Insight

The Travel Promotion Act: A Public-Private Partnership in Practice

GORDON GRAY | AUGUST 15, 2014

BACKGROUND

Foreign visitation, including business travel and tourism, is an essential component of the U.S. economy. According to the Department of Commerce, total spending by international travelers in the U.S. was $180.7 billion in 2013, which supported 1.3 million of the 8.0 million American jobs attributable to travel spending.[1] In practice, the economics of travel spending are deeply influenced by certain elements of public policy. For example, following the terrorist attacks of September 11th, the U.S. necessarily intensified screening efforts at U.S. borders. This important security enhancement made foreign visitation to the U.S. less attractive. Foreign visitation in the U.S. saw a steep 3-year decline after September 11th.[2] Thereafter, foreign business travel and tourism improved, only to decline again in 2009. Indeed, there has been a "lost decade" that has seen the U.S. travel global market share decline, costing jobs and economic activity. In March of 2010, Congress sought to offset this impact by enacting the Travel Promotion Act, which established the Corporation for Travel Promotion, now operating as Brand USA, to pursue a nationally coordinated campaign to promote travel to the United States. Brand USA is a unique, public-private partnership that uses no taxpayer funds to promote the U.S. as a travel destination in an increasingly competitive market – a market that sees foreign competitors use significant public spending on travel promotion.

THE TRAVEL ECONOMY

The U.S. travel and tourism industry contributed 2.8 percent of GDP – or $415 billion in value added to the national economy as of 2011.[3] This economic activity directly supported 5.7 million jobs, and indirectly supports an additional 2.3 million jobs – bringing total travel and tourism-related employment to 8 million jobs.[4] International visitation to the United States, while a smaller share of total tourism-related spending than internal travel, is an essential element of travel expenditures and the U.S. economy as a whole. In 2013, 69.8 million foreigners visited the United States spending $139.6 billion on goods and services related to business and personal travel and an additional $41.1 billion on passenger fares.[5] This total spending of $180.78 billion supported 1.3 million U.S. travel and tourism-related jobs.[6] The value of foreign visitation is recorded as a net export – improving the U.S. trade balance. Indeed, the U.S. travel trade surplus – whereby the value of foreign visits to the U.S. exceeds the value of U.S. travel abroad – totaled $57.1 in 2013.[7] That the U.S. maintains a net travel expenditure surplus is reflected in other indicators. The United States benefits from the highest share of worldwide travel spending, comprising 12 percent as a destination, more than twice that of the second highest share accruing to Spain.[8] Related to this indicator are average expenditures by visitors to the U.S. On average, foreign visitors spend $4,500 and stay 17 days.[9]

Despite the robustness of the U.S. travel economy, there is evidence that the U.S. is losing ground relative to the rest of the world. In 1980, the Americas received 22 percent of inbound tourism. This figure fell to 16 percent in 2010, and is projected to fall further still to 14 percent by 2030.[10] If the United States continues to lose

ground – jobs and national income will suffer. One estimate of the forgone economic activity due to America's declining share of the world travel spend is that an estimated 68.3 million international visitors would have spent $509 billion at American businesses.[11]

HISTORY OF LEGISLATIVE APPROACHES

The United States has had an uneven federal policy related to travel promotion. In 1961, the Congress passed the International Travel Act, which established the U.S. Travel Service within the Department of Commerce, to improve the international attractiveness of the United States as a travel destination. The Act was in part driven by an international trade deficit and the desire to promote net exports. [12] In 1981, President Reagan signed into law the National Tourism Policy Act, which sought to further bolster the U.S. travel and tourism economy, and included the re-designation of the U.S. Travel Service as the U.S. Travel and Tourism Administration (USTTA). Funding for the USTTA persisted until the 1997 passage of the Omnibus Consolidated Rescissions and Appropriations Act. Thereafter, the Office of Travel and Tourism Industries, remained in the Department of Commerce for the purpose of compiling travel statistics, albeit with a much smaller footprint than the USTTA. Funding for a national travel promotion strategy resumed in 2003 with the establishment of the U.S. Travel and Tourism Advisory Board (USTTAB).[13]

The current national travel promotion policy is a relatively new development, and saw its genesis in the enactment of the Travel Promotion Act in 2010. The Act was passed as part of a broader legislative package that saw bipartisan support, receiving 78 votes in the Senate.[14] The Act established a public-private partnership, the Corporation for Travel Promotion that was renamed Brand USA in 2011, to assist in the federal promotion of the U.S. as a travel destination. The Act is set to expire in 2015, but efforts to reauthorize Brand USA have seen progress in the House of Representatives and the Senate. On July 22nd, the House passed H.R. 4450, the Travel Promotion, Enhancement, and Modernization Act of 2014 by a vote of 347-57.[15] On July 23rd, the Senate Commerce Committee favorably reported a Senate companion measure, S. 2250, by voice vote. It is now on the Senate calendar, as is the House companion measure.[16]

