Endogenous Growth and Sustainable Tourism*

Giovanni Bella
University of Cagliari

Fabio Cerina†
CRENoS and University of Cagliari

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Abstract

We build a dynamic general equilibrium model of a small economy specialized in tourism where visitors are attracted by the stock of existing environmental assets, and the stock of tourism and leisure facilities. Residents, at any date, choose the level of consumption, the number of visitors, and the quantity of resources to be devoted to abatement of pollution, the latter being generated by the existing stock of tourism facilities and by the flow of tourists. We analyze the balanced growth path properties of this economy, and deeply focus on the sensitiveness of its qualitative dynamic behaviour, according to different subsets in the parameters' space. The model is able to perform both endogenous growth and sustainability of the environmental resource. We analyse the condition for this result to hold and we find that that when tourists' preferences are greener (i.e. they care for environmental quality and they are crowding-adverse), the economy grows faster. Finally, we develop the transitional dynamics analysis in the case of constant environmental quality in the long-run. Given its generality and flexibility, we believe our model may serve as a workhorse model suitable to be used as an instrument to perform for many relevant policy exercises.

Key words: Growth, Tourism Specialization, Tourism Facilities, Environmental Assets, Pollution Abatement, Transitional Dynamics
JEL Classifications: O41, Q56, L83.

1 Introduction

Is it possible, for a small economy specialized in tourism based on environmental resources, to perform long-run endogenous growth and environmental sustainability? And, if this is the case, what are the endogenous determinants of the growth rate of the tourism economy? These questions are at the heart of an international debate which goes beyond the purely academic world. In the recent years, as a result of the ever-increasing international demand for tourism goods,

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†Corresponding author: Fabio Cerina, Viale Sant'Ignazio 78 - 09123 - Cagliari (Italy). E-mail: fcerina@unica.it