 30 per cent of employees in Canada's restaurants and hotels are involved in serving food and beverages and are generally receiving the minimum wage but, in addition, receive tips which in many cases are substantial.

There has been a significant rise in the ratio of the provincial minimum wage to the average hourly earnings in hotels, restaurants and taverns since the mid-1960s, although in a few provinces this ratio has declined since 1970. The level of the federal minimum wage in relation to average hourly earnings in these industries has declined but it is no longer operative for hotels, restaurants and taverns (see Table 27). It should be noted that the data on hourly earnings are from a survey covering establishments with twenty or more employees. In smaller establishments, hourly earnings may well be less, meaning that the ratio of the minimum wage to the hourly earnings would be higher.

Finally, small businesses in the U.S. are exempted from paying the federal minimum wage. At present, a small business, as defined for the purpose of the law, is one with annual sales of less than \$250,000; by the end of 1981, the limit will be raised to \$362,500. Since tourism includes a great number of small enterprises, the exemption provides a substantial advantage to the U.S. industry as no such exemption is available in Canada.

TABLE 27

**MINIMUM WAGE RATE PER HOUR AS A PERCENTAGE OF AVERAGE HOURLY EARNINGS
IN HOTELS, RESTAURANTS AND TAVERNS FOR SELECTED YEARS**

Area of jurisdiction ⁽¹⁾	1965	1970 (Per cent)	1975
Canada ⁽²⁾	102.5	94.3	84.4
Québec	77.3	88.6	96.9
Ontario	80.6	86.7	81.9
Manitoba	73.9	88.8	88.1
Saskatchewan	79.8	79.6	83.6
Alberta	80.0	84.2	80.6
British Columbia	64.9	70.4	71.6

⁽¹⁾Data on hourly earnings are not available separately for the Maritime Provinces

⁽²⁾Federal rate compared to average hourly earnings in Canada

Tax Policies

Federal, provincial and municipal taxes bear somewhat more heavily on the tourist industry in Canada than do their American counterparts on the United States' industry. With the exception of Alberta, provincial sales taxes would appear generally to be three to four per cent higher in Canada than in the United States. Municipal tax rates per hotel room are also typically higher than in the United States. Gasoline taxes at the federal and provincial levels are higher

⁽¹⁾Québec did not increase the minimum wage for tipped employees on January 1, 1978. The tip differential in that province is now 20 per cent.

than in the United States. Provincial liquor commissions and federal excise taxes combine to make the price of alcoholic beverages somewhat higher in Canada than in the United States. In general, the several levels of government have made their separate tax decisions without taking account of the total impact on the tourist industry.

Sales taxes

The Canadian federal manufacturers' sales tax of 12 per cent has no equivalent in the U.S. where it has traditionally been the prerogative of the states. Although the federal sales tax does not apply to services, it does apply to goods. This means it applies to recreation equipment and alcoholic beverages which are an important component of recreation and tourism expenditures.

In addition to the overriding general sales tax, Canada's federal government collects special excise taxes and duties on a range of so-called "luxury" goods such as liquors, cigarettes, jewelry, gasoline (surtax), which are, for the greater part, tourist-related commodities. The U.S. federal government also levies such taxes but they are generally lower than Canada's.

Table 28 compares a number of taxes levied by the federal administrations of both countries on alcoholic beverages and tobacco.

TABLE 28

FEDERAL TAXATION OF ALCOHOLIC BEVERAGES AND TOBACCO, CANADA AND UNITED STATES

Items	Sales tax	1977 Canada Excise tax	Excise duty	United States Excise taxes
1) <i>Spirits</i> (per gallon)	12%	-	\$16.25	\$10.50
2) <i>Table wine</i> (per gallon)				
7% or less alcohol	12%	\$0.275	-	\$ 0.17
No more than 14%	12%	\$0.55	-	\$ 0.17
3) <i>Sparkling wine</i> (per gallon)	12%	\$2.55	-	\$ 3.40
4) <i>Beer</i> (per gallon)	12%	-	\$ 0.42	\$ 0.29
5) <i>Cigarettes</i> (per pack of 20)				
weighing 3 pounds or less	12%	\$0.12	\$ 0.10	\$ 0.08
weighing more than 3 pounds per thousand	12%	\$0.12	\$ 0.12	\$ 0.168

