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**HAWAII GOVERNMENT'S ROLE IN JAPANESE OWNERSHIP OF HAWAII
HOTELS: 1970-1990**

**A DISSERTATION SUBMITTED TO THE GRADUATE DIVISION OF
THE UNIVERSITY OF HAWAI'I IN PARTIAL FULFILLMENT OF
THE REQUIREMENTS FOR THE DEGREE OF**

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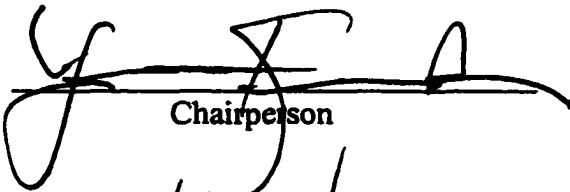
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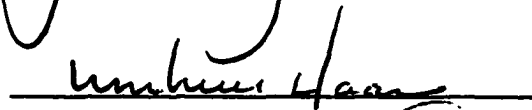
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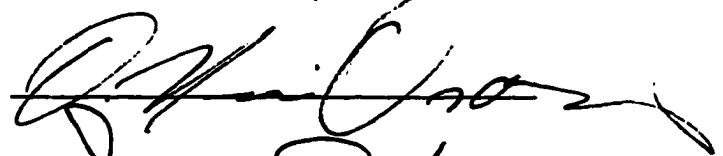
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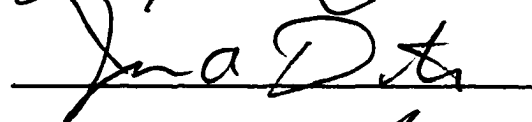
We certify that we have read this dissertation and that, in our opinion, it is satisfactory in scope and quality as a dissertation for the degree of Doctor of Philosophy in Political Science.

DISSERTATION COMMITTEE


Chairperson









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ABSTRACT

This study examines Hawai`i government's role in Japanese ownership of Hawai`i hotel, 1970 through 1990. In particular, two questions are analyzed. The two questions are: (1) were Hawai`i's government policies immaterial in motivating Japanese hotel investment and (2) were Hawai`i's government policies counterproductive to Hawai`i's overall economy.

With the vast number of state-sponsored studies and with the State Plan becoming law, it would appear that the State was very active in promoting tourism development and the Hawai`i economy. However, the research indicates that the Japanese investors were motivated by other factors than by the actions of the State of Hawai`i. Although the state's economy grew, the individual tourism worker's income was less than the income in other industries in the state. Thus, the study addresses the effect of tourism on the residents of Hawai`i. Even though the State Plan mentioned the importance of the residents, the growth of tourism in the State had negative consequences on many residents. These problems were seen not only in income levels but also in the socio-cultural and environmental impacts on the residents.

In sum, this study found that the State's policies were inconsequential to Japanese hotel investment, and while the State promoted positive consequences from tourism, there were negative consequences, especially in the long run.

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CHAPTER I INTRODUCTION

The Hawai'i tourism industry was a fledging industry in the 1960s. During that decade, Japanese investment in Hawai'i hotels was nominal; one Japanese purchaser bought two hotels for about \$20 million. However, from 1970 to 1990 Japanese capital investment in Hawai'i hotels increased to more than \$5 billion. This investment was necessary for the islands' tourism industry to grow, as local funding was insufficient and mainland investments were declining. Burritt (1991, 63) estimated that by 1990 Japanese owned sixty percent of Hawai'i hotel rooms.

Prior to the 1970s, agriculture and federal spending dominated Hawai'i's economy. A huge decline in agriculture during the 1970s mandated a need for growth of alternative industries. By the end of the 1970s, tourism had become the primary private industry in the State of Hawai'i, and the government began to develop plans to guide the growth of the industry as the new mainstay of the state's economy.

Problem Statement

My study combines political science with business and economics by examining the growth of the tourism industry in Hawai'i, and the role of Hawai'i's government in the growth of Japanese investment. The government's role is defined as action taken by the government, including policy-making. Based on Max Weber's work (1947 and 1949), action is social when, by virtue of the subjective meaning attached to it by the involved individuals, it takes into account the behavior of others and is guided by those actions. More pointedly, Weber indicated that the unique structure of the state is based upon its socially privileged groups (i.e., *standestaat*). Hawai'i's unofficial powerbrokers

influenced the state's official plans and other actions, and because of this, I examine the official actions of the state, as well as the unofficial actions of such powerbrokers.

Preliminary research for my dissertation indicated that Hawai'i's government policies were (1) immaterial in motivating Japanese hotel investment and (2) counterproductive to Hawai'i's overall economy. Therefore, Hawaii's government policies in this analysis are presumed to have been ineffectual or to have had a negative effect on the economy.

Thus, my problem statement is "Were Hawai'i government's policies to attract investment inconsequential in motivating Japanese hotel investment in Hawai'i or counterproductive for the economy of the Aloha State from 1970-1990?" In other words, would Japanese hotel investors have come to Hawai'i from 1970 to 1990 regardless of the government's actions, and did the government's directed investment policies hurt the state's economy?

Preliminary research conducted for this dissertation identified no previous study evaluating the role of state government in attracting Japanese investment. Therefore, my research evaluates studies and actions of the legislative and executive branches and various state agencies, as well as coordination and support among these branches and agencies.

The objective of my research is to determine the role of the state in ensuring adherence to the Hawai'i State Plan, and the extent to which the government and other involved parties adhered to the Plan. The focus of the research is on the degree to which

there was adherence to the Hawai'i State Plan¹ and on the role played by the state in ensuring adherence.

To address the problem statement, six primary issues are examined. The first five issues pertain to the role of governments in Hawai'i and Japan in encouraging Japanese hotel investment in Hawai'i and the actions of the investors regarding Hawai'i government policies. The final issue examines the effect of tourism on the residents of Hawai'i. All of the issues are analyzed in the context of the objectives established by the State Plan. The six issues are:

- 1) the tourism industry, particularly in Hawai'i;
- 2) the number of tourists coming to Hawai'i;
- 3) the policies established in state plans, and the degree to which those policies were implemented;
- 4) the Japanese government policies affecting tourism and foreign investment;
- 5) the Japanese investors adherence to Hawai'i policies; and,
- 6) the effect of tourism on the residents of Hawai'i.

The problem statement sets up a puzzle that will be solved with information presented in my study. Note that my study excludes the state's land classification for hotel development, as most of the land needed for development had been approved prior to 1970. My study begins with a discussion of the theories used (Chapter II) and the literature on tourism (Chapter III).

¹ The 1978 Hawai'i State Plan developed by the Department of Planning and Economic Development was adopted by the state legislature and codified as Chapter 226, HRS in the same year. The Plan set the state's direction and goals for the tourism industry.

Chapter IV discusses global, national, and state levels of the tourism industry, which involves hundreds of related businesses mostly providing goods and services to visitors. Airlines, cruise lines, railroads, rental car agencies, lodging (e.g., hotels, motels, bed and breakfasts), restaurants, convention centers, visitor attractions, tour operators and wholesalers, travel marketers, and travel agents are key players. Less obvious businesses—nevertheless important to the industry—are commercial campgrounds, retail shops, food stores, gas stations, taxi and other ground-transportation companies, and personal services like beauty and barber shops and laundromats. Many of these businesses serve local users as well as tourists. In addition, cross-ownership, shared marketing, and franchising have increased the integration and concentration in some sectors of the tourism industry (e.g., airlines with hotels, hotels with restaurants, and hotels with travel agencies). Cross-ownership and shared marketing make it difficult if not impossible to gather precise data on the industry; tourism researchers, therefore, use data estimates in their studies.

To understand the role of Hawai'i government in Japanese ownership of Hawai'i hotels, it is useful to consider the number of tourists who occupied the hotels. The external environment also played a role in tourism development. External factors that promote hotel development would lessen the need for involvement by the Hawai'i government. For example, income levels, access to transportation, and availability of leisure time are contributing factors for the growth of the Hawai'i tourist industry. Chapters IV and V discuss Japanese policies that explain some of the growth of Japanese tourism and investments. Chapter V looks specifically at the hotel industry and accommodation.

It might appear that by funding tourism promotion and infrastructure improvement, the state government actively promoted foreign investment in hotel development; however, such funding and improvement has never been linked directly to Japanese investment. It may be that the government's actions merely promoted tourism without having any effect on Japanese investment in the industry.

Likewise, the sheer number of Hawai'i government studies and plans (discussed in Chapter VI) are not a clear indication of the role of the government. Most government studies on Hawai'i tourism have focused on ownership, occupancy rates, and gross economic results, without examining who ultimately received the financial benefits. For the tourism industry, financial links with many other industries² capture important indirect expenditures made by visitors. These links in turn help finance not only local payrolls but also operating expenses, rents, and the like.³

The Hawai'i Department of Business, Economic Development and Tourism (DBED&T)⁴ is responsible for collecting data on gross state product (GSP), employment, visitor expenditures, and taxes. Also, although analytical methodology varies from researcher to researcher, the department's omission of benefits and costs in data collection may indicate that the state government's actions were counterproductive to

² These industries include agriculture; manufacturing; air and other transportation; communication and utilities; wholesale trade; eating and drinking places; other retail trade; finance, insurance and real estate; and hotel, government and other services.

³ However, many linkage figures (e.g., operating expenses) are proprietary. Thus, the linkages are covered in general terms.

⁴ The agency was known as Department of Planning and Economic Development (DPED); the name was changed to Department of Business, Economic Development (DBED) in 1987. Finally in 1990, the state added Tourism to the agency's name (DBED&T).

Hawai'i's economy, and, therefore, deliberately ignored in the analysis. The relationship between the government's actions and the state of the economy was determined by the extent of Japanese investors' adherence to government policies, and the impact of tourism on Hawai'i residents; these are the last two issues considered. Thus, while the concerns for all of the stakeholders affected by tourism were included in the State Plan, some stakeholders may have been less of a priority to the state.

It would be useful for future studies on the tourism industry to discuss the government's role and the net economic outcome. If more studies analyzed net results, the benefits and problems would be clearer, allowing governments to make more informed decisions about tourism development under the requirements of public choice theory (see Chapter II).

Regression analysis was used to analyze variables that may have affected the state tourism industry. I attempted to test various hypotheses' variables: the numbers of Japanese tourists and all tourists against the dollar amount of hotel investments by the Japanese; hotel occupancy rates against the dollar amount of hotel investments by the Japanese; and Hawai'i Visitors Bureau funding against the total number of tourists. Each of these variables had a positive correlation in single regression analysis, but the results of multiple regression analysis produced multicollinearity (in which the variables all correlated with each other). Thus, the statistical testing added little or no value to my study. The results of the data analysis are found in Appendix C.

Methodology

State plans and the degree of adherence to those plans would support the assertion that Hawai'i's government played an active role, assuming that the plans managed

growth for the betterment of the residents. External factors, such as government policies in Japan and the generic business strategies of Japanese developers, must also be assessed. My study has several parts: the role of Hawai'i state government, the degree of adherence to the state plan, economic effects, and external factors. The methodology differs for each area.

The Role of Hawai'i State Government

My study examines relevant legislation, policies, plans, procedures and studies by the government between 1970 and 1990 to determine whether any or all government levels followed the tenets of the rational choice decision-making and public choice theories. Government actions, particularly at the state level, are examined in the context of state plans and studies (see Chapter VI), as well as case studies (see Appendix A). The state's actions include the actions of both government officials and unofficial powerbrokers.

Adherence to the Hawai'i State Plan

The state's major tourism studies/plans, other state reports, and outside studies discussing Hawai'i tourism are examined (see Chapters VI and VII). The examination considers the consistency between written plans and the level of financial support for tourism (i.e., funding through the DBED&T and the Hawai'i Visitors Bureau for marketing tourism, along with monitoring and enforcing the state plan). The criteria set in the plans changed very little during the two decades (1970–1990) covered in my study.

The study also looks at the mechanisms devised to ensure compliance. Palumbo (1981 and 1990) noted that, to properly evaluate public choice, it is necessary to analyze implementation. Thus, my study looks at whether the government implemented the goals

set out in the state plans. Particular attention is paid to such factors as community involvement, social impact, and environmental protection by the investors as directed by the state plans. The viewpoints of residents and the state's response to those viewpoints are examined briefly in Chapter VI.

Economic Effects

To support investigation of the government's role and adherence to plans, the analysis of economic effects contains an overview of the hotel industry in Hawai'i. Chapter VI of my study compares data on the personal income of workers in the tourism industry with the income of those in agriculture—the industry that tourism replaced—to ascertain value and effects. Understanding the income factor along with sociocultural and environmental factors helps determine whether tourism was truly beneficial for Hawai'i residents and the state's economy.

The investment data used were adjusted from the data collected by the DBED&T. The adjustments decreased the economic impact by eliminating double-counting;⁵ that is, investment data were omitted if properties were bought and then sold to another Japanese investor. Careful attention was paid to the cost of development. Many financial links are proprietary information, or are not required by the state to be disclosed. Also proprietary is information about the disposition of proceeds by the sellers of hotels and land ready for hotel development, as well as information on the disposition of profits and expenses by the new owners of such hotels and land.⁶ This outflow of money is called leakage, and it is the opposite of financial links. My study does not include leakages, which were not

⁵ The double-counting by Leventhal was noted by the Office of State Planning in its report dated February, 1989.

⁶ See Choi and Dawson's 1978 study. In brief, they noted that no study has been able to track leakage information.

tracked by the state, but does address some of the financial links tracked by the state. This selective tracking by the state may indicate its priorities in terms of economic development.

External Factors

Interviews were conducted with former officials and experts in the field including George Ariyoshi, Hawai'i Governor from 1973 to 1986; Carolyn Cain, tourism specialist at the International Finance Corporation/World Bank Group; Kent Keith, Director of DPED from 1983 to 1986; Richard Lachmann, attorney representing Bank of Japan in Hawai'i real estate transactions; and Pauline Sheldon, professor and interim dean of the University of Hawai'i's School of Travel Industry Management. The interviews were intended to confirm research results and were focused on Hawai'i's hotel industry and the state government's role in assisting industry development. The interviews were structured to allow for varying views and to capture knowledge and insights from each interviewee (see Appendix B for a sample of questions used). Also, micro-level case studies of each of Hawai'i's counties (see Appendix A) are discussed briefly in Chapter VII to serve as examples.

Theories

Because my study examines the government's role, the theories used are the rational choice decision-making and public choice theories. The rational choice theory centers on the decision-making process, while the public choice theory bridges the gap between behaviors in the political arena and those in the marketplace. These theories are complementary and, therefore, provide a sound basis for examining the issues raised in my study.

Under the classic model of decision-making, rational choice assumes that a decision-maker will act rationally to assess all available alternatives, then choose the alternative that maximizes expected utility in light of individual preferences, which are derived from the rules of the organizational system and shared experiences (Dougherty 1990, 474). Overall, the rational choice theory is a normative theory; that is, it tells us how we ought to make decisions. Rational choice theory implies that the relevant maximizing agents are individuals. Hogarth and Reder (1987, 2–3) noted, however, that the behavior of multi-person aggregates is the result of individual choices made in accordance with the rational choice paradigm. Thus, rational choice can be relevant for both individual and group decision-making.

To analyze governmental decision-making, the theory of public choice, a microeconomic theory, is used. Public choice helps a political system channel the normally self-serving behavior of individuals toward the common good. The government is seen as an institution that must pursue the public interest; otherwise, the government needs to be reformed. Thus, public choice “examines the behavior of persons as they participate variously in the formation of public or collective choices, by which is meant choices from among mutually exclusive alternative constraints which, once selected, must apply to all members of the community” (Buchanan 1972, 14). Public choice theory suggests that the state must measure the economic, social, and environmental effects of tourism development to ensure equitable benefits to the state, its residents, and investors. Without appropriate data, the results could end up creating a moral hazard, which is to say the state and developers would not bear the full consequences of their actions, which would be paid instead by Hawai‘i citizens.

The criteria in the state's plans were intended to allow both the state (government and public) and Japanese investors to benefit. Thus, the state's plans, if followed, would regulate benefits to ensure greater symmetry (e.g., economic and social life would be enhanced, and the state would receive more benefits than costs). The state's plans would thereby enable it to avoid a scenario similar to the tragedy of the commons.⁷

The rational choice theory allows for analysis of the decision-making process used by the State to enable Japanese investors to eventually own sixty percent (60%) of all the State's hotel rooms. Did the state government actually generate a feasible set of actions and outcomes and rank these outcomes by priority? Or did the government establish laws, policies and procedures by disjointed incrementalism? Were the government's actions consistent with its plans?

Finally, as defined by public choice theory, a public decision-maker makes decisions for the public of which he or she is a part, and must therefore resolve individual preferences into the results. The criteria to be considered by Hawai'i decision-makers are established in the Hawai'i State Plan, wherein all members of the community must be considered before action (e.g., decisions on tourism development) is taken by the government. Public choice theory helps to determine if Hawai'i tourism was managed for the betterment of Hawai'i's people, rather than for the betterment of Hawai'i's political decision-makers.

⁷ Hardin (1968) explained the tragedy of the commons as a common area for all herdsmen to use to graze their stock. Each herdsman is presumed to be rational, and as such, to seek to maximize his or her gain; thus, what is the utility to me by adding more animals? Since grazing land is free, herdsman will add animals. This addition along with the additions by others brings ruin to the commons.

In sum, these theories provide an analytical framework to explore not only Hawai'i's hotel industry and tourism, but also the effect of those on Hawai'i citizens. Chapter II explains and examines these theories as they apply to the question, "Were Hawai'i government's policies to attract investment inconsequential to Japanese hotel investment in Hawai'i or counterproductive for the economy of the Aloha State from 1970 to 1990?"

Overview

My study's focus on the role of Hawai'i government in Japanese tourism investment will add a unique insight to the already extensive literature on Hawai'i's hotel industry. Most studies do not analyze government action through the rational decision-making or public choice theories. While many studies mention the external environment, they do not analyze government actions in the context of suitable public choice. The excess of real estate development in the late 1980s was compared to the tragedy of the commons (McCoy 1998), which falls under public choice theory.

In sum, Chapter II covers the theories used to analyze the problem statement. Chapter III, "Literature on Tourism," Chapter IV, "Tourism: World, United States, and Hawai'i," Chapter V, "Hawai'i's Hotel Industry and Accommodations," and Chapter VI, "Hawai'i State Plans and Studies," present the background information necessary to analyze the role of Hawai'i's government in Japanese ownership of Hawai'i hotels. Specifically, Chapter III concerns itself with the general tourism research from both the political and economic perspectives. Chapter IV looks at the definitions of tourism along with global, national, and state tourism, including tourist data and information. Chapter V covers hotel investment in Hawai'i, beginning with general information about foreign

investment and continuing with a discussion of Japanese investment in the United States and Hawai'i, including the Japanese investment environment, which focuses on Japan's lending practices and economic situation. Chapter VI also contains background information, but its main focus is on the studies and plans from 1960⁸ to 1991. Also examined are a comparison of the topics or concerns mentioned in legislative Act 133 (1976), and the five studies completed by the state. An extensive analysis of these chapters is presented in Chapter VII, followed by a brief conclusion in Chapter VIII.

⁸ The first extensive research on Hawai'i's potential for being a major tourism destination was completed in 1960. This was the only study completed for the state that included tourism destination competition.

CHAPTER II THEORIES

The primary focus of my study is the role of Hawai'i government in Japanese ownership of Hawai'i hotels. As decision-making is at the heart of this research question, rational decision-making and public choice theories are used. Rational decision-making (also referred to as rational choice) allows for analyzing the general decision-making process, while public choice theory allows for analyzing the government's decision-making. The two theories will be linked with the information given in Chapters III, IV, V, and VI, and analyzed in Chapter VII. Table 2.1 illustrates the usefulness of the theories to solve this study's puzzle.

Both rational decision-making and public choice theories require analyzing the alternatives to the State's decision to support tourism as the primary industry in the state, and analyzing the relationship between elements in Hawai'i's tourism industry. The latter shows the interdependency between tourism and Hawai'i residents and between Japanese owners and Japanese tourists. Thus, my study uses a systems approach, which is seen as facilitating "analysis and synthesis in a complex and dynamic environment" (Kast and Rosenzweig, 1979, 17). As stated by von Bertalanffy (1968, 11) it is difficult to "deny the legitimacy and fertility of the interdisciplinary systems approach." The Hawai'i State Plan also appears to use the systems approach, as it mandates that the whole (i.e., citizens, environment, and culture) be examined before granting permission for development. However, the Plan (codified as Chapter 226, HRS) only mandates that decision-makers look at the whole—it does not require that they do what is best for the whole, a situation that will be evaluated in my study by the public choice theory.

Overall, the tourism industry is highly vulnerable to outside forces, and economic interdependency makes all regions, including Hawai‘i, vulnerable to changes in other regions. Therefore, to fully analyze the role of Hawai‘i government, my study also

Table 2.1 Overview of Theories		
Theories	Relevant Parts	Usefulness
Rational Decision-making	Process of decision-making.	To determine if the state followed the process (steps).
	Means of achieving goals	To determine if the state looked at the potential outcomes, especially economic and political.
		To determine if the plans were consistent with the goals set by the state.
Public Choice	Analysis of government decision-making	To determine if the political decisions were good for the residents.
	Links behavior of people in politics with people in marketplace.	To determine if the political decision-makers made personal gains from the tourism development.
	Tragedy of the Commons	To determine if the Hawai‘i government allowed too much tourism for the island’s economic and social well-being.
		To determine if Hawai‘i is an example of the Tragedy of the Commons with the increasing number of tourists coming into the state.

examines the Japanese side of the investment issue in Hawai‘i. The State’s economy mushroomed from all the real-estate-investment-driven Japanese money that flowed in from the 1970s to 1990, and then suffered when Japan’s “bubble” economy burst in 1991.

Therefore, the State is as economically dependent and vulnerable to the downsides of speculative foreign investment as it is to the upsides of foreign direct investment (FDI). The Japanese bubble bursting was inevitable, given that the purchase price for Hawai'i hotels and land for development was inflated, and the collateral for loans from Japanese banks was based on these inflated land prices and not on the value of the business.⁹

Hawai'i targeted tourists from two primary areas: Japan and the United States, so these two economies affected Hawai'i tourism more than any others. In fact, by the 1980s Hawai'i was dependent on Japan not only for tourists but also for hotel investment a combination that allowed Japan to use tourism to lessen its huge trade surplus with the United States. In this way, tourism made it possible for Japan to appease the U.S. government even while it recaptured Japanese citizens' money from Japanese-owned hotels and tourism-related industries in Hawai'i.

This system within Hawai'i tourism demonstrates inward dependence, in that many Japanese-owned hotels targeted Japanese tourists. The suppliers (in this case, suppliers of customers) were Japanese travel agencies marketing Japanese-owned hotels and tourism-related companies in Hawai'i to Japanese tourists, and selling package deals to Japanese tourists. From Hawai'i's perspective, Japanese tourism and development in Hawai'i created employment opportunities for Hawai'i citizens. Jobs were especially important with the decline in sugar and pineapple on the islands, so Hawai'i gained along with Japan; the interdependence and mutual benefit was obvious.

Hall (1994, 176) recognized the existence of interdependence in the tourism industry by noting, "Tourism is clearly not the only economic field in which

⁹ See Renaud for further discussion.

dependency¹⁰ exists.” Kahn and Zald’s work also supports the notion that dependence is suitable for industries, as interdependence exists when an actor does not totally control all of the conditions necessary for achieving the desired outcome. Pfeffer and Salancik (1978, 49) saw control over resources coming from “the ability to make the rules or otherwise regulate the possession, allocation, and use of resource and to enforce the regulations.” However, total control over resources is an extremely unusual position for both public and private institutions. Certainly, the Hawai‘i government could not control competing destinations and the world economy— but the state could control the growth of tourism and its impact on the environment and the state’s infrastructure.

To succeed in tourism, it is essential to establish a relationship between an investor and the government in the investors’ destination. While the state cannot set U.S. foreign policy, it can make decisions on its economic well being within the context of U.S. foreign policy. Given that the United States is a major promoter of free trade, Hawai‘i has much latitude for decisions concerning the tourism industry, including foreign investment in the industry. The state could set constraints and conditions and avoid giving incentives for investment. From Hardin’s (1968) viewpoint, the lack of regulation of the commons (i.e., Hawai‘i infrastructure and the number of tourists using it) creates a tragedy of overuse and ultimately the demise of the commons. Thus, we have the question: “Was it rational for the government to allow the dramatic growth of tourism?”

¹⁰ Hall was referring to dependence/interdependence, not *dependencia*.

Rational Choice (Rational Decision-making)

Empirical rationality, itself, is a complex term. "Rationalists' believe that statements are true *a priori*, that is, made through intuition and logic without the need for systematic human observation" (Haas 1992, 11). Barrett (1962, 270) adds that being rational is not the same as being reasonable. Rational choice, or rational decision-making, is the classic model of economic decision-making, setting up a series of steps to be taken to maximize expected utility for achieving the preferences of the individual or organization. In step one, all feasible sets of action are gathered. In step two, criteria, including the cost of obtaining information, are specified. In step three, each alternative is ranked relative to the weighted criteria to determine the final course of action (Elster 1986).

According to Herbert Simon (1987, 260), the neoclassical economics base of the rational choice theory is silent about the content of goals and values, noting that "the rationality of economics is substantive rationality," whereby the decision is reached objectively or substantively in terms of a given utility function. Heath (1976) adds that rationality looks at the means used to achieve goals, not at the goals themselves; thus, rational choice theory mandates review of the means that were set out in the State Plan.

Organizational theorists (e.g., Kast and Rosenzweig 1979; Parker 2000) see organizations as rational. As noted by Parker (2000, 42) organizational theory "involves stressing that the rationalities deployed within an organization are relative and collective." Pfeffer and Salancik (1978, 23) noted that the predominant view of organizations (both public and private) is that organizations are "rational instruments for achieving some goals or set of goals." Thus, organizations are collections of individual

efforts that could not accomplish objectives without a group effort. My study accepts the fact that the rational choice theory may be used for collective decision-making.

Von Bertalanffy (1968) defines rational choice as everything that is meant by free will, but adds that “history is governed by 'free will' in the philosophical sense [i.e., a rational decision for the better, the higher moral value or even enlightened self-interest] is hardly supported by fact Human behavior, on the other hand, falls far short of the principle of rationality” (1968, 29). Thayer (1972, 487) notes that a market (i.e., producers and consumers of a product) is a system, “but it is one which, by our definition of it, is *collectively nonrational*, for we define it as only the aggregate of countless individual and isolated decisions made by producers and consumers.” One could easily add government decision-making to the above list.

However, rational choice does not guarantee the long-term effectiveness of a decision, especially when considering the commons (e.g., forests, pastures, beaches, fisheries, and highways). The tragedy of the commons addresses this social dilemma, whereby individual rational behavior can cause long-range harm to the environment, others, and ultimately oneself (De Young 1999). Even a common that is subtractable (i.e., one in which one’s consumption deprives others) is likely to be overused.

The only way to avoid the tragedy is to restrain both consumption and access. Privatization of land in Hawai‘i has not helped, as tourists travel in cars or buses, adding to road congestion and air pollution. In addition, it is obvious that beaches are more overused with the addition of large numbers of tourists. As discussed in Chapter VI, Hawai‘i government has never tried to control growth in tourism; most state plans speak of controlled growth, but the state’s actions do not appear to support controlled growth.

Discussion: Rational Choice (Rational Decision-making)

Hawai'i decision-makers may have taken the most convenient and opportunist path: the path of least resistance. If so, Hawai'i government actions were consistent with Hall's (1994, 3) contention that "Tourism is not the result of a rational decision-making process." Yet, Galbraith (1973) notes that overseas investments are the rational decisions of big oligopolistic corporations, especially if the corporations are nurtured in capitalist economies like the United States and Japan. To examine decision-making, my study looks at the process used for tourism, and especially for Japanese ownership of Hawai'i hotels. The steps prescribed by rational decision-making theory are analyzed.

Rational decision-making requires that alternatives be identified and ranked. The Hawai'i State Plan requires that all stakeholders (e.g., ordinary citizens and interest groups such as those dedicated to the environment and Hawaiian rights) be considered prior to making the final decision. The plans and studies completed by the State could lead one to assume that risks, costs, and benefits were analyzed. However, as discussed in Chapter VI, state studies focused most on benefits, while only briefly noting risks and costs— this could mean that the negative effects of tourism were given little weight in the criteria used. The studies dealt primarily with planned growth, but understated or ignored the effect on the community, an issue considered in public choice theory.

Public Choice

James M. Buchanan and Gordon Tullock's Public Choice Theory created an uprising in the field of economics (Christainsen 1988). Yet, Buchanan (1988, 10) claimed that the U.S. founding fathers, Adam Smith and others would have seen the central principles of public choice theory as too elementary to warrant attention.

Public choice theory is based on the Kantian principle that "instructs a person to consider as a duty that form of behavior that will, when generalized to the whole community of persons, generate results that are desired in some noninstrumental sense" (Buchanan 1972, 20); put simply, the principle exhorts individuals to act in the public interest. When a person's behavior creates externalities,¹¹ one result is the necessity for a public/political choice; of course, the problem with making both individual and political choices is agreeing upon what is in the public interest.

Political choice (i.e., public choice) is a micro-economic theory that is applied to the analysis of government decision-making. Public choice is the bridge between the behaviors of persons in the political process and those in the marketplace. The theory "attempts to close up the analysis of social interaction systems" (Buchanan 1972, 11) to examine the connection between politics and economics. For example, Goldstein sees politics and economics as equals and notes (1988, 4) that politics is "constrained by economic forces and certainly not autonomous from economics." Thus, political and economic processes are closely intertwined and substantially interdependent.

Since all agents seek to maximize utility, or take a rational choice approach, public decision-makers need to be subjected to constraints. Buchanan stated that the government is the appropriate agency to pursue public interest, and when it does not, it should be reformed. Buchanan (1972) furthermore advocated strict adherence to the constitution so that decision-makers within the democratic political structure are ruled through constraints such as courts and public voting.

¹¹ Externalities arise when the behavior of a person or entity modifies the environment of others; acknowledgment of the person or entity's role is not necessary for the externality to exist.

Within a state's activities, there are coercive elements that make it difficult to reconcile public choice with the model of voluntary exchange (e.g., FDI) among individuals. However, as noted by Buchanan (1987, 246), "individuals subject themselves to the coercion of the state, of politics, only if the ultimate constitutional 'exchange' furthers their interests." This exchange helps to answer the questions of why investors are willing to pay the exactions demanded by the state, and why visitors are willing to pay the state's transient accommodations tax (TAT). Following the advice of Davis and Meyer (1972), the only time a person needs to play the game is if there is an expected equal- or positive-sum gain.

Keith (1985a, 45) described the traditional role of government as a provider and a regulator. However, he noted that "There is a third role which is becoming more and more important—government as a partner" with guidelines, objectives and the like for all stakeholders, including the community, as the Hawai'i State Plan mandates. Thus, one must presume that an individual who acts as a political choice participant is aware that his or her decisions will affect others. Finally, the Plan mandates that all stakeholders be considered, in spite of the fact that not all sectors of the public will benefit.

Rajiv Sethi (1996) noted that economists commonly hold that the absence of private property rights (or the maintaining of the commons) causes degradation from overexploitation of economically valuable resources. However, the state can play a controlling role by appropriation or regulation that is enforced through "mutual coercion, mutually agreed upon" (Hardin 1968, 1247). Rajiv Sethi (1996) added that communities can restrain the overuse of commons by using social norms; yet, both he and Hardin (1968) believe that social norms (including guilt from violating the norms) are not

effective control mechanisms. The more a community integrates with larger communities, the more difficult it is for the merged communities to impose sanctions such as exclusion of violators from local activities. In Hawai'i, norms are difficult to maintain because of the number and diversity of people from outside this community; these include tourists, foreign hotel developers, and recent immigrants.

Discussion: Public Choice

Public choice theory is tailored for the study of politics based on economic principles, but it recognizes that politicians are motivated by self-interest. The theory, therefore, "explains and interprets politics as the interaction among constituents and agents seeking to advance or express their own interests" (Buchanan 1987, 29). Since decision-makers in the marketplace sometimes also make collective or public decisions, any "analysis must be extended to the actions of persons in their several capacities" (Buchanan 1972, 12). In Hawai'i, legislators serve part-time, and many have other jobs that create potential or actual conflicts of interest.

Some Hawai'i powerbrokers made personal fortunes through the buying and selling of land that was subsequently approved for tourism development by the Land Use Commission. Personal relationships between commissioners and other powerbrokers (especially political powerbrokers) are numerous; for example, Wallace (Wally) Fujiyama, who was a schoolmate of Governor Ariyoshi, noted that his services were sought because of his connections¹². When interviewed for the book Land and Power in

¹² As an attorney, Fujiyama represented various developers, including the Seibu Group before the Maui Planning Commission in 1979, and Hasegawa Komuten before the Kaua'i Planning Commission in 1983.

Hawai'i (1990, 372),¹³ Fujiyama said he could get in to see the Governor and State Attorney General, Tony Hong. My study accepts the fact that some decision-makers in Hawai'i made personal fortunes using power from their official roles. While I address such conflicts in my study, I do not dwell on them because they are vividly detailed in Land and Power in Hawai'i. In any case, the salient question with regard to public choice is whether decisions are made on the basis of self-interest or public interest.

Public choice theory evaluates both the appropriateness of goals set by the government, and the results of government decisions. As the principal theory for examining government activities, public choice is applied to my problem statement to help determine whether or not tourism, as a primary industry in Hawai'i's economy, was appropriate for meeting the goals set by the State.

Conclusion

My study, and the theories used in it, are interdisciplinary. Since firms and government institutions are embedded in legal, political, and social contexts (i.e., the nonmarket environment), Baron advocates analysis based on an integrative approach—that is, one that considers both the market and nonmarket environments. Baron (2000, xxiii) notes that this approach “brings together the disciplines of economics, political science, law, and ethics to provide a deeper understanding of the environment of business and nonmarket issues.”

Similarly, Vogel (1996, 160) noted the need for “an analysis that links both perspectives, one that shows the interrelationship between the role of politics in shaping

¹³ The authors, Cooper and Daws, list the names of *hui* (group) members who did extremely well financially from their public decision-making positions overseeing tourism in the Hawai'i government.

management decision-making and the role of business in influencing governmental decision-making.” Both business personnel and economists must be able to analyze and plan for government's influence in decision-making. The reverse is also true; politicians and theorists of politics must also understand business and economics.

Public choice and rational choice theories are used to evaluate government decision-making in Hawai‘i. Public choice theory questions the goals set by government (as discussed in Chapters VI and VII), and studies the results of government actions, such as Hawai‘i being dominated by one industry. Rational choice theory is a normative theory that prescribes the process by which to analyze a decision; it too is useful when examining government actions, but it also suggests that we should examine the process of evaluating and selecting alternative industries.

As noted by Ostrom (1998, 3), since Hardin’s 1968 paper on the “The Tragedy of the Commons,” much public policy analysis has been “based on the assumption that rational individuals are helplessly trapped in social dilemmas from which they cannot extract themselves without inducement or sanctions applied from outside.” However, gains achieved by violating social norms can be rationalized by using the concept of maximization from rational choice theory. Thus, “mutual coercion, mutually agreed upon” (Hardin 1968, 1247) may be the best way to prevent such tragedy. My problem statement takes a skeptical viewpoint in considering whether or not the Tragedy of the Commons is an appropriate exemplar to use in this study.

Overall, the public choice and rational choice theories are the main ideas used to evaluate my problem statement and six related issues. Rational choice shows the process or steps used in decision-making, which in this case includes alternatives to tourism and

Japanese investments, and the outcome of these choices. Profiles of outcomes must include the positive and negative consequences—social, cultural, political, economic, and environmental. The most important factors can be found using public choice theory. I assume the objectives and goals set in various state plans (discussed in Chapter VI) are beneficial for all stakeholders, but public choice mandates that implementation of these objective and goals be analyzed.

Chapter III, next, discusses the primary research in tourism and tourism development, noting problems with tourism development from both political and economic perspectives. The Chapter should, therefore, allow for a better understanding of public choice and rational choice theories, in answering the problem statement of this dissertation.

CHAPTER III LITERATURE ON TOURISM

Tourism is the driver for the hotel industry. This chapter examines the more well-known research on tourism, and the links between the economic and political factors that affect it, illustrating the interdependency that characterizes the industry. The literature discussed focuses on government roles and the primary economic factors in tourism; table 3.1 is a brief outline of topics covered in this chapter.

Marketing and economic-impact studies dominate the literature, covering subjects from consumer behavior to visitor count to visitor attitude. However, Kendall and Var (1984) noted that the studies lack a systematic investigation of residents' perceptions of the cultural, economic and environmental effects of tourism. The authors also noted a lack of studies on the importance of these effects as trade-offs and constructs, which is a public choice issue for any destination's government. Since most of the studies deal exclusively either with economics or politics, the two are discussed separately in this study; however, the connections between the two are noted.

Political Studies of Tourism

Worldwide tourism has been a massive growth industry since the 1970s; in spite of this, there is minimal research on the political aspects of tourism (Hall, 1994; Richter, 1989). Richter (1984, 614) observed that political scientists generally were not hired to research tourism; in fact, economists, marketing specialists and journalists were the most used professionals. Even when non-economists research tourism, the focus tends to be

Table 3.1 Economic and Political Tourism Literature	
Political	Economic
Government roles: Planning Coordination Legislation and regulations Promoting entrepreneurship Providing stimulations	Economic reasons for destination choices: Supply and demand of destinations Consumer utility Visitors' income Price elasticity Demand elasticity Conspicuous consumption
Little debate at the beginning of tourism industry	Warnings about over-reliance on tourism
Debate begins when costs are too great to ignore.	Substitute products
Ignored effects on residents: Cultural Social Environmental	Commodifying image of destination changes social realities
	Positive economic effects: Increased revenue Enlarged tax base Expanded employment Growth in infrastructure
	Negative economic effects: Crowding (more infrastructure needed) Environmental degradation Increased Crime Increased real estate prices Increased food prices Increased government costs Increased population

practical in nature. As Hall (1994, 7) noted, the few detailed tourism policy studies focused "on notions of prescription, efficiency and economy."