BUDGETARY TREATMENT

Perhaps the most important distinguishing feature of Brand USA is that it is not a federal agency. This is a critical distinction from other competitors for international travel and tourist expenditures. Specifically many other nations have national travel promotion programs that are solely sourced from taxpayer funds.[17] Foreign expenditures on travel promotion rank in the billions – $4.3 billion in 2012 alone.[18] For example, the U.K., Mexico, Spain, and France all spent in excess of $100 million of taxpayer dollars to fund travel promotion. The U.S. stands alone among such economies in not using any for this purpose.[19]

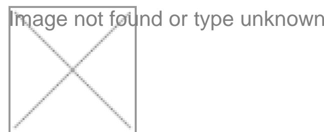
Brand USA is a non-profit corporation that is financed by private funds, matched by funds collected from fees assessed on foreign tourists. Under current law, private funds are matched on a dollar for dollar basis – accordingly, half of Brand USA's budget is sourced from private sector contributions. Upon enactment, at least 20 percent of private sector donations were required to be in cash, while the remaining 80 percent could come in the form of in-kind contributions. Legislation (H.R. 4450) reauthorizing the Act would increase the cash-share of private contributions to a threshold of 30 percent.[20]

Matching funds, subject to a $100 million maximum per year, come from a $14 dollar fee levied on certain foreign visitors to the U.S., with Brand USA receiving $10 per assessment. This fee is assessed under the electronic travel authorization system (ESTA), a system which, subject to specific criteria, grants entry to

certain foreign visitors without requiring a visa.[21] Accordingly, no U.S. taxpayer funds finance the activities of Brand USA. Moreover, although Brand USA is a nonprofit corporation, matching private contributions are not tax deductible, precluding a federal subsidy in the form of a tax benefit.

According to the Congressional Budget Office (CBO), reauthorizing the Travel Promotion Act – and by extension the financing and expenditures of Brand USA – would reduce the deficit by $264 million over a five year period.[22] The modest deficit reduction reflects the fact that fee collection will exceed the $100 million public fund limit. Accordingly, these excess funds will not be spent by Brand USA and will instead be devoted to deficit reduction.

TABLE: BUDGETARY EFFECTS OF H.R. 4450 AND S. 2250



POLICY BENEFITS

Foreign visitation to the U.S. is an important element of the travel and hospitality industry specifically and the national economy generally, supporting over 1 million jobs. That alone does not imply the need for a federal policy role. However, certain other elements of public policy, such as enhanced screening and travel security, though necessary, may unduly burden foreign business tourist travel. Accordingly, it makes sense to pursue policies that appropriately mitigate these undue influences. The Travel Promotion Act does so, and without a cost to the federal taxpayer. Rather, incremental foreign tourism benefits the U.S. taxpayer through additional business and consumer activity. According to one study, travel promotional activities undertaken by Brand USA's marketing initiatives in fiscal year 2013 alone brought an additional increase of 1.1 million visitors to the U.S. This increased visitation generated an additional $7.4 billion in spending in the U.S. economy, supporting over 53,000 jobs.[23] This reflects the significant return on investment for U.S. travel promotion. According to Oxford Economics, Brand USA returned an estimated $47 in direct economic benefits for every $1 spent on travel marketing programs. Further, it reflects the broad reach of U.S. travel promotion efforts. Brand USA is pursuing the U.S. travel promotion agenda in 18 international regions and more than 40 countries, representing 93 percent of inbound visitation to the United States.[24] Important to the federal role in this effort is the diffusion of these benefits: Brand USA has partnerships in all U.S states.

CONCLUSION

The Travel Promotion Act, which established Brand USA, provides an important example for how public-private partnerships can provide benefits to the federal taxpayer without the expenditure of public funds. In an increasingly competitive environment, Brand USA operates without taxpayer assistance and supports an important element of the U.S. economy, supporting millions of U.S. travel and touristjobs and hundreds of billions in value added to national income. As Congress addresses reauthorization of Brand USA, it should be considered as a successful model that should be pursued where possible in other areas of public policy.

[1] http://travel.trade.gov/outreachpages/download_data_table/Key_Facts_2013.pdf