Thus at the federal level, many Canadian items are being taxed under two, and sometimes three, different taxes, while there is only one tax in the U.S. on such products. In Canada, furthermore, the general sales tax on alcoholic beverages and tobacco is calculated on the manufacturer's price gross of any excise duty (but net of any excise tax).

The provinces, with the exception of Alberta, levy retail sales taxes on a wide range of goods and services. Industry leaders estimate that provincial sales taxes in Canada are, on the average, three to four per cent higher than in the U.S. In Canada, the same sales tax that applies to goods applies to hotel rooms, while in some American states there are special room rates which are slightly higher than the sales tax rate (see Table 29).

In addition to the retail sales tax, Ontario and Québec levy surtaxes on restaurant meals. Thus, Ontario has recently readjusted its tax to 10 per cent on meals costing \$6.00 or more, and Québec retains its 10 per cent tax on meals priced at \$3.25 or more. However, two western provinces have eliminated sales taxes on meals, and Alberta has no sales tax (see Table 30).

Provincial liquor commissions in Canada raise substantial revenues from the retailing of alcoholic beverages, a practice which is followed in relatively few of the United States. In Canada, additional charges are often applied to bulk purchases of alcoholic beverages, i.e. by hotels and restaurants, while discounts are typically available for bulk purchases in the United States, in line with normal commercial practice. The retail price of alcoholic beverages is on average somewhat higher in Canada than in the United States. The margin is even greater for the price paid by hotels and restaurants as a result of the differing bulk purchase pricing.

TABLE 29**PROVINCIAL AND STATE LOCAL RETAIL SALES TAX AS IT APPLIES TO HOTEL ROOMS**

	Room tax	Sales tax (per cent)
Connecticut	7	7
Rhode Island	6	6
Vermont	5	3
Massachusetts	5.7	5
Maine	5	5
Nova Scotia		8
Newfoundland		10
Prince Edward Island		8
Québec		8
Ontario		7
New Brunswick		8
Manitoba		5
Saskatchewan		5
Alberta		-
British Columbia		7

TABLE 30**PROVINCIAL AND STATE LOCAL RETAIL SALES TAX AND SURTAX
AS THEY APPLY TO RESTAURANT MEALS¹ IN CANADA AND UNITED STATES**

	Sales tax	(per cent)	Surtax
Newfoundland	10		-
Nova Scotia	8		-
New Brunswick	8		-
Prince Edward Island	8		-
Québec	8		2
Ontario	7		3
Manitoba	5		-
Saskatchewan	-		-
Alberta	-		-

TABLE 30 (Continued)

British Columbia	-	-
New York	8	-
Massachusetts	5	-
Illinois	4	-
Pennsylvania	6	-
Washington (D.C.)	5.1	-

*Meals up to a certain price are generally free of sales tax. This varies from province to province and state to state.

Municipal direct taxes

Municipalities in both countries levy a number of direct taxes of which the most important is the property tax. There are many ways in which property taxes can vary. There are special business taxes which may range anywhere from 30 to 120 per cent of the real property tax. There may be higher mill rates on non-residential than on residential properties. Furthermore, the business tax, as it applies to the accommodation industry, is classified by certain provinces as "industrial" rather than "commercial" and hence bears a still higher rating which can be particularly detrimental to seasonal operators. Table 31 indicates the differences in the incidence of municipal taxation on the accommodation industry between Canada and the U.S.