Review of the literature indicates that the predominant research on politics and tourism focuses on development and development policies. Matthews (1975 and 1979)

identified three subject areas for tourism political research: tourism politics in the marketplace, tourism politics in developing regions, and ideological debates on tourism in developing regions. National or regional tourism development policies were examined by Stock 1977; Richter 1980 and 1989;¹⁴ Seymour 1980; Francisco 1983; Richter and Richter 1985; and Williams and Shaw 1988. The political economy of tourism development (i.e., developing economies) was studied by Nash 1977; De Kadt 1979; Hivik and Heiberg 1980; Richter 1980; and Harrison 1992. The ideological nature of tourism was researched by Thurot and Thurot 1983; Uzzell 1984; Ley and Olds 1988; Urry 1990; Hall 1992; and Hollinshead 1992. And the creation of appropriate frameworks or methodologies with which to analyze tourism's political and administrative impacts was studied by Getz 1977 and Ritchie 1984.

In the initial stages of tourism, tourism policy brought large rewards with relatively little conflict. Once tourism was fully in place and its social costs were too apparent to ignore, debate and conflict began. However, as Matthews (1983, 303) noted, the politics of tourism do not evoke the strong feelings that are elicited by the politics of abortion, equal rights, education, and the environment. Because of this, Richter (1989, 14) said, tourism policies were chosen by governments rather than forced upon them by political pressures.

A practical way of examining political activity in tourism was given by the International Union of Official Travel Organizations (IUOTO), the predecessor to the World Tourism Organization. The IUOTO (1974) identified government involvement in

¹⁴ Richter's (1989) work examined not only the way in which politics affects tourism but also the way in which tourism shapes a country's politics.

five areas: (1) planning, (2) coordination, (3) legislation and regulation, (4) entrepreneurship, and (5) stimulation.

Planning encompasses development, infrastructure, promotion and marketing as well as the involved entities (i.e., government and other organizations) and the scale of tourism (e.g., international, domestic, regional). Tourism planning should include economic, social, and environmental factors, all of which come with diverse viewpoints. According to Hall (1994, 34), planning reflects the goals of the involved government. The results of specific government plans favor certain stakeholders' values and interests over other stakeholders' values and interests. Boulding (1985, 117) noted, "Virtually all political systems exhibit considerable traces of oligarchy, even in the most democratic of societies. There is always a group around powerful people who both influence the powerful and often take over the powerful roles." Boulding's statement supports Weber's (1947, 1949) notion that the structure of the state is based upon socially privileged groups (i.e., *standestaat*).

The ineffectiveness of tourism planning was summarized by Richter (1989, 19): "Because the political goals are usually covert and unarticulated and because data collection generally excludes taxpayers, political goals of the leadership, influence, public support, partisan or minority attitudes, opposition reaction, external political climate, or net value and allocation of tourism receipts, it is not too surprising that tourism failures and even tourism policy success are poorly and inadequately evaluated."

Coordination is seen as the hub of all of the government roles. Hall (1994, 33) noted "the necessity for policy coordination arises when there is conflict over the objectives of the policy that has to be coordinated and implemented." Properly

implementing all of the roles depends on the government's ability to coordinate and balance the roles in tourism development (e.g., Smyth 1986; Lamb 1988; Jansen-Vereke 1989, and McKercher 1993); this is a concern of public choice theory, and an obvious challenge is that coordination is needed within and among the levels of government.

As a political activity, tourism coordination faces the same problems as any political process. Not only are numerous government agencies, branches and sectors involved, but also numerous private sector industries and communities. The private sector has different objectives than the public sector, while different levels of government have different priorities. Hawai'i can serve as an example since much of its tourism tax revenue goes to the state while an unequal proportion of infrastructure costs are borne by the counties; the counties' power of taxation is limited to property taxes by Hawai'i statute.

The literature on legislation focuses mainly on guidelines and research. For Hawai'i, legislation for the most part mandated studies on tourism and functional plans to promote the industry. However, legislation is more general than government regulations, which are the primary control mechanisms used by government. As noted by Hall (1994, 35), government involvement has "typically been focused on site development, accommodation and building regulations, the density of tourist development, the representation of cultural, historical and natural tourist features, and the provision of infrastructure including roads and sewage." Thus, the political sector can help make or break a destination. But the obvious omission of environment protection in tourist destinations may hurt the industry and the destination in the long term. Thus, much tourism-related legislation and regulations are short-term in orientation.

In terms of entrepreneurship, the government typically provides infrastructure for developers, consisting of such things as roads and sewage. However, some governments, especially those in developing nations, go beyond the basics to provide second-tier services such as hotels, travel companies, and airlines.

Like all policymaking, tourism policymaking has a political agenda for development, and this agenda tends to focus on government revenue and jobs for residents. Yet when states subsidize some costs of production or development (e.g., by providing infrastructure or investing in projects directly), the process effectively converts private costs into public costs. Unfortunately, input from the public tends to be minimal in such situations, so the benefits and costs of tourism can be poorly known, thinly considered, and ultimately unequal for a destination's citizens; this is an illustration of the tragedy of the commons.

When it comes to economic stimulus, developers and governments are the drivers of tourism; both want to capture the rapid economic benefits derived from tourists (WTTERC 1993). Mill and Morrison (1985) identified three primary methods for governments to stimulate tourism: offering financial incentives for development of tourist facilities, financing research that helps the industry as a whole, and financing marketing and promotion that increases the number of tourists or developers.

Of course, government sponsorship or financing of the tourism industry is not without its critics or problems, including "freeloaders" in the industry and public financing of private ventures. While no one disputes that tourism generates revenue for governments, these revenues often come without thorough knowledge of the attendant economic and social costs. Hawai'i has used all three stimulants, but relying upon such

incentives may not be enough to attract investors and tourists, as other destinations also have stimulus packages. On the other hand, too much stimulation (or too many tourists) can result in a tragedy, which is addressed in the public choice theory.

A comparative or competitive advantage can entice investment to a destination; examples of such advantages include differences in opportunity costs for investors in different destinations, and differences in qualities such as climate and attractions for tourists. As a business decision, foreign investment in tourism is often constrained or encouraged by government. Porter (1990, 262) noted that "Opportunities to establish overseas locations are quickly apparent and firms also enjoy a base of loyal buyers abroad. This effect is quite apparent in travel-related industries, where United States hotel, rent-a-car, and credit card firms have been the beneficiaries . . . As Japanese began traveling in larger and larger numbers, the first signs of significant foreign development by Japanese restaurants and hotels have become evident." Thus, Japanese investors became the beneficiaries of Japanese tourists and other tourists to Hawai'i.

The choices made by governments to stimulate tourism growth are not always successful. For example, the push within many destinations for convention centers tends to be on the political agenda, as convention centers are lauded as almost a necessity for prestige and growth in visitor counts. Hawai'i like many other destinations wanted to build convention centers, but the idea was unpopular with residents. In spite of this, the Honolulu Convention Center was built in 1998 after years of controversy, and the justifying political rhetoric was that convention center visitors would spill over to other tourism businesses, benefiting Hawai'i economically. Richter (1989, 21), however, asserted that centers "may generate public works and may be politically valuable to the

leadership, but the economic rationale rarely holds water." She added that no convention center made money in 1984. The Hawai'i Convention Center, instead of helping stimulate tourism, continues to run in the red.

Finally, many stimuli for tourism are outside the control of a destination's government. For example, Hawai'i cannot set international standards for visas or exchange rates, and it cannot control individual situations such as travelers' vacation time and income. But the ambiance of a destination and the way it is marketed are within the state's control. In fact, Hall (1994, 194) identified the primary role of politics in tourism as the way in which a destination is "commodified." This commodification places tourism in competition for scarce resources that range from tourists and developers to land-use classifications and infrastructure financing; all of these resources are economic in nature but political in terms of allocation.

According to Hall (1994, 178), "Tourism redefines social realities. Advertising creates images of place that then also creates expectations on the part of the visitor, who in turn may lead the destination to adapt to such expectations. Destinations may therefore become caught in a tourist gaze from which they cannot readily escape unless they are willing to abandon their status as a destination." Thus, not everyone is a winner in tourism; some individuals find their status enhanced, while others find it diminished.

Some destinations engage in cultural tourism, which can change the social reality of all residents, especially indigenous residents. While cultural tourism continues to grow, its impact on indigenous peoples remains largely unknown. Greenwood (1989, 182) suggested the "challenge, as yet unmet, is to conceptualize communities as a complex process of stability and change, and then to factor in the changes tourism

brings.” Hall (1994, 178) noted that “marketing, routing and zoning transform the image of place, while the creation of history in tourist settings transforms the cultural and historical life of communities, and hence the place itself.”

Control of the presentation of indigenous culture is an important issue for cultural tourism. Certainly, Hawai‘i’s tourist industry markets the Hawai‘ian culture with familiar images such as hula dancers, and familiar concepts such as “aloha.” But transforming a destination’s cultural and social experiences into a commodity has social as well as political implications related to control of the marketed culture. Is marketing a culture engaging in negative stereotyping? To what degree should a marketed culture have control over the way it is portrayed? While cultural tourism can create a comparative advantage for a tourist destination, the overall issue is whether a destination can provide an accurate representation of a culture within the context of tourism marketing.

Transportation, culture, climate, marketing skill and other factors all influence the comparative advantage held by a destination when it comes to tourism. Lundberg, Stavenga, and Krishnamoorthy (1995, 45) noted that a comparative advantage can be held by very different destinations, ranging from New York City, Paris, and London to parts of the Caribbean, California, Florida, and Hawai‘i. Both Hawai‘i and Fiji have desirable climates and beaches and are thousands of miles from potential tourist markets. Governor Ariyoshi (November 27, 2001) noted that Hawai‘i has an advantage over other sunny destinations by virtue of its people and “aloha”; thus, Ariyoshi focused on the cultural aspects of Hawai‘i.

Unfortunately, governments typically understate the psychological and sociological costs of tourism. Kendall and Var (1984, 27) noted the inconsistency of

social science methodology for analyzing tourism impacts, and said that as a result, "... it is difficult to differentiate between impacts due to general economic and social developments and those unique to tourism development, especially considering few (if any) studies have been conducted before and after tourism was introduced." However, the Hawai'i 1972 impact study did just that, and the results showed many negative economic repercussions for tourism employees relative to those in agriculture.¹⁵ Yet, the decline in individual incomes was ignored by Hawai'i's political decision-makers, who instead considered only increased state tax revenues and the number of jobs created.

Economic Studies of Tourism

Economics, in general, can be defined "as a social science that seeks to understand the choices people make in using their scarce resources to meet their wants" (Lundberg, Stavenga, and Krishnamoorthy 1995, 27). Thus, studying the economics of tourism may help answer the question of why people choose one destination over another, or why developers choose one location over another. Macro-level considerations include tourist spending, the multiplier effect, and the like, while micro-level considerations delve into the different sectors of tourism, such as hotels, restaurants, airlines, and retail sectors.

Because governments on all levels see tourism as economic, their policies emphasize gross economic revenue (Richter 1989, 13), and supply and demand play a role in tourism. The basic economic law of supply and demand suggests that a change in one factor causes a change in the other factor. According to Porter (1990, 258), "Demand conditions are perhaps the single most powerful determinant of national competitive

¹⁵ Chapter VI of my study includes detailed information about the 1972 state study.

advantage in services today." Thus, the elasticity of demand, which includes price elasticity, also plays a role. In general terms, price is elastic (greater than 1) when total revenue increases with a decrease in price because the percent increase in quantity is greater than the percent decrease in price. On the other hand, when price is inelastic (1 or less than 1), total revenue decreases with a decrease in price because the percent increase in quantity is less than the percent decrease in price. Price elasticity is primarily determined by the availability of equivalent substitutes, the relative importance of an item in a spending budget, the status of the item as a luxury or necessity, and the time available to adjust to the change in price.

Witt, Brooks, and Buckley's 1991 study indicated that the main determinants for international tourism demand were disposable income and total travel costs.¹⁶ While it is assumed that tourism demand is elastic, some travel is inelastic and thus not sensitive to price changes. The affluence of the traveler and the reason for traveling influences elasticity. Thus, transportation costs demand appeared to be price inelastic. But since overseas travel was considered a luxury, it was highly income elastic; that is, the higher the income, the less price sensitive the trip became.

The 1970 Houthakker and Taylor study also looked at price elasticity. The study found that the amount of time available to adjust to price changes in foreign travel played a role in elasticity. The price for foreign travel was elastic (i.e., 1.77) when consumers had a longer time to adjust to price increases. But the price became highly inelastic (i.e., 0.14), when there was a shorter time to adjust price.

¹⁶ Witt, Brooks and Buckley (1991) used U.S. residents as their subjects.

The same 1970 study examined the income elasticity of demand. If the product or service is income elastic, then as consumer income increases so does quantity; however, quantity increases at a faster rate than income. The factor for air travel was 5.82; foreign travel, 3.08; restaurant meals, 1.61; and local transit, 1.38. These factors are multiplied by the percent increase in income to determine the demand for each item. For example, if income increased by 4 percent, then air travel would increase by 23.28 percent (i.e., 5.82 times 4).

Conspicuous consumption, a phrase originated by Thorstein Veblen (Lundberg, Stavenga, and Krishnamoorthy 1995, 53) also affects tourism economics. If a destination brings status to the tourist and status is the reason for selecting the destination, the practice of conspicuous consumption (called the Veblen effect) is in place. The Veblen effect sets up new demand curves based on exclusivity and prestige only, instead of using the standard supply and demand to determine the price of a product. The Veblen demand curve suggests that if price increases, the quantity will jump even more, exactly contrary to the standard supply and demand curve. The Veblen effect explains this increase in quantity consumed by suggesting that the buyers place a new importance on the destination, product, or service. The higher price enhances the quality of the destination, creating an increase in demand by consumers. In most cases, a tourist's income is a factor in determining what level of status he/she is seeking, but some lower-income individuals are also preoccupied with status.

Simply speaking, under the Veblen effect the consumer assumes better quality comes with higher price, and consequently attaches more importance and buys a larger quantity of more expensive products or services. The Veblen demand curve demonstrates

conspicuous consumption, in which a destination becomes less desirable with a worsening of market perception, and more desirable with an enhancement of market perception. An example of this phenomena was the rapid increase in the number of luxury hotels built in Hawai'i at the end of the 1980s: high-priced hotels and lavish resorts had become much more attractive to tourists (and therefore developers) with the tremendous increases in income of Japanese and Silicon Valley employees. McCoy (1998) compared the excessive real estate development during this period to the tragedy of the commons.

Another factor that affects demand is the utility of tourism. Utility is the satisfaction, in economic terms, that a traveler gets from a trip. Utility is restrained by income, total price of travel, and time available for travel. The marginal utility for tourism (i.e., the change in total utility that results from a one-unit increase in quantity of goods or services consumed) seems to have the same diminishing marginal utility as for other goods and services. Two of the expert interviewees for this study—Carolyn Cain and Kent Keith—mentioned the development of jet travel as a pivotal event for Hawai'i tourism; jets enabled the industry to flourish by vastly decreasing travel time and substantially increasing transportation options. Ponderous ships and slow propeller-driven planes were now joined by fast jets, thereby increasing the utility of Hawai'i tourism.

A change in exchange rates also affects utility, and the exchange rate between the United States and Japan has had a notable effect on the volume of tourists and investors from Japan. The yen/dollar relationship reversed positions to favor the yen in 1987, resulting in a large growth year for both Japanese tourists and investors. "The significant

effect of yen valuation suggests that the appreciation of the yen pushes Japanese FDI abroad, mostly due to non-cash flow considerations” (Huang 1992, 259). The importance of the exchange rate was noted by Leventhal, the State of Hawai‘i, and Bank of Hawai‘i, along with expert interviewees Richard Lachmann and George Ariyoshi, who specifically mentioned the 1985 Plaza Agreement as a pivotal event for Hawai‘i’s tourism.

Ryan (1991) suggested that increases in travel can make a traveler appreciate the home region more, as continued travel may exhaust a tourist. In addition, Ryan noted that delays in travel and access to tourist attractions, clogged roadways, and violence against tourists might promote an increase in stay-home attitudes, and a subsequent lessening in travel. Today’s technology and electronic toys and devices make staying home to work on hobbies and other interests more desirable relative to travel. This seems true especially for multiple annual trips, so staying home could be evolving as a strong substitute product for travel and tourism.

Tourism has positive effects for any given destination, including increased revenues, expanded tax base, growth in employment, education and training, increases in hospital beds, restaurants and entertainment choices, and even enhanced status for some individuals. With its multiplier effect increasing its natural impact, the economic benefits of tourism can be pronounced. In addition, tourism is assumed to be a noncontroversial way to create employment and to accrue foreign exchange, though Hawai‘i did not seek the latter.

If there is high unemployment in a destination, the attractiveness of tourism as an industry increases. As a service industry, tourism is labor intensive (i.e., relative employment is generated for each unit of invested capital), although religious pilgrimage

destinations appear less labor intensive than pleasure and business travel destinations (World Bank 1972). However, Lundberg, Stavenga, and Krishnamoorthy (1995, 43) estimate that service jobs pay 50 percent less than jobs in manufacturing and light industry. To discern the opportunity costs of tourism, it is, therefore, necessary to compare the income and employment benefits of tourism with those that other industries can provide. "The assumption is often made that other industries will provide full employment at higher wages and salaries. If this were true, 'the other industries' would probably already be there" (Lundberg, Stavenga, and Krishnamoorthy 1995, 43). However, the above statement ignores government decision-making, which can seek and encourage other industries or simply advocate tourism growth as the status quo.

Tourism, however, has its drawbacks. Opponents predict "that tourism growth will increase highway crowding, air pollution, real estate prices, food prices, and the cost of government services such as police protection . . . [and] may attract new residents with lower income and require additional schools and welfare services. Crime may increase. Tourism, say tourism opponents, reduces per capita income rather than increasing it" (Lundberg, Stavenga, and Krishnamoorthy 1995, 43). In fact, Hawai'i's 1972 tourism impact study vividly illustrated many of the problems seen in the state today, and the problems enumerated by Lundberg, Stavenga, and Krishnamoorthy are among those faced by the state.

Tourism can bring about negative social changes in the host region. Lundberg, Stavenga, and Krishnamoorthy (1995, 44) used Honolulu as an example of a destination that experienced an increase in prostitution and drug use. They (45) point out further that

the number of visitors being robbed in Hawai'i increased to the point that the state set up a fund to reimburse tourists for losses due to theft.

Lundberg, Stavenga, and Krishnamoorthy advise that a cost/benefit analysis of tourism, or any incoming industry, needs to consider more than economic results. But costs and benefits "cannot be quantified easily and manipulated into an economic model. The quantitative models need to have descriptive elements in order to tie them into economic reality" (Lundberg, Stavenga, and Krishnamoorthy 1995, 47).

While economic contributions and marketing and administrative costs are tallied, little is written about the social and psychological costs and benefits of tourism. Most resident studies are done by academics—not governments. The question arises whether governments underplay the importance of residents' concerns and opinions since state studies virtually ignore the sociological costs to communities, which ultimately can transfer into economic costs such as lower productivity, lower individual income, and an exodus of highly skilled or educated residents. For Hawai'i, the question is whether the investment in tourism could have been better used in an alternative industry, and the crucial elements to consider would be land use and employment along with social and environmental issues. WTERC (1993) asserted that "'quality' tourism products, of which environment is an essential component, will increase." Yet environmental protection is ignored by most tourism studies.

Hanson (1997) noted that all political decisions are reduced to economic ones. Shrinking profit margins force herdsmen to go out of business or intensify land exploitation by adding more animals (Hanson 1997). Hardin (1968) illustrated the critical flaw in the concept of "freedoms in the commons," which is that all participants must

agree to conserve the commons, but any individual can force the destruction of the commons. This illustration fits our entire society. Ignoring the environment in a tourism destination can create a tragedy of the commons effect.

Conclusion

To describe the economy, Boulding (1985, 90) includes not only a description of commodity stocks, consumption, distribution, exchange, and production, but also behaviors of people and organizations and changes in the physical, political, and social environments. Goldstein (1988) believed that politics were constrained by economics, but coequal in the short- and long-run—not just arising from economic forces. According to Boulding (1985, 89), the “economy interacts with the 'polity'—that is, political structures and institutions—in a great many ways, through taxation, subsidies, government regulations, laws, and so on.” Hall (1994, 29) went a step further, writing that the political sector uses tourism to restructure the economy.

Richter (1989, 103) recommended that tourism policy in a destination be evaluated by its net impact on the economic, political, and social life of that destination’s citizens. Rather than overall receipts, she saw net economic benefits, along with social and political factors, as the most ignored factors simply because they are difficult to quantify. However, looking only at the gross economic impact of tourism does not evaluate the success of tourism policy (Lundberg, Stavenga, and Krishnamoorthy 1995; Kendall and Var 1984).

Richter (1989, 16) also noted the incomplete information on the impact of tourism—both the negative and the positive, and asked, “What kinds of political issues may be subsumed under the rubric of tourism policy?—national free time policies for

one." Certainly there is some conflict and overlap with tourism policies and leisure policies. In Hawai'i, the number of individuals who work more than one job is estimated to be about 9 percent (Laney 1992). This increase in the number of people who work more than one job has been seen since tourism began dominating Hawai'i's economy.

"Tourism is part of the globalisation of the international economy, in which economic production is transnational, interdependent and multipolar with less and less dependence on the nation-state as the primary unit of international economic organisation. Linked to these dramatic economic changes have been dramatic cultural shifts" (Hall 1994, 192).

Critics point out the dangers of excessive reliance on tourism, which, like any other industry, can be viewed through many different prisms. Typical concerns about tourism can increase or decrease its success. Crime levels, friendliness of locals, road safety, and beautiful parks can influence the volume and quality of tourism (Richter 1989, 12). Similar to Herzberg's theory (1959) of satisfiers and dissatisfiers, the absence of some factors can negatively influence the tourism industry and residents' attitudes about the industry. Krippendorf (1987, 55) adds that the most important political issue is control. "Why has the loss of local autonomy—certainly the most negative long-term effect of tourism—been practically ignored? Why does the local population tolerate it?" he asked. This is especially true when one considers that a destination government approves or denies development plans, and thus can control the location, size, design, and overall nature of development to whatever extent it wants.

In contrast, the demand for tourism is highly interdependent with worldwide activities outside the control of governments and developers. For example, travel activity

worldwide was severely compromised by terrorism threats and the Gulf crisis in the late 1980s and early 1990s. The Japanese government told its citizens to not travel abroad, as it looked bad given Japan's lack of military personnel in the Gulf (Economist Intelligence Unit, EIU 1991). Most analysts ignore or trivialize this "interdependency effect," which is further complicated by factors such as the economic vitality of origin countries, and personal income levels of travelers. With rising income levels, conspicuous consumption may play a greater role, especially as destinations build more luxury resorts to serve this customer constituency.

It can be seen from the literature review that tourism is primarily measured in terms of its economic impact. The preponderance of research measures quantitative criteria but omits the more problematic qualitative data, a tendency that is also seen in Hawai'i studies. Thus, governments make their decisions based (almost exclusively) on projected economic impacts. As noted by Elliott (1997), Hardin's message was that any ethics are mistaken if a growing population is allowed to increase its exploitation of the ecosystem that supports that population. "Specifically, the tragedy of the commons demonstrates that all behavior which is either morally permissible or morally required is system-sensitive whenever it involves the use of land or the transfer of matter or energy. That is, it is conditional on the size of the population and the availability of material resources" (Elliott 1997). Yet problems arise because most incentives focus policy behavior on short-term rather than long-term outcomes (Lowry 1998). Making tourism decisions on the present need for jobs is just one example of the short-term focus by governments, which could ultimately result in a tragedy of the commons for a destination.

My study on the political role of tourism in Hawai'i looks at the government's role in Japanese ownership of Hawai'i hotels. This study should help demonstrate what really promoted Japanese ownership of the majority of hotels in Hawai'i. Did Hawai'i have planned and controlled development? With growth of the tourist industry, the political issue of land use became the key to further development. What were the land-use priorities of Hawai'i's government? Were the quality issues (e.g., local standard of living, local quality of life, trickle-down of tourism dollars) fully examined? These issues are mostly covered in Chapter VI, "Hawai'i State Plans and Studies." The question framed in my problem statement remains: "Were Hawai'i government's policies to attract investment inconsequential to Japanese hotel investment in Hawai'i or counterproductive for the economy of the Aloha State from 1970-1990?"

To address the problem statement, is it necessary to examine tourism and tourists. Chapter IV looks at tourism throughout the world, as well as in the United States and Hawai'i. The United States information is important as it provides a basis of comparison for the actions of Hawai'i government relative to other U.S. states. The world information illustrates that tourism growth was due to world economic factors, not marketing by destinations.

CHAPTER IV TOURISM IN THE WORLD, UNITED STATES, AND HAWAI'I

Tourism is a primary element of many of today's crucial economic and political issues: internationalization of capital, industrial and regional restructuring, urban redevelopment, and service economy growth (Britton 1989). However, tourism also includes psychological, sociological, and ecological dimensions. The Travel and Tourism (T&T) industry is highly fragmented with economic effects throughout the policy spectrum: communications, construction, employment, environment, infrastructure, regional development, taxation, transport, and trade/exports. Lundberg, Stavenga, and Krishnamoorthy (1995, 5) see tourism as having "a history, body of knowledge, and a constituency of millions of people who feel themselves a part of the institution."

The World Travel & Tourism Council (WTTC)¹⁷ lauds travel and tourism as an economic powerhouse that has helped nations and smaller regions with jobs and new businesses. T&T is seen as a major exporter whereby the international tourist injects foreign exchange into the local economy. This powerhouse grew by 260 percent between 1970 and 1990 (World Travel & Tourism Environment Research Centre - WTTERC 1993, 3) and is expected to grow 42.3 percent in real terms (adjusted for inflation) from 1997-2006. The growth of disposable income and leisure time along with technological development, especially the jumbo jet, has expanded the economic and social benefits of

¹⁷ WTTC is a global coalition of Chief Executive Officers representing all sectors of the travel/tourism industry. Their 1993 Research Edition Report states "Its goal is to convince governments of the enormous contribution of Travel & Tourism to national and world economic development, promote expansion of Travel & Tourism markets in harmony with the environment and eliminate barriers to growth of the industry."

tourism. However, the benefits are accompanied by economic and social costs. In addition, the World Tourism Organization (WTO), an affiliate of the United Nations, noted in 1991 that the rapid growth in tourism outpaced the recognition of tourism's importance in the economic and social life of a destination.

Tourism and leisure are something to be consumed (Hall 1994, 193). The destinations are selected from an array of choices provided by the highly competitive and enterprising tourism industry. Travel can be seen as preferred superior service that increases as income increases. However, travel has increased at a faster rate than has income (Lundberg, Stavenga, and Krishnamoorthy 1995, 34).

The tourist information in this chapter will be used to analyze the rational choice and public choice theories, as the number of tourists coming to Hawai'i are an essential part of the decision-making by the state. However, as indicated by Hardin (1968), the first condition for acceptable moral behavior (for the well-being of all citizens, which is prescribed by public choice theory) is to avoid the tragedy of the commons. The growth of the number of tourists could result in the tragedy. Since the State Plan mandates looking at the effect of tourism on the residents, the tourist information allows for the examination of the effect of tourist numbers integrated with the public choice theory, which will be further discussed in Chapters VII and VIII.

The growth and impact of tourism on the world and the United States is briefly examined, while the growth and impact of tourism on Hawai'i is extensively examined. This chapter also includes tourist data (i.e., tourist numbers and expenditures) and other general information to illustrate the growth of tourism in the world, the United States, and

Hawai'i, in particular. The problems with the data and information on tourism are also discussed. Overall, this chapter includes the number of tourists, visitor expenditures—to illustrate the effect of tourism on Hawai'i's economic health—and comparisons of states in the United States, as well as of the United States and other nations, to help evaluate the role of Hawai'i government in the state's tourism.

Definitions

While tourism research can be traced back to 1811, an agreed upon definition does not exist. The lack of a widely accepted definition adds to the difficulty of tourism research, which is imperative given the dynamics and economic clout of industry. In particular, consistency of data is impossible without a standard definition. The lag in reliable and compatible research has contributed to an uncoordinated and ad-hoc manner of guiding and controlling tourism by governments. However, most researchers start with a definition of the tourist and then the concept of tourism. A sampling of definitions is given in Table 4.1.

Seekings (1989, 57) noted that the variety of definitions of 'tourist' has created "widespread confusion (even within the travel industry)." This confusion is seen with statistical concepts, definitions, and classifications. The WTO (1991, 15) noted since "tourism is defined in terms of the activity of visitors, it should also be measured in terms of their activity." Obviously, the WTO stressed demand side statistics to provide accurate measurement.

The need for tourism data by national tourism organizations and statistical agencies initiated the development of statistical collections of tourism information. The

1991 WTO framework was developed to integrate and standardize the structure for collecting and publishing tourism statistics. It was suggested that for domestic and international inbound/outbound tourism the types of expenditure types that should be included depend on the requirements of each study. Only business activities that relate to tourists are relevant. This causes problems in data gathering as most operators do not distinguish or even know what portion of their business comes from tourists and from non-tourists. The WTO acknowledges that generally it is necessary to take the total economic activity and estimate the portion from tourists. The framework gave details of what constituted the product (e.g. hotel, retail, and service expenditures), supplier (e.g., sales volume, number of establishments, and employment data), and consumer (i.e., tourist) and of what information should be included. Yet even by 1999, a true consensus had not been obtained.

The very nature of the multiple industries within T&T and the various types of consumers using T&T facilities and services necessitates some subjectivity. The 1997 WTTC report stated that while everyone agreed that the multiplier effect exists there was no one accepted formula for computing this effect. However, the most commonly used formula is 1:1. The WTTC 1996 and 1997 reports do not include the multiplier effect, so the WTTC data is lower than other sources of data for Hawai'i and the world. The 1991 WTTC report noted that even with improvements in methodology, the analysis from the data is indicative, not definitive.

World Tourism

From 1950 to 1970 world travel and tourism grew from 25 million to 168 million tourists—representing a 10 percent growth—with receipts growing from \$2.1 billion to

Table 4.1
Definitions of Tourists/Tourism

Author	Date	Definition
Ogilvie	1933	tourists as "all persons who satisfy two conditions, that they are away from home for any period of less than a year and, second, that while they are away they spend money in the place they visit without earning it there" (5-6).
International Association of Scientific Experts in Tourism	1937	"tourism is the sum of phenomena and relationships arising from the travel and stay of non-residents, in so far as they do not lead to permanent residence and are not connected with any earning activity" (41).
Cohen	1974	tourist is "a voluntary, temporary traveller, travelling in the expectation of pleasure from the novelty and change experienced on a relatively long and non-recurrent trip" (533).
U.S. Travel Data Center	1974	travel as "activities associated with all overnight trips away from home, and day trips to places 100 miles or more away from the traveler's origin" (2).
Pearce	1981	used twenty travel attributes to distinguish fifteen roles of tourists, focusing on tourist behavior and experience to indicate that the definition should provide an understanding of these behaviors and experiences.
WTO	1985	traveler outside of his/her usual environment, whose main purpose of the visit is other than an activity to receive remuneration, and whose stay if for one year or less.
U.N. Statistical Commission	1993	a visitor staying at least one night in a collective or private accommodation in the place visited, and tourism is the activities of people traveling and staying in places outside their usual environment for not more than one consecutive year for leisure, business and other purposes. The usual environment of a person consists of a certain area around his/her place of residence plus all other places s/he frequently visited.
WTTC	1993	"economic activities associated with travel as measured by the wide variety of current and capital expenditures made by or for the benefit of a traveler before, during, and after a trip" (35).

\$17.4 billion—representing an 11 percent annual growth (World Bank, 1972). By 1970, Western Europe, North America (i.e., United States and Canada), and Japan were the major tourist generating areas. Japanese tourists began to travel when their government eased the restrictions by granting multiple-use passports in 1970 and increased the allowable foreign exchange for tourism purposes. In 1970, the world saw the majority of Japanese tourists traveling by group and package tours. For example, 65 percent of Japanese tourists to Hawai'i used package or group tours. The mainland United States was an exception, however, as the majority of Japanese traveled as individuals.

The 1972 World Bank study indicated that the cost of transportation was key to determining tourist flow. The report also noted that higher income and higher level of education in the next decade (i.e., 1980s) should increase the number of tourists traveling by air. By 1980, the growing importance of tourism was seen with the WTO reorganizing to promote and develop tourism and to contribute to economic development and international understanding. Its six regional commissions included 108 member states.

Worldwide tourism spending surpassed military spending in 1981. However, it was noted by Bank of Hawai'i (July/August 1984) that each dollar of military spending in the State of Hawai'i produced more of a multiplier effect than each tourist dollar. This seemed to be the rule of thumb in most nations, except for nations that require little importation of goods used for tourism.

The market forces (i.e., development of international transportation, and growth in real income and leisure time) explained much of the 260 percent growth in world tourism from 1970 to 1990 (WTTERC 1993, 3). Developed nations (i.e., in Europe, North America, and Japan) "generated and received well over two-thirds of international tourist

arrivals" (WTTERC 1993, 3). Based on the 1991 and 1997 WTTC reports, the gross output from 1990 worldwide travel and tourism was \$2,813 billion and involved more than 80 percent of the population in developed nations. Using WTTC data, the WTTERC reported that 1990 travel and tourism accounted for more than 6.7 percent of the world's capital investment, provided more than 5.6 percent of total tax payments worldwide, and employed 118 million workers.

United States Tourism

By the 1970s, the United States economy had shifted from relative self-sufficiency to dependency upon international trading partners and foreign economies. During this time, the United States went from a manufacturing orientation to a service orientation. Between 1970 and 1984, international tourists to the United States increased 68 percent, a slower growth than worldwide tourism (Gibbons and Fisk, 1986).

By 1985, the travel industry was the largest industry in the United States. Frechtling (1986) noted, more travelers were visiting more diverse destinations and United States tourism seemed to be entering maturity. While the number of foreign visitors to the United States continued to increase (e.g., in 1988 there were 33.7 million visitors, up 14 percent from 1987, and 1987 arrivals had increased 17 percent over 1986 figures), the United States share of world tourist arrivals was continuing to decline. For example, in 1981 the United States had 13.2 percent of world tourists and in 1987 had only 10.3 percent (EIU 1989).

In 1981, the National Tourism Policy Act established the United States Travel and Tourism Administration¹⁸ (USTTA) under the Department of Commerce. The USTTA began pursuing research data on foreign travel spending in individual states, first publishing 1983 spending data in 1985. The data was obtained by using large-scale surveys of foreign visitors. In addition, two private, nationwide travel organizations—the Travel Industry Association (TIA)¹⁹ and the Travel & Tourism Council—attempted to help the federal government in understanding the United States travel industry. In 1972, the TIA founded the United States Travel Data Center, which publishes the Economic Review of Travel in America.

The private sector tourism organizations knew the value of the USTTA and have continually lobbied Congress to increase USTTA's funding. Yet, the Reagan administration consistently recommended cutting or totally eliminating the USTTA's budget (EIU, 1991). In 1987, Senator John Rockefeller noted that the United States needed a more aggressive federal approach to inbound overseas travelers. The United States federal government spent \$12 million on international promotion in 1986, but the amount declined to \$11.7 million in 1987. As a comparison, Israel spent \$35 million in 1987. In 1989, the United States ranked 43rd for promotion of international tourism (EIU, 1989 and 1991).

After the Reagan years, funding began to increase so that by 1990 the USTTA budget was \$14.6 million and in 1991 was \$19.5 million. An interesting comparison is the tourism budgets of individual states. However, it should be noted that the federal

¹⁸ USTTA's predecessor was the United States Travel Service.

¹⁹ TIA was formerly known as Discover America Travel Organisations (DATO).

spending focuses on the international tourist, while state spending focuses on both the domestic and international tourist. Table 4.2 shows five states and their tourism and advertising budgets in 1978/79 and 1988/89. The rankings show that Hawai'i's advertising budget was rather small compared to the other four states while Hawai'i's total budget was similar to the other states. In comparison to individual state spending, the United States federal government's spending was modest.

	Tourism		Ranking		Advertising		Ranking	
New York	11.0	24.3(a)	1	1	9.83	12.1	NA	1
Illinois	1.6	23.9	19	2	.47	11.5	NA	2
Texas	2.9	18.3	8	3	.41	7.7	NA	3
Hawai'i	3.0	16.0	6	4	.48	4.0	NA	10
Florida	4.1	10.6	3	8	1.66	4.9	NA	6

Source: U.S Travel Data Center, Survey of State Travel Offices, 1979-80 and 1989-90.
(a) Bolded figures are for 1988/89.
 NA = not available.

With the increasing number of tourists, EIU (1989, 54) noted the biggest challenge to the United States hotel industry was overbuilding. In the 1980s United States hotel supply increased by 40 percent. In 1987, there were approximately 2.8 million rooms in the United States in all price ranges. By 1989, there were about 44,300 properties with 3 million rooms (EIU 1991, 35) with sales of \$47.1 billion.

The obvious connection between the supply of rooms and occupancy rates was noted by Bank of Hawai'i, DPED (1972), and Leventhal (1992). In the early 1980s, the

average United States occupancy rate was 71 percent, in 1987 the average was 64.9 percent, in 1989 the average was 63.8 percent, and in 1990 rose to 64 percent. In 1989, it was estimated that 60 percent of the United States hotels had a net operating loss. By 1990, the EIU (1991, 35) noted, the low occupancy rates created the situation in which the industry average was 4 percent below the breakeven point.