In Canada, municipal taxes of the magnitude shown in Table 31 represented in 1970 some 5.2 per cent of total net sales and receipts of large hotels, according to a survey of traveller accommodation by Statistics Canada. This increases to 11.8 per cent when expressed in terms of gross operating costs and constitutes the third most important cost component after wages and benefits, and food products costs. Another study comparing hotel operations in Canada and the U.S. for a number of selected hotels, noted that over the last five years business and property taxes

TABLE 31

MUNICIPAL TAXATION — AVERAGE TAX PER HOTEL ROOM FOR SELECTED CITIES IN CANADA AND UNITED STATES (dollars — national currencies)

Halifax	1,127	New York	1,188
Montreal	1,923	Boston	1,004
Québec City	1,842	Chicago	608
Toronto	1,437	Philadelphia	533
Winnipeg	1,143	Washington	396
Edmonton	896		
Vancouver	790		

Source: Laventhol and Horwath

have increased as a percentage of the Canadian hotels sales whereas they have declined for the United States hotels. It also indicated that, for the group of hotels surveyed, Canadian taxes are currently 175 per cent higher than in the United States.

Energy Costs and Prices

Transportation is an important element of the tourism industry. Accordingly, any marked differential in the prices of energy products between Canada and other countries, especially the U.S., will result in a decided advantage for the country which has comparatively lower prices. Several studies have shown that the automobile is the most popular mode of transportation for Canadian residents travelling within Canada and for American tourists travelling to

Canada. CGOT has estimated that gasoline and motor oil made up about 24 per cent of all Canadian tourist expenditures in Canada in 1974. A comparison of gasoline retail taxes in Canada and the United States reveals that rates levied in Canada are generally higher than those in the U.S. As a consequence, the current average differential in the price of a gallon of gasoline between the two countries is about 14 cents, the price being 63.25 cents in the U.S. (75.9 cents when converted into an imperial gallon) and 90 cents in Canada in August 1977. From Table 32 it can be seen that the tax differential would appear to be about 15 cents a gallon in 1977 for several major cities in the United States. This corresponds roughly to the price differential noted earlier.

TABLE 32

**GASOLINE TAX PER GALLON⁽¹⁾
FOR SELECTED CANADIAN AND U.S. CITIES, 1977**

	Federal	Provincial/State Local (cents per gallon)
St. John's	15	27
Halifax	15	21
Fredericton	15	20
Montreal	15	19
Toronto	15	19
Winnipeg	15	18
Regina	15	19
Edmonton	15	10
Vancouver	15	17
New York	4	8
Boston	4	8.5
Chicago	4	9
Philadelphia	4	9
Washington (D.C.)	4	19

⁽¹⁾Differentials in the size of the U.S. and Canadian gallon not considered.

The table also highlights the large variations in the level of provincial or state taxation, with Newfoundland levying 27 cents per gallon, Ontario and Québec each collecting 19 cents per gallon, and Alberta levying only 10 cents per gallon. Thus, the current average price for a gallon of gasoline in Newfoundland is \$1.07, whereas it is only 84 cents in Alberta, increasing to 88 cents in Québec, and to 96 cents in the Atlantic provinces.

Air Transport Regulations

Another important institutional factor in Canada's transportation industry is the regulation of air transportation. The Canadian Transport Commission regulates both fares and the choice of services provided by carriers operating in Canada. This is similar to what is done in the United States, but with the laudable objective of preserving the commercial viability of Canadian commercial carriers it would appear that the Canadian Transport Commission is being more cautious than its United States counterpart as far as domestic charters are concerned. In the United States domestic charter provisions were broadened considerably in 1975 and 1976 but the Canadian Transport Commission is only now authorizing a limited and unsatisfactory experiment in domestic chartered flights.

It is clear that the Canadian air transportation industry now lacks the price range, incentive fares and package tours generally available in other countries for domestic travel. The deficiency is principally found in charter fares. On the other hand, special charter fares have been available for several years for international flights. These lower fares

have proved most attractive to Canadian travellers and there have been major gains in the number of Canadians on international charter flights. For instance, while domestic air travel in 1976 remained about the same as in 1975, — about 10.3 million passengers — the number of Canadians travelling on inclusive charter tours to foreign countries rose by 117 per cent from July 1975 to June 1976 compared with the previous year, reaching a total of 1,000,000 while passengers travelling by air on advanced booking charters increased by 25 per cent to about 538,000.