Foreign visitors aided in the modest growth of occupancy rates. The number of foreign visitors to the United States in 1987 had increased 17 percent from 1986 and in 1988 increased 14 percent from 1987. Japanese visitors accounted for 7.1 percent, 7.7 percent, and 8.0 percent of foreign visitors to the United States in 1987, 1988, and 1990, respectively.

Although the Japanese represented only 7-8 percent of foreign visitors to the United States, they comprised 70 percent of the visitors from Asia and the Middle East. The EIU (1989) noted that the lack of airline capacity was constraining the Japanese tourists in 1987, which was due to United States-Japan bilateral agreements. Also the EIU noted that the majority of the Japanese tourists still preferred group travel to individual travel.

Table 4.3 shows the reasons all overseas and Japanese visitors came to the United States in 1983, 1986, and 1989. In all years, personal/holiday and business/convention were the primary reasons for traveling. The decline in visiting friends and relatives in 1989 from 1986 data, from 36 percent to 17 percent, could indicate an increase use of hotels or condo rentals.

The number of Japanese traveling outside of Japan in 1971, 1989, and 1990 are shown in Table 4.4. In addition, the table shows the percent of these travelers that the

Table 4.3
Overseas Visitors to the United States (a)

Reason for Travel	Overall % 1983	Japanese % 1983	Overall % 1986	Overall % 1989	Japanese % 1989
Personal/Holiday	55.0	61.0	46	42.0	84.0
Business/Convention	28.1	30.7	46	36.0	N.A.
Business/Convention & Personal	10.5	4.3	--	--	--
Study	5.8	3.8	6	5.0	N.A.
Visiting Friends/Relative	--	--	36	17.0	--

Source: U.S. Travel and Tourism Administration.

(a) Mexico land visitors and Canadian visitors were not included. The 1986 data allowed for multiple answers.

United States captured. Worldwide travel by the Japanese increased by 13.8 percent but the United States share of Japanese tourists declined, as previously noted. The USTTA reported that United States' competitors far outspent the United States to attract Japanese tourists. For example, Australia spent about \$25 per visitor in 1987, Canada spent about \$10 per visitor, and the United States spent about \$1 per visitor.

Overseas visitors spent a median of 14 nights in the U.S in 1986 (Pannell Kerr Forster 1988). It appeared that the average stay increased when in sun destinations. Seasonal patterns and behaviors of travelers gave rise to the 'supply-induced demand' concept. The EIU (1989, 56) described this as the "notion that latent demand for tourism projects can emerge because a new, often large and spectacular, development becomes available." The examples given were the Disney theme parks and the mega resorts in Hawai'i—both sun destinations.

**Table 4.4
Japanese Overseas Travel, 1971, 1989 and 1990**

Total Japanese Outbound:			to U.S.:			Percent of World:		
1971	1989	1990	1971	1989	1990	1971	1989	1990
2.06	9.67	11	.294	3.1	3.2	14.2	31.0	29.1

Sources: Japan National Tourist Organization, "Statistics on International Tourism To and From Japan," presented at the Japan Tourist Conference held on November 10, 1972, printed in DOC, Summary of Analysis of International Travel to the U.S., October 1973 for 1971 data, and EIU, No. 2, 1991 for 1989 and 1990 data. Number of tourists in millions.

All travel expenditures supported 5.3 million jobs in 1987 (EIU 1989). Travel expenditures by foreigners accounted for 280,000 jobs, which was 5.2 percent of all travel jobs generated in 1987. It was also estimated by the EIU (1989) that every \$55,500 spent by travelers directly produced one job.

Using an economic model, the United States Travel Data Center found that direct and indirect spending from tourism in 1989 was \$632.4 billion—producing \$186.5 billion in wages and 10.7 million jobs. Others (e.g., Travel Industry World Yearbook 1993) believe these figures were underestimated, as they omit short-haul day trips. According to the Yearbook, 1990 domestic tourism spending alone (trips more than 15 miles from home) totaled \$574 billion. In addition, it was noted that foreign tourists' daily expenditures were more than domestic tourists in the United States.

In terms of spending, the Japanese spent the most with \$7.21 billion in 1990 while Canadians spent \$6.71 billion. USTTA estimated these foreign visitors spent a total of \$40 billion in the United States in 1990. This accounted for only 6.5 percent of total tourism revenue in the United States as a whole. Hawai'i's data was vastly different.

World tourism had grown tremendously in the past twenty years, increasing international trade. Tourism was one of the few sectors in which the United States had a surplus with Japan. As noted by USTTA, the tourism sector's balance of payment dramatically changed from 1985 to 1990. In 1985, the United States had a -9.4 billion dollar trade deficit, but by 1989 the deficit turned to a surplus of \$1 billion and by 1990 to a \$4.7 billion surplus. The underlying difference was the increase in foreign visitor receipts, which increased 104 percent from 1985 to 1989 but increased 142 percent from 1985 to 1990. In addition, USSTA indicated the United States tourist overseas expenditures increased 39.4 percent from 1985 to 1989 and increased 54.2 percent from 1985 to 1990.

By 1989 tourism was the largest export industry in the United States. The biggest spenders in the United States were the European and Japanese tourists, while United States tourists spent the most dollars overseas. However, overall domestic travelers' spending was higher than foreign travelers' spending. By 1989, international travel receipts became an export revenue generator.

Hawai'i²⁰

Unlike the federal level, Hawai'i's government had attempted to establish direction for tourism. This section of Chapter IV looks at number of tourists, tourist expenditures, and events occurring in Hawai'i and the world that may affect the number of tourists coming to Hawai'i. The tourist numbers are a component of attracting

²⁰ The data on Hawai'i's economic conditions comes from the monthly reports from Bank of Hawai'i (BOH). BOH's first report, "Monthly Review," was published for 27 years, ending on April 1982; their second report, "Business Trends," had its premiere issue for March/April 1983. BOH's data also includes HVB data collection on visitors and their expenditures.

development. Thus, the question remains whether the state actually enforced and thus of implemented its policies and rules for tourism development. The growth in tourism, and the number of tourists in the Hawai'i population, increases the exploitation of the ecosystem, which could produce the tragedy of the commons. The state policies on the environment and the social effects (i.e., the 1984 State Plan noted a competition for resources and overcrowding as effects of tourism) needed to be enforced. Was the state effective in ensuring adherence? Did the state provide adequate funding to ensure adherence? Both of these questions are discussed in Chapter VI, "Hawai'i State Plans and Studies."

Hawai'i state government is more centralized than that of any other United States state. Hawai'i has a state centralized school system, hospital system, port entries, and public welfare and health systems, along with the land use classification system. The counties were only empowered to set their property tax rates by the 1978 Constitutional Convention. The tourism industry was predominately influenced by the state level of government.

From the mid 1940s through the early 1970s, United States defense spending was Hawai'i's number one industry. Only once in the early 1950s did sugar and pineapple combined surpass defense in value. From the 1950s to the present, the sugar and pineapple contribution to Hawai'i's economy continually declined, while both defense spending and tourism increased. Sugar was further hurt when the United States Congress let the 40-year old Sugar Act lapse in 1974, thus, eliminating the price advantage Hawai'i sugar growers had in the United States and decreasing the economic feasibility of sugar

as a main industry in Hawai‘i. With sugar’s further decline guaranteed, the state looked for even more growth from tourism to replace sugar’s economic contribution to Hawai‘i.

The average annual growth of Hawai‘i’s tourism in the 1950s and 1960s was approximately 20 percent. In the 1960s tourism became the second largest industry in the state behind the military. The Vietnam War also aided tourism growth in the 1960s. The Rest and Recuperation Program (R&R), which started in 1966, added to Hawai‘i’s visitor count (i.e., service personnel and family and friends) until the war ended. In 1968, the popular television show Hawai‘i 5-0 began filming in Hawai‘i, continuing until 1982. Also in 1968, the University of Hawai‘i’s Travel Industry Management School (TIM) was recognized as the largest travel-focused school in the United States with 600 students, of which 60 percent were local students.²¹

The beginning of commercial jet airline service was probably the most influential factor in the growth of Hawai‘i tourism. As noted by EUI (No. 4, 1993), “No other state in the USA, of course, is so dependent on air transport.” With airline industry growth came a decline in airfares. The 1970s brought about the technological leap in aviation with the arrival of the wide-bodied jets, which increased passenger loads and lowered the fare in real terms. Schmitt (1977, 468) estimated that airfares in real terms declined by 47 percent from 1958 and 1970.

The early 1970s saw a change of governors from John Burns to George Ariyoshi. Ariyoshi, who was Burn’s lieutenant governor beginning in 1970, became governor in

²¹ Cornell’s travel school eventually surpassed Hawai‘i’s TIM School in number of students and in prestige.

1973, when Burns resigned due to illness. Ariyoshi was then elected as governor in 1974, serving 12 more years.

As noted in the 1972 DPED plan (9), the number of visitors from 1960 to 1970 increased by 507 percent or a 17.6 percent annual growth rate; the number of eastbound visitors increased from 46,000 to 421,000 or from 15.4 percent to 23.4 percent of the total visitors to Hawai'i. This increase coincided with the Japanese government's easing of restrictions on tourist visas, which had previously been extremely difficult to obtain.²² The Japanese government also granted multiple-use passports and increased the allowable foreign currency exchange from \$500 per trip to \$700 for tourism purposes in 1970. By 1977, there was no limit on foreign exchange, and in 1978, Japanese were allowed to take up to 3 million yen out of Japan. The multiple-use passports, in particular, enabled more travel out of Japan as the paperwork needed to travel was lessened. Thus, the change in passport usage and allowable foreign exchange taken out of Japan increased the likelihood that the Japanese citizens would travel abroad. The Japanese tour wholesalers, whose numbers were limited by the Japanese government's licensing, started offering special inclusive tour packages. This action could increase the number of visitors but also decrease the number and variety of other related businesses used by Japanese tourists in Hawai'i.

The 1972 plan also indicated that visitors from California were the fastest growing and most important segment of Hawai'i's tourism industry (10). As a proportion of westbound visitors, business travelers declined from 7.2 percent in 1960 to 3.8 percent

²² In 1964, 15.1 percent of visas granted were for tourism, while in 1970, 49.0 percent of visas granted were for tourism was noted by Carlile (1996).

in 1970, and visitors traveling for business and pleasure declined from 15.6 in 1960 to 9.7 percent in 1970. There seemed to be no concern regarding Hawai'i's image changing to an almost exclusive pleasure destination; at least, the plan did not discuss this turn of events. By 1990, 74.3 percent of the arrivals came for pleasure trips and another 5 percent visiting friends and family. The Japanese data was more startling with only 28 percent visiting for pleasure purposes in 1965, up to 55 percent in 1970, and 84 percent in 1980.

The 1984 State Plan noted that the tourism industry was the principal source of economic growth since statehood. In the late 1960s a surge of hotel investment came to Hawai'i from the mainland. In 1969, Hawai'i had 1,364,228 visitors: 1,118,125 traditional visitors, 117,377 military and 128,726 visitors associated with R&R program (BOH, January 1970). Yet, in the 1960s visitor demand forecasts were underestimated by 20 percent or more. In 1959, 243,000 visitors came to Hawai'i, increasing to 4.4 million visitors in 1983, and to just under 7 million in 1990. From 1960 to 1983, Hawai'i's population grew an annual average of 2.1 percent while the de facto population grew an annual average of 2.4 percent, representing an annual average of 10.1 percent of the daily census. This phenomenal growth in the number of tourists to the islands could make Hawai'i an example of the tragedy of the commons.

1970 - 1979

Hawai'i Visitors Bureau (HVB) is the official marketing arm of Hawai'i's tourism programs, and as such HVB is responsible for calculating Hawai'i's visitors' count and expenditures. HVB calculated the number of visitors based of the return of the Department of Agriculture's mandated survey, which was distributed and collected by airlines coming into Hawai'i. Thus, the count did not include nonresponses. In the 1960s

the Department of Agriculture stopped requiring all visitors to complete the state survey, and HVB noted an increase in “no responses.” Finally in mid-1971, HVB changed its procedures for calculating the data on visitor information by estimating the number of “no responses” (1972 State Plan, 12).

In response to the increase in non-responses, legislation proposed in 1967 would require all carriers to distribute passenger information forms and to collect them (Schmitt 1985, 76). The legislation did not pass; a modified form in 1976 was passed but was not well drafted and never implemented. In the late 1970s, the 1976 law was amended to authorize the DPED to compile information through the HVB on population movement and to make current population estimates and projections. By the mid-1980s, HVB estimated that only 50 percent of passengers filled out the Inflight Passenger Information Form.²³ As stated by Richardson (1985, 61) of HVB, “we assume that those who did not fill out the forms are represented in the same proportion as those that filled out the forms.” The lack of legislation to aid in more accurate data collection shows the lack of coordination between the government and its contractor, HVB. Without more accurate data, decision-making by the Hawai‘i government could not control growth of tourism and the overuse of the state’s resources (e.g., to prevent the tragedy of the commons).

However, the data from HVB are the official state numbers, and as such, the data used in my study. In general, the 1970s growth was modest, especially in comparison to the 1980s. The availability of wide body jets to Hawai‘i in the 1970s helped the tourism

²³ The forms included the categories of “destination Hawai‘i” and “beyond Hawai‘i” visitors, “returning” and “intended” residents.

industry. The following information on 1970-1979 describes the tourist information on an annual basis.

A change in the geographic origin of westbound visitors occurred in 1970 with visitors being almost equally divided between east and west of the Rocky Mountains. In 1960, 56 percent of visitors were from west of the Rockies. The eastbound visitors were expected to increase with the wholesale package tours for Japanese visitors including five- and seven-night tours in addition to the usual four night tours (BOH, July 1971). Figure 4.1 shows the breakdown of east and westbound visitors along with the total of visitors, while Figure 4.2 shows the percent of westbound and eastbound tourists to Hawai'i for 1970-1979.

Figure 4.1
Total, Westbound, and Eastbound Visitors, 1970-1979

Figure 4.2
Percent of Westbound and Eastbound Visitors, 1970-1979

In 1970, the number of tourists increased by 15.9 percent from 1969 even with the 5 percent decline of R&R visitors (i.e., 232,681: 110,815 military and 121,866 relatives/friends). HVB originally reported 1,595,540 visitors in 1970. The HVB revision²⁴ in counting nonresponses changed the number of visitors in 1970 from 1,595,540 to 1,798,591, a 12.7 percent increase.

The number of holidays given in Japan began to increase in the 1970s (EIU, No. 1, 1983), which also contributed to the number of Japanese tourists. In addition, BOH (April 1971, 2) noted the spectacular increases in the number of Japanese tourists

²⁴ My study uses the HVB revised visitor count.

Figure 4.1
Total, Westbound, and Eastbound Visitors, 1970-1979

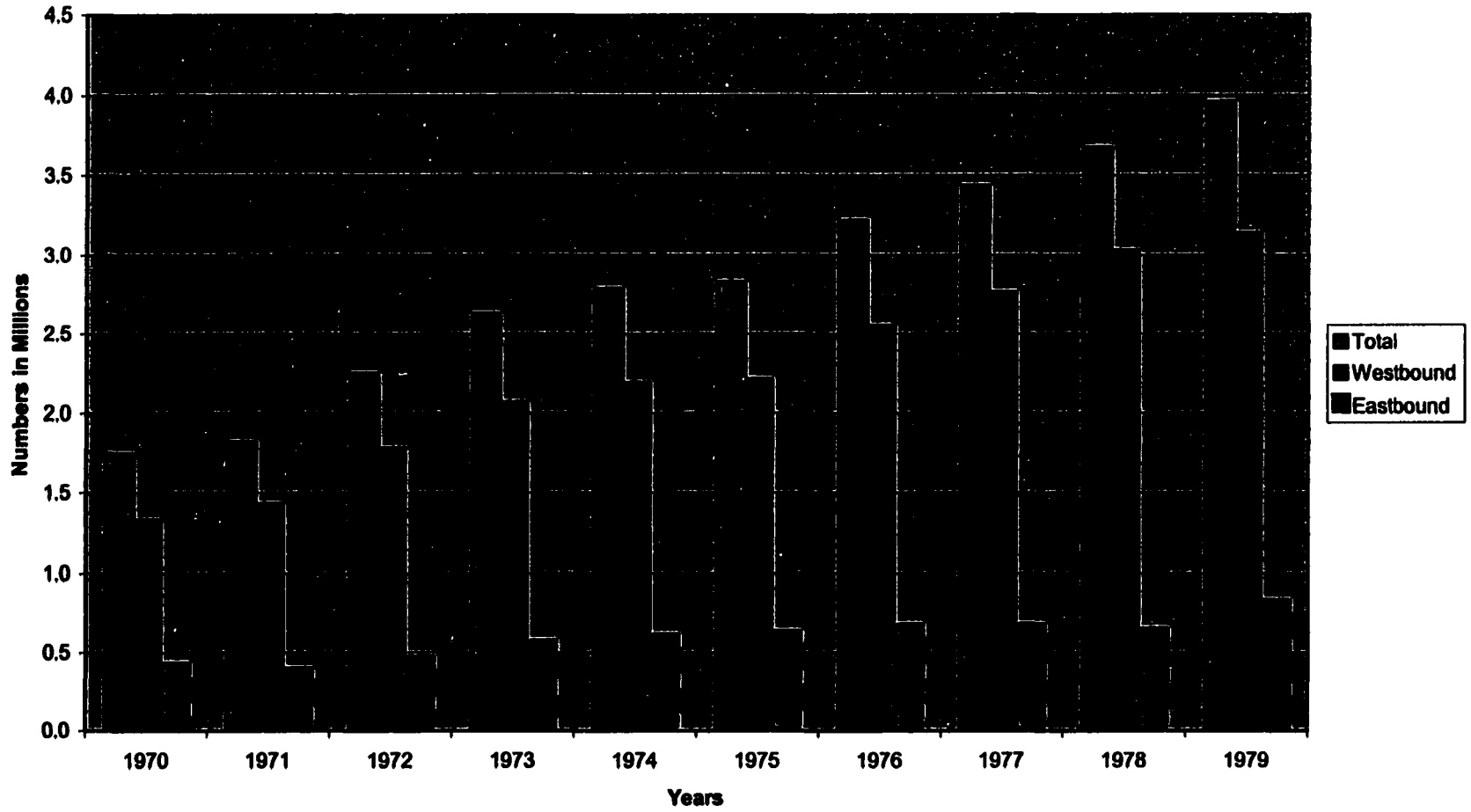
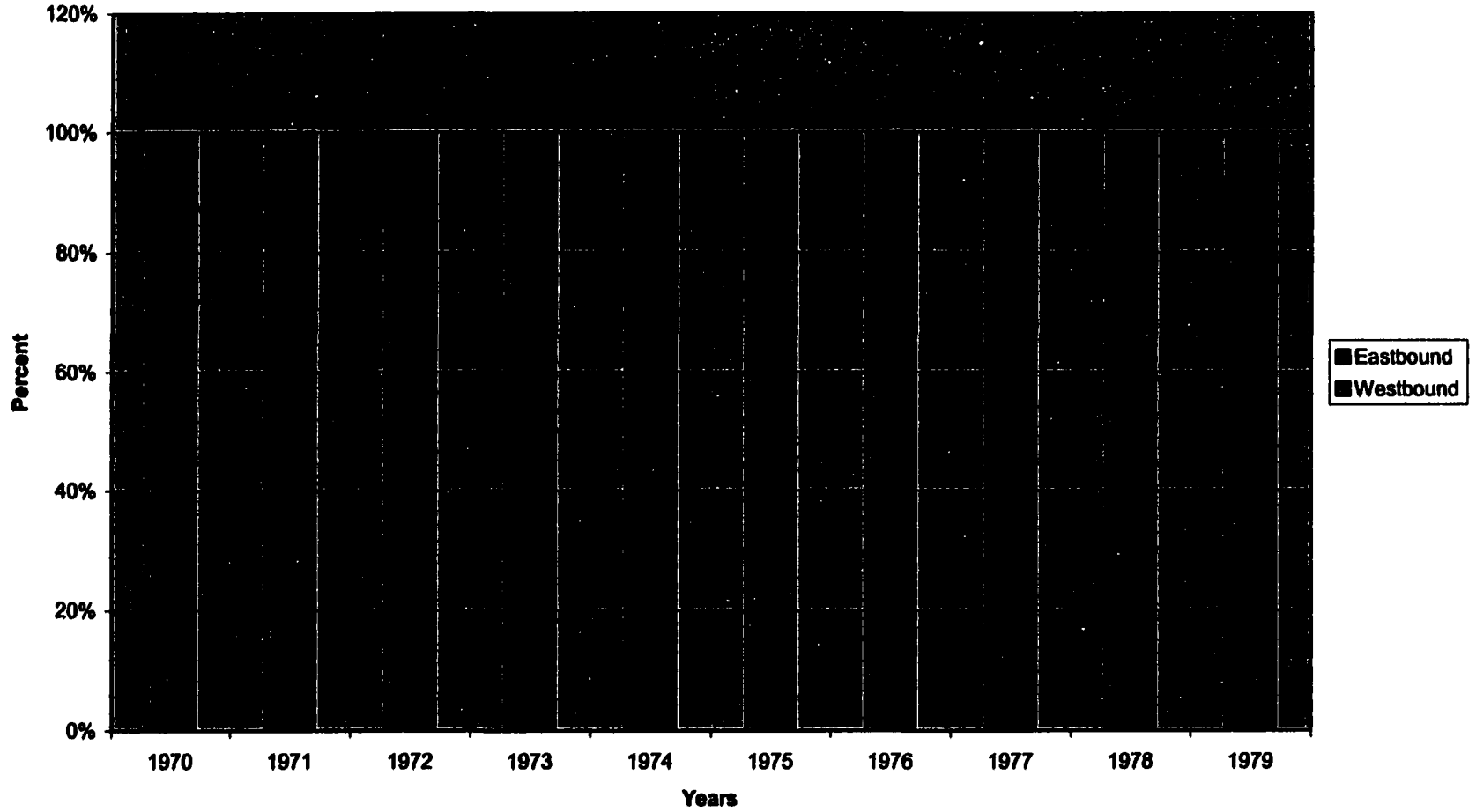


Figure 4.2
Percent of Westbound and Eastbound Visitors, 1970-1979



Source: HVB, Annual Research Reports, 1970-1979 and Records.

“can be attributed to the relaxation of foreign currency limitations imposed by the Japanese government and to the introduction of special group fares and inclusive tour charters.” Westbound tourists were also price sensitive. According to the American Society of Travel Agents, Hawai‘i was the “easiest sell” destination in a 1968 survey; however, by 1971, Hawai‘i fell 13 percent behind Europe mainly because of lower airline rates to Europe. The above examples show the importance of the external factors to drive Hawai‘i’s tourism industry.

The end of 1971 brought international currency realignments making foreign travel to Hawai‘i more attractive, especially to the growing number of Japanese visitors (BOH, January 1972). Hawai‘i captured 41 percent of Japanese visiting the United States (BOH, November 1971). The summer of 1971 saw a 103-day West Coast dock strike, which disrupted the flow of supplies to the islands and hampered the outbound shipments of pineapple and sugar. While the number of tourists coming to the islands was not affected, the potential goods to be purchased by residents and tourists and the two agricultural industries were affected, which decreased the state’s tax revenue.

The Mainland 1972 recession along with wage-price controls did not seem to play a large role in Hawai‘i tourism. The overall visitor count increased by 25.3 percent more than 1971 to 2.2 million visitors. Westbound traffic increased by 25.8 percent with 1,782,737, and eastbound advanced by 19 percent with 461,640, spurred on by the increase in Japanese visitors (BOH, December 1972). Figure 4.3 shows the total eastbound visitor count along with the Japanese visitor count. The industry saw a moderate growth in per-day expenditures and a decline in average length of stay, which

was attributed to the sharp increase in group travel and sharp cutting of rates by hotels.

Figure 4.4 shows the estimated visitor expenditures in Hawai'i from 1970-1979.

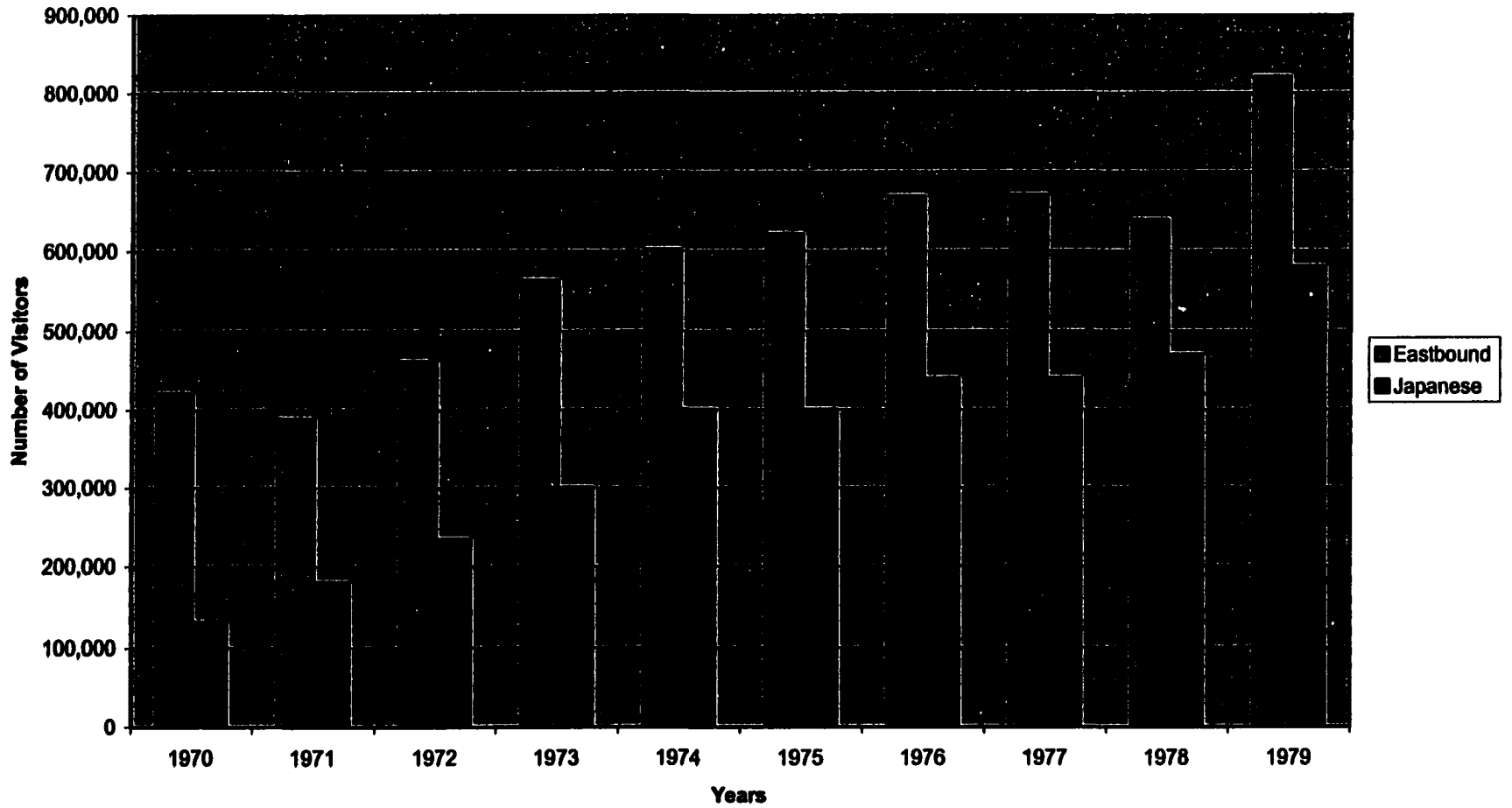
**Figure 4.3
Total Eastbound and Japanese Visitors, 1970-1979**

**Figure 4.4
Total Visitor Expenditures, 1970-1979**

Similar to the three previous years, 1973 westbound traffic accounted for 79 percent of Hawai'i's visitors. The 18 percent growth in visitor expenditures (i.e., approximately \$892 million) over 1972 was attributed primarily to inflation, although even without inflation BOH saw the growth as substantial. Also in 1973 the HVB announced a change in its advertising approach to consumer campaigns to attract more affluent travelers. BOH (December 1973) noted this "new approach thus stresses controlled growth and quality tourism." Government control of the growth of the number of tourists is one of the viable means for preventing the tragedy of the commons.

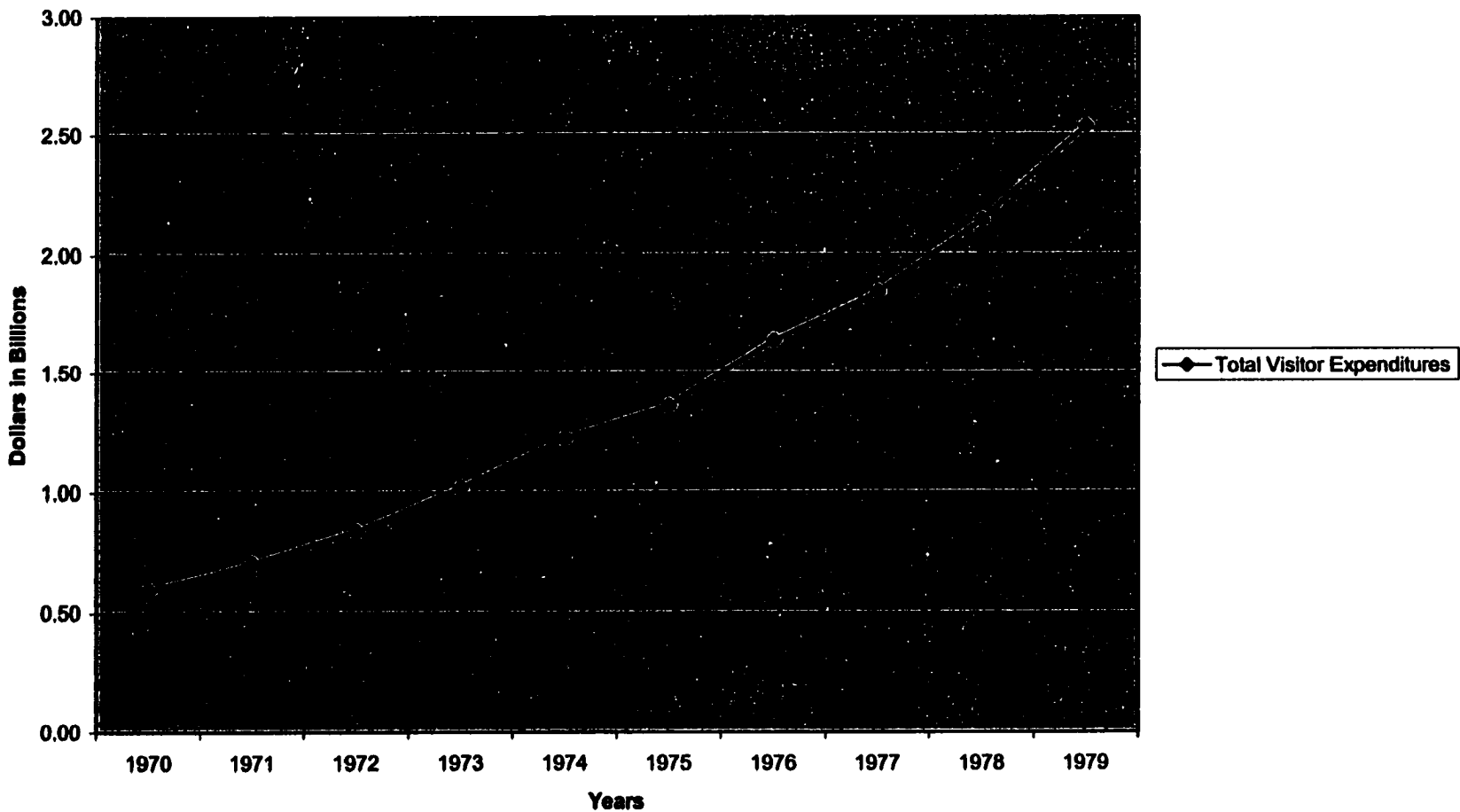
Fuel availability and costs were problems for 1974 tourism. Also, BOH (January 1974, July 1974) expected worsening economic conditions in Japan (i.e., high rate of inflation, tour price increases, and currency restrictions) to limit the eastbound traffic for 1974. Japanese represent 50-60 percent of the eastbound traffic. Japan's Ministry of Justice noted that the Japanese outbound market rose only 2 percent in 1974, going up to a 5.6 percent increase in 1975. Although visitor numbers increased, the overall growth was quite small at 6 percent. Interestingly, HVB data in BOH's June of 1975 issue showed that visitor expenditures in 1974 totaled \$1.07 billion, which represents a 15.88 percent increase. The disparity between the small increase in visitors and the large

Figure 4.3
Total Eastbound and Japanese Visitors, 1970-1979



Source: HVB, Annual Research Reports, 1970-1979 and Records.

Figure 4.4
Total Visitor Expenditures, 1970-1979



Source: HVB, Annual Research Reports, 1970-1979 and Records.

increase in expenditures may indicate the difficulty in calculating the economic impact of tourism.

The HVB findings in 1975 showed that Japanese visitors spent about \$123 per day per person in Hawai'i while westbound visitors spent about \$46.20 per day per person. The gap in expenditures narrows when considering that westbound visitors stay approximately 10 days in Hawai'i or twice the number of days that Japanese visitors stay. In addition, BOH noted a slight increase in length of stay by westbound visitors in 1975; this along with inflation assisted in the increase of visitor expenditures to \$1.36 billion, a 27.1 percent increase (HVB 1978 revised figures). The visitor count growth, however, was nominal at 2 percent (i.e., 3 percent for eastbound and 1 percent for westbound). This depressed growth was attributed (BOH, December 1975) to the "mainland recession, the erosive forces of inflation on personal income, and the adverse economic conditions in Japan." However, BOH (January 1976) indicated that bicentennial celebrations, the Montreal summer Olympics, and the presidential elections helped dampen travel to Hawai'i. A final issue in 1975 surfaced with the machinist strike at United Airlines, which transported the majority of westbound visitors. The two-month strike began on December 6, the beginning of the big Christmas season.

The 3 million (3.22 million) visitor mark was hit in 1976. Visitor arrivals increased by 14 percent, but Japanese tourist arrivals continued to decline. A plus for tourism came with the completion of a \$3 million expansion to the Polynesian Cultural Center, a top visitor attraction. HVB (1978) reported that the visitor expenditures increased to about \$1.64 billion, an increase of 20.59 percent. Also in 1976, visitor

expenditures had risen to twice the total of military spending. BOH (July/August 1983) noted visitor expenditures by 1976 “had come to equal the state’s income from all three of tourism’s traditional partners—military, sugar and pineapple.” Unfortunately, the expenditures value noted was not the amount staying in Hawai‘i.

Tour groups played a substantial role in the increase of visitors after 1970. For westbound travelers, the tour arrivals were 310,147 in 1970 and 1,116,025 in 1976, a 259.84 percent increase. Thus, group travel accounted for more than one-third of the visitors to Hawai‘i. During this same time frame (1970 to 1976), independent travelers increased by 47 percent. BOH (July 1977) noted that the increased use of low cost charters indicated “the sensitivity of the market to price discounts especially to travelers living at the greatest distances from Hawai‘i.” The necessary approval by the United States Civil Aeronautics Board for changes in tour group charters was finally granted: United States one-stop tour charters changes were effective September 1975 and advance booking charters changes were effective October 1976; both played large roles in the increase in the number of tourists. On the Japanese side, the majority of travelers were still using group charters.

A more modest growth of 7 percent in visitor totals occurred in 1977. While the number of group tour United States visitors remained fairly constant from 1975 to 1976, the decline in the United States tour group visitors and the increase in independent visitors began in 1977. However, Japanese group tours remained strong. The visitor spending total was estimated at \$1.845 billion, a 12.5 percent growth, as reported by HVB (1978). When comparing spending per day data, westbound visitors spent an average of \$46.20 in 1974 and \$54.59 in 1977 and the Japanese visitors spent \$123.00 in

1974 and \$146.85 in 1977. This same year, HVB revised expenditure figures for 1975-1977. The revised figures increased the dollar amount by \$100 million or more each year.

In 1978, the biggest change was in the origin of the arrivals. Eighty-three percent were westbound, bringing back the same disparity as in 1965. However, the 1978 expenditures of eastbound visitors were estimated at \$2.2 billion, an increase of 19.24 percent. In addition, Narita airport was opened in 1978, increasing the ability of Japanese citizens to travel.

A two-month machinists' strike against United Airlines, which lasted through May 1979, precipitated forced vacations and layoffs in visitor-related industries. The number of westbound arrivals increased by only 4 percent increase (3,139,455); this modest increase was blamed on the machinists' strike (BOH, December 1979). The disparity between east and westbound arrivals in 1979 reverted back to the 1976 figures even with an increase of 28 percent (821,076) from eastbound arrivals. Visitor expenditures were estimated at \$2.62 billion, an increase of 18.18 percent, which seems low given the dramatic increase of eastbound visitors, who spend more than westbound visitors. However, again it should be mentioned that expenditures were merely estimates given the impossibility of obtaining exact figures.

From 1970 to 1979, average visitor count increased by 127 percent: westbound increased by 137 percent and eastbound visitors increased by 95 percent. The number of Japanese outbound travelers grew at an average rate of 13 percent from 1976 to 1979; the effect of Japan's domestic recession and steep oil prices in 1979 was felt in 1980.

1980 - 1990

The 1980s saw an average visitor arrival growth of 6 percent, and the airline industry became de-regulated. Tourism's economic impact went from 20 percent of the gross state product (GSP) to 40 percent of GSP in the 1980s. Inflation rose from 6 percent in the early 1970s to 13 in 1980 to 5.4 percent in 1990.

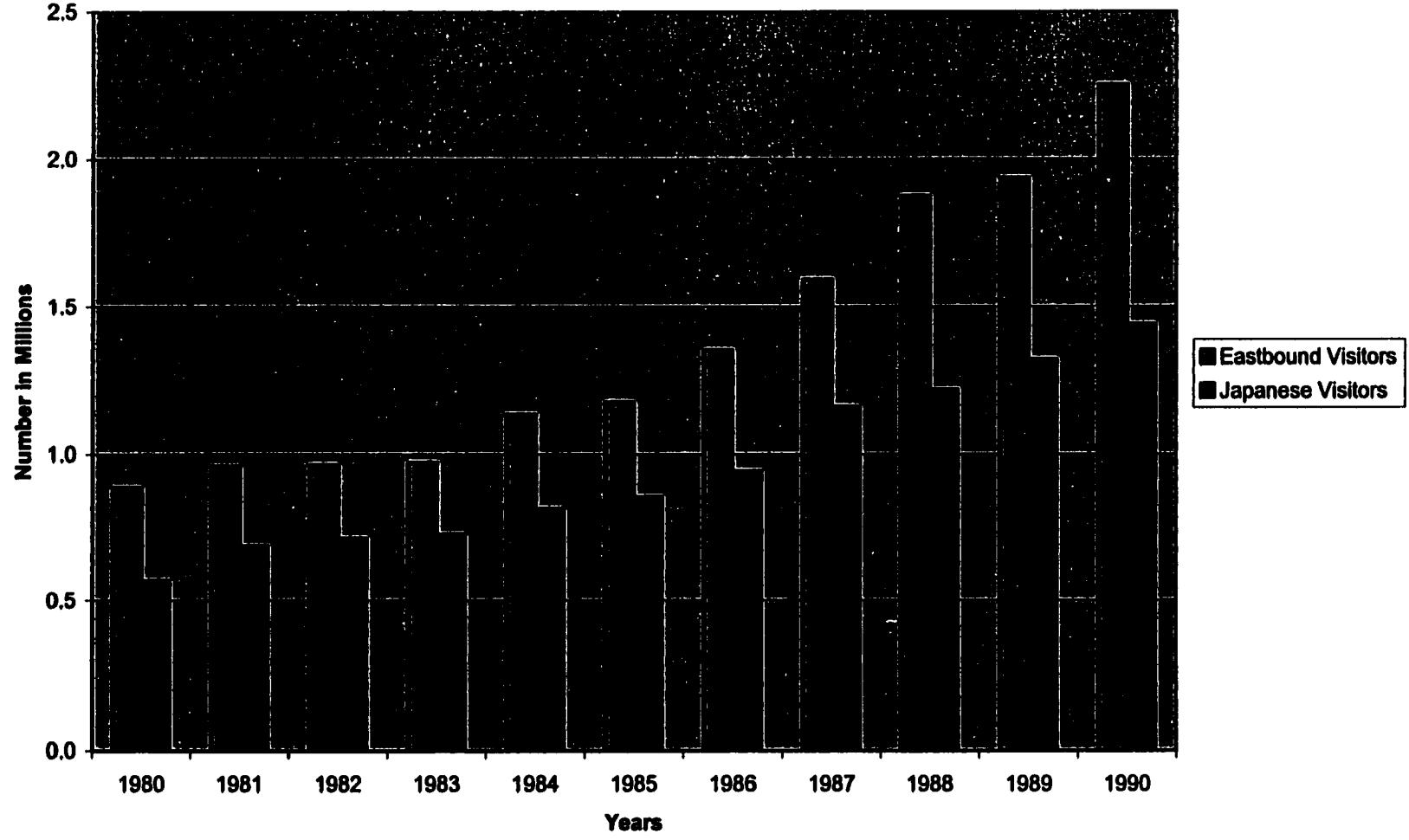
On November 23, 1982, Hurricane Iwa hit the island of Kauai. A more positive event was a new tourist attraction via the volcanic eruption of Kilauea in 1983, which continues flowing today. The growth of the outer island visitor count increased from 37 percent to 49 percent in 1990. By the mid-1980s, experts (e.g., BOH, July/August 1986) believed the tourism industry in Hawai'i was maturing.

Leventhal (1988a) noted that the number of foreign visitors, especially Japanese, had increased exponentially through the 1980s. The growth in all eastbound and Japanese visitor numbers from 1980 to 1990 is illustrated in Figure 4.5. The early 1980s saw the negative effect of the recession on the mainland, while in 1986 Hawai'i had a change of governors from George Ariyoshi to John Waihe'e. Hawai'i's visitor industry did not begin substantial recovery from the 1981-82 recession until 1984, one year after the United States recovery.

Figure 4.5 Total Eastbound and Japanese Visitors, 1970-1979

Prior to the 1980s, Hawai'i's economy lagged behind the mainland's. But in 1980 the national downturn was mirrored by a shorter lag behind the United States in the state's economy; then in 1981 the mainland recovery was concurrent with Hawai'i's. The same happened in 1982 with downturns and recoveries of 1983, although Hawai'i's

Figure 4.5
Total Eastbound and Japanese Visitors, 1980-1990



Source: HVB, Annual Research Reports, 1980-1990 and Records.

recovery was a bit slower than the nation's as a whole. BOH (March/April 1984) noted "the lag [of the 1970s] will not reappear unless Hawai'i is once again able to develop strong, unique industries that are independent of mainland forces." This meant that Hawai'i had lost its cushion to anticipate changes in the economy. BOH (March/April 1984) recommended that Hawai'i develop new strategies and aggressively search for new business activity. However, throughout the timeframe of my study, the Hawai'i economy remained a one industry state. Figure 4.6 shows the total visitors count along with the breakdown between eastbound and westbound visitors, and Figure 4.7 gives the total visitor expenditures from 1980 to 1990. These figures illustrate the dramatic increase in the number of tourists in Hawai'i and their economic impact on Hawai'i. The following tourist information on 1980-1990 is on an annual basis.

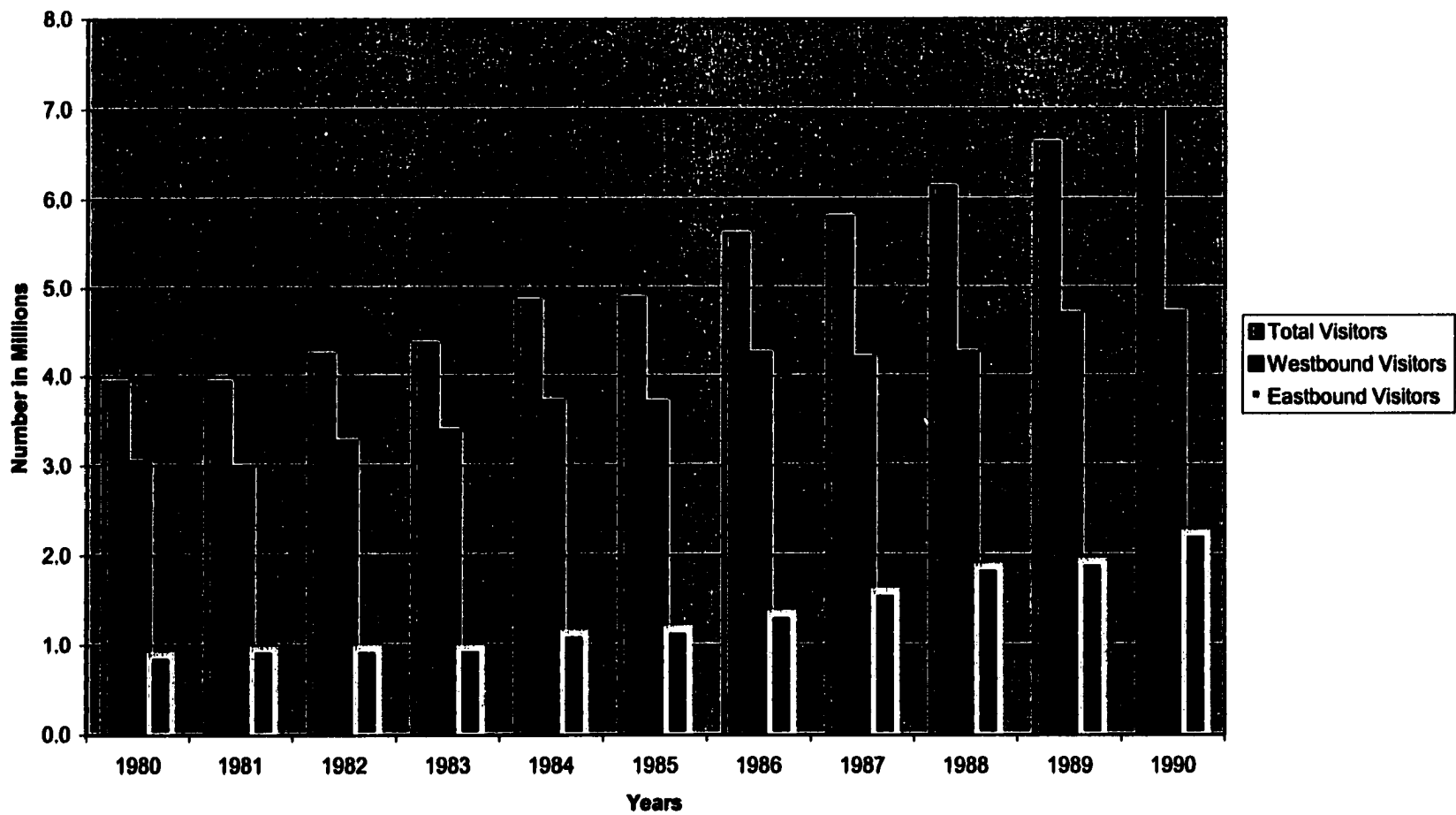
Figure 4.6
Total, Westbound, and Eastbound Visitors, 1980-1990

Figure 4.7
Total Visitor Expenditures, 1980-1990

For the first time in Hawai'i's tourism history, there was a decline (26,000) in 1980 in overall arrivals to Hawai'i. Japan's outbound travelers declined (-3.2 percent) for the first time since travel liberalization began (Ministry of Justice, printed in EIU, No. 1, 1983). Visitor expenditures in 1980 increased by 14.5 percent, to an estimated \$3 billion. However, as noted by BOH (January 1981), "protracted erosion of discretionary income through inflation and ratcheting tax rates as well as the high cost for air and group transportation and for lodging" will restrain the visitor count.

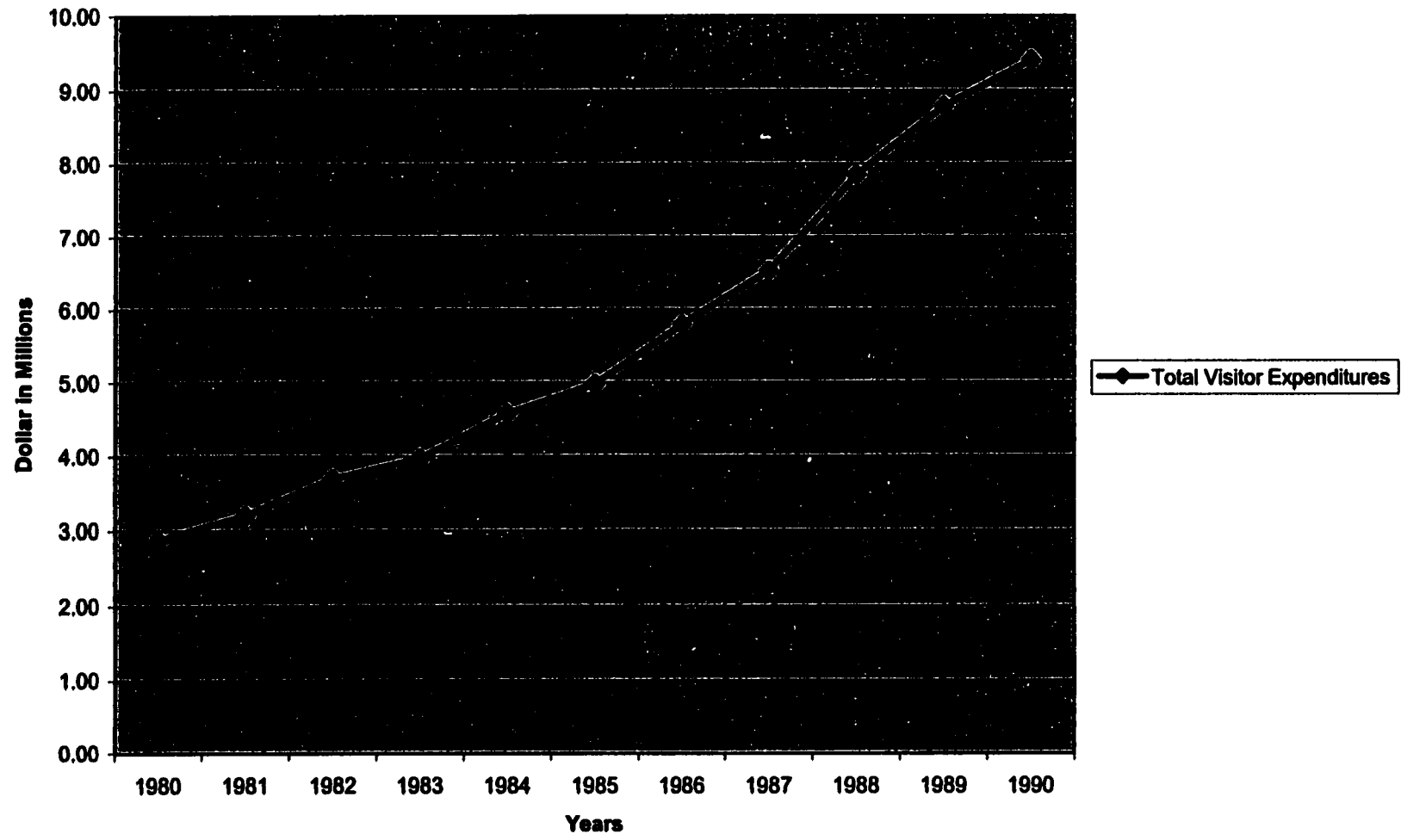
According to the 1980 HVB's Visitor Expenditure Survey, Japanese visitors spent an average of \$185 per day while other visitors spent an average of \$71 per day.

Figure 4.6
Total, Westbound, and Eastbound Visitors, 1980-1990



Source: HVB, Annual Research Reports, 1980-1990 and Records.

Figure 4.7
Total Visitor Expenditures, 1980-1990



Source: HVB, Annual Research Reports, 1980-1990 and Records.

However, Japanese stayed an average of only 4.3 days, while the other tourists stayed 10.1 days on average. So a Japanese tourist would spend an average of \$795 per stay, while all others would spend an average of \$717.

The visitor count for 1981 remained constant with 1980 figures. There was an increase of only 119 visitors. By 1981, foreign visitors accounted for 24 percent of the total visitor count. Within the foreign visitor market, Japanese tourists accounted for approximately 72 percent. However, Hawai'i's share of Japanese travelers was declining (30 percent of Japanese outbound travelers in 1980 to only 15 percent in 1981). Visitor expenditures increased by 6.66 percent to a total of \$3.2 billion.

BOH (September 1981) noted that "visitor traffic to Hawai'i is influenced to a large degree by economic conditions outside the state." The normal economic situations were mentioned along with "competition from other resort areas." In response to the competition, the state in cooperation with the private sector launched the biggest promotion of Hawai'i, entitled "Hawai'i '82," spending \$4.5 million.

The downward trend reversed in 1982 with a 10 percent increase from westbound visitors and under a half of one percent for an increase of 4,568 eastbound visitors. Overall, the number of tourists surpassed/exceeded the 4 million mark (4,242,925): 3,278,525 westbound and 964,400 eastbound visitors. HVB attributed the increase to poor mainland weather and the "Hawai'i '82" promotion, which had its budget increased to \$6 million. The expenditures were estimated at \$3.7 billion, a 15.6 percent increase.

Using simple regression analysis, BOH (July/August 1983) statistically validated the assumption that United States personal income correlated to Hawai'i's visitor spending during the 1972-1982 period. However, BOH noted that since 1974, spending

had grown at a faster rate than United States personal income (16 percent per year versus 10.5 percent). With the increase in eastbound visitors, Hawai'i's visitor industry was influenced more by the foreign exchange rate, foreign economic conditions, and worldwide competition. These changes made projecting the tourism industry's performance more difficult.

The visitor count showed modest gains in 1983; the overall increase was 3 percent, for a total of 4.368 million visitors. Expenditures amounted to \$3.974 million, a 7.4 percent increase over 1982. Another concern for the visitors industry was the second straight year of declining number of Japanese visitors. The Japan Travel Bureau reported, as noted by BOH (November/December 1983), that alternative resort destinations were reducing Hawai'i's market share, especially for Japanese honeymooners. For example, the South Pacific and Oceania had only a 1.9 percent share of the Japanese tourists in 1978, 7.9 percent in 1983, and 12.3 in the spring of 1984. In 1983 Japan Air Lines, the HVB, and the DPED announced a \$3.7 million promotional campaign to boost Japanese arrivals. BOH (November/December 1983) recommended "more aggressive marketing and greater attention to service and atmosphere than in the past. The former is a task that our visitor industry is already expending considerable funds on. The latter, providing better service and a warmer welcome for our Japanese visitors, is something we as individuals can begin working harder on."

As BOH (July/August 1983) noted, "Hawai'i's economy has evolved in a few short years from a modestly diversified system to one that is more concentrated on the performance of one sector. If the DPED estimates of visitor-generated employment and income in Hawai'i are correct, and we feel certain that they are, the state's economy is

open to new levels of instability that it has not known in recent times.” BOH added that tourism was sensitive to visitors’ personal income changes and that pineapple and sugar were too small to offset fluctuations in visitor expenditures as they had in the past. BOH’s concerns related directly to the public choice and rational choice theories.

Economic recovery was finally beginning in 1984. The overall growth in the number of tourists was 11 percent for a total of 4,855,580 visitors. The biggest percentage growth came from eastbound travelers, a 17 percent increase, representing 1,134,200; this was the first time the number of eastbound visitors exceeded 1 million. Westbound visitors increased to 3,721,380, a 10 percent increase. Visitor expenditures increased to \$4.582 billion, a 15.3 percent growth over 1983. Even though one or more of the concrete workers, electricians, or carpenters were on strike in Hawai‘i from July 17 to January 11, 1985, interrupting or delaying most construction projects, the strikes did not appear to adversely affect Hawai‘i’s tourism industry.

In 1985, Hawai‘i’s economy was fairly flat with a 1 percent increase over 1984 in visitor count. Eastbound visitors increased only 4 percent to 1,175,500 visitors, while westbound visitors declined slightly to 3,708,610. Part of the explanation for the westbound travelers’ decline was the United Airlines’ pilots’ strike during May and June. Visitor expenditures amounted to \$4.9 billion, a 6.5 percent increase. BOH (November/December 1985) noted that visitor expenditures “directly and indirectly account for about half of the total income generated in the state.” Given the higher rate of expenditures by eastbound visitors (i.e., Japanese visitors), Hawai‘i was becoming even more dependent on the economic health of Asia for its primary industry. Visitor expenditures increased by 260.3 percent between 1975 and 1985 (BOH, May/June 1986).

The outer islands were increasing their share of visitors' expenditures although Oahu continued to be the primary tourist market. In 1975 Oahu accounted for 73.8 percent of the State's visitors' expenditures, but by 1985 Oahu accounted for 63.2 percent.

Thomas K. Hitch (1984) estimated that one-half of the \$4 billion spent by tourists in Hawai'i immediately left Hawai'i. By 1986, it was estimated that visitor spending with its multiplier effect was contributing more than half the GSP and supplying one-third of the jobs in the State (Legislative Auditor 1987, 19). But the Honolulu Star-Bulletin (June 9, 1986) noted the benefits mainly went to the multinational corporations that controlled Hawai'i's tourism industry. The state did not address the issue of leakage in tourism.

Airlines reduced their 1986 fares to Hawai'i to increase the traffic (BOH November/December 1985), and the visitor count surpassed 5 billion (5,606,980), a 15 percent growth over 1985. One explanation for the increase in visitors was the travelers' fear of terrorism in Europe. Also, the 1985 Plaza Agreement initiated the devaluation of the dollar to the yen, making trips to Hawai'i less expensive for Japanese travelers. The expenditures for the year were \$5.55 billion, a 13.3 percent increase over the previous year.

By 1987, BOH noted that competing destinations and their promotions along with higher airfares and room rates had diminished Hawai'i's appeal to mainland visitors, whose count declined by 1 percent to 4,204,010. However, Japanese were flocking to the islands, in part because of the strength of the Japanese yen. The total eastbound visitors increased 18 percent (1,595,820) for an overall increase of 3 percent (5,799,830) in total visitors to Hawai'i. The eastbound increase was seen as good for Hawai'i, as it could increase revenues per visitor, an important part of Hawai'i's economy.

The visitor expenditure for 1987 was estimated at \$6.7 billion, a 20.7 percent increase, which was attributed to the eastbound travelers. The average daily Japanese visitor spent an estimated \$250 per day in 1985 and \$365 per day in 1987, an increase of almost 50 percent (HVB 1987). The one negative factor of the increased number of eastbound travelers was the shorter length of stay (i.e., 5.8 days for eastbound and 10.1 days for westbound), which affected occupancy rates in 1987.

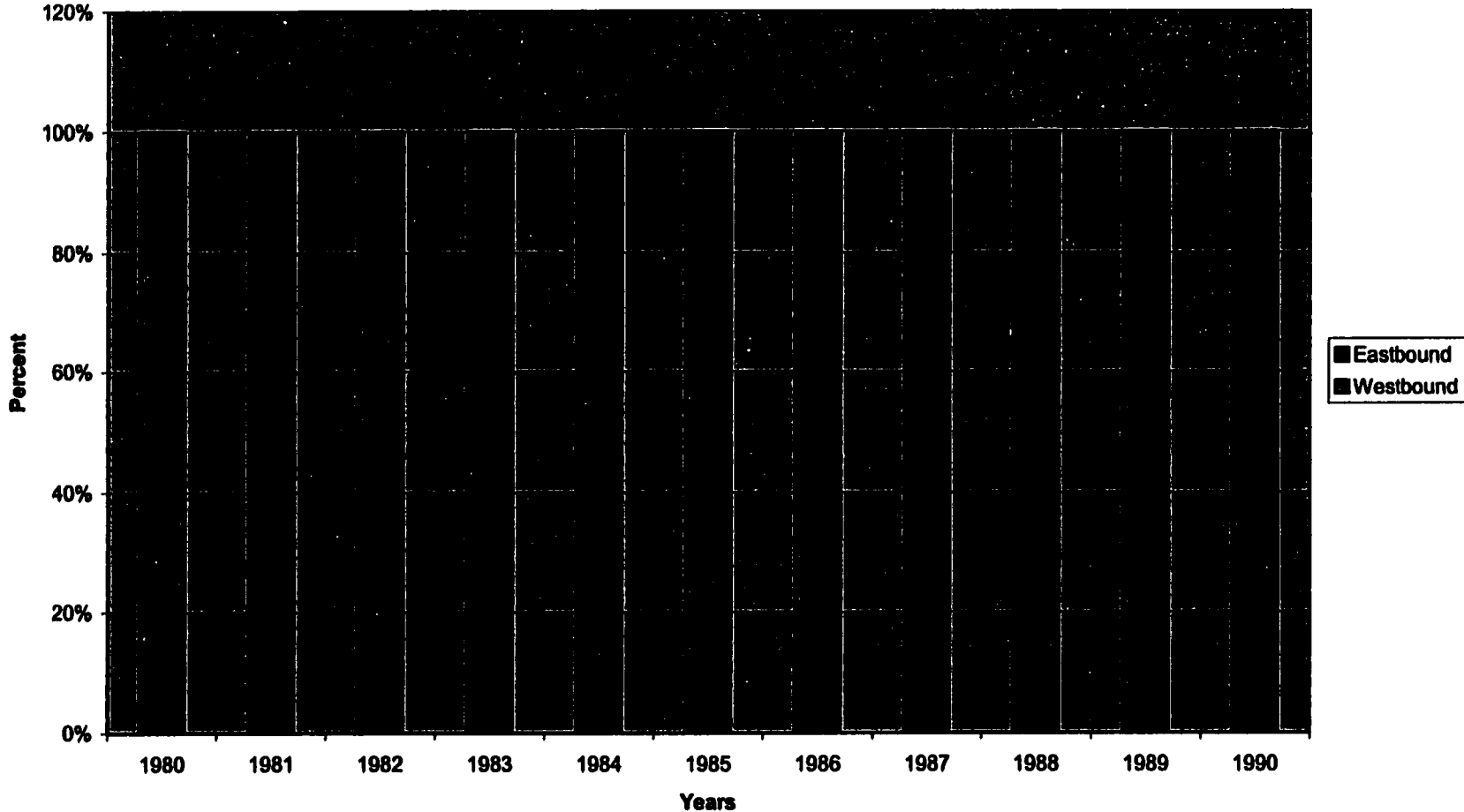
Figure 4.8 shows the percent of eastbound and westbound visitors to Hawai'i from 1980 to 1990. The breakdown illustrates the fairly large increase of eastbound visitors beginning in 1987. Thus, it is not surprising that visitors' expenditures increased to \$7.85 billion, a 16.8 percent increase.

Figure 4.8
Percent of Westbound and Eastbound Visitors, 1980-1990

Again, the occupancy rates declined in 1988. But the visitor count had a modest 6 percent increase to break the 6 million mark (6,142,420). Westbound visitors totaled 4,264,730, a 1 percent increase, while eastbound visitors totaled 1,877,690, an 18 percent increase. For the first time ever, eastbound visitors represented 31 percent of Hawai'i's visitors up from 28 percent in 1987 and 24 percent in 1986.

Hawai'i's visitor count increased by 8 percent in 1989 with a total of 6,641,820 visitors. Hawai'i's tourism industry was aided by the hurricane destruction in Cancun, Mexico, especially for westbound travelers. With the rise in the number of westbound tourists, occupancy rates increased. Visitors' expenditures were estimated at \$8.794 billion, an increase of 12 percent.

Figure 4.8
Percent of Westbound and Eastbound Visitors, 1980-1990



Source: HVB, Annual Research Reports, 1970-1979 and Records.

A modest increase in the visitor count was seen in 1990. A total of 6,971,180 visitors came to the islands. Westbound traffic accounted for 4,719,730, similar to 1989, but eastbound traffic accounted for 2,251,450 visitors, a 16 percent increase. The 1990 visitor expenditures totaled 9.410 billion, an increase of 7.1 percent over 1989.

The HVB completed a survey on the 1990 daily spending of Japanese and United States mainland visitors. Table 4.5 shows the top four expenditure areas of the Japanese and mainland tourists' expenditures. The Japanese custom of bringing back gifts to Japan (*omiyage*) added to their spending. Also, the high cost of items in Japan as compared to the cost in the United States made overseas shopping economical; thus, it is no surprise that the Japanese spent much more than the other visitors on clothing. However, the actual money staying in Hawai'i was lower as the expensive American and European

Table 4.5
Japanese Type of Expenditures, 1990

Region/State	Japanese:		U.S. Mainland:	
	(\$)	(%)	(\$)	(%)
Total Food & Beverage	41.70	14.2	28.90	21.2
Clothing	27.98	9.5	8.74	6.4
Gifts & Souvenirs	77.48	26.3	9.41	6.9
Lodging	73.77	25.1	57.76	42.4
<u>Misc.</u>	<u>73.10</u>	<u>24.9</u>	<u>31.49</u>	<u>23.1</u>
Total Daily Average	294.04	100.0	136.30	100.0

Source: HVB, 1990 Visitor Expenditure, 1990.
Figures may not total exactly due to rounding.

goods—favored by the Japanese tourists— were imported to Hawai‘i (Kono and Berger 1979, 137).

Overall, tourist numbers in Hawai‘i have increased substantially. The 1980s, in particular, showed the majority of gain in tourist numbers. During the 1980s, events outside of the control of the Hawai‘i government (e.g., airline strikes, the growth of world tourism destinations, weather conditions, and terrorism) played a role in tourism demand.

Conclusion

While my study focuses on development, it is necessary to analyze the industry along with the tourists. The effect of tourism is undeniable and can be seen in the economic, social, cultural, and environmental arenas throughout the world. Yet, no common definition exists for tourists or for tourism. Thus, data collection varies from region to region and researcher to researcher. Given the inconsistencies, it is difficult to compare data, especially data concerning visitor expenditure and impact.

The United States has seen phenomenal growth in tourism, especially foreign visitors, in the 1970s and 1980s. Yet, the federal government did not begin to publish much data on foreign tourists prior to 1983. The federal government did not commit the financial resources for marketing the nation and primarily left the industry to grow of its own accord. Former Governor Ariyoshi (November 27, 2001) noted that the United States federal government did not place much importance on tourism for world trade, but the Japanese government did and played an important role in increasing Japanese outbound tourists and using tourism to aid in its imbalance of trade. Since the Japanese government liberalized outbound travel, Japan has consistently had deficits in tourism

payments with the United States. In 1970 the deficit was \$83 million, while in 1980 Japan had almost a \$4 billion deficit with the U.S (EIU, No. 1, 1983).

Throughout the period from 1970 to 1990, the majority of tourists to Hawai'i continued to come from the United States mainland; however, the number of mainland visitors increased at a slower rate than the number of foreign visitors. Figure 4.9 illustrates the total number of visitors along with a breakdown of westbound and eastbound visitors, showing an increase from both directions, a goal of the Ariyoshi administration. As noted by Governor Ariyoshi (November 27, 2001), the 1975 United Airlines strike pushed the Hawai'i government to diversify its tourist base. After analyzing the eastbound markets, the Ariyoshi administration determined the Japanese market was the best eastbound market to target. Figure 4.10 illustrates the growth of all eastbound and Japanese visitors to Hawai'i. It can be seen that the growth in Japanese tourists alone was less dramatic than the total gain in eastbound tourist, which was fairly consistent with the growth of total visitors to Hawai'i (see Figure 4.9).

Figure 4.9
Total, Westbound, and Eastbound Visitors, 1970-1990

Figure 4.10
Total Eastbound and Japanese Visitors, 1970-1990

The dramatic increase of Japanese and eastbound tourists indicates the diversification of Hawai'i's tourist origination countries was successful. In addition, Hawai'i's occupancy rates were not adversely affected by the increase in Japanese tourists, as illustrated in Figure 4.11. The lack of a notable decline in the occupancy rates can be explained by the fact that the Japanese represented a minority of the total visitor

Figure 4.9
Total, Westbound, and Eastbound Visitors, 1970-1990

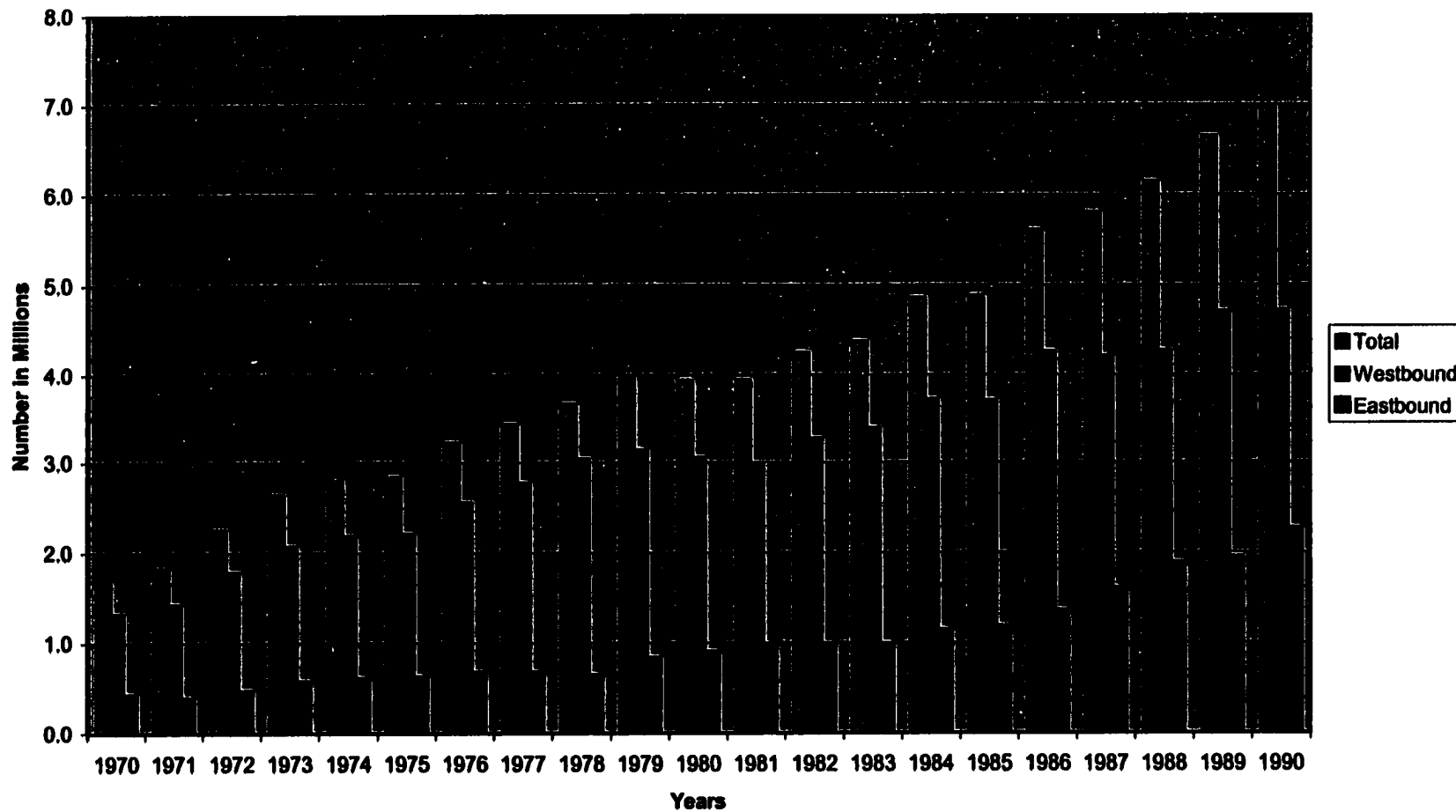
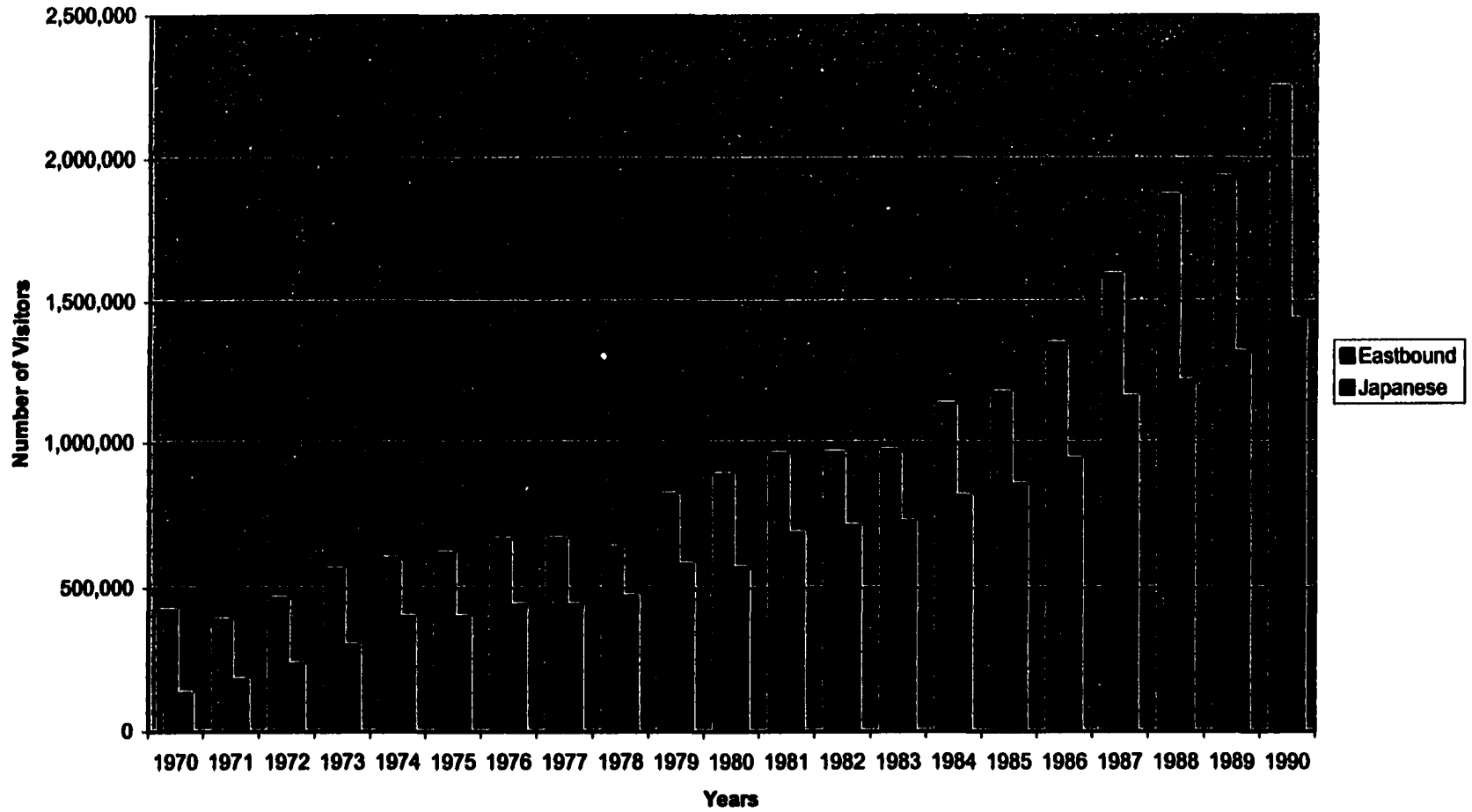


Figure 4.10
Total Eastbound and Japanese Visitors, 1970-1990



Source, HVB, Annual Research Reports, 1970-1990 and Records.

count to Hawai‘i. This explanation seems plausible since Japanese stayed less time in Hawai‘i than the westbound visitors stayed when coming to Hawai‘i.