Clearly, it will be necessary to provide equally attractive alternatives for domestic travel which means travel on similar terms. That is, at substantially lower cost than the regular economy fares. It is true that excursion fares are available but here again — as found for regular economy fares — (see Table 20) the rates within Canada have increased faster than those to other countries or within the United States (see Table 33). It is estimated that 20 per cent of Canadian passengers on domestic airlines are travelling on excursion or other special fares (such as youth or senior citizen fares). Since about half of domestic air travel is for recreation purposes, this means that about 40 per cent of recreation air travellers are on special rates.

TABLE 33
INCREASES IN AIRLINE EXCURSION FARES BY TRAVEL AREAS
JANUARY 1973 TO DECEMBER 1976

Travel Area	Fares		Percentage increases	
	Jan. '73	Dec. '76	Areas ⁽¹⁾	City pairs
			(%)	
<i>Within Canada</i>			51.6	
Regina-Victoria	88	135		53.4
Ottawa-Saskatoon	133	200		50.4
Halifax-Vancouver	216	326		50.9
<i>Canada-U.S.</i>			23.6	
Vancouver-San Francisco	102	125		22.5
Montreal-Miami	171	213		24.6
<i>Within the U.S.</i>			10.4	
New York-Denver	206	229		11.2
New York-San Francisco	295	323		9.5
<i>Canada-Mexico/Caribbean</i>			44.5	
Montreal-Nassau	182	263		44.5
<i>Canada-Europe</i>			82.2	
Halifax-London	185	337		82.2
<i>Within Europe</i>			13.3	
London-Istanbul	263	298		13.3

⁽¹⁾Unweighted Averages

Source: CGOT, *Passenger Air Transportation and Tourism in Canada*, various issues

However, excursion fares, like all other scheduled services, are losing ground to charter flights. It is expected that charter services will soon become the most popular mode of air transportation. In this respect, it is important that Canadian air carriers are able to offer the same kind of price range and variety of services offered in competing countries.

FACTORS ACCOUNTING FOR THE TRAVEL DEFICIT

This section indicates that the stronger growth in income in Canada than in the United States explains a substantial part of the account deficit which Canada now has with the United States. It also shows that international travel by both Americans and Canadians is very sensitive to price and cost factors. This section also indicates a substantial improvement throughout much of the 1970's in Canada's travel account with countries other than the United States.

A number of economic factors have been reviewed for their impact on the size of, and the increase in, Canada's travel account deficit. Two have been identified as particularly important. First and foremost is relative price

and cost performance. There has been a remarkable coincidence between the shift of Canada's travel account with the United States to a deficit and the deterioration in Canada's overall price and cost performance. Second, there have been significant changes in comparative income levels (which are related to wage cost performance). These may have played an important role in the recent surge in the deficit on travel with the United States.

Since Canada's travel account with the United States has followed a different course than with other countries, it will be considered separately. It has been noted in this report that Canada's relative cost and price performance has been different for the United States than for other countries.

The Travel Deficit with the United States

Canada's travel account with the United States is most symptomatic of the real problem in the last three years. After modest surpluses in the early 1970s, it fell to a deficit of \$250 million in 1975, which increased to \$610 million in 1976 and an estimated \$800 million in 1977 (see Table 34).

TABLE 34

CANADA'S RECEIPTS AND PAYMENTS, TRAVEL ACCOUNT, 1970-77

	1970	1971	1972	1973	1974	1975	1976	1977 ⁽¹⁾
	(millions of dollars)							
<i>United States</i>								
Receipts	1,054	1,092	1,023	1,160	1,328	1,337	1,346	1,550
Payments	898	898	919	1,073	1,196	1,587	1,956	2,350
Balance	166	194	104	87	132	-250	-610	-800

⁽¹⁾Includes forecast for fourth quarter

Income and price factors

Income and price factors have obviously played a significant part in the developments since 1973. Per capita disposable income in Canada has risen sharply recently as a percentage of that in the United States, with particularly strong gains in 1974 and 1976 in terms of U.S. dollars.