Figure 4.11
Occupancy Rates in Hawai‘i, 1970-1990

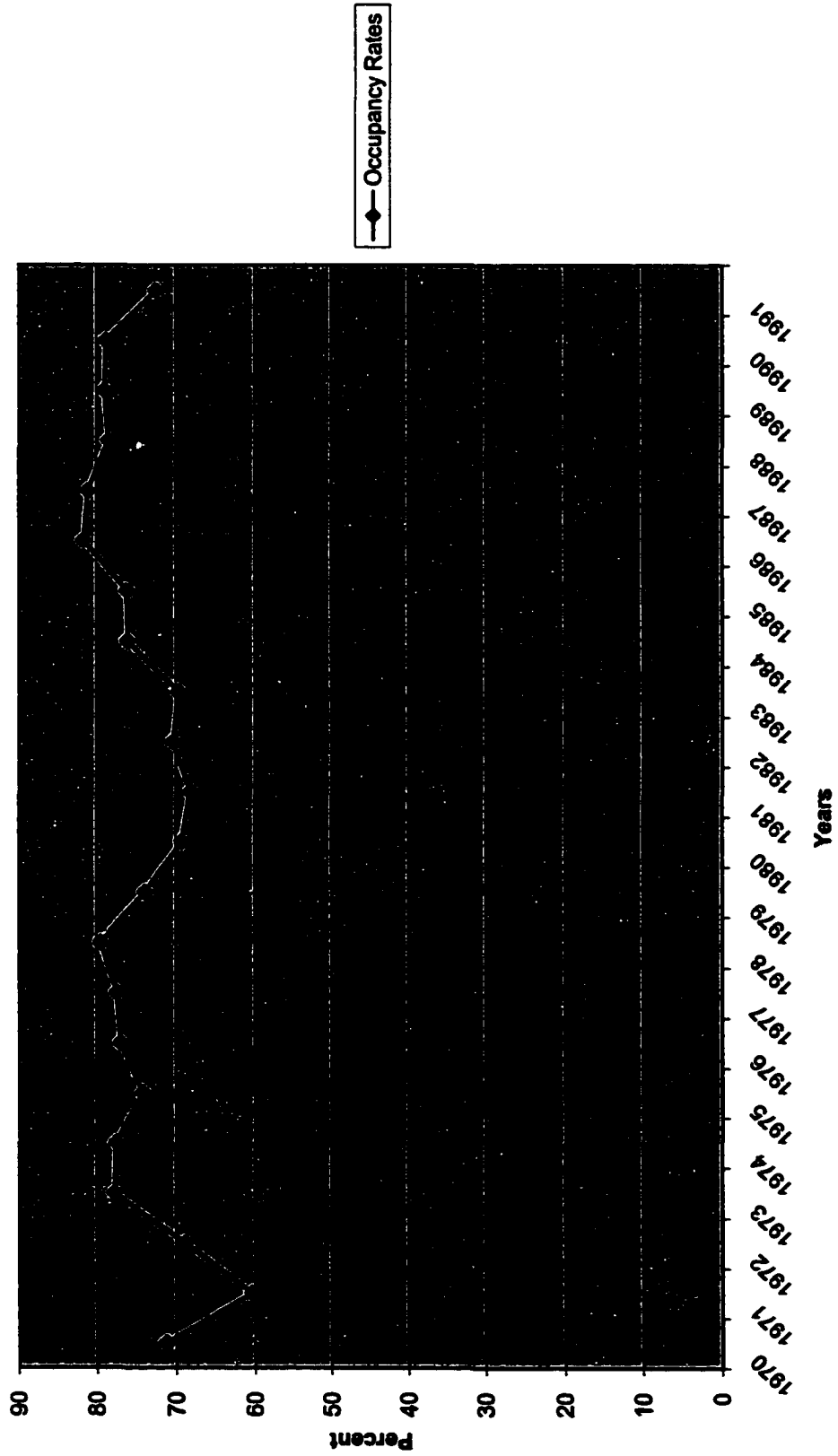
The growth in the number of tourists to Hawai‘i had three periods of anomaly. The mid-1970s had slow growth, and 1980 had negative growth—albeit, small—while mid-1980s again had slow growth. Interestingly, as shown in Figure 4.9, the Japanese visitor count was very similar, to the overall tourist numbers.

From the information available, the economic benefits from tourism were a priority for the state. Hawai‘i decision-makers assumed that tourism had a good fit with the local population (e.g., ability to accept the cultural differences and to speak Japanese), especially with the Japanese tourists, which would make Hawai‘i a desirable tourist destination. While this made Hawai‘i less vulnerable to national economic swings, the global clientele increased Hawai‘i’s vulnerability to the world’s economy. The BOH noted that in the 1970s, Hawai‘i’s economy lagged behind the national economy, but by 1981 the economies of Hawai‘i and the nation, as a whole, were very close.

Figure 4.12 illustrates the total expenditures of visitors to Hawai‘i. The expenditure data for 1970 to 1990 is the unrevised data to ensure consistency. However, by the 1990s, the DBED&T (Department of Business, Economic Development and Tourism, formerly known as DPED) finalized a formula to estimate the net contribution of expenditures. This method was used to modify data back to 1985, which is also shown in Figure 4.12. Ultimately, net expenditures²⁵ were estimated to be 26-28 percent less

²⁵ The net expenditures are not adjusted for inflation.

Figure 4.11
Occupancy Rates in Hawai'i, 1970-1990



Source: HVB, Annual Research Reports, 1970-1990 and Records.

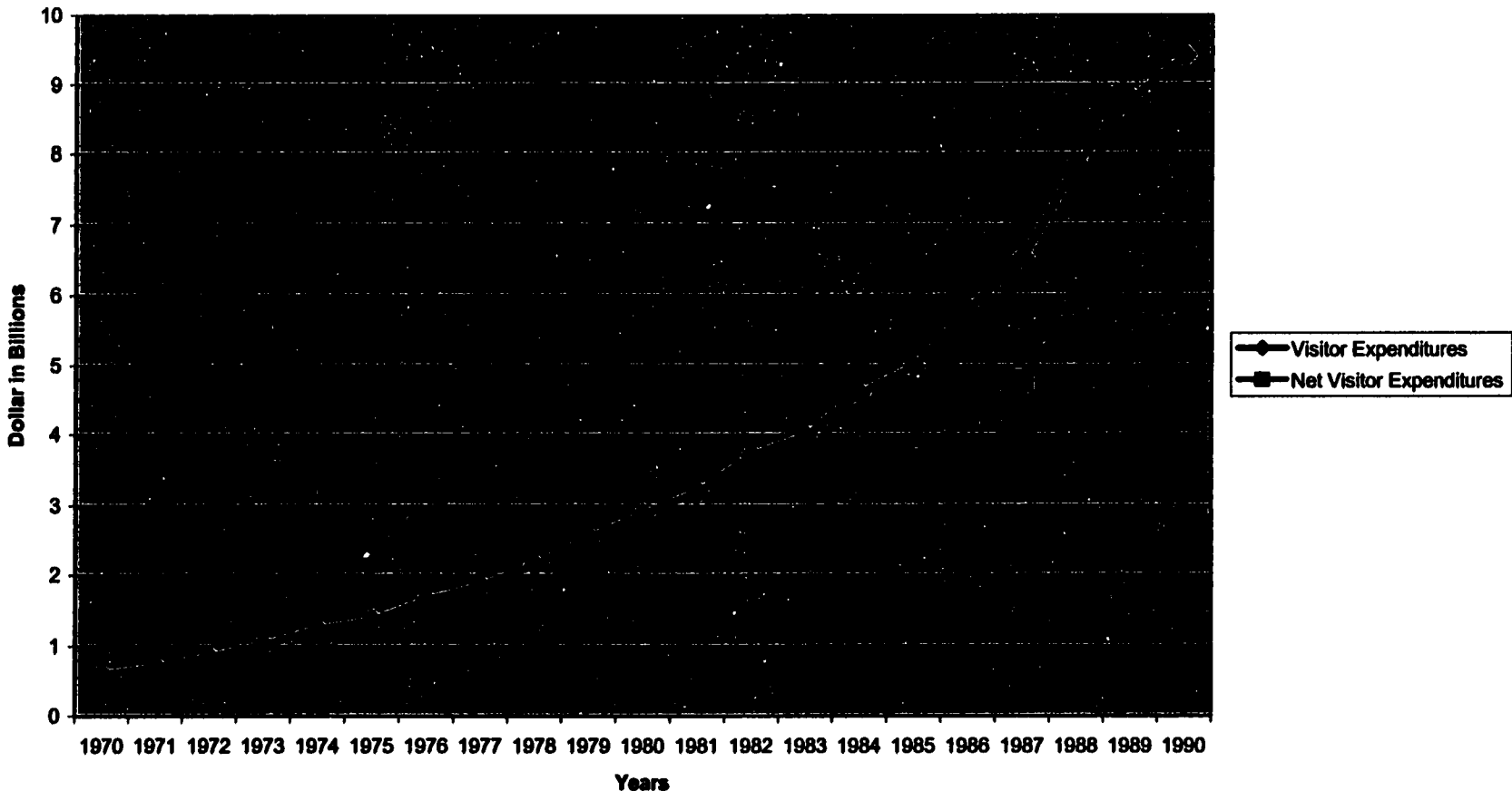
than originally reported. It is easily seen from Figures 4.9 and 4.12 that expenditures increased more dramatically than the number of tourists, especially at the end of the 1980s. However, the revised figures for 1985 to 1990 illustrate a smaller disparity.

Figure 4.12
Visitor Expenditures, 1970-1990, and Net Visitor Expenditures, 1985-1990

The 1991 Director of DBED&T, Murray E. Towill, noted the growth of visitors (i.e., 3.9 million in 1980 to 6.6 million in 1988, a 69.23 percent growth) and the growth of visitor expenditures as a percent of GSP (i.e., 23 percent in 1980 to 35 percent in 1989, a 52.17 percent growth). However, the 1991 plan did not mention the diminishing returns with an increase in the number of visitors, which was noted in the 1970 and 1972 state-sponsored studies. To gain the same economic benefit, the state would need to increase the number of visitors. However, an increase in visitor numbers increases the environmental impact and may not increase the number of jobs. As McCoy (1998) noted “devastation caused to all buildings in a specific locale by the serious overgrazing which resulted from a number of such seemingly isolated and innocuous decisions.” However, the Hawai‘i state government was the one entity that could oversee all of the individual development projects within the state and thus prevent the overgrazing.

In addition, Chew (1986) of HVB noted that there was evidence that visitor daily expenditure has not always kept up with inflation. BOH also noted that inflation played a role in the dramatic increase in expenditures. Yet, neither HVB nor DBED&T reported expenditures adjusted for inflation. Thus, government decision-making using these figures would be questionable under the rational choice and public choice theories.

Figure 4.12.
Visitor Expenditures, 1970-1990, and Net Visitor Expenditures, 1985-1990



Source: HVB, Annual Research Reports, 1970-1990 and Records. DBED and T, "A Quarterly Report: Hawaii Tourism in Transition, First Quarter 1996."

Although tourist numbers are important, the problem statement for this study focuses on Japanese investors in tourism. In an interview with Governor Ariyoshi (November 27, 2001), he stated the state did target Japanese tourists—not Japanese investors—during his administration. He suggested that the Japanese investors came more from the fact of the increasing number of Japanese tourists than from any other factor. The dramatic growth of investors and of tourists sets the stage for the tragedy of the commons as an analogy can be made for overpopulation and overuse of resources by the herds of additional people into the state. Additional hotel facilities may increase the overpopulation. Chapter V looks at the Japanese hotel investment in Hawai'i through the period of 1970 to 1990.

CHAPTER V THE HOTEL INDUSTRY AND ACCOMMODATIONS

This chapter looks at the circumstances surrounding foreign direct investment (FDI) in Hawai'i and the United States to examine the problem statement, "Were Hawai'i government's policies to attract investment inconsequential to Japanese hotel investment in Hawai'i or counterproductive for the economy of the Aloha State from 1970-1990?"²⁶

Much of the investment data reported in this chapter came from reports by the DBED&T, the HVB, Bank of Hawai'i, and Leventhal. The Leventhal data were aggregate in many cases and included properties held by Japanese investors and then sold to other Japanese investors—some properties were sold to Japanese subsidiaries in the same parent firm or within the same *keiretsu*. Thus, double-counting occurred for the cumulative ownership figures.

To augment the investment data, I collected and analyzed the individual transactions via DBED&T's reports and Bank of Hawai'i and then omitted Japanese to Japanese ownership transactions to avoid double-counting individual properties. My data for 1985 through 1990 were lower than Leventhal's, which was to be expected. However, for 1988 my data were \$50 million higher. This may be explained by the fact that my research comes a decade later and, thus, amounts may have been finally disclosed, and I included land and renovations, the latter was not included in Leventhal's data. Also, Leventhal's data has a slightly different time frame. For example, Leventhal included the 1980 land purchase (\$24 million) with the 1984 purchase of Halekulani hotel in their

²⁶ Information found in Chapters IV and Chapter VI addresses the second half of my problem statement.

1984 data, while I placed the land purchase in the year of the transaction (i.e., 1980). Nonetheless, Leventhal had the most complete data published for the United States and the difference between my Hawai'i data and Leventhal's was minor given the volume of transactions.

Hotel purchase prices became harder to obtain by 1986, as many did not disclose the amount. Thus, if anything, my data was understated; yet, the vast amount of Japanese investment can be seen with the data available. Another notable change was seen in renovations, which were becoming more frequent and more costly. For the data analysis here and in the conclusion in Chapter VII, the Japanese investment dollar figures were from my data collection. Finally, this chapter first looks at foreign direct investment in the United States in general, then at Japanese real estate investment in the United States, and primarily at the Hawai'i hotel industry and Japanese investment in Hawai'i.

Japanese Foreign Investment in the United States

Many national governments were actively involved in tourism development; however, the United States had a *laissez faire* attitude towards foreign investment. The only foreign investment policy was one of nondiscriminatory, open door neutrality. Foreign investment was usually unrestricted and tended to be treated by the United States government similarly to domestic investment, except for certain federal tax treatment. The only federal incentives for investment in the United States were the United States business and political climate. For example, the United States and Hawai'i had higher yields on investments, shorter depreciation schedules, excellent property values, and a stable political environment (Burritt 1991, 62) to induce investment, especially from a Japanese perspective.

In the mid-1970s, the federal government started requiring annual reports from companies with a minimum of 10 percent foreign ownership (Kono and Berger 1979, 3). The federal government produced comprehensive studies and reports on direct and portfolio foreign investments (Kono and Berger 1979, 1). Hawai‘i does not distinguish between national and foreign sources of investment. As BOH (May/June 1987) indicated, it is only important for the state to distinguish between onshore and offshore sources; the latter was common for Hawai‘i, as local sources of investment were insufficient for growth.

In his 1973 Congressional testimony (Senate. Subcommittee on Foreign Commerce and Tourism, “Introduction,” December 27), Senator Inouye noted that the twice-devalued dollar and the increased fear of United States protectionism were motivators for FDI. The Senator believed FDI, in the short term, could improve the balance of payments. Because of the absence of information on long term ramifications, Inouye suggested the government take no action regarding FDI. Thus, the United States continued its passive role—not actively attracting or restricting.

In the mid-1980s overseas investments increased dramatically. Characteristics of overseas investors were their tendency for a longer-term orientation and lower initial rate-of-return requirements on their investments than United States investors (EIU 1989, 58). United States recreational development investment had a push with the 1986 Tax Reform Act, as the EIU (1989, 58) noted the legislation would add to consumer’s disposable personal income, increasing recreational spending. EIU also noted that the initial investment needed for the tourism industry had dramatically increased due to escalating real estate and construction costs. Capital requirements for hotel investment were not

only high but also were tied up for 20 to 25 years (World Bank 1972, 11). In addition large advertising costs were needed to stay competitive. All of these financial requirements increased the barriers to entry.

Japanese Real Estate Investment in the United States

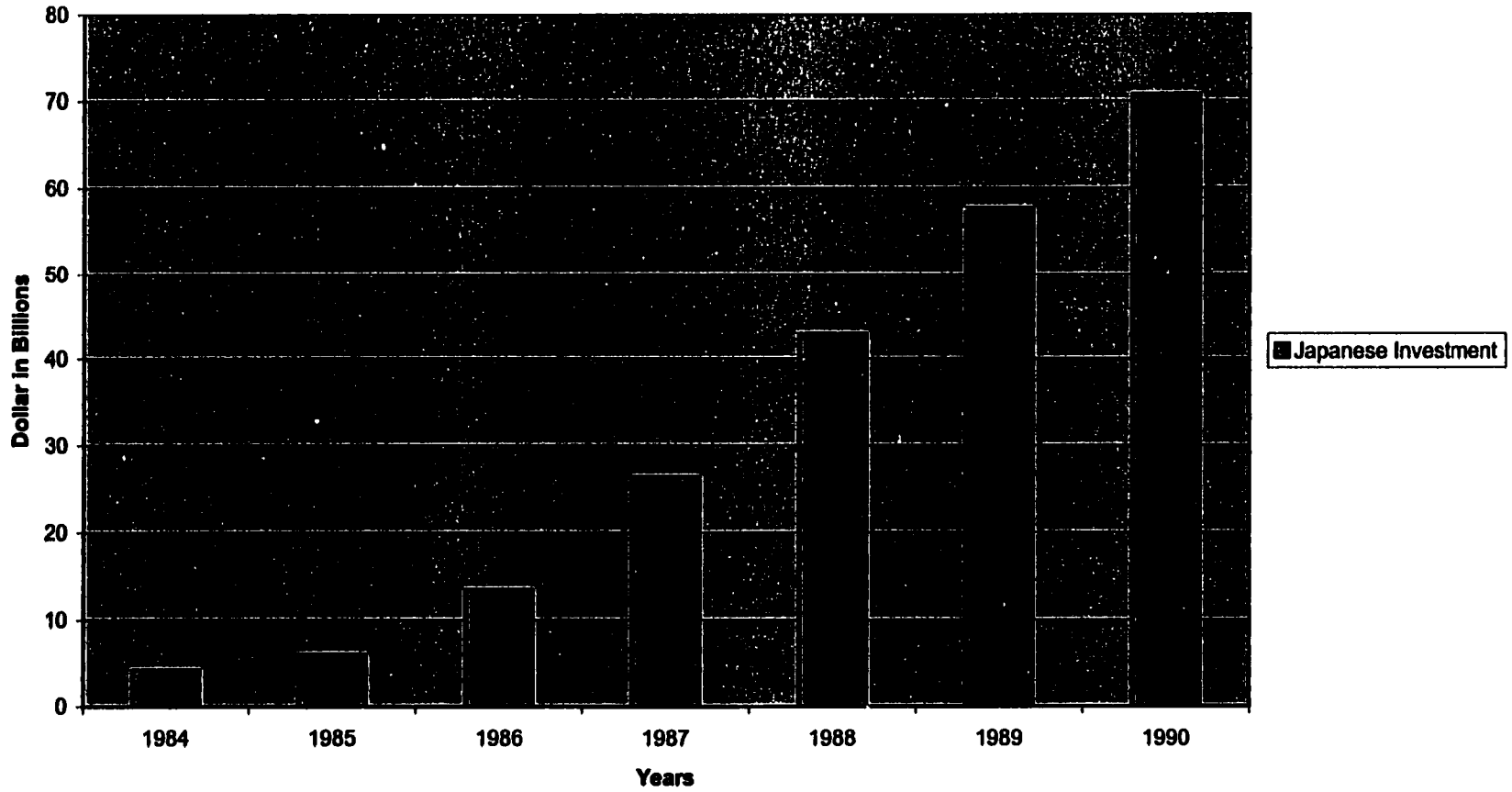
In comparison to other nations' FDI in the United States, the Japanese real estate investment was relatively modest through 1984. For example, the cumulative total of Japanese real estate investments in the United States was \$4.14 billion by 1984. However, this total increased by \$1.86 billion to \$6 billion in 1985 (Leventhal 1990). The growth in cumulative investment by Japanese was impressive, as shown in Figure 5.1.

Figure 5.1 Japanese Cumulative Real Estate in the United States, 1984-1990

By 1986 the cumulative total had more than doubled to \$13.53 billion; Hawai'i received about 29 percent of the Japanese FDI in the United States. In 1987, the United States received \$12.77 billion in Japanese real estate investment, of which Hawai'i received the largest amount with \$3.33 billion or 26 percent of the United States total (Leventhal 1988, 7). Through 1987, the United States real estate investment by Japanese was estimated at \$26.34 billion (Leventhal 1988) of which Hawai'i received \$7.24 billion or 27 percent. New York, Los Angeles, and Honolulu, together, received more than 50 percent of the Japanese investments in 1987.

Japanese 1988 annual real estate investment soared to \$16.54 billion for a cumulative total of \$42.88 billion. Both the mainland and Hawai'i had construction/development companies as the primary investors (49 percent). Office buildings were the largest type of investment (50 percent) by Japanese in the mainland, while in Hawai'i

Figure 5.1
Japanese Cumulative Real Estate Investment in the U.S., 1984-1990



Source: Adapted from Leventhal and Company. 1992 Japanese Investment in United States Real Estate, 1993 and 1988 Japanese Investment in United States Real Estate, 1989.

office buildings were minor. Japanese hotel investment in the United States declined by 22 percent in 1988 to \$3.58 billion (Leventhal 1989). The decline in Hawai'i investment (a 70 percent decline or \$1.76 billion) was stated as the primary reason for the overall United States decline. Leventhal (1989) also noted that the number of transactions increased, but the average price decreased. Retail stores, industries, land, and golf courses accounted for fewer than 5 percent of the 1988 Japanese investment properties in the United States.

In 1989 United States hotel/resort properties dominated the Japanese real estate investment. Hotel investment accounted for 28 percent and office property for 23 percent of the total. Individual investors accounted for 21 percent of the total investment in the United States, and 72 percent of the golf courses purchased by the Japanese in 1989. Hawai'i deviated from the mainland in the type of Japanese investor; individual and investment companies represented 40 percent of the total investment followed by construction and development companies (Leventhal 1990) with 33 percent.

There was a decline of 10.7 percent in 1989. The United States received a total \$14.77 billion for a cumulative total of \$57.65. Hawai'i received 28 percent of the Japanese investment, while California received the largest share, 39 percent. This decline in Japanese investment was partially explained by Japan's increased investment in Western Europe in anticipation of the elimination of trade barriers in 1992 within the European Community. A second factor was the unfavorable press in the United States regarding the Japanese "trophy" acquisitions, such as Pebble Beach Golf Course and Rockefeller Center—a United States institution (Leventhal 1989).

A change in property type surfaced in 1989. Hotel/resort investments represented 28 percent and office building declined to 23 percent of the total. In 1990, hotel/resorts accounted for 29 percent while office buildings continued to decline to 17. The property type investment in 1987 to 1990 by Japanese investors is shown in Table 5.1.

Property Type	1987		1988		1989		1990	
	Total	Percent	Total	Percent	Total	Percent	Total	Percent
Hotel/resort	4,750	36	3,577	22	4,158	28	3,790	29
Office	5,190	41	8,310	50	3,331	23	2,163	17
Residential	1,300	10	702	4	2,216	15	2,056	16
Mixed-use	740	6	2,416	15	2,184	15	1,834	14
Land	470	4	302	2	1,321	9	1,718	13
Golf course	10	-	202	1	394	3	547	4
Retail	460	4	644	4	350	2	129	4
Industrial	30	-	310	2	305	2	129	1
Other	-	-	81	-	517	4	298	2
Total	12,770	100	16,544	100	14,775	100	13,059	100

Source: Kenneth Leventhal & Company, 1991, 7.
 Due to rounding, individual components' sums may not total exactly.
 Dollars in millions.

Another competitor for Japanese yen appeared in 1990 when Guam received the third largest amount (\$1.099 billion or 8 percent of the total in the United States). This investment in Guam represented a 3,825 percent increase over 1989. Guam was not mentioned in Leventhal's data prior to 1989, when the island received 28 million dollars, representing .0486 percent of Leventhal's investment data.

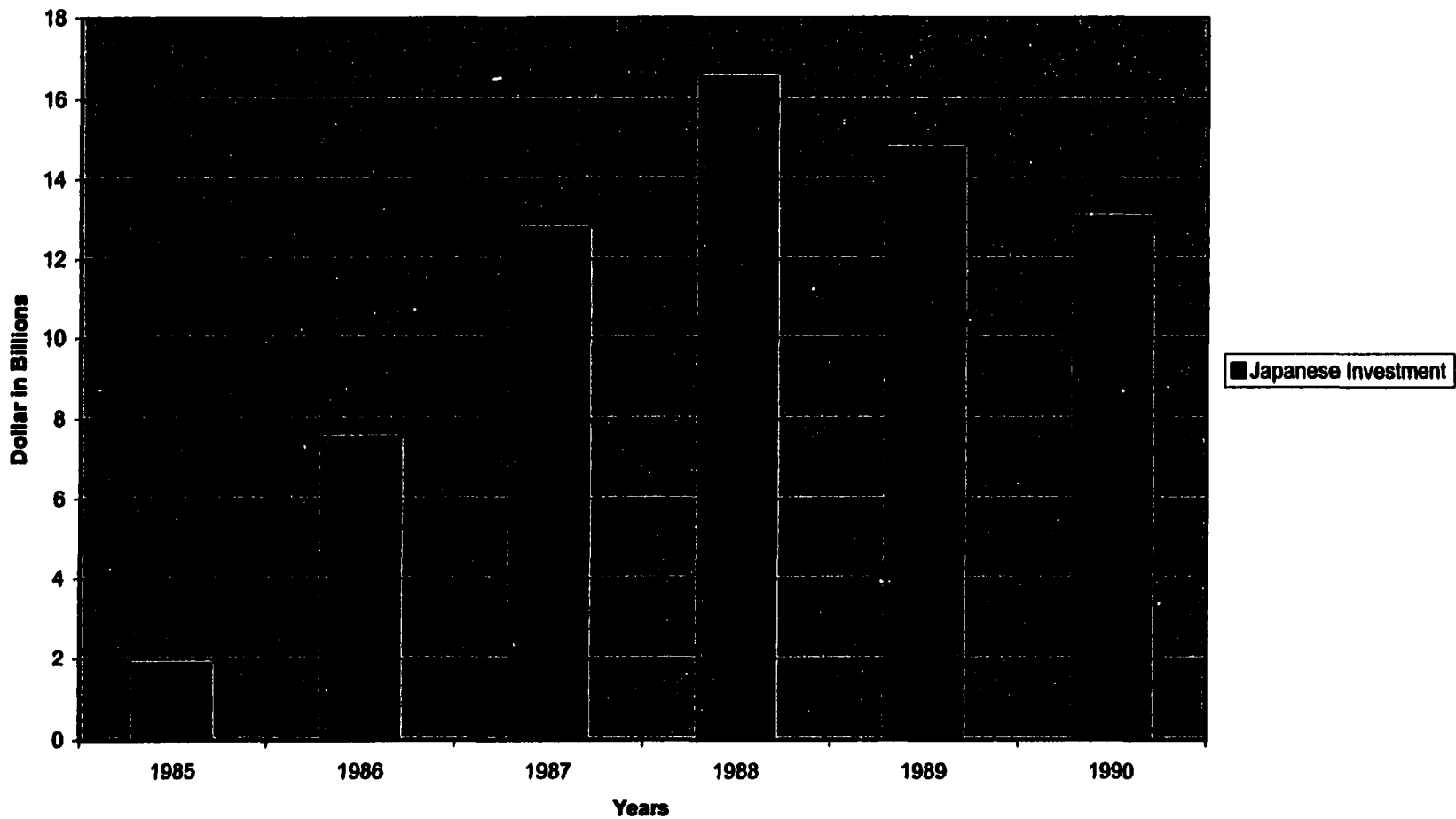
Again in 1990, California received the most Japanese yen with 45 percent, Hawai'i was the second largest recipient, receiving 22 percent, and Guam was third with 8 percent (Leventhal 1991). The total Japanese real estate investment in 1990 was estimated to be \$13.06 billion—another year of decline, though the cumulative total through 1990 climbed to \$70.72 billion. The dramatic increases began in 1986 as seen in Figure 5.1. However, Figure 5.2 also illustrates this remarkable increase, showing the annual investments from 1985 to 1990.

Figure 5.2
Japanese Annual Real Estate Investment in the United States, 1985-1990

As previously noted, the big increases came in 1986, 1987, and 1988. But in 1989 and 1990, there were declines of 10.7 percent and 11.6 percent, respectively, from the previous year. Leventhal (1991) also noted a decrease of 16 percent in transaction price in 1990, continuing the trend started in 1989. This decrease was reflected in the purchasing of land, investing by smaller investors, and diversifying into less expensive metropolitan areas. Similar to 1989, the 1990 number of transactions increased but the average price declined.

By 1990, Japanese investors had continued to broaden their perspectives, moving from office properties and into hotel/resort, mixed-use and residential properties, and

Figure 5.2
Japanese Annual Real Estate Investment in the U.S., 1985-1990



land. In Hawai'i, hotel/resorts properties had always received the largest amount of FDI. According to Leventhal (1991, 1), the earlier years showed that Japanese investment was "driven by the highly visible acquisition of expensive 'trophy' properties," which was limited by their small numbers on the market. When the supply of trophy hotels was diminishing, the Japanese began purchasing more modestly priced hotels. However, "the Japanese continue to purchase trophy properties at trophy prices, as evidenced in the 1989 purchase of the Hotel Bel-Air by Seihitei Kaihatsu at \$1,200,000 per room. At \$1 million per room, Seibu Railway paid a similar premium for the Westin Mauna Kea in 1988" (Burritt 1991, 66). The number of upscale new hotels built on the outer islands of Hawai'i in the late 1980s also confirmed the 'trophy' trend by the Japanese.

As seen in the last two years (1989 and 1990), land acquisitions increased significantly, which Leventhal (1991) noted was the best indicator of Japanese future intentions. From 1987 through the first quarter of 1990, "Japanese parties were involved in a higher percentage of cash investment in hotel real estate than were United States interests" (Burritt 1991, 66). The growth and amount of Japanese real estate investment in the United States came with little or no encouragement from the United States government.

Japanese Real Estate Investment in Hawai'i

A common reason given for the growth of Japanese investment in Hawai'i was the low cost of land and buildings in comparison to Japan. Japan is the most crowded industrialized nation with only 21 percent of its land being habitable. The limited land results in a high average population density for Japanese, with 1,452 individuals per

square kilometer.²⁷ Japan restricted rural-urban land use conversion, which was enforced by regulations and laws, such as land and building lease laws, tax laws, low property tax, and special privileges for in-city farmlands. One such law was the 1921 enactment to stabilize rental cost, leading to a very low yield from real estate investments within Japan.

Japanese investors primarily went to Japanese banks for funding of FDI. Outside capital for new ventures may have hurt the owners of capital but helped local workers, landowner, and the community at large (Robert and Emily Heller, 1973). Outside capital buying existing ventures generally did little for the community unless the past owners reinvest in the community.²⁸ Choi and Dawson (1978, 4) noted, “many foreign investments can actually be accomplished without an inflow of funds.” Since Hawai‘i does not require disclosure of transfer pricing and financing, no hard data is available. While the federal government requires reporting such data via Form BE-605, only aggregate data is published.

The Japanese hotel investment in Hawai‘i began slowly. The only hotels purchased by Japanese prior to 1960 were two Waikiki hotels—Princess Kaiulani and Moana Surfrider—by Kenji Osano of Kokusai Kogyo Company in 1963 for about \$20 million (Kono and Berger 1979, 97). From 1965 to 1970, Hawai‘i’s hotel inventory more than doubled from 14,827 to 30,323 units. The number of hotel workers increased by 111 percent in the same period from a monthly average of 6,310 in 1965 to 13,320 in 1970, slightly outpacing the inventory growth (BOH, July 1971).²⁹ From 1967 to 1970, the

²⁷ For comparison, 51 percent of the United States land is inhabitable. The average population density is about 50 individuals per square kilometer.

²⁸ See Choi and Dawson (1978) for an in-depth discussion.

²⁹ Bank of Hawai‘i’s publications are the primary source of information.

average annual growth rate in net supply of hotel rooms increased 22.4 percent; yet, the net demand for hotel rooms during the same time increased at an average annual rate of only 14.4 percent (BOH, December 70).

Thus, occupancy rates declined: 85.5 percent in 1967, 83.7 percent in 1968, 77.8 percent in 1969, and 71.4 percent in 1970 (December 1970). In addition, Bank of Hawai'i explained that the occupancy rate decline stemmed from the decrease length of stay by westbound visitors. From 1969 to 1970, their length of stay declined by almost 14 percent. In the decade from 1960 to 1970, the length of stay declined by nearly 50 percent, from 16.9 days in 1960 to 8.9 days in 1970.

In 1961, Hawai'i's Foreign Lenders Act was passed. This act exempted mainland financial institutions from state income tax when lending within Hawai'i, which "made mortgage placement possible and Hawai'i's banks have since placed a large volume of local mortgages with mainland investors" (Choi and Dawson 1978, 6-7). Thus, the act aided hotel development in Hawai'i. The 1963 "Pittsburg Code" provision in the Hawai'i tax code was also intended to encourage development through a relatively high tax burden on undeveloped urban property and a relatively low tax burden on fully developed urban land.

In the late 1960s, the City and County of Honolulu adopted a new comprehensive zoning code, which added requirements and thus, increased building costs. Before the code went into effect, many developers accelerated their timing to build hotels in Waikiki to avoid the new requirements. The adoption of this zoning code partially explains the uniquely high level of hotel construction in 1969.

1970 - 1979

The State of Hawai'i began campaigning for closer economic relations between Japan and Hawai'i. First, Governor John A. Burns addressed the Keidanren Executive Council and then constructed the first Hawai'i pavilion at Osaka's Expo 70, at a cost of about \$1 million. The state also sent some trade missions to Japan, primarily in the early 1970s to promote Hawai'i's tourism industry.

Along with the Hawai'i Pavilion at Expo '70, the Keidanren and the Japan Chamber of Commerce co-sponsored a seminar on Hawai'i. At the seminar Japanese economic missions were invited to visit Hawai'i; these visits were followed by a visit to Japan by Hawai'i businesspeople in 1971. These meetings led to the establishment of the Japan-Hawai'i Economic Council (Y. Kuroda, November 10, 1973), after which the entry of Japanese visitors and investors heightened.

The proposed hotel construction in the early 1970s indicated a possible trend towards large-scale development (DPED 1972). Most of the land for the proposed projects had already been rezoned from agricultural to urban land use; however, some of these projects had not yet been approved. By 1972, the zoning seemed to encourage overbuilding to the point that the zoning would allow 105,000 hotel rooms, which if achieved labor availability would become critical. The DPED noted that some projects proposed low-cost housing and that some developers contracted with the Hawai'i Housing Authority for low-cost housing. Importantly, DPED (1972) indicated that these arrangements may attract employees to these new developments, but the government would be seen as subsidizing the tourist industry. In addition, with the re-zoning and current proposals, the density per project was lower than the present density, which added

additional costs (e.g., infrastructure) for the government and/or private sector. Like hotel development, residential developers proposed a lower density, contrary to the intent of the state land use law.

Noting the importance and power (i.e., ability) of zoning and taxation to guide development, the DPED (1972) analyzed the current and potential uses of land. Although Hawai'i had limited land, the projected tourism demand and the resort-zoned acreage indicated adequate resort land for the next ten years (i.e., until 1982). However, the State Plan (1972) acknowledged that real property taxation was a major consideration for resort development decision-makers. The state suggested that a high taxation rate could inevitably increase the property density by the developer spreading the taxes among more units.

Land use was not the only factor in zoning; DPED suggested that building approval should include appearance (e.g., height and type of building). The 1972 plan recommended that a design review board be established in every county.³⁰ The board would create the goals and criteria for each development project, including the surrounding area to take into account public needs. This review process can be seen with the 1972 Honolulu zoning ordinance granting a density bonus to properties abutting oceanfront, open spaces, parks, playgrounds, and major streets (Sec. 21-211 (b) iii).

In 1972 the DPED observed that the needed infrastructure was in place or the needed technology was available for the State to provide some of the infrastructure needed through individual negotiations with investors. The DPED (1972) indicated that

³⁰ At that time only Hawai'i County had an architectural review board.

the availability of capital no longer depended on familiarity and distance but depended on occupancy rates and profitability. Finally, given the growth in the world travel market and in sources of capital along with the success of Hawai'i tourism, the DPED anticipated no shortage of investors.

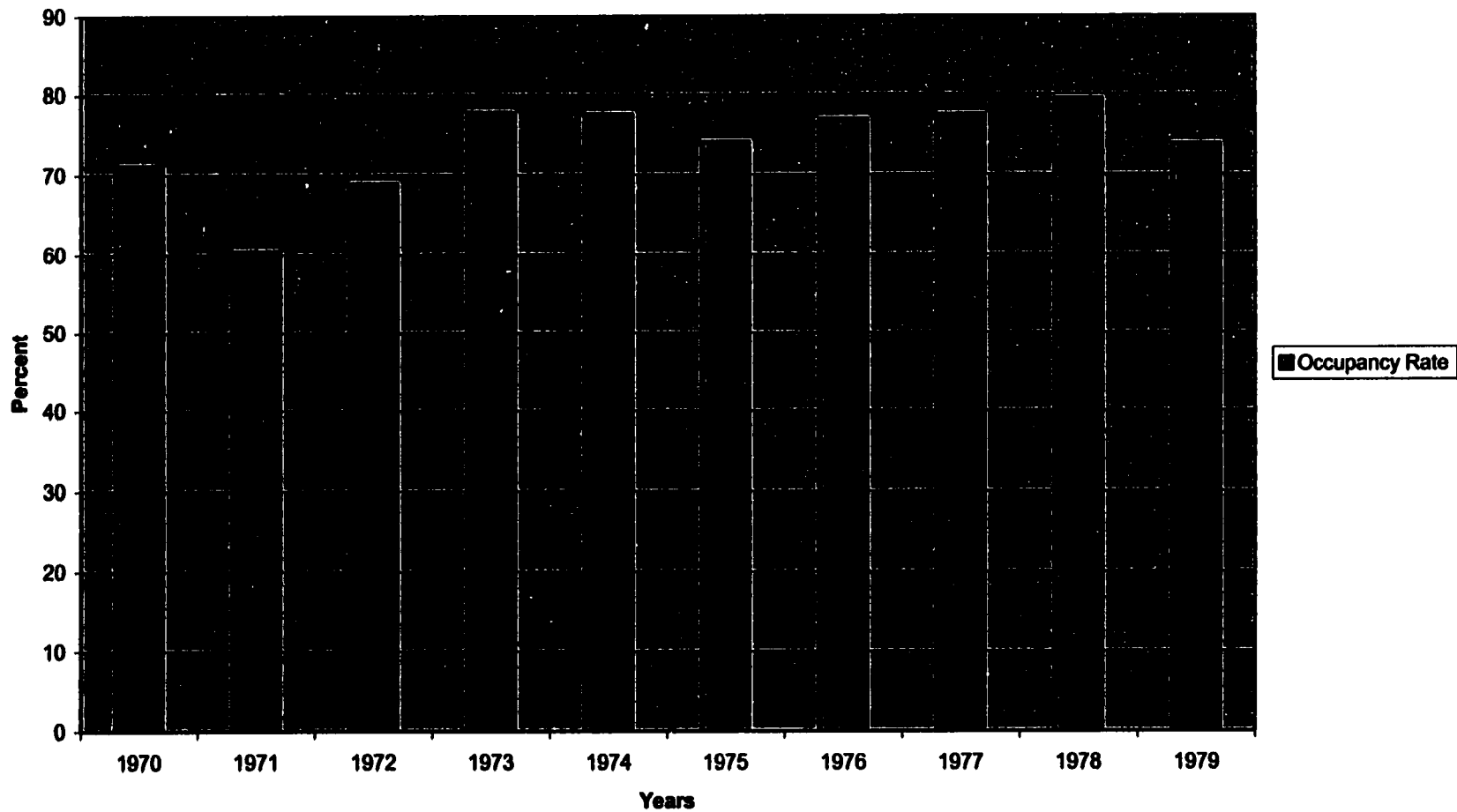
The DPED (1972) noted that occupancy rates correlate to hotel construction. Figure 5.3 shows the 1970-1979 occupancy rates. The DPED (1972) indicated that a 70-75 percent occupancy rate was breakeven for most Hawai'i hotels. When the occupancy rates were just above 75 percent, there would be modest hotel construction; occupancy rates greater than 80 percent would lead to greater expansion, while rates greater than 85 percent produced a tremendous increase in hotel construction. The timing between present occupancy rates and construction lags was about two to three years given the regulations (e.g., permits) and construction time. Using DPED's formula, with a 68.8 percent average occupancy rate in 1972, there should have been little or no construction in Hawai'i; the occupancy rate increased to the mid-70s from 1973 to 1979. Thus, there should have been modest or no growth in hotel construction for much of the 1970s, assuming occupancy rates played a major role.

Figure 5.3
Hotel Occupancy Rates in Hawai'i, 1970-1979

In 1971, the Japanese government finally began allowing outside real estate investments without government approval.³¹ The Japanese government imposed capital flow restrictions in 1974 due to oil prices, but interim financing from Japanese

³¹ Choi and Dawson (1978, 17) noted that the 1949 Japanese Foreign Exchange and Foreign Trade Control Law mandated the approval of foreign investment by the Ministry of Finance (MoF) and/or the Ministry of International Trade and Industry (MITI).

Figure 5.3
Hotel Occupancy Rates in Hawaii, 1970-1979



subsidiary banks in the United States eased the financial constraints until the restrictions lessened (Choi and Dawson 1978, 17). Much of the long-term financing for Hawai'i hotels was from Japanese banks due to the financial reporting requirements by the United States and the desire by Japanese businesses to maintain their traditional banking relationships (Choi and Dawson 1978, 17-18). Kono and Berger (1979, 107) indicated that Japanese preferred fee simple investments and large down payments with minimum local financing, since money in Japan was earning 5.5 percent.

Testifying before the United States Senate's Subcommittee on Foreign Commerce and Tourism, Foreign Investments, Acting Governor George R. Ariyoshi (December 27, 1973, 4) stated, "I am confident we have sufficient safeguards to protect us against any so-called 'hit-and-run' tactics." He continued these "positive policies" had been in effect for a decade or more. The Governor also presented a foreign investment checklist, which included trying to discourage closed developments, encourage joint venture with local investors, and encourage most jobs produced to be filled by local people. Governor Ariyoshi (1973, 8) summed up his testimony by stating "We welcome all foreign investment which enables us to fulfill our State goals. We view such investments positively, without neglecting to consider the negative factors involved." However, earlier in the same testimony, the Governor (1973, 5) said, "we must look at these [foreign investments] primarily for their positive potentials, their benefits and values, rather than concentrate on their negative aspects." Of course, negative aspects did arise.

Mayor Fasi (December 18, 1973, 4) of the City and County of Honolulu noted that the new owners of the Makaha Inn almost immediately restricted local use of the golf course and facilities. The owners wanted to reserve the use for Japanese tour groups.

When the mayor discovered the hostility towards the Hawai'i residents, he made it clear that the city and county would not issue permits for any construction at the Inn if locals were excluded. Ultimately, the Inn allowed local to use the facilities. In addition, the president of HVB, John Simpson (December 27, 1973), noted that the Japanese tour groups use of coupons for Japanese owned companies in Hawai'i was a concern. Mr. Simpson added that HVB cautioned developers against the practice in advance, as Simpson felt that the Japanese corporations have a conglomerate nature.

However, the need for tourism or some other industries in Hawai'i was pushed when the United States Congress did not renew the 40-year old Sugar Act in 1974. Without the federal government creating a barrier to entry for foreign sugar, Hawai'i was at a competitive disadvantage due to its cost structure.

In the early 1970s, the annual hotel investment by Japanese ranged from \$0 to \$58 million annually with the exception of 1974 when Osano purchased \$105 million of prime existing Waikiki hotels. The second largest investment (Hawaiian Regent Hotel)³² was in 1972 for \$25 million. In 1975, one existing hotel was purchased and none in 1976. By 1976, the Japanese owned \$249 million worth of the Hawai'i hotel industry and owned 87.1 percent of foreign owned hotels and employed 4,604 workers in the industry.³³ The beginning of the growth stage of the product/service life cycle for

³² The Hawaiian Regent was renovated in 1979 for \$33 million, increasing the total investment of Tokyu Corporation to \$58 million. In 1986 the hotel was sold to Otaka in 1986 for \$207.7 million. In 1989 an affiliate of Otaka, Otaka Limited Partnership, purchased the hotel for \$401 million. The only figures included in my study are the original purchase of \$25 million and the renovations of \$33, to eliminate multiple count of the same property and grossly increasing the value of Japanese investment in Hawai'i.

³³ The data are from the Kono and Berger study, which used 10 percent foreign ownership to be considered foreign owned.

Hawai'i's tourism industry came in the mid-1970s. In 1977 and 1978, Japanese hotel purchases were limited to one existing hotel in each year.

By 1978, the state acknowledged that the available capital was limited, restricting the annual tourism growth rate to less than 10 percent. Thus, the state policy was to encourage resort development capital (1978 Plan). Through 1978, all of the property purchased were either existing hotels or land on which to build hotels in the future. First Hawaiian Bank (September 1978) indicated the Japanese owned 17 percent of the hotel industry by 1978. Osano's ownership of the Sheraton-operated hotels alone gave him approximately 10 percent of the state total. In 1979 three existing hotels were purchased and one new hotel (Island Colony for \$40 million) was built for a total annual investment of \$104.5 million.

James Mak (1985, 31) noted that the principle benefit of foreign investment in Hawai'i's visitor industry was that it enabled the industry to grow faster and have more jobs and higher (total) incomes than without the FDI. Mak also noted the potential negative consequences of increased FDI, such as foreign investors may be less sensitive to local preferences and values than local investors—adding to social tensions in Hawai'i—and environmental consequences—adding to the congestion in the state. Dr. Hitch of First Hawaiian Bank (September 1978) indicated, “It really doesn't matter whether hotels are owned locally or not. The economic benefits of having a hotel accrue primarily to the people and the business firms in Hawai'i—because the main benefits are the wages and salaries paid, the local goods and services purchased, and the local taxes paid.”

On the employment end, the Japanese hired United States national chain managers or highly qualified local managers. In fact, Kono and Berger (1979, 120) noted that Hawai'i residents held almost all of the jobs these investments generated. Even the Japan Travel Bureau in Hawai'i employed 90 percent of its total workforce locally, and Osano's Sheraton hotels were managed by Sheraton hotels and the rest of the staffing were permanent residents (Kono and Berger 1979, 121). Choi and Dawson (1978, 18) speculate that the poor public relations image of the Japanese investors in Hawai'i may have been the motive for their maintaining American management teams. Of course, it could be that the Japanese had little Western-style hotel management experience.

The Japanese developers used the availability of low interest rates, the push to decrease the trade imbalance with the United States, and the large amount of affluent Japanese tourists coming to Hawai'i to their advantage. Ozawa (1978, 518) pointed out that Japanese multinational corporations "are strongly influenced by the macroeconomic factors of their own economy as well as those of the host countries" when determining foreign direct investments. Kojima (1986, 70) noted, "Japanese-style DFI [direct foreign investment] is complementary to trade." While both Ozawa and Kojima emphasized a macroeconomic analysis, they used different frameworks. However, the conclusion was the same; that is, Japanese foreign investment must be analyzed using the national priorities—not just the company's priorities. Ozawa and Kojima noted that Japan's lack of natural resources played a crucial role in foreign investment by Japanese companies. Kojima (76) further explains, "Japanese DFI has been undeniably ethnocentric."

The Japanese annual hotel investments from 1970 to 1979 are shown in Figure 5.4. By the end of the 1970s, Japanese hotel investment in Hawai'i totaled \$320.7 million,

which represented 6.7 percent of the Japanese investment from 1980 to 1990 and 6.3 percent of the investment from 1970 to 1990.

Figure 5.4
Japanese Hotel Investment in Hawai‘i, 1970-1979

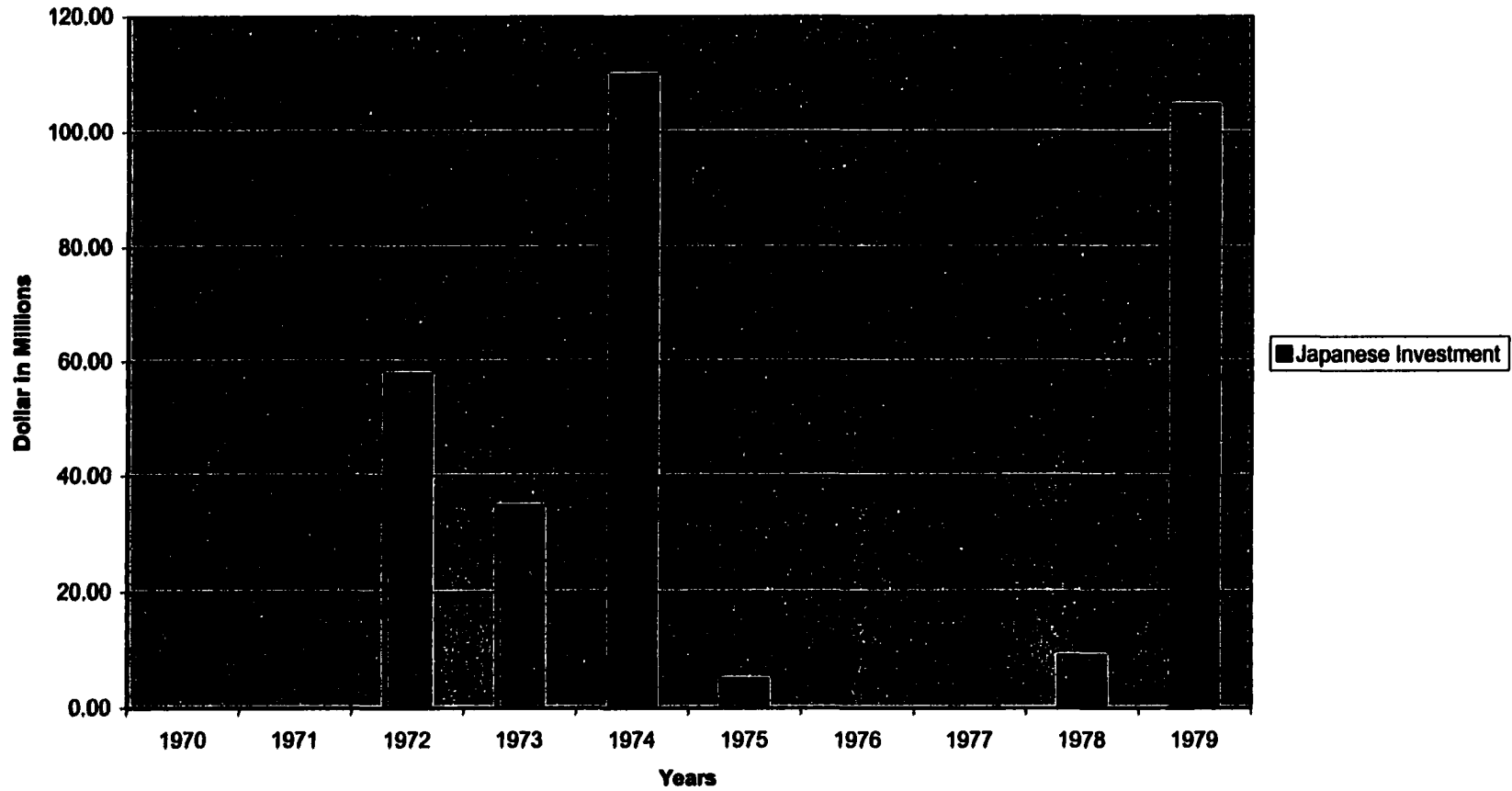
The Japanese investments in Hawai‘i met with public criticism. Kono and Berger (1979, 47) noted that the criticism involved three factors: the large amount of real estate and hotels purchased, driving up real estate prices; a presumed ethnocentric attitude in employment, discriminating against non-Japanese locals; and the presumed large amount of leakage back to Japan. One of the most common criticisms was the speculative nature of the real estate investments. The surge of Japanese acquisitions of existing hotels did not create new jobs or bring new money into the State, another criticism of Japanese investment in the 1970s.

1980 – 1990

In 1980, only one existing property (Halekulani Hotel) was purchased for \$24 million although the New Otani Kaimana Beach Hotel was renovated for \$3.2 million. Hasegawa Komuten built the Kauai Beach Villas for \$40 million in 1981. Then in 1982 two hotels (Sheraton Kauai for \$20 million and Park Shore Hotel for \$1.5 million) were purchased. Hurricane Iwa struck the island of Kauai in 1982 destroying hotels and hurting tourist arrival numbers on the island. The Japanese purchased one new hotel, Mauna Lani Bay Hotel (\$72 million) in 1983.

In 1984, the United States Supreme Court upheld Hawai‘i’s contested 1967 Land Reform Act, which broke up the land ownership. Bishop Estate owned 20 percent of Oahu’s privately held land (Honolulu Advertiser, Millennium Special, Part Two, January

Figure 5.4
Japanese Hotel Investment in Hawaii, 1970-1979



Source: Adapted from State of Hawaii, DBED and T. "Foreign Investment Activities in Hawaii and the United States; 1954 through 1998 by Country," 1999.

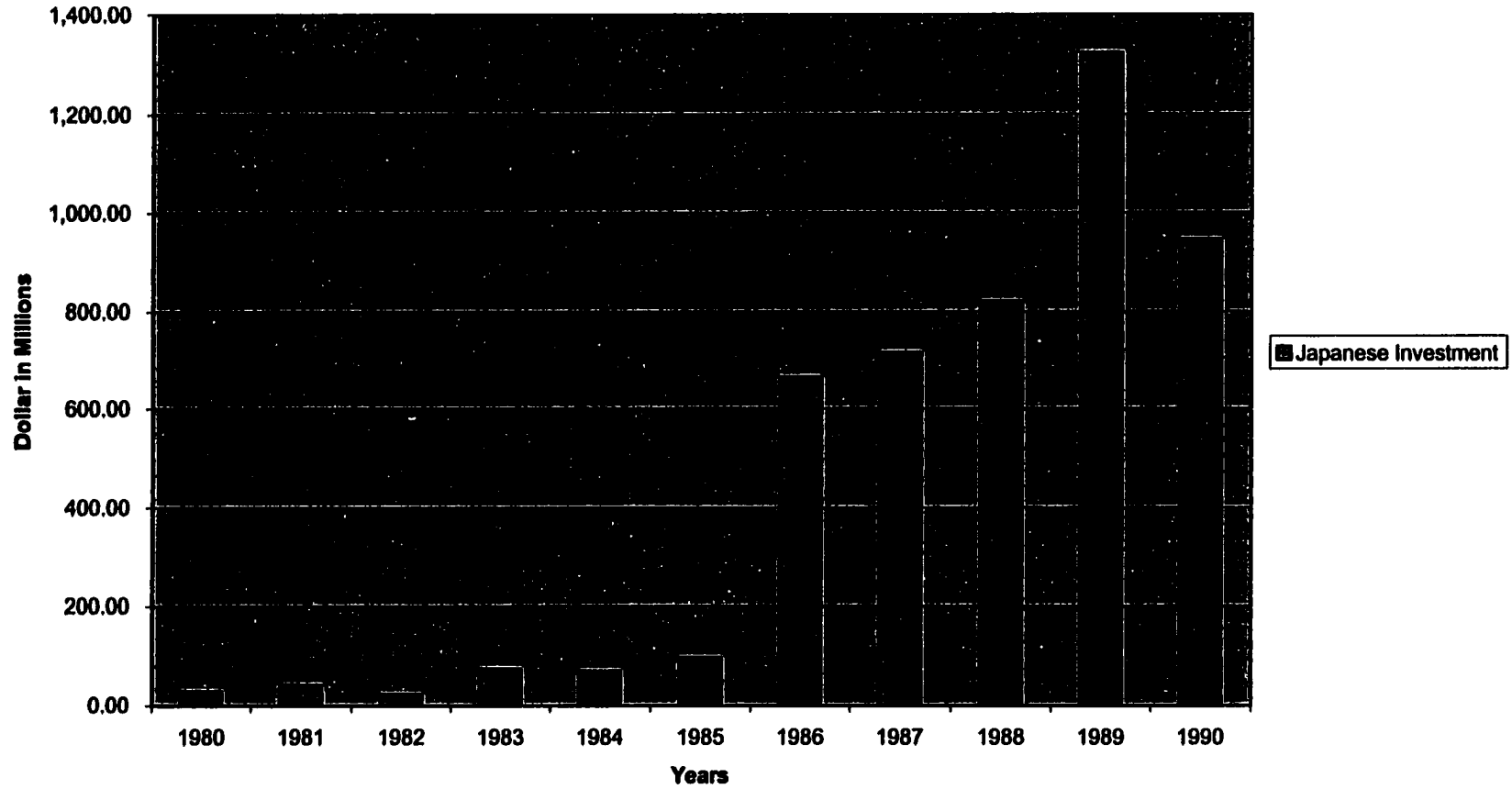
1, 2000, 26-7). The court's decision would ultimately increase the land available for purchase.

The Halekulani was re-built and partially refurbished for \$57 million, and the Sheraton Kauai Hotel was purchased for \$10 million in 1984. The DPED (1984) predicted that the state's tourism industry was entering maturity, which coincided with land prices in Japan tripling between 1985 and 1987. With the high cost of land and volatility of land prices in Japan, real estate abroad was very attractive. Thus, the Japanese continued to buy Hawai'i hotels. Five hotels were purchased and one hotel (North Beach, Kaanapali for \$18.7 million) was built for a total of \$94.5 million in investments in 1985. Figure 5.5 shows my investment data from 1980 to 1990. The potential for a tragedy of the commons can be seen with dramatic escalation beginning in 1986. The decline beginning in 1990—the end of my study's time frame—is vividly illustrated in the following figure.

Figure 5.5
Japanese Hotel Investment in Hawai'i, 1980-1990

From 1986 through 1988, a similar phenomenal growth in Japanese investments was seen in the United States real estate market and in the Hawai'i hotel market. In Hawai'i, eleven existing hotels were purchased and three new hotels (Kauai Hilton and Beach Villa for an undisclosed price; Waikiki Prince Hotel for \$24.5 million, and the Maui Prince for \$40 million) were built in 1986 for a total of \$664 million. By 1986 it was noted that the profits were low in the tourism industry due to the oversupply of hotels, restaurants, and convention centers in various destination areas (Travel Industry World Yearbook, The Big Picture 1986, 13). Laventhol & Horwath (1989) also

Figure 5.5
Japanese Hotel Investment in Hawaii, 1980-1990



Source: Adapted from State of Hawaii, DBED and T. "Foreign Investment Activities in Hawaii and the United States; 1954 through 1998 by Country," 1999.

confirmed that the income generation from the hotel industry, in general, did not fair well. The lack of profitability did not affect Japanese investment. The EIU (1989) noted, the Japanese investor was willing to absorb losses or lower initial returns for long-term internal rates of return (IRR). As noted by Hanson (1997), declining profit margins force herdsmen (i.e., developers) continue the exploitation by adding more animals (i.e., hotels) or to go out of business. Yet, overbuilding or development could produce the tragedy of the commons, as noted by McCoy (1998).

After the 1985 Plaza Accord, the Japanese yen gained in strength against world currencies. Japan lowered its already low (3 percent) discount rate to 2.5 percent. Leventhal (1992, 2) noted the “eagerness of Japanese banks to expand market share.” Thus, the land-wealthy corporations had an even easier access to Japanese bank loans, especially since the Japanese banks' relied on collateral (i.e., real estate) more than project quality and cash flow to qualify the loan (Renaud 1997). The increase in real estate loans was caused by not only land price inflation but also equity asset inflation. According to Leventhal (1992, 2), Japanese liquidity resulted in higher asset values of Japanese financial instruments and property, which was then used to borrow against to obtain real estate, particularly in the United States. Thus, the boom in Japan's real estate values caused a tremendous asset appreciation that allowed far too much borrowing by the Japanese for worldwide real estate ventures (Hara and Eyster 1990, Burritt 1991, Leventhal 1992, and Renaud 1997).

Investments rose to \$721.5 million in 1987 and to \$819.9 million in 1988. In 1987, the Japanese bought 11 existing hotels, 3 parcels of land, and 2 new hotels

(Waikiki Parc Hotel for \$40 million and Westin Maui Hotel³⁴ for \$34 million). Fifteen existing hotels, 2 new hotels (Hyatt Regency Waikoloa for an undisclosed price and Embassy Suites, Kaanapali,³⁵ for \$90 million), and 2 parcels of land for future hotels were purchased by Japanese in 1989. By 1988 Japanese owned about 60 percent of the total hotel rooms in Hawai'i (Leventhal 1988a), and about 90 percent of Waikiki hotels. Leventhal (1988a) noted that only 8 percent of the hotels were independent while 92 percent were affiliated with a hotel company.

In 1989 Japanese investment in the United States real estate market declined, but Hawai'i hotel investment soared to \$1.11 billion. The Japanese investors purchased 23 existing hotels, 6 parcels of land, and 1 new hotel (Waikoloa Resort for \$50 million for a 27 percent interest) in 1989. The decline in Japanese investment began in 1990, when investment was only \$871 million. However, the outer island had four new hotels (Hyatt-Regency Kauai for \$220 million,³⁶ Four Seasons Resorts, Wailea, for \$180 million, Ritz-Carlton Mauna Lani for \$175 million, and Hawaii Prince Hotel for \$150 million) completed by Japanese investors, along with the purchase of 8 existing hotels and 1 parcel of land. By 1990, real estate loans by Japanese banks were 17 percent of the total bank loans, while in 1985 they represented only 7 percent. It is not surprising that Japanese hotel investment in Hawai'i totaled \$4.581 billion from 1980 to 1990, representing a 3,375 percent increase from 1980 to 1990.

³⁴ The Westin Maui was built by Hemmeter and sold to Kaukani for \$34 million in 1987, the year the hotel was completed. In 1990, Abe International Ventures bought the hotel for \$290 million.

³⁵ The Embassy Suite was sold in 1988 for \$90 million and then sold in 1989 for \$151.2 million to A.I.V.C. of Japan.

³⁶ Local investor Mel Ventura had two Japanese partners for the project.

The volume of Japanese hotel investments from 1980 to 1990 should correspond to the occupancy rates. While the DPED (1972) linked occupancy rates to hotel construction, the same should be true for purchasing existing hotels. To examine the connection, Figure 5.6 illustrates the occupancy rates in Hawai'i from 1980 to 1990, which ranged from 68.2 percent to 81.7 percent.

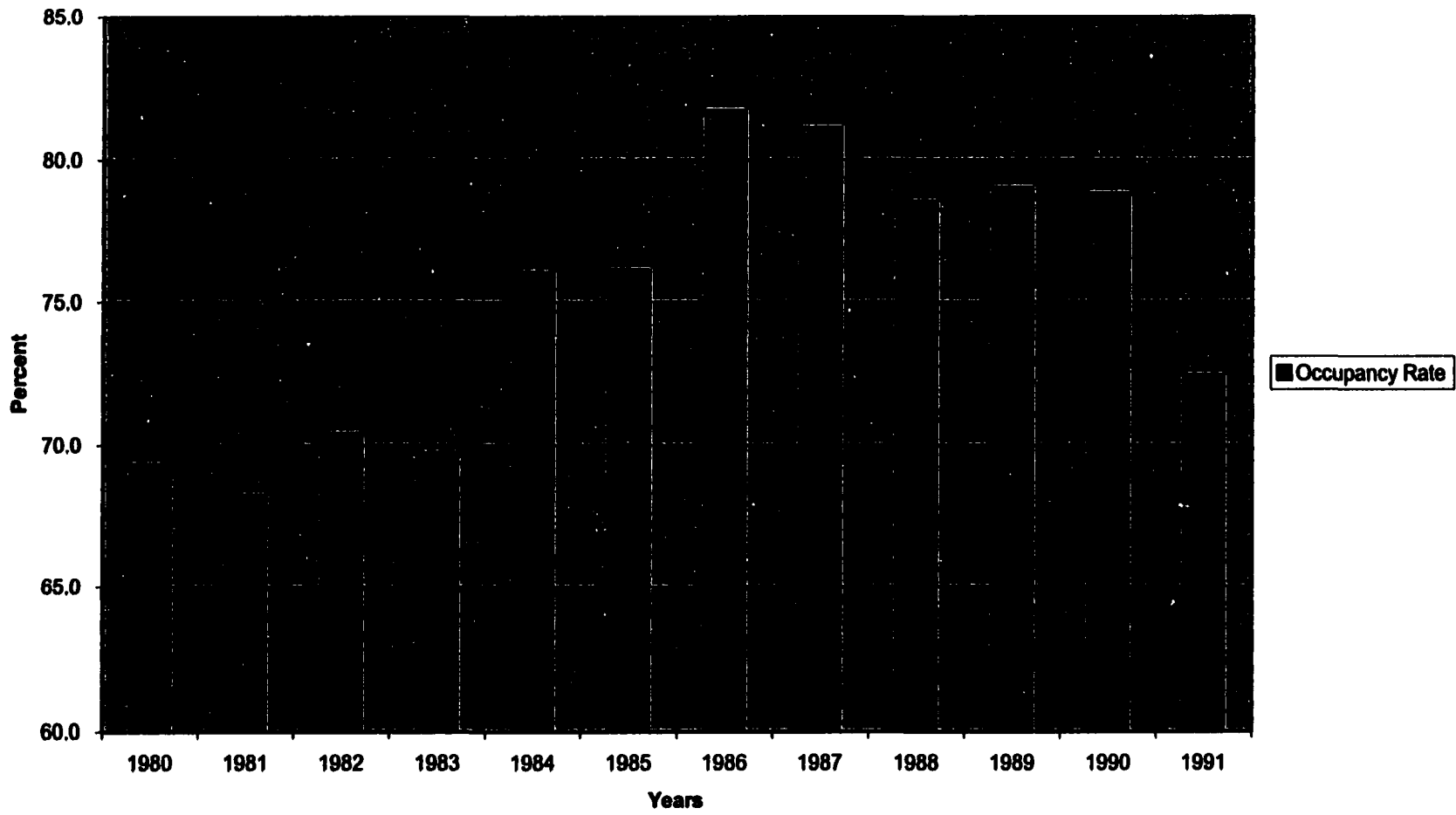
Figure 5.6
Hotel Occupancy Rates in Hawai'i, 1980-1990

The early 1980s should have seen little or no growth, since the occupancy rates were under the breakeven point, but by 1984, there should have been modest hotel construction and purchases. By 1986, the growth should have increased. Assuming a lag of several years, it appears that the large growth in hotels purchased and built from 1986 to 1990 was higher than the DPED (1972) correlation predicted.

However, hotels were not the only real estate investments by Japanese. The distribution of property types from 1987 to 1990 is illustrated in Table 5.2. Investment in hotels represented more than half of Japanese real estate investment in Hawai'i. However, hotel investment began to decline in 1988 as a proportion of real estate investment.

Most of the purchases listed under the category "Other" were complementary industries to hotels owned by the Japanese. By 1990, the Japanese owned at least 21 restaurants located outside of their hotels, 4 bakeries, 20 shopping centers, and 21 golf courses. In addition, a dry cleaning chain, nightclubs, insurance companies, Foremost Dairies, beauty salons, and partial ownership of car rentals and construction companies were purchased. Daiichi Real Estate even purchased the future site of the convention

Figure 5.6.
Hotel Occupancy Rates In Hawai'i, 1980-1990



Source: Hawaii Visitors Bureau. *Annual Research Reports*, 1982 and 1991.

**Table 5.2
Japanese Real Estate Investment in Hawai'i by Property Type, 1987-1990**

Property Type	1987		1988		1989		1990	
	Total	Percent	Total	Percent	Total	Percent	Total	Percent
Hotel/resort	2,520	76	753	41	1,908	43	1,230	37
Land	NA	NA	NA	NA	887	20	572	22
Residential	NA	NA	NA	NA	267	14	172	18
Other	81	24(a)	1,077	59(a)	1,375	23	886	23
Total	3,330	100	1,830	100	4,437	100	2,860	100

Source: Kenneth Leventhal & Company, 1988-1990.

Dollars in millions.

NA = not available.

(a) Includes all Japanese investment outside of hotels.

center. The synergy created by the additional companies gives credence to Porter's (1990) suggestions that the Japanese create their own system. Thus, the Japanese captured visitors' dollars not only for hotel rooms but also for eating, shopping, entertainment, golf, and the like. While it is known that the Japanese like to establish a relationship with their business partners, in Hawai'i many of the relationships formed were within their own *keiretsu* or other Japanese-owned firms. Few partnerships or joint ventures were established on the islands. As noted by Leventhal (1990, 26), in Honolulu more than 80 percent of Japanese transactions resulted in wholly owned acquisitions.

The Japanese investment in United States and Hawai'i real estate emerged in the latter part of the 1980s as an investment phenomenon. The high profile real estate purchased by Japanese gave the illusion that Japan was buying up America. In fact, Japanese real estate investment in the United States constituted less than 2 percent of

United States commercial real estate (Hara and Eyster 1990, 100). According to Leventhal (1989, 29), while there was publicity to the contrary, there was little real chance of domination of the United States real estate markets by the Japanese. Yet, in Hawai'i, Japanese ownership of hotels was significant (i.e., 60 percent statewide).

Image and reputation of the area and property, accessibility and brand name recognition played a role in Japanese investment (Burritt 1991). Hara and Eyster (1990) simply stated that tradition, ego, and savvy were some reasons for purchasing hotels. The fact that hotels gave buyers desired status and ego satisfaction (Kenneth Leventhal & Company 1991) was obvious given the numerous high profile, trophy properties the Japanese purchased throughout the United States. The low cost of capital, abundance of money, the United States economic and political stability along with its open economy, the location in the Pacific Ocean, the large number of Japanese-descent residents, the weakening of the United States dollar, the increasing affluence of Japanese citizens, the large number of Japanese traveling to Hawai'i, an adequately educated workforce, a supporting infrastructure for the tourism industry, and the potential to acquire United States residency through investing also promoted the growth in Japanese real estate investment.

Leventhal (1988a) noted that the recent prosperity seen in Hawai'i could be seriously undermined with shifts in investments, development or tourist patterns, as well as other macroeconomic factors. More importantly, Leventhal noted, the positive factors contributing to growth may have negative future consequences. The negative factors of tourism were discussed in Chapter II. The negative consequences in Hawai'i are discussed in some of the State Plans and studies. However, as seen in Chapter VI, most of

the negative factors were understated or ignored by the state. From a public choice viewpoint, the government was responsible for ensuring the quality of life for its citizens. The tragedy of the commons noted that it is impossible to know what harm is being done by just one person (i.e., one developer) until the total system is seen. Only the Hawai'i government could see the whole tourist industry in the state. The state goals of economic growth, as discussed in Chapter VI, add to the problems of tourism. "Clearly, Hardin proves that when people in any infinite biosystem accept the modern economic idea of steadily increasing their wealth and consumption, a collapse of the commons which sustains them is inevitable" (Elliot 1997). Adding the increase in population from the tourists, the decline of the environment and quality of life of Hawai'i residents was also inevitable.

During the late 1980s, the Japanese domestic environment was changing. The previous non-taxable postal savings accounts were taxed at a rate of 20 percent by 1988. In 1989, the Japanese bubble economy began to break.³⁷ With the overheating of the real estate and stock markets, the Bank of Japan "initiated a series of increases in the discount rate The Ministry of Finance began imposing severe real estate lending restrictions on Japan's financial institutions" (Leventhal 1993, 3). The historically low interest rates escalated. Japanese banks were continuing the process of compliance with the Bank of International Settlements' capital-adequacy rule (i.e., 8 percent of their risk-adjusted assets by March 31, 1993), ending the real estate boom.

³⁷ For a detailed discussion on the Japanese bubble economy, see Renaud 1997.

The financial crisis in Japan pushed many Japanese to sell their properties in Hawai'i, but few investors were able to sell above the acquisition prices, especially properties acquired in 1985 through 1990.³⁸ In 1992, Leventhal noted that recent sales in Hawai'i had been at prices from 30 to 70 percent below acquisition costs.

Conclusion

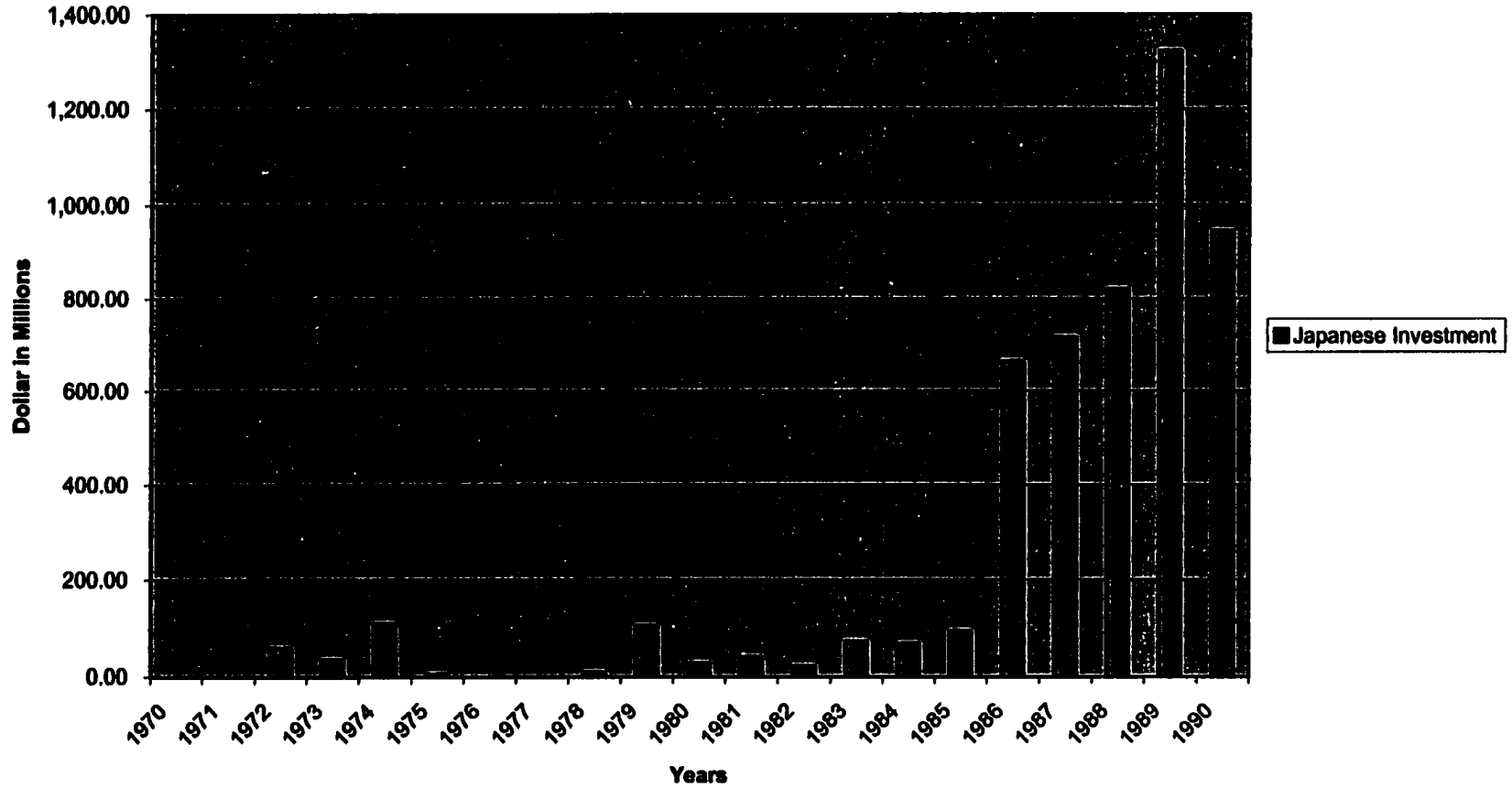
Since 1970, tourism increased dramatically throughout the world. Thus, hotel development also increased. The United States was fully entrenched in the growth of tourism. By 1973 U.S. Senate was looking at FDI into the United States. With the limited information available on the long-term effect, the federal government decided to continue its open, yet passive, role in FDI. The Japanese government aided in the increase in the number of Japanese tourists via amended regulations and statutes (e.g., issuing of multiple passports and increasing the amount of yen allowed to leave Japan). In the mid-1980s, Japan's business practices, domestic land regulations, and government regulations (e.g., banking and tax) along with the Plaza Agreement made investing outside of Japan very attractive. The dramatic growth of Japanese hotel investment in Hawai'i in the late 1980s in comparison to the prior years is shown in Figure 5.7. Hawai'i seemed an appealing location for Japanese investment with the large number of Japanese tourists and the lower cost of land, while Hawai'i needed outside capital for tourism to grow.