In the 15 years from 1956 to 1971, Canada's per capita disposable income was fairly constant at about 78 per cent of that in the United States. The earlier period of Canada's deficit travel account with the United States, (1956-60), coincided with a period in which the Canadian dollar was above parity with the American, boosting Canada's per capita disposable income to about 81 per cent of the United States. The depreciation of the Canadian dollar in the early 1960s reduced the income ratio to about 72 per cent, and marked Canada's shift to a surplus in the travel account with the United States (see Table 35).

The 1970 appreciation of the Canadian dollar raised the Canada-United States personal income ratio to 1956-60 levels in 1971 and 1972. But the strong income growth in Canada in ensuing years pushed this ratio steadily higher so that in U.S. dollars Canadian per capita disposable income stood at 91 per cent of that in the United States in 1974 and an incredible 101 per cent in 1976. In other words, from 1973 to 1976 an income gap of 17 per cent was eliminated.

This reflected, in part, a superior record of economic performance. From 1973 to 1976, Canada's GNP in real terms grew by ten per cent compared with 2.4 per cent in the United States. In per capita terms, the increase in Canada was five per cent compared to one per cent in the United States. The differential in increases in per capita disposable income in real terms was greater, and would account for somewhat less than half of the improvement in Canada's per capita income position. The remainder would seem to be the result of inflation, higher wage increases unsupported by production increases, which led to a deterioration of Canada's cost position.

In nominal terms, United States GNP increased by 29 per cent from 1973 to 1976. Total travel expenditures abroad by Americans rose by 22 per cent in that period; American travel expenditures in Canada rose by 16 per cent. Canadian GNP in nominal terms rose by 58 per cent from 1973 to 1976 and Canadian travel payments to the United States rose by 82 per cent.

Thus, of the \$700 million deterioration in Canada's travel account with the United States from 1973 to 1976, about \$250 million seem to directly reflect this differential in income growth in aggregate without making allowances for the shifting of demand from one market to another because of relative changes in costs and prices, or for higher expenditures on travel resulting from rises in real income.

TABLE 35**COMPARISON OF PERSONAL DISPOSABLE INCOME PER CAPITA
CANADA, UNITED STATES, 1956-66**

	Per capita disposable income			Canada as percentage of United States	
	Canada (Can. \$)	(U.S. \$)	United States (U.S. \$)	(National Currencies) (%)	(U.S. \$)
1956-60	1,426	1,474	1,829	78.0	80.6
1961-65	1,664	1,564	2,174	76.6	72.0
1966-70	2,280	2,131	2,945	77.5	72.3
1971	2,791	2,764	3,587	77.8	77.1
1972	3,135	3,165	3,837	81.7	82.5
1973	3,603	3,603	4,285	84.1	84.1
1974	4,147	4,240	4,647	89.2	91.2
1975	4,762	4,681	5,077	93.8	92.2
1976	5,479	5,556	5,513	99.4	100.8

Preceding sections of this report document the considerably poorer cost and price performance in Canada since 1973. There is a strong case that most of the remaining deterioration in Canada's travel account with the United States results from this. A Department of Finance study demonstrates that travel expenditures by Canadians in the United States have been highly sensitive, in the past decade, to changes in the relative prices of travel with the United States. Moreover, U.S. travel to Canada was also found to be sensitive to relative price changes. This seems to be confirmed by a similar study by the Treasury Board. This is consistent with the observed relationships between the growth in overall income in the two countries and the growth in travel expenditures in the partner country.

Other Factors

There are other factors that may account for part of the deficit. It would appear that the problems affecting the industry because of the general policies examined in this report did not provoke the sudden shift to the deficit. Most of these policies have been long-standing and during most of the period they were in effect Canada enjoyed a travel surplus with the United States. This does not argue, of course, that improvement of these policies would not assist the Canadian tourist industry. Other income and price changes probably have made changes in these policies more critical.