Figure 5.7 Japanese Hotel Investment in Hawai'i, 1970-1990

Kono and Berger (1979, 1) saw "a pressing need for more definitive data and expert assessment of such investments and prospects for future growth." They noted that

³⁸ The investors, who lost the most, were the ones that acquired properties in 1988 through 1990.

Figure 5.7
Japanese Hotel Investment in Hawaii, 1970-1990



Source: Adapted from State of Hawaii, DBED and T. "Foreign Investment Activities in Hawaii and the United States; 1954 through 1998 by Country," 1999.

the volume, impact, and contributions of foreign investment needed to be known to formulate policies and objectives. One has to wonder what the state policies and objectives were based upon, since the State decision-makers did not identify the effects and consequences.

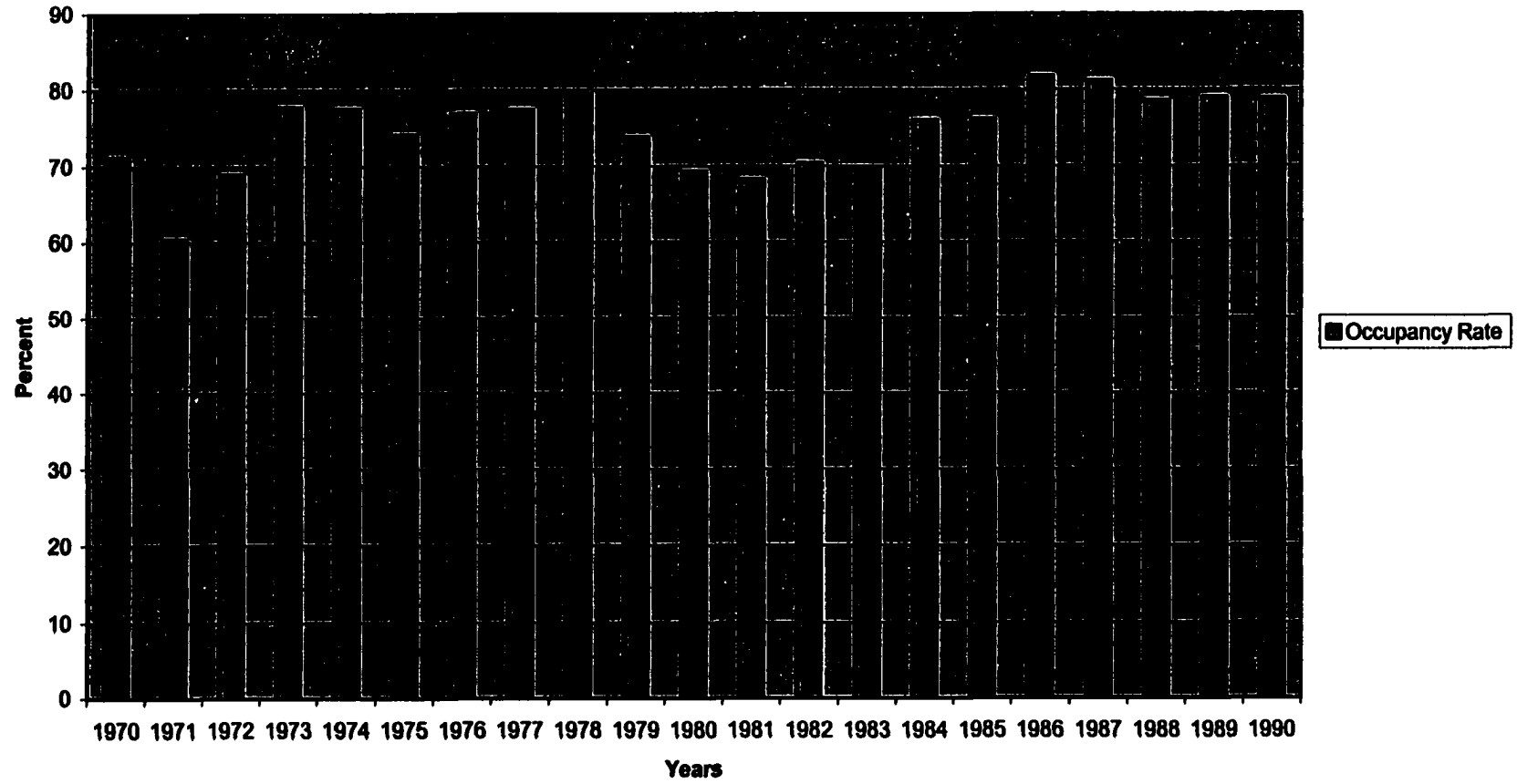
Hawai'i's occupancy rates from 1970 to 1990 are shown in Figure 5.8. Hawai'i's occupancy rates should have promoted modest or somewhat larger investments in the hotel industry. However, the number of units built in the state, especially in the late 1980s, showed overbuilding, pursuant to the 1972 DPED link between occupancy rates and construction/purchasing of hotels.

Figure 5.8
Hotel Occupancy Rates in Hawai'i, 1970-1990

Hawai'i did not offer special incentives per se to encourage foreign investment directly. The State, however, provided infrastructure for the tourism industry no matter who the investors were. Hawai'i-based sellers and real estate brokers preferred Japanese buyers since the Japanese were willing to pay a premium for high-quality properties with good potential (Burrill 1991, 62) or perceived potential.

The government's role was to control and regulate the growth of tourism, with zoning being the most common method. As noted by DPED (1972), the land zoned for hotel development by 1970 provided for 105,000 units; yet in 1990, there were a total of 72,237 units for tourist use. Thus, the Hawai'i State government did not control tourist development via zoning, unless the goal was massive growth—not controlled growth. On the other hand, this is not to imply that there was any targeting of any particular

Figure 5.8
Hotel Occupancy Rates in Hawaii, 1970-1990



Source: HVB, Annual Research Report, 1982 and 1991.

developers (e.g., Japanese) as the land was zoned prior to the extraordinary growth of Japanese investment and overall tourism growth found in Hawai'i.

Finally, to understand the problem statement: "Were Hawai'i government's policies to attract investment inconsequential to Japanese hotel investment in Hawai'i's or counterproductive for the economy of the Aloha State from 1970-1990?", it is necessary to include the Japanese side. Japanese financing and business practices, such as the cheap and easy lending policies of Japanese banks, made investing more appealing. The most interesting element of Japanese lending was that the loan decisions were based on the value of the property and not on profit and loss, a peculiarity of Japan. The lending decision-making was especially noteworthy given the inflated prices paid by many later Japanese investors. In addition, the yen rate, the grossly inflated prices in Japan, the lack of available land, and the increasingly large numbers of Japanese tourists to Hawai'i played a part in the decision to investment. However, the increased reliance on the visitor industry and FDI made Hawai'i's economy even more vulnerable to the volatility of that one industry, which was highly sensitive to international fluctuations in income, prices, and political activities.

Chapter IV focused on tourist numbers while Chapter V focused on Japanese hotel investment and occupancy of hotels. Chapter VI, the final background chapter, reviews the State Plans and studies. These plans were to be used to guide the growth of the tourism industry in the state. Thus, the plans would also guide the state so that the tragedy of the commons was avoided.

CHAPTER VI HAWAI'I STATE PLANS AND STUDIES

The State Plans were written to set the direction for the tourism industry, along with establishing the goals and objectives of the state. Thus, rational decision-making and public choice theories are at the heart of this chapter. Two of the issues listed in Chapter I are addressed: (1) the policies set in the State Plans, including implementation and (2) the effect of tourism on the residents of Hawai'i. Thus, the plans could protect Hawai'i from turning into an example of the tragedy of the commons.

Chapter VI describes and analyzes many of the State studies and plans completed for the tourism industry, but it is not all-inclusive and is not an exhaustive analysis of the studies done outside of the State. It does, however, include a more detailed discussion of more plans than any other study I have seen. The multitude of studies and plans has been consistently criticized for ignoring past studies; thus, plans are seen as repetitive or contradictory. Finally, my study includes the major research on Hawai'i's tourism industry.

State Plans and Studies: Pre-1970

In the early 1900s, L. E. Pinkham, President of Honolulu's Board of Health, completed the first tourism study.³⁹ Pinkham recommended that Waikiki become a resort area. He also recommended that buildings be at least 40 feet from the street and that underground water, sewer, gas, telephone, and electrical service be installed. Lastly, Pinkham noted a need for mass transit and park expansion (i.e., open green spaces)

³⁹ This study had a health focus.

within Waikiki. Yet, the Office of Tourism, Department of Planning and Economic Development (DPED, Executive Summary, 1978, 5) noted that the Pinkham recommendations were still valid in 1978.

A 1959 study conducted by the Public Administration Service (PAS) for the territory of Hawai‘i focused on government organization. The PAS recommended that the HVB continue as a private corporation to market Hawai‘i’s tourism industry, but a tourism office be established. The tourism office was to be the focal point of the state’s planning and implementation of tourism policies and was to perform functions outside of the HVB’s area.

By statehood, about fifteen different written tourism studies had been completed. Hawai‘i’s first legislature intensely investigated the steps the state could take to encourage the tourism industry. Act 18 was passed, mandating the State Planning Office develop an action plan for tourism development and submit the plan to the second legislative session for budgetary consideration. A primary motivation for the study was to improve the outer islands’ economies.

The outcome of Act 18 was the 1960 “Visitor Destination Areas in Hawai‘i—An Action Program for Development Study,” which had four parts: Part I: A Summary Report; Part II: Survey of Selected Destinations Areas of the World; Part III: First Stage Plans for Public Improvements; and Part IV: Analysis of Hawai‘i Hotel Operations. While Public Improvements were written in detail, the authors of the section clearly stated that the report did not contain long-term specific planning recommendations.

In response to provisions in Act 18, eight primary recommendations were proposed to the legislature regarding state departmental programs.

- (1) To appropriate funds for recommended capital improvements as set forth in the study.**
- (2) To endorse the use and disposition of state lands for resort development in specific areas on Kauai, Molokai, Maui, and Hawai'i.**
- (3) To assign the Department of Economic Development with the responsibility for coordinating and expediting the plan implementation.**
- (4) To appropriate visitor promotion funds.**
- (5) To prepare legislation allowing state financial aid for private hotel construction on the Neighbor Islands.**
- (6) To encourage the counties to prepare and adopt regulatory ordinances to preserve the quality of resort areas.**
- (7) To institute building controls for height restrictions, density controls and zoning and landscape and community appearance regulations.**
- (8) To investigate the State's responsibility concerning operational programs, including education of employees in the industry; orientation of the public with regard to benefits of the industry; orientation of the employee with regard to his attitude toward the visitor; orientation of government agencies in the industry as to long range benefits derived from development of the visitor industry; and policing or regulation of the industry as may be necessary by the government.**

Comparing the Capital Improvement Program (CIP) with the actual expenditures showed that most of the outer islands projects were clustered around the recommended resort regions. The 1960s saw the outer islands' populations increase for the first time since World War II. However, the population increase could not be definitively attributed to the investments by the state and tourism development (DPED, Hawai'i Tourism Impact Study, Volume One, 1972, 158).

Overall, the 1960 study proposed \$34 million in CIP expenditures; by 1970, the actual expenditures exceeded the 1960 estimates by 70 percent. The 1972 state study (158) reported three possible explanations for the discrepancies: (1) the estimated CIP

costs were inadequate, (2) the state imposed greater emphasis on programming capital investments, and (3) inflation, which was assumed to be the major factor. The state expenditures exceeded the estimated CIP in highways, historic improvements and parks, marinas, scenic drives, and water systems projects. Golf courses and "other" projects also exceeded the estimated CIP costs. The state not only exceeded the amount of programmed dollars but also redistributed the amounts recommended for each island. The difference between the plans and the implementation of the plans continued through the time frame of my study. The implementation process is examined through the public choice theory.

By 1961 the State Planning Office completed the nation's first general State Plan: the General Plan of the State of Hawai'i. The plan was the basis for a coordinated, integrated land development policy for future economic and population growth. As a land-based study, the plan designated several areas in the State for resort development of which a number were subsequently developed. Notable omissions were the social, cultural, and environmental elements.

State Plans and Studies: Pre-1970 Summary

Early in the twentieth century, Hawai'i was part of the global economy. It was obvious to most that the islands' beauty would entice tourists to Hawai'i. Just before statehood, the territory government required that a study be done to guide Hawai'i. The 1959 study, "Organization for the Administration of Natural Resources and Economic Development in the Territory of Hawai'i" did just that. With statehood, the first legislature ordered a comprehensive study on tourism and Hawai'i be completed. This

1960 study was the only study that included not only guidance for public improvements and hotel operations but also a survey of competitive destinations.

The 1960s focused on increasing tourism for economic development. The state noted the desire for an orderly growth of tourism within designated regions of the state. Thus, the pre-1970s sought a growth strategy for the tourism industry.

State Plans and Studies: 1970s

On January 6-7, 1970, the Travel Industry Congress⁴⁰ developed the document, "Recommended Goals for Hawai'i's Visitor Industry." The recommended actions were grouped into five categories: planning and decentralization, Waikiki, manpower, aloha spirit, and general resolutions. Although the congress had no official status, many of its goals and recommendations "have been acted upon, [but] there are many that deserve renewed attention." (DPED, Executive Summary, A Technical Study 1978, 7).

The 1970 Mathematica study⁴¹ under the direction of econometrician J. Baumol found that in the 1960s tourism direct and indirect revenue from tourism exceeded well beyond the breakeven point of the direct and indirect public costs. However, the study indicated the cost-benefit ratio would gradually decline (i.e., diminishing returns) with the increased need for in-migration labor and public services. Mathematica cited other decline indicators:

(1) Government costs increased faster than the general price level, causing an increase in the costs of capital improvements and public services.

⁴⁰ Governor Burns appointed 221 delegates with almost equal representation from State and county governments, businesses associated with the tourism industry, and public interest and civic groups along with five federal government representatives. In addition, 171 official observers attended the Congress, which gave recommendations to the state and county governments and the general public.

⁴¹ The study was prepared in 1969 and published in 1970 for DPED.

(2) Shifts from high to middle and lower income tourists decreased the visitor expenditures and the recreational facilities that hotels provided.

(3) Increased dispersion of visitors out of Waikiki and into other areas on Oahu and other islands increased public costs.

(4) Increased dispersion to outer islands decreased visitor expenditures in retail trade, attractions, and the like (e.g., a projection of 50 percent of visitors on outer islands would hurt the cost-benefit ratio).

(5) Increased visitors counts increased the social costs, which would probably increase proportionately more than the increase in visitors.

While the 1970 Mathematica indicated that tourism increased environmental concerns, there was no real discussion of environmental, social, and cultural issues.

In the 1970 legislative session, the House Concurrent Resolution No. 53, House Draft One, mandated a comprehensive plan on the impact of tourism on community needs and state objectives. The principal objective was for the DPED to maintain the vitality and guide the growth of the tourism industry. The result of resolution No. 53 was the 1972 DPED plan. The two-volume plan analyzed and evaluated the phenomena of the tourist industry, extending the cost-benefit analysis prepared by Mathematica. Private and public investments and facilities, physical guidelines for resort planning and design, a socio-economic case study of North Kohala, and statewide findings and recommendations were published in Volume One. Volume Two included a planning study of West Hawai'i, using an approach that incorporated tourism planning with community and state planning. The plan noted that tourism was part of a community environment and as such should not receive special treatment.

In Volume One, the plan noted that tourism had a lower multiplier impact than pineapple, sugar, and federal expenditures; thus, a large expansion in the tourism industry

was questionable. The micro study of North Kohala, Island of Hawai‘i, supported these findings. The Kohala households had more members working when the members were employed in tourism than when they were employed in agriculture (i.e., 1.41 to 1.13, respectively). The lower income from tourism was due to seasonal variations, a shorter workweek, and possibly lower hourly pay (115). Indirect employment from tourism was at least 23 percent less than from agriculture. With tourism, family income increased but individual income decreased, less skilled employees were required, and the need for public infrastructure per employee increased (e.g., increased cost of housing, recreation, and transportation as agriculture generally supplied on-property housing). A longer term concern was the cyclical nature of tourism, which was highly elastic and thus changed along with general business conditions outside of the tourism region. However, by 1984, the state declared that the state’s tourism was “recession resistant.”⁴²

The 1972 DPED study indicated the strong correlation between hotel construction and inflated land values. The study also acknowledged the State had limited land and unskilled labor supplies. In addition, importing labor necessitated that housing and public services be provided by the public sector.

The DPED (1972, 18) indicated that the state and the tourism industry were actively seeking the higher income segment—the slower growth, more competitive segment. The rationale behind targeting the higher income segment was based on the assumption that the segment used less public recreational facilities; the state did not address the possibility that infrastructure expenditure may be greater, especially if the hotel was located in more remote regions of the state.

⁴² This is discussed in more detail in the 1984 study section.

To guide development, the DPED (1972) recommended the use of zoning and taxation.

While the present zoning provided adequate resort land, taxation could be used to control the potential lower density rate of resort developments.

The Senate Concurrent Resolution No. 30, passed in 1972, created a Temporary Visitor Industry Council (TVIC). In December 1972, the governor appointed the members of the council, which solicited written input from various interest groups. The direction set by the resolution and the council's recommendations were as follows:

(1) To improve communication within the total industry, between government and industry, and with the public as to tourism developments and their implications for public welfare; the council suggested controlled growth to provide its share of financing for public services: housing and other infrastructure needs. In addition, more government studies be completed that are comprehensible to the public.

(2) To encourage industry cooperation to supply adequate and reliable data for industry and government use; the creation of an Office of Tourism consisting of representatives from the visitor industry, labor, the general public, and each island, which would develop a detailed ten-year growth policy for the tourism industry was recommended.

(3) To strengthen cooperation between industry and training institutions for curriculum planning, program implementation, counseling career opportunities, and appropriate arrangements for instruction; the council recommended that more research be performed by the School of Travel Industry Management (T.I.M.) at the University of Hawai'i and more coordination for education, training, and counseling.

The council also recommended that more attention be paid to the domestic visitor market and that replanning of Waikiki be done, limiting hotel rooms to 26,000 and residential units to 11,500.

Then in 1975, Governor Ariyoshi appointed another temporary committee to advise the DPED in its formulation of a 10-year plan on tourism. The committee published its report in January 1976. The report dealt with the number of visitors and

hotel rooms necessary to provide jobs for the population growth, a suggested government organization for implementation of the 10-year plan and coordination of tourism, and a state interim tourism policy for the 1976 legislature. The DPED's Office of Tourism was established in 1976. The office was "to assess the probable outcomes of alternative policy actions, the costs and benefits of various alternatives and the recommendation and development of new policies and legislation" (Legislative Auditor 1987, 45).

The 1976 legislature passed Act 133, "Interim Tourism Policy Act," which actively followed the 1975 temporary committee's suggestions. The Act required another interim tourism advisory council and the DPED to formulate an interim state policy on tourism to maximize the benefit from tourism to the people of Hawai'i. The objectives and policies were to (1) provide optimum satisfaction and high quality service to the tourists, (2) protect Hawai'i's natural beauty, (3) preserve and enrich the understanding of all regarding native Hawai'ian heritage and culture, and (4) sustain the economic health of the tourism industry in ways that were compatible with the first three objectives.

Act 133 established seven interim policies. The first was planned growth of tourism followed by visitor satisfaction, protection and promotion of Hawai'i's beauty and attractions, and Hawai'i's heritage. Resident requirements were listed fifth, mandating a policy that would "attempt to reconcile" the activities of tourists with the lifestyles of Hawai'i residents with preference to the residents. The sixth policy dealt with educating and training Hawai'i citizens to demonstrate courtesy and the aloha spirit. The final policy was the criteria for growth, to ensure growth would be consistent with the economic, social, physical, and environmental objectives of the state and counties.

Continuous monitoring and evaluating of the social costs versus the social benefits were also mandated.

On one hand, the act promoted development by seeking to eliminate unreasonable and unnecessary barriers to the cost of development. To encourage resort development capital, the state planned to upgrade the visitor plan infrastructure, expedite permit request processing for resort developers, aid in obtaining necessary federal permits, participate in trade missions in financial centers worldwide, and legislate tax incentives for new and existing resort properties. On the other hand, Act 133 mandated ensurance that all sectors of the tourism industry contribute to tax revenues. In addition, the Act required "encouraging" all sectors of society cooperate to attain the social, economic, and environmental objectives.

The 1978 study noted that the government could only control tourism growth through control of supply: number of units, type of hotels, and other tourism-related facilities. The policy also encouraged the completion of specific destination areas, where public funds had been used for capital improvement. The 1978 Plan acknowledged that the limited capital available would restrict tourism annual growth rate to less than 10 percent.

Under the land use law and regulations, the state required written assurances of compliance for a redistricting petition and for public review of the petitioner's performance after the redistricting. The 1978 plan addressed the policies for historic preservation, which was required under Chapter 6E, HRS, 1978. For example, the historic and archaeological sites inventory was to be marked on zoning maps and protected under the conservation districts.

Cost-revenue ratios were required to ascertain which visitor type generated more jobs and tax revenue for the state. Once the visitor type was identified, the state would target those visitors through various promotional programs. In order to accurately assess the economic impact, Hawai'i's self-sufficiency, and other industry alternatives, the state policy mandated initiating more studies and developing a methodology for assessing the sociocultural effects.⁴³ The sociocultural investigation was acknowledged as a pioneering (i.e., new) area of concern for tourism research by the State. Finally, the 1978 state study acknowledged the state's responsibility to protect the quality of life for its citizens; however, the state determined that the quality of life was primarily defined by economics.

The 1978 study, Executive Summary (5), noted that while tourism-related studies had been completed, there was "a lack of action that may demonstrate the inconsequential nature of public planning. More often than not, plans are produced and never implemented, for any number of reasons." However, the 1987 auditor's report (33) noted that the two primary tourism functions of the state were funding the HVB and developing plans to ensure tourism's orderly growth, but did not mention implementation.

In May 1978, the Hawai'i State Plan became law,⁴⁴ making Hawai'i the first State in the United States to formalize and implement its goals. The law mandated periodic review and amendments to the plan to stay current with changing social, economic, and physical conditions. The law had three fundamental goals: (1) stability, diversity, and growth characterized by a strong and viable economy to enable the fulfillment of the expectations and needs of Hawai'i's present and future citizens, (2) beauty, cleanliness,

⁴³ Measurement of social costs was mandated in Act 133 (1976); yet, the 1991 Plan had the same mandate.

⁴⁴ Codified as Chapter 226, HRS.

quiet, stable natural systems, and uniqueness characterized by a desired physical environment to enhance the physical and mental well-being of its citizens, and (3) economic, physical, and social well-being for individuals and families to nourish a sense of community responsibility, of caring and participation in community life (HRS, Chapter 226-4). However, as noted by Elliott (1997), the assumption that an ethics of good intentions (i.e., the abovementioned third goal), especially those intentions directed to filling individual needs or human needs, will automatically produce the good of the whole must be rejected. For Hawai'i, the social well-being of the citizens may be in direct conflict with dramatic growth in tourist numbers, which could then cause the tragedy of the commons.

The 1978 plan was to embody Hawai'i's basic desires for its economy. The State Plan brought forth two main objectives for economic development: (1) full employment, improved living standards, and increased income and job choices, which would be obtained through increased and diversified employment opportunities and (2) a growing and diverse economic base, to lessen the over dependence on a few industries. To fulfill the objectives set by Chapter 226-6, fifteen economic and economic development policies were established:

- (1) Expand Hawai'i's national and international marketing, communication, and organizational ties, increase the state's capacity to adjust to and capitalize on economic changes and opportunities occurring outside the state;
- (2) Promote Hawai'i as an attractive market for investment that benefits Hawai'i's people;
- (3) Seek broader outlets for new or expanded Hawai'i business investments;

- (4) Expand existing markets and penetrate new markets for Hawai'i's products and services;**
- (5) Assure that the basic economic needs of Hawai'i's people are maintained in the event of disruptions in overseas transportation;**
- (6) Strive to achieve a sustained level of construction activity responsive to, and consistent with, state growth objectives;**
- (7) Encourage the formulation of marketing cooperatives to assist small-scale producers, manufacturers, and distributors;**
- (8) Pursue more favorable arrangements at the regional and local levels for Hawai'i's export products;**
- (9) Encourage labor-intensive activities that are economically satisfying;**
- (10) Foster greater cooperation and coordination between the public and private sectors in solving Hawai'i's employment problems;**
- (11) Promote economic activities, especially those that benefit areas with substantial unemployment problems;**
- (12) Maintain acceptable working conditions and standards for workers;**
- (13) Provide equal employment opportunities for all segments of Hawai'i's population through affirmative action and anti-discrimination measures;**
- (14) Encourage businesses that have favorable financial multiplier effects within Hawai'i's economy; and**
- (15) Promote and protect intangible resources in Hawai'i, such as scenic beauty and the aloha spirit, which are vital to a healthy economy.**

In 1979, the Senate Committee on Tourism found that state appropriations for tourism were used primarily for advertising, promotion, and special events; the committee felt further investigation of the use of State funds was warranted (Legislative Auditor 1987, 45). The committee noted that the DPED was setting the direction for the tourism industry but was monitoring inadequately. In particular, it was found that the

DPED lacked guidelines and lacked effectiveness measurements for HVB (e.g., the data collected on visitor numbers was inadequate for performance assessment).

State Plans and Studies: 1970s Summary

In the 1970s the focus on tourism growth continued. However, the DPED (1972) noted that zoning was not being used effectively to control land use; thus, the DPED suggested taxation as the method for regulating land use.

Another concern surfaced (i.e., the social costs of tourism) with the 1970 Mathematica study and continued to surface in the DPED studies. In fact, the study indicated that the social costs of tourism would be proportionately higher than the increase in tourist numbers. In addition, the study warned that diminishing returns would eventually occur. An increase in the dispersion of tourism within the state would contribute to diminishing returns. To address the concerns of social costs raised by the Mathematica study, the Hawai'i legislature (Act 133) mandated a comprehensive study of the effect of tourism on the needs of the community. Due to the mandate, a micro-study of the Kohala region was conducted to examine the social, cultural, and environmental concerns.

The state acknowledged tourism had a lower multiplier effect than the state's other three main industries, increased land values, required mostly unskilled labor, had a lower rate of employee pay, and increased the need for importation of labor. These issues were briefly addressed by the Mathematica study. Then in 1976, Act 133 mandated continuous monitoring and evaluating of the social costs in comparison to the social benefits. The 1978 state policy also mandated a methodology be developed to assess the sociocultural effects. Although sociocultural issues were raised as a concern in the 1970

plan, no research methodology had been produced, again showing a lack of implementation.

The 1978 State Plan had two main objectives for economic development. The first dealt with employment, livings standards, jobs, and job choices; the second dealt with a diverse economy, an acknowledgement of the need for better jobs and more selection of industries at which to work. Unfortunately, many tourism studies were written and plans made, but never implemented (1978 DPED). From a public choice viewpoint, implementation of plans must be analyzed (Palumbo 1981, 1990). A failure to implement plans intended for the good of the whole is a failure of the public decision-makers. As Buchanan noted (1972), analyzing governmental decision-making to ensure the political system works toward the common good is the purpose of the public choice theory. However, planning (e.g., measuring the social effects on citizens) is only as meaningful and useful as its implementation. Thus, without implementation, the plans are meaningless and useless.

State Plans and Studies: 1980-1990

A new tourism technical document was produced in 1981 to support the state's functional plan for tourism. Again, the government's guidance role (i.e., to maintain a consistent governmental attitude towards resort development, to market and promote the industry, to encourage quality control, to train manpower, to foster a positive attitude towards tourism, and to provide infrastructure improvements and employee housing for the industry) was restated. Citizen issues were low on the agenda.

Hitch (1985, 83) noted that the government had shown "benign neglect" towards tourism, with little support from the government. Yet, the 1984 legislature reiterated that

tourism was primarily a private sector activity. Throughout state tourism studies, the state saw tourism as a private sector that was guided by state objectives.

The state tourism objectives as defined by Chapter 226-8, HRS, indicated the need for "a visitor industry that constitutes a major component of steady growth for Hawai'i's economy" (DPED, 1984, 47). The 1984 State Plan, the first comprehensive review of the original 1978 State Plan, addressed the objectives in Chapter 226 by establishing nine fundamental policies:

- (1) Tourism marketing and promotion;**
- (2) Industry awareness of the resident' social, economic, and physical needs and aspirations of Hawai'i's people;**
- (3) Quality improvement of visitor destination areas;**
- (4) Public and private sector cooperation in tourism development;**
- (5) Planned tourism development sensitive to neighboring communities;**
- (6) Steady employment for Hawai'i's people;**
- (7) Job training and education for upward mobility in the visitor industry;**
- (8) Information dissemination to residents on the contributions of the visitor industry to the economy; and**
- 9) Education of visitors on Hawai'i's unique character.**

The 1984 State Plan's economy report noted the link between the state's economic growth and tourism growth. The report identified tourism growth's dependency on three factors: United States and world economic conditions, the quality of Hawai'i's tourism product, and competition from other destination areas. The plan stated (49) that as "long as the economies from which Hawai'i attracts its visitors are growing, demand

for vacation will grow, all other factors remaining the same,” and continued by noting, “diversification of Hawai‘i’s visitor market is one of its major strengths” (50).

With Hawai‘i’s dependency on imported petroleum, outside capital, United States government defense policies, and world market for sugar, pineapple, and tourism; the state was very vulnerable to outside forces. But the 1984 plan also stated that Hawai‘i’s service economy was less vulnerable than economies relying on sale of durable goods.⁴⁵ The state noted that both the defense industry and tourism were “recession resistant,” and the visitors coming from both the east and the west—offsetting each other in downturns—hedged tourism volatility. However, this offset assumption ignores the fact that the east and west economies were connected.

The 1984 plan was concerned with remaining competitive, which necessitated cost control, quality control, and marketing; the latter was stated as most important. The state noted that monitoring internal costs, the competition, and emerging trends in the industry was the best strategy for Hawai‘i. Yet, the only study that researched competing destinations was done in 1960.

In addition, the state saw the need to maintain the quality of Hawai‘i’s tourism product—safety, comfort, feeling of being welcomed, and value-based quality. The quality factor depended on the maintenance of the existing facilities and quality of the new facilities, mandating financial input from the hotel industry and the state (e.g., infrastructure and planning). The 1984 plan added that the utmost care must be taken to insure the industry’s growth does not result in significant negative social effect such as

⁴⁵ This was based on the “Economic Report of the President” (1984, 229) that indicated during the 1981-82 recession, service production increased, while the total economy and the production of durable and nondurable goods declined.

excessive immigration, competition for resources, and overcrowding. The plan stopped short of recommending how growth and little negative social impact would be obtained. However, the measures on social effects mandated by Act 133 (1976) were still not established.

The 1984 Plan also assumed that the growth rate of Hawai'i's tourism would decline from its current 5 percent annual growth to 1 percent by 2005, but the length of stay would increase. Thus, the State did not expect the supply of visitor rooms to increase more than 80 percent, for which an adequate amount of land was already zoned. Again it can be seen that zoning was not being used to control growth. The 1984 technical economic report indicated the gradual maturing and slower growth of tourism.

Because of the tourism industry's magnitude and impact and the state's funding of HVB, Act 345, "the Supplemental Appropriations Act of 1986" directed the legislative auditor to audit HVB and the administration of the bureau's contract. The overall objectives of the audit (1) were "1. To examine and evaluate the role of DPED in managing the State's tourism program. 2. To assess the effectiveness of the programs and operations of the HVB. 3. To make recommendations for improvements."

The auditor's report stated that the most visible role DPED played was the contracting of the promotion and marketing of Hawai'i's tourism via HVB. The auditor's report vividly demonstrated the lack of coordination and understanding among government sectors. For example, the report noted that the DPED had not fulfilled its responsibilities for the functional plan and had not monitored tourism activities of other agencies. This statement ignored that fact that no agency, including DPED, had the authority to enforce the plans and oversee other agencies' activities (Keith 2000).

The auditor's report (52) also stated that the DPED had "no means of assessing existing promotional efforts or evaluating potential new markets," which was addressed by both HVB and DPED in their responses and by Kent Keith⁴⁶ in our personal interview (October 11, 2000); all mentioned budgetary constraints. The DPED's Director Roger Ulveling (3) added that the "State's HVB budget remained virtually level from 1974 (\$1.7 million) to 1984 (\$2.7 million)," and that administrative costs took a high proportion of the state funding. Almost half of DPED budget in fiscal year (FY) 1986-87 was for tourism programs. Yet, the legislative auditor omitted the funding role of the legislative branch, which increasingly determined what specific tourism programs would be funded. Figure 6.1 illustrates the funding for HVB from 1970 to 1990.

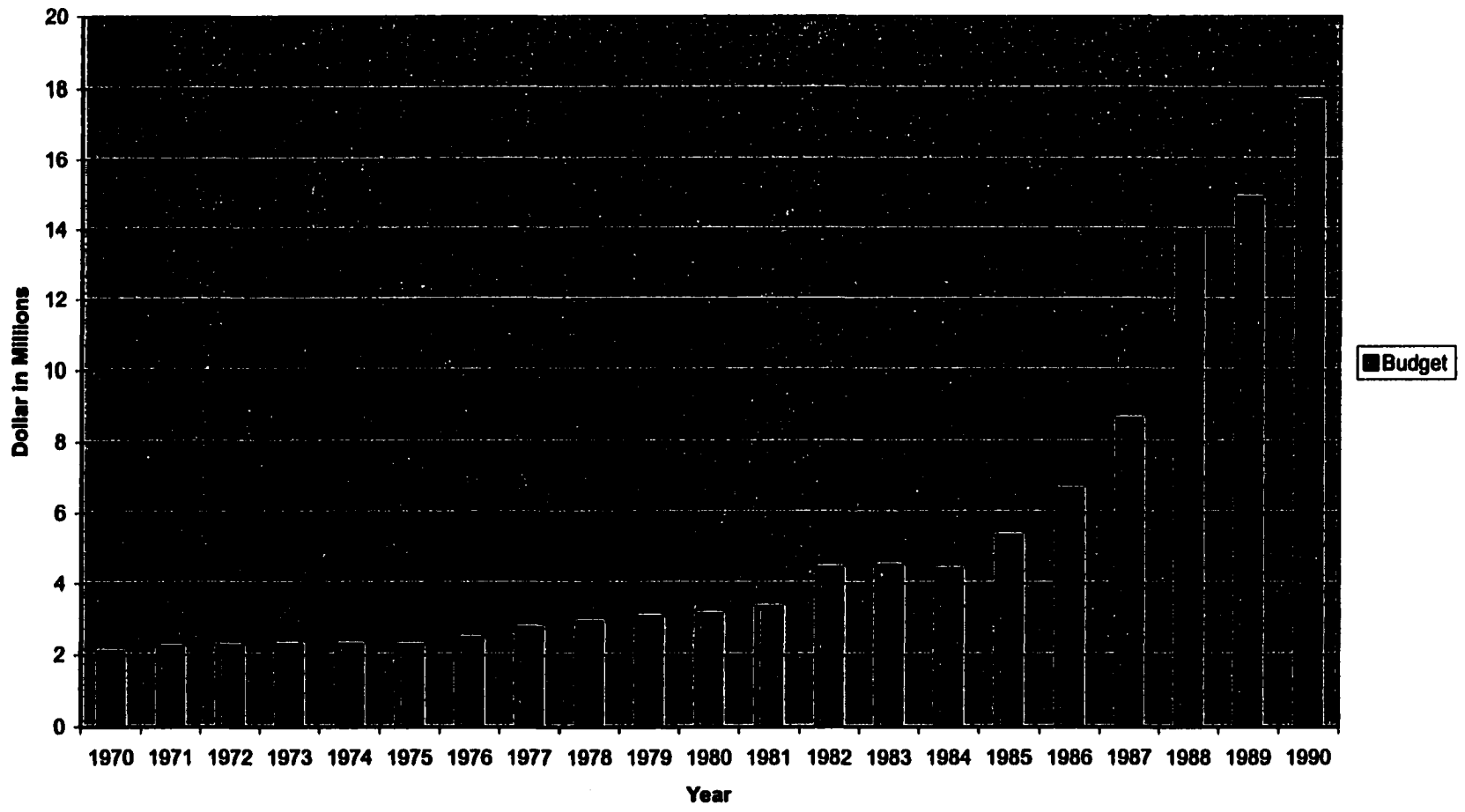
Figure 6.1
Hawai'i Visitors Bureau's Annual Budget, 1970-1990

Keith (2000) noted that HVB had a lot of talent, was the expert, and unfortunately, included a lot of politics, which made monitoring difficult to the extent that the auditor proposed. Dr. Keith (2000) indicated that HVB was made up of private sector individuals who do their own marketing and have their own agendas. Also, the DPED did not have statutory power to regulate HVB. The lack of statutory powers vividly illustrates the lack of coordination among government sectors to manage tourism.

As stated previously, HVB is a non-profit, private organization administrated by its board, primarily made up of representatives from the private tourism sector. The report noted that HVB's main responsibility was to maintain the visitor industry's

⁴⁶ Kent Keith was director of DPED from April 1983 to December 1986, which was the time frame used in the auditor's report.

Figure 6.1
Hawai'i Visitors Bureau's Annual Budget, 1970-1990



Source: HVB Financial Statements of Operations, and reports, 1970-1990.

profitability while the State's responsibility was much broader. Yet, the report criticized the contract with HVB, and its vague wording. However, the wording used was similar to the wording approved by the legislature in the State Plan (e.g., "promoting" the State, "encouraging" visitors, "conducting" research were specifically required under the State Plan).

The report added that the contract conditions were not enforced, yet, ignored that HVB had not followed the fiscal and personnel management policies for years. As indicated by Keith (October 11, 2000), the State did not impose state policies on HVB's hiring. The auditor also noted (93) that the HVB's budgeting process had been inadequate and unrealistic since 1968, ignoring the fact that the legislature continually approved HVB's funding even with its inadequacies.

HVB wrote an extensive response (i.e., 17 pages) to Mr. Tanimura, the legislative auditor. HVB's response (207) was that an "audit should be objective, accurate, and constructive. The preliminary report is none of these."⁴⁷ Most flagrantly it fails to emphasize the HVB's limited financial and human resources which for years have prevented the HVB from developing programs and pursuing many of the types of opportunities that the audit report recommends." When the funding began to significantly increase in 1987, the additional funds came with additional legislative restrictions (i.e., funding tied to specific activities).

The DPED's response was only four pages but agreed with the HVB. The DPED noted the agency had a wide objective, while HVB's objective was marketing of the

⁴⁷ Many institutions audited by the legislator auditors agreed with this point. It was noted that when you are being audited, the auditors will find something and will recommend changes that show the auditors' naivety (i.e., lack of outside work experience by most auditors) in understanding the realities of the Hawai'i agencies.

Hawai'i visitor industry. It was also noted the small amount of state funding for advertising did not reasonably allow for the high cost of conventional monitoring methods. However, with the increase in the 1986-87 budget, DPED was developing a database to perform limited conversion analysis of the inquiry response system, which was finally justified by the new higher level of advertising spending. The auditor made light of the input from both the DPED and the HVB.

The negative effect on residents' income from tourism resurfaced in the early 1980s.⁴⁸ Pai (1984, 11-13) of First Hawaiian Bank noted the significant feature of the shift to a tourism-based economy: the increase in low-wage industries. For example, the State Department of Labor and Industrial Relations (DLIR) reported that 61 percent of the increase in total employment between 1960 and 1982 was in retail trade and services. In 1982, average earnings in retail were 63 percent below the state all-industry average, while overall service sector earnings were 15 percent below average. Hotel workers were 40 percent below state wage average. The decline in high-wage industries (i.e., construction, sugar, and manufacturing) saw the average annual wage for employed workers—adjusted for inflation—decline by 13 percent between 1970 and 1982. Hawai'i's average wages were low by national standards. For example, in 1982, Hawai'i was 32nd in the nation at \$15,361, 9 percent below the national average of \$16,732.

Bank of Hawai'i's "Hawai'i 1984 Report" supported Pai's findings by noting that job growth occurred in the lowest wage categories. Yet, job creation covered only one-quarter of the 1984 high school graduates. From 1972 to 1982 wages increased 93

⁴⁸ The 1972 study vividly demonstrated the lower income level in tourism jobs.

percent, while inflation increased 117 percent. The bank predicted that the standard of living in Hawai‘i would decline and that the higher skilled citizens would need to leave the State for jobs matching their skills. Overall, the bank (9) suggested that the shortage of jobs on all levels would produce continual lower income and productivity.

Another survey of Hawai‘i residents was conducted by Juanita C. Liu and Turgut Var (1986). This survey’s results indicated that the residents felt that the economic benefits of tourism outweighed its negative social impacts. But the residents also indicated that protecting the environment was more important than the economic benefits. Yet, environmental impacts were never a priority for the state and the State Plans.

The 1988 DBED’s resident survey showed that 7 out of 10 respondents did not want further hotel development on their island and 6 out of 10 did not want more tourism jobs; the exceptions were from Molokai and East Hawai‘i—both of which had economic troubles. The problems stated by respondents (e.g., traffic, cost of living and housing, and crime) were partially dismissed by the State in commenting, “causal relationships between tourism and Hawai‘i’s ‘quality of life’ have yet to be determined in a definitive manner” (DBED&T 1991, 8). But later in the 1991 Plan (11), it was acknowledged that “as a major force in the economic development of the State, tourism also contributes to traffic congestion, and the increased competition for affordable housing, labor, and use of environmental resources.” These negative factors can contribute to the tragedy of the commons effect.

Overall, the State Plans set a direction for tourism. Unfortunately, the residents did not appear to be a high priority except to help tourism by demonstrating the aloha spirit to visitors and to fill the jobs from tourism. In addition, the state continually

understated the role of the external environment on tourism and, thus, on Hawai'i's tourism.

State Plans and Studies: 1980-1990 Summary

More state studies were produced in the 1980s. The first was the 1981 tourism technical report. The one noticeable difference from the older studies was the lower concern for Hawai'i citizens. However, the 1980s saw discontentment among Hawai'i residents from the negative effects of tourism.

The Governor's Tourism Congress in 1984 noted the state's benign neglect of tourism. However, the Hawai'i legislature took the position that tourism was a private sector concern. In the same year, the DPED stated that tourism was recession resistant, but also noted the state's vulnerability via its dependency on imports, United States defense plans, and sugar/pineapple markets. While the state acknowledged the dependency of Hawai'i's economy on outside forces, the plans and studies did not address ways of dealing with the vulnerabilities.

The link between the state's economic growth and tourism growth was indicated. The 1984 plan also noted the three primary factors for Hawai'i's competitive position. However, the state felt that examining other resort destinations was not necessary, as Hawai'i would be competitive if it kept its costs low, again ignoring the external factors in tourism. Land was also discussed; however, the amount of land designated for resorts was more than sufficient to meet the growth needs through 2005. This confirmed the assumption by DPED in 1972 that the state was not using zoning to control tourism development. Yet, the government was in a position to control overuse (or

overpopulation) to avoid the tragedy of the commons (Hardin 1968, Rajiv Sethi 1996, and Ostrom 1998).

The 1987 auditor's report criticized the structure and questioned the effectiveness of the HVB's performance. However, the auditor held the DPED responsible for not obtaining the data necessary to measure the HVB's performance; yet, the auditor never addressed the lack of legislative funding to produce these measures.

Even with all of the auditor's criticisms, the auditor continued to recommend the HVB as the marketing arm of the state's tourism industry. Interestingly, the lack of information on the effectiveness of HVB has always been ignored by the HVB. Yet, private advertising agencies monitor the effectiveness of their promotions, so why did not the state? In addition, some of the auditor's findings and recommendations were lacking insight. For example, the auditor criticized the DPED for not maintaining or implementing the State Plan, but again the legislature's lack of funding was omitted. However, as indicated by the plan, Kent Keith (2000), and Governor Ariyoshi (2001), the State Plan set guidelines and purposely used vague wording to allow flexibility.

Conclusion

By the 1970s, the state began a more formal approach to analyze tourism issues and policies. But "Distinguishing the need for tourism development, not strictly pursuing marketing plans is the critical element that has been ignored for too long, regardless of its literal evidence in the statutes" (Legislative Reference Bureau 1998, 103). While both the DPED and the legislative reference bureau saw a need for an overall policy, the legislature did not provide the necessary funding and resisted following policies set by agencies.

Between 1960 and 1970, the average annual growth was about 20 percent; between 1970 and 1980, the average annual growth was about 8.5 percent; between 1980 and 1985, the average annual growth was down to 4.4 percent. But by 1985, Hawai'i's tourism growth rate and market share were declining (HVB, June 30, 1986). The HVB attributed the decline to the maturing of the industry in Hawai'i and the broadening of the visitor base. Yet, the plans did not address the decline.

The state ignored not only the internal realities but also the external environment. The 1972 plan mentioned the cyclical nature of tourism, but the 1984 plan noted that tourism was not as vulnerable to economic swings as manufacturing. Even after the Japanese bubble economy burst, the 1991 plan showed no concern about the downward trends in the world economy. In fact, the 1991 plan noted that visitor arrivals should be at a slower and modest growth than in the previous five years to be compatible with the economic, environmental, and social needs of the residents. The statement implied that the reason for slower growth was for the betterment of Hawai'i's citizens and was not externally driven.

While the state was busy writing plan, the 1978 study (Executive Summary, 5) noted, "More often than not, plans are produced and never implemented," adding that the lack of implementation "may demonstrate the inconsequential nature of planning." The legislative reference bureau (1998, 21) stated, "The structure and current operation to promote tourism have been constructed piecemeal which has resulted in a complicated and ambiguous form of policy making." However, it is important to note that a large part of the problem is that plans do not have to be followed—the loophole in the State Plan law.

Nonetheless, most Hawai'i plans downplay the effect of tourism on the internal environment, which is used in rational decision-making and public choice theories, including the analogy of the tragedy of the commons. To compare the studies, I have selected five studies (1960, 1972, 1978, 1984, and 1991) and Act 133 (1976) to analyze. Table 6.1 compares the six studies/act using seven categories: (1) marketing, (2) government expenditures, (3) building and location regulations, (4) protection of resources and Hawai'ian culture, (5) Hawai'i's workforce, (6) community concerns, and (7) diversification of Hawai'i's economy.

Four of the five studies and the one act addressed marketing, the first category. The impact study in 1972 was the only study that did not address marketing, as it was evaluating the effects of tourism on Hawai'i. The other studies/act in Table 6.1 focused on marketing to increase tourist numbers and the quality of the destination. The 1978 study went so far as to state that increased marketing should be used to increase tourism capacity so that the market could capture opportunities created by the external environment, ignoring the diminishing returns mentioned in the 1970 Mathematica study. No other state study addressed the diminishing returns issue. By 1986, Chew of the HVB noted the evidence that visitors' expenditure receipts did not keep up with inflation. However, HVB and DBED&T published gross expenditure data and did not adjust for inflation, presenting an exaggerated picture on the economic impact of tourism.

Government expenditures, the second category, were addressed in the 1960, 1972, and 1984 studies along with Act 133 (1976). In 1960, the focus was on government appropriations for capital improvements and new development. By 1972, the concern was to formulate a policy for sharing costs of tourism facilities and services with the private

Table 6.1
Comparison: Plans 1960, 1972, 1978, 1984, 1991 and Act 133 (1976)

1960 Plan Recommendations	1972 Plan Findings	1976 Act 133: Interim Policies
<p>Marketing</p> <ul style="list-style-type: none"> ◆ To appropriate visitor promotion funds ◆ To prepare legislation allowing state financial aid for private hotel construction on the neighbor islands 	<p>Marketing</p>	<p>Marketing</p> <ul style="list-style-type: none"> ◆ Ensure visitor satisfaction ◆ Ensure growth is consistent with economic, social, physical, and environment objective of State and counties.
<p>Government Expenditures</p> <ul style="list-style-type: none"> ◆ To appropriate funds for recommended capital; improvements as set forth in the study 	<p>Government Expenditures</p> <ul style="list-style-type: none"> ◆ Need to define policy on sharing of costs for tourism facilities and services between public and private sector 	<p>Government Expenditures</p> <ul style="list-style-type: none"> ◆ Planned growth of tourism via a 10-year plan; infrastructure improvement of Waikiki; and county, federal and general public participation
<p>Building and Location Regulations</p> <ul style="list-style-type: none"> ◆ To endorse the use and disposition of state lands for resort development in specific areas on Kauai, Molokai, Maui, and Hawai'i ◆ To assign the Department Planning & Economic Development with the responsibility for coordinating and expediting the plan implementation ◆ To encourage the counties to prepare and adopt regulatory ordinances to preserve the quality of resort areas ◆ To institute building controls insofar as height restrictions, density controls, zoning and landscape and community appearance regulations 	<p>Building and Location Regulations</p> <ul style="list-style-type: none"> ◆ Danger of overbuilding in all counties beyond realistic projections of tourism demand ◆ Need to curb speculative activity around resort areas and derive additional revenues for public purposes ◆ Current and planned additional hotel inventory in Waikiki adequate to meet demand for the entire island of Oahu until after 1980 ◆ Need to enforce high design standard in all developments to enhance natural environment 	<p>Building and Location Regulations</p>

Table 6.1
Comparison: Plans 1960, 1972, 1978, 1984, 1991 and Act 133

1960 Plan Recommendations	1972 Plan Findings	1976 Act 133: Interim Policies
Protect Resources and Hawai'ian Culture	Protect Resources and Hawai'ian Culture <ul style="list-style-type: none"> ◆ Need to protect shoreline by right-of-way purchase program 	Protect Resources and Hawai'ian Culture <ul style="list-style-type: none"> ◆ Protection and promotion of Hawai'i's beauty and attractions ◆ Maintain/protection of Hawai'i's heritage
Hawai'i's Workforce <ul style="list-style-type: none"> ◆ To investigate state's responsibility concerning operational programs, including education of employees in the industry 	Hawai'i's Workforce <ul style="list-style-type: none"> ◆ Need to solve employee housing and other social problems in connection with resort development in rural areas 	Hawai'i's Workforce <ul style="list-style-type: none"> ◆ Educate and train Hawai'i citizens to ensure demonstration of courtesy and the aloha spirit
Community Concerns <ul style="list-style-type: none"> ◆ To investigate state's responsibility concerning operational programs, including education of employees in the industry; orientation of the public with regard to benefits of the industry; orientation of the employee with regard to his attitude toward the visitor; orientation of government agencies in the industry as to long range benefits derived from development to the visitor industry; and policing or regulations of the industry as may be necessary by the government. 	Community Concerns	Community Concerns <ul style="list-style-type: none"> ◆ Attempt to reconcile the tourist activities with residents' lifestyle and attempt to give preference to the residents
Diversification of Hawai'i's economy	Diversification of Hawai'i's economy	Diversification of Hawai'i's economy

**Table 6.1
Comparison: Plans 1960, 1972, 1978, 1984, 1991 and Act 133 (1976)**

1978 Development Policies	1984 Fundamental Policies	1991 Plan Objectives
<p>Marketing</p> <ul style="list-style-type: none"> ◆ Expand marketing, communication, and organizational ties, to increase State's capacity to adjust to & capitalize upon economic changes and opportunities occurring outside the State ◆ Promote Hawai'i as an attractive market for investment that benefits Hawai'i's people 	<p>Marketing</p> <ul style="list-style-type: none"> ◆ Tourism marketing and promotion 	<p>Marketing</p> <ul style="list-style-type: none"> ◆ Achieve steady and balanced growth of visitor industry along with infrastructure improvements ◆ Develop and maintain a well-designed, high quality visitor product ◆ Maintain a high consumer awareness of Hawai'i as a visitor destination in desired markets
Government Expenditures	<p>Government Expenditures</p> <ul style="list-style-type: none"> ◆ Quality improvement of visitor destination areas ◆ Public and private sector cooperation in tourism development 	Government Expenditures
Building and Location Regulations	Building and Location Regulations	Building and Location Regulations
<p>Protect Resources and Hawai'ian Culture</p> <ul style="list-style-type: none"> ◆ Promote & protect intangible resources in Hawai'i, such as scenic beauty and the aloha spirit, which are vital to a healthy economy 	<p>Protect Resources and Hawai'ian Culture</p> <ul style="list-style-type: none"> ◆ Educate visitors on Hawai'i's unique character 	<p>Protect Resources and Hawai'ian Culture</p> <ul style="list-style-type: none"> ◆ Respect for and preservation and maintenance of the delicate resources comprising Hawai'i's

Table 6.1
Comparison: Plans 1960, 1972, 1978, 1984, 1991 and Act 133 (1976)

1978 Development Policies

Hawai'i's Workforce

- ◆ Encourage labor-intensive activities that are economically satisfying
- ◆ Foster greater cooperation and coordination between private and private sectors in solving Hawai'i's employment problems
- ◆ Promote economic activities, especially those that benefit areas with substantial unemployment problems
- ◆ Maintain acceptable working conditions and standards for Hawai'i's workers
- ◆ Provide equal employment opportunities for all segments of Hawai'i's population through affirmative action & anti-discrimination measures

Community Concerns

Diversification of Hawai'i's economy

- ◆ Seek broader outlets for new or expanded Hawai'i business investments.
- ◆ Expand existing markets and penetrate new markets for Hawai'i's products and services.
- ◆ Assure that the basic economic needs of Hawai'i's people are maintained in the event of disruptions in overseas transportation
- ◆ Strive to sustain construction activity, responsive to and consistent with State growth objectives
- ◆ Encourage the formulation of marketing cooperative to assist small scale producers, manufacturers, and distributors.
- ◆ Pursue more favorable arrangements at the regional & local levels for Hawai'i's exports.
- ◆ Encourage businesses with favorable financial multiplier effects within Hawai'i's economy

1984 Fundamental Policies

Hawai'i's Workforce

- ◆ Steady employment for Hawai'i's people
- ◆ Job training and education for upward mobility in the visitor industry
- ◆ Industry awareness of social, economic, and physical needs and aspirations of Hawai'i's people

Community Concerns

- ◆ Planned tourism development sensitive to neighboring communities
- ◆ Inform residents on the contributions of the visitor industry to the economy

Diversification of Hawai'i's economy

1991 Plan Objectives

Hawai'i's Workforce

- ◆ Maintain a productive workforce with opportunities for upward mobility and increase in real income

Community Concerns

- ◆ Support Hawai'i's diverse range of lifestyle

Diversification of Hawai'i's economy

- ◆ Maintain visitor markets to support desired levels of economic activity, and diversify markets to provide a secure economic base
- ◆ Today's visitors to Hawai'i can be the investors of new and existing businesses in the State tomorrow.

sector. A 10-year plan for tourism growth was the main issue in 1976 (Act 133), adding that the government should eliminate unreasonable and unnecessary barriers placed on the developers and upgrade visitor infrastructure,⁴⁹ thus encouraging tourism. The final study (1984) was concerned with quality improvement in the destination areas and public and private cooperation on tourism development.

The most extensive information relating to building and location regulations, the third category, was seen in the 1960 study. This study recommended designated tourist development areas on the outer islands, assignment of the DPED for implementing and expediting the tourism plan, and adoption of regulations to maintain the quality of resort areas along with building control to ensure the appealing appearances of the hotels and resorts. The 1972 plan was the only other plan to address regulations, but it did so from a more critical viewpoint. The impact study was concerned with overbuilding and speculative buying of resorts and hotels along with the need for enforcement of high design standards for tourism development.

The protection of resources and Hawai‘ian culture, the fourth category, was addressed in all except the 1960 plan, the base plan for Hawai‘i’s tourism. The concerns ranged from protecting the shoreline, to protecting the overall beauty, to the aloha spirit. In 1991, respect for and preservation of the natural resources of Hawai‘i was one of the plan’s objectives. But the introduction of the 1991 Plan (8) acknowledged that it “has become even more apparent that tourism competes for scarce resources—physical, human, and capital” with the maturing of the industry. Towill, the director of the DBED&T (1991 Plan) stated that problems with the cost of infrastructure, lack of human

⁴⁹ Act 133 also mandated that the tourism industry contribute to tax revenues.

resources, and environmental issues were at the forefront, but there was no real discussion on how to address these issues.

The fifth category, Hawai'i's workforce, was addressed in all plans and the one act listed in Table 6.1. The 1960 plan addressed the state's responsibility in educating and training the citizens to fill tourism jobs. By 1972, the concern was resolving housing issues for employees. However, in the regional analysis of the impact of tourism, the study found that tourism had a lower multiplier effect than the other three industries in Hawai'i. A study on North Kohala found that more household members were working, but lower individual incomes, lower indirect employment, a larger sector of low skilled workers, inflated land prices from hotel construction, and a higher public infrastructure cost per worker were found in tourism than when agriculture was a primary industry. Yet, no other study addressed these problems in the tourism industry.

Act 133's focus was on educating and training the Hawai'i public to demonstrate courtesy and the "aloha spirit." The 1978 plan was more specific, noting economic satisfaction, acceptable working conditions, and equal employment for Hawai'i's people. Steady employment and job training for upward mobility was the concern in the 1984 plan. Maintaining a productive workforce with upward mobility and increased real income was noted in the 1991 plan. The employment effect of tourism increased dramatically beginning in 1970. It was estimated (DPED, 1984 Plan) that the direct and indirect civilian employment from the visitor industry accounted for 22 percent in 1970 and 37 percent in 1983. The percent of household income from tourism was estimated to be 16 percent in 1970 and 31 percent in 1983. However, the 1984 plan did not address the lower income per employee in tourism.

Community concerns, the sixth category, were addressed in the 1960 plan by recommending that the public be informed of the benefits of tourism and that the government be oriented to the long range benefits of tourism and, if needed, develop policies and regulations for the industry. The 1972 impact study's focus was on wages and job options, which were discussed in the above fifth category. Act 133 mandated that the state attempt to reconcile tourist activities with residents' lifestyles, giving preference to the residents. The 1984 plan followed a similar vein as Act 133 but also noted the need for increasing the industry's awareness of the economic, physical, and social needs along with the aspirations of Hawai'i's citizens. In addition, it was noted that tourism development should be sensitive to the community and again, the residents were to be informed of the economic contributions of tourism. In 1991, the primary community concerns were that tourism should support the diverse lifestyles of the people of Hawai'i and achieve "mutual appreciation among residents, visitors, and the visitor industry." The action statement for the latter concern was to promote and educate residents, visitors, and the industry on the "Aloha Spirit." The former concern's action statement was to develop and maintain measurement instruments for the quality of visitor industry employment, economic and fiscal impacts, and special studies of topical interests (e.g., social impacts). Again, it should be noted that the measures for assessing the social, cultural, and environmental impacts were noted as far back as 1970, but no implementation was done. Overall, the State Plans' focus on quality of life was based on jobs.

Diversifying the economy, the seventh and final category, was noted in only two plans (1978 and 1991).⁵⁰ The 1978 plan mentioned a need for more markets for Hawai'i's services and products, for sustained construction activity, for encouraging the formulation of marketing cooperative for small scale business at all levels, and for encouraging businesses with positive financial multiplier effects. By 1991, the primary statement was to maintain the visitor industry and diversify the markets to provide a secure economic base. The 1991 Plan acknowledged that economic benefits were key considerations, but the State was attempting to balance economic with social and environmental objectives. The plan (1991, 6) saw tourism as a way to diversify the economy, stating that tourists "to Hawai'i today can be the investors of existing businesses and/or the entrepreneurs of new ventures in Hawai'i tomorrow." Why this was assumed was neither asked nor answered.

All of the plans focused on growth, except for 1972, which was an impact study and as such looked at what had happened. In 1981, Governor Ariyoshi (26) noted that growth brought benefits but also had negative aspects. The Governor warned that the state should not continue "unregulated and undisciplined growth if we were to maintain the integrity of these Islands." However, he also said that no-growth was not acceptable as there would be no new jobs or opportunities for Hawai'i's young people.

The 1991 plan noted that the state must plan for optimum growth in tourism, defining optimum growth rate differently for the three primary parties: government, private, and community sectors. The optimum growth rate for the government would give

⁵⁰ The 1984 plan noted that diversity could decrease the damage from economic disruptions from being a one-industry state. But diversity was not mentioned in the plan's fundamental policies.

the state enough tax revenue to fund public infrastructure, support services and facilities, and effectively promote desired development; for the private sector tourism growth would produce a high rate of return; and for the community it would mean receiving enough growth to create and maintain good jobs without hurting the environment and quality of life. Thus, the State Plans continued to ignore the community's needs as noted by Ariyoshi in 1981.

Kent Keith (1985a, 6) noted the need for economic growth: "It can change the world for the better. But every action has its costs." Keith (1985a, 6) further stated "the transition from an underdeveloped to a developed economy may involve pain and disruption for some people, and liberation from the past, for others. Certainly, the problems are there, but the impacts are uneven." All of the factors above are included in the public choice theory, which addresses the decision-making of the state and its effect on the public. It seems apparent that the big winners were the decision-makers, who personally benefited from tourism as named in Land and Power in Hawai'i. The tourism employees gained jobs, but the majority jobs were low paying and had limited promotionability. The community gained more infrastructure but the number of tourists infringed on the community's quality of life.

As Keith (1985a, 33) noted,

It is not ethical to leave members of our community unemployed, nor is it ethical to damage our natural environment in creating jobs for them. Economic development must be ethical, and it is ethical when it is environmentally sound, socially acceptable, and economically beneficial to the people of Hawai'i. This ethic for economic development incorporates the values found in religious traditions and secular philosophies. It is embodied in our laws, such as our civil rights and fair labor laws, occupational safety and health laws, NEPA, the State Constitution, the State environmental policy statute, and the Hawai'i State

Plan. It is an ethic the people of Hawai'i can support and apply to economic development efforts.

As the 1987 auditor's report (33) noted, the state's major focus was on contacting HVB and developing plans "to ensure its [tourism's] orderly growth." In fact, the State Plan directed planning of the State's economy towards: (1) increasing and diversifying employment opportunities to achieve full employment, greater income and job choice, and better living standards for Hawai'i's people; and (2) a steadily growing and diversified economic base, which would not be excessively dependent on a few industries. These mandates, if followed, would be ethical; if not followed, public choice theory demands constraints are placed on the government and its decision-makers.

Unfortunately, many plans were still not implemented. Thus, while advocating change in the plans but not funding the implementation advocates the status quo. As noted by Hardin (1968), those advocating the status quo or rejecting reforms are based on the unconscious assumptions that the status quo is perfect or the choice between reform and no action (assuming the proposed reform is imperfect), then no action is taken as we wait for a perfect proposal. However, Hardin continues by noting that maintaining the status quo is taking action and thus necessitates that the advantages and disadvantages of the status quo be compared to the advantages and disadvantages of the proposed reform. The state has not fulfilled this requirement. Yet, Ostrom (1998) noted that individuals trapped in the tragedy can only stop with the use of inducement or sanctions applied from the outside; in this case, the actions must come from the state. The following chapter addresses the above issues along with the issues and problem statement in my study.

CHAPTER VII ANALYSIS

The data presented in Chapters III through VI allow us to determine whether Hawai'i government policies to attract investment in the hotel industry were inconsequential or even counterproductive to the economy of the Aloha State from 1970 to 1990. Chapters III and IV examine the literature on tourism in general, and on the tourism industry in the world, the United States, and particularly Hawai'i, including the number of tourists coming to Hawai'i (Issues 1 and 2). Chapter V addresses hotel development primarily in Hawai'i, the effect of Japan's policies on tourism and foreign investment, and the adherence by Japanese investors to Hawai'i policies (Issues 4 and 5). Chapter VI discusses the policies set in the state plans their implementation, and the effect of tourism on the residents of Hawai'i (Issues 3 and 6).

The success of the State's tourism industry is promoted or deterred not only by actions within the state, but also by world events, developers, and travelers themselves. This chapter analyzes each issue listed in Chapter I. The government's role in Japanese hotel ownership and its effects on the Hawai'i citizens are analyzed using the theories of rational decision-making and public choice (discussed in Chapter II). The analysis also seeks to determine whether Hawai'i is another example of the tragedy of the commons.

Issue 1: The Tourism Industry, Particularly in Hawai'i

Tourism differs from other export activities in that the consumers come to the exporting regions, as opposed to goods and services being exported to the consumers (deKadt 1979). The economic effect of tourism worldwide grew 260 percent between 1970 and 1990, expanding to most nations. By 1989, the United States enjoyed a trade

surplus in tourism of \$1 billion—a private sector achievement. The federal government did not view tourism as an important component of trade, although the government of Hawai‘i placed great importance on tourism.

Growth

By 1976 visitor expenditures in Hawai‘i had surpassed spending by the United States Department of Defense. Foreign and mainland investments in Hawai‘i had the principle benefit of enabling rapid growth of the tourist industry (Mak 1985, 31).

The growth of resort tourism (especially resorts built away from populated areas) has been attributed in part to resistance from the local population. As de Kadt (1979, 6) argued, a destination needs only good beaches and reasonable weather along with proximity to tourist accommodations that are similar to those of competing destinations. The availability of an educated labor pool is not a criteria for success in an industry that imports its management and relies on outside sources of funding.

Negative Consequences

While resort tourism can provide rapid stimulation of large-scale development, this type of development had important implications—most often negative—for the social and cultural effects of tourism on destination communities. Hawai‘i felt the effect from resorts. The state noted in 1972 that housing and other social problems associated with resort development in rural areas needed to be resolved. Yet resort developments, which were partially self-sufficient, with their own dining, activities, and coupons to financially linked businesses, were continuing to be built. This self-sufficiency, or “self-containment,” was in direct conflict with the state policy of discouraging closed developments, which is discussed in Issue 5.

The faster pace of growth brought more congestion to an already congested Hawai'i, setting the stage for a tragedy of the commons. While the growth of tourism created more jobs and raised total income, average individual income declined with more tourism investment (Mak 1985) (see discussion of Issue 6 below).

Social Tensions

Outside investment was necessary for the growth of the industry, but increased FDI could add to social tensions in the state. A concern of Hawai'i residents was that foreign investors would be less sensitive to environmental issues than investors from the mainland. Meanwhile, competition for Japanese investments was increasing, particularly in Europe.

Dependence on External Factors

Mak (1985, 31) noted that "a greater reliance on the visitor industry (and foreign investment) means that, even to a greater degree, Hawai'i's economy will be subject to the volatility of an industry that is highly sensitive to international fluctuations in income, prices, and political uncertainties." A healthy visitor industry depended on political and economic factors outside the state (Leventhal 1988a). The average duration of visitor stay and real growth in visitor expenditures decreased in economic down-cycles. Historically, escalating fuel prices and airfares along with international and national events have had an adverse effect on the Hawai'i visitor market. International terrorism has also influenced travel; for example, following terrorist activity in Europe in 1986, Hawai'i experienced an increase in the number of westbound visitors to the state. The value of the yen relative to the dollar affected the number of Japanese visitors to the state. The new mega-resorts developed on the mainland, and in Mexico and the Caribbean, have

increased competition for Hawai‘i. Yet the 1984 State Plan noted that the diversity of the state’s visitor composition was one of the major strengths of the Hawai‘i tourism industry.

However, economic downturns, especially in the United States and Japan, caused downturns in the Hawai‘i tourism industry. Leventhal noted in the “Outlook Section” of his report (1988a), “Accordingly, the long awaited recession, coupled with the state’s own internal problems [e.g., infrastructure, labor, costs] could cause disequilibrium in lodging supply and demand.” Hotel developers faced a tougher climate in Hawai‘i while operators faced intensified competition from new hotels being developed in the United States and international markets. Development was risky enough, but operating hotels in Hawai‘i was becoming more difficult and expensive with Hawai‘i’s tight labor market and high labor costs (Leventhal 1988a).

Hawai‘i’s island economy brought its own constraints. The state’s remote location creates a great dependence on air travel. Hawai‘i suffered sporadically from declining service by United States air carriers, and from the destination’s exclusion from most fare wars in the United States market (EIU No. 4, 1993). The Hawai‘i route also attracted the greatest use of frequent flyer awards, making it less profitable. The effect of Hawai‘i’s dependence on airlines was brought home during the United Airlines strike in the summer of 1985, which caused more damage to the state than the local construction strikes in 1984. Evidence gathered by BOH (July/August 1985) showed that the effect was felt across the industry; hotel occupancy rates declined, tour groups had fewer arrivals, and auto rental firms suffered a sizable decrease in demand. The June timing of the strike—at the start of Hawai‘i’s busy summer season—exacerbated its effect. The

financial loss from the strike was estimated to be \$76 million from visitor expenditures and \$136 to \$137 million in the overall Hawai'i economy (i.e., with the multiplier effect). In the wake of the strikes, BOH (July/August 1985) recommended that the state attract other carriers by creating a superior market so airlines would want to fly the Hawai'i route. But this was not the first time airline strikes caused problems, such as the United Airlines strike in the early 1970s.

Internal Factors

Outside factors are not the only concerns for tourism in the state. Leventhal (1988a) noted that increased congestion and commercialization of Hawai'i could cause tourists to seek destinations that were more secluded for a more relaxing environment. But Governor Ariyoshi (December 1985) noted a difference between Hawai'i and other places, citing the people of Hawai'i with their warmth, great hospitality, and the "aloha spirit." Many of Hawai'i's visitor industry leaders, along with government officials and agencies (through the 1978 and 1984 plans), expressed concern about preservation of the "Aloha Spirit" for both its social and economic value.

A major objective of the 1978 plan was to develop policies that maximized employment and minimized negative social, environmental and economic impacts (Executive Summary 1978, 30). The plan clearly stated that the intent of the 1978 tourism study (ibid., 30) was to achieve further growth of the industry, not to analyze the costs and benefits of tourism relative to the same costs and benefits in other possible and existing sectors of the economy. The latter statement supports Hall's notion (1994, 3) that "Tourism is not the result of a rational decision-making process." In Hawai'i's case,

alternative or additional industries were not generated and thus not evaluated and ranked in terms of costs and benefits, as required by rational decision-making.

The state's failure to examine other possible industries presents a conundrum addressed in public choice theory, which allows for examination of government choices. In Hawai'i, the government did not evaluate other industries; tourism was just chosen. As Cooper and Daws (1990) noted, "Tourism was dominant as much by default as by design."

However, tourism's economic value to the state was determined. Unfortunately, tourism contributed more to the GSP than it contributed to state and local taxes. For example, prior to the 1987 transient accommodations tax (TAT), the contribution of tourism to GSP was about 2.5 percent more than its contribution to state and local taxes. After enactment of the TAT, tourism's contribution to GSP was about 1.5 percent more than its contribution to state and local taxes; this lower contribution was attributed to the lower wages prevailing in the tourism industry (DBED&T 1996).

Tourism has driven the Hawai'i economy for decades. Japanese investment fueled rapid growth in the state's economy from the 1980s to 1990. From Governor Burns' address to the Keidanren Executive Council and Hawai'i's pavilion at the Osaka World Expo in 1970 "flowed the establishment of the Japan-Hawai'i Economic Council—and the beginning of the huge influx of Japanese visitors and investment to Hawai'i over the past four decades" (Cayetano, 1999). Thus, Governor Cayetano ignored all other factors when he indicated that Hawai'i government was the motivator for Japanese visitors coming to the state. The Governor asserted further that Japanese visitors have been good for Hawai'i and that Hawai'i has been good for Japanese business. Finally, he said that

Hawai'i's economy was intertwined with Japan's economy, so that when the Japanese economy declined, so did Hawai'i's. The State's economic dependence on Japan had thus become two-pronged, encompassing both development and tourism.

Issue 2: The Number of Tourists Coming to Hawai'i

Between 1970 and 1990, during the time frame of this study, the overall number of tourists to Hawai'i grew four-fold, from 1.75 million to 6.97 million. The increase in the number of tourists was fairly continuous during these two decades, but erratic in the rate of expansion. The rate of growth in the number of visitors was moderate (1 to 9 percent) in the 1970s, with the exception of 1970, 1973, 1974, and 1976, when increases were 14 percent, 23 percent, 17 percent, and 10 percent, respectively. Likewise, growth in the visitor count was moderate in the 1980s (0 to 8 percent) with the exception of 1984 and 1986, which saw increases of 11 percent and 15 percent, respectively.

Figure 7.1 compares growth in the number of tourists overall with growth in the number of visitors from Japan. The number of visitors from Japan grew 37 percent in 1971, 31 percent in 1972, 28 percent in 1973, and 33 percent in 1974. From 1975 to 1979, growth in the number of Japanese tourists was more modest (i.e., 0 to 7 percent) with the exception of 1976, which saw a 10 percent increase. While the increases each year were fairly substantial, Japanese visitors continued to be a minority among the visitors to the state. In 1970, Japanese tourists accounted for 8 percent of the total visitor count. From 1971 to 1979,⁵¹ when the number of Japanese visitors almost doubled, they

⁵¹ HVB and DPED did not report Japanese as a separate visitor prior to 1971.

still represented only 8 to 15 percent of the total visitor count for that period. By 1990, the share of Japanese visitors had grown to 21 percent.

Figure 7.1
Japanese and Total Visitors, 1970-1990

The 1980s began with a slight decline in the number of all tourists and Japanese tourists. Between 1980 and 1990, four years had substantial rates of growth: 1981 with 21 percent, 1984 with 12 percent, 1986 with 10 percent, and 1987 with 23 percent. By 1989 and 1990, the annual growth rates were 8 percent and 9 percent, respectively, while the rest of the period saw increases of less than 5 percent.