Similarly, it does not appear that the supply of tourist services has suddenly taken a turn for the worse in terms of quantity or quality. Recent rates of new hotel construction and the decline in hotel occupancy rates suggest that the quantity at least of this type of tourist service has significantly improved. It may be argued that the wrong type of hotel was constructed and that more lower-priced hotels should have been built, but this argument appears to be a variant of the price and cost performance question.

It may be wondered whether the quality of tourist services has suddenly deteriorated. Indications are that there has been a considerable increase in the number of complaints about the quality of service in Canadian hotels and restaurants. It is difficult to ascertain whether this reflects a real deterioration of service or guests' increased readiness to express complaints in writing or by telephone to government or industry authorities. Certainly, it is a matter to concern the industry. Objectively, it would seem that discipline imposed by high levels of unemployment should result in better service in the restaurant and accommodation industries. This is obviously a question to be examined further.

Another possible factor is change in the structure and nature of demand for tourism. Some changes, such as those in age composition, take place slowly and are by their very nature unlikely to provoke any sudden change in demand. But some structural changes in demand are clearly related to income and costs. The sharp increase in Canadian expenditures for travel to warm climates during winter is clearly such a factor.

Major events also have an important effect on the travel balance. Expo '67, for instance, is estimated to have directly improved Canada's international travel account by about \$600 million. The Bicentennial celebrations in the

United States probably shifted a part of travel originally intended for Canada to U.S. destinations and may have increased Canadian travel to the United States. U.S. data indicate a significant increase in domestic travel in 1976. The Queen's Silver Jubilee celebrations in Britain probably had a similar effect in slowing the growth of Britons travelling to Canada, and increasing travel to Britain. Events such as the oil embargo in early 1974 and the resulting oil shortage in the United States undoubtedly reduced the traditional two-way travel between Canada and the United States. The general conclusion is that the U.S. Bicentennial celebrations had some but not a major effect on Canada's travel transactions with the United States in 1976.

The Travel Deficit with Countries Other Than the United States

Canada's trade deficit with countries other than the United States increased in recent years from the \$350 million to \$400 million level of the early 1970s, to about \$580 million in 1976 and approached \$900 million in 1977 (see Table 36). These developments must be thoroughly analyzed to be fully understood.

TABLE 36

CANADA'S RECEIPTS AND PAYMENTS, TRAVEL ACCOUNT 1970-77

	1970	1971	1972	1973	1974	1975	1976	1977 ⁽¹⁾
	(millions of dollars)							
<i>Countries other than the United States</i>								
Receipts	152	154	207	286	366	478	584	500
Payments	524	550	545	669	782	955	1,165	1,375
Balance	-372	-396	-338	-383	416	477	-581	-875
<i>Receipts as proportion of payments (%)</i>								
	29.0	28.0	38.0	42.8	46.8	50.0	50.1	36.3

⁽¹⁾Includes forecast for fourth quarter

The fact is that Canada's travel receipts from such other countries have been increasing more rapidly than our payments to them. In 1970 and 1971, receipts amounted to less than 30 per cent of our payments. By 1975 and 1976 the proportion had risen to 50 per cent. There has been an apparent decline in 1977. Travel receipts from these countries declined in 1977 while our payments continued to rise.

The strong increases in receipts from 1970 to 1976 are consistent with the strong income performance of Western Europe and Japan, aided by the upward valuation of the currencies of most of these countries. Travel payments to countries other than the United States did not increase quite as strongly as they did to the United States, due in part to the higher rates of inflation in Western Europe and Japan. The increase was stronger than might have been expected, reflecting the fact that much of the growth took place in travel to the Caribbean and Latin America.

While the deterioration in 1977 may indicate developing problems, in general the trend from 1971 to 1976 in Canada's travel account with countries other than the United States was about as favourable as might have been expected. Nevertheless, it obviously requires continuing attention.



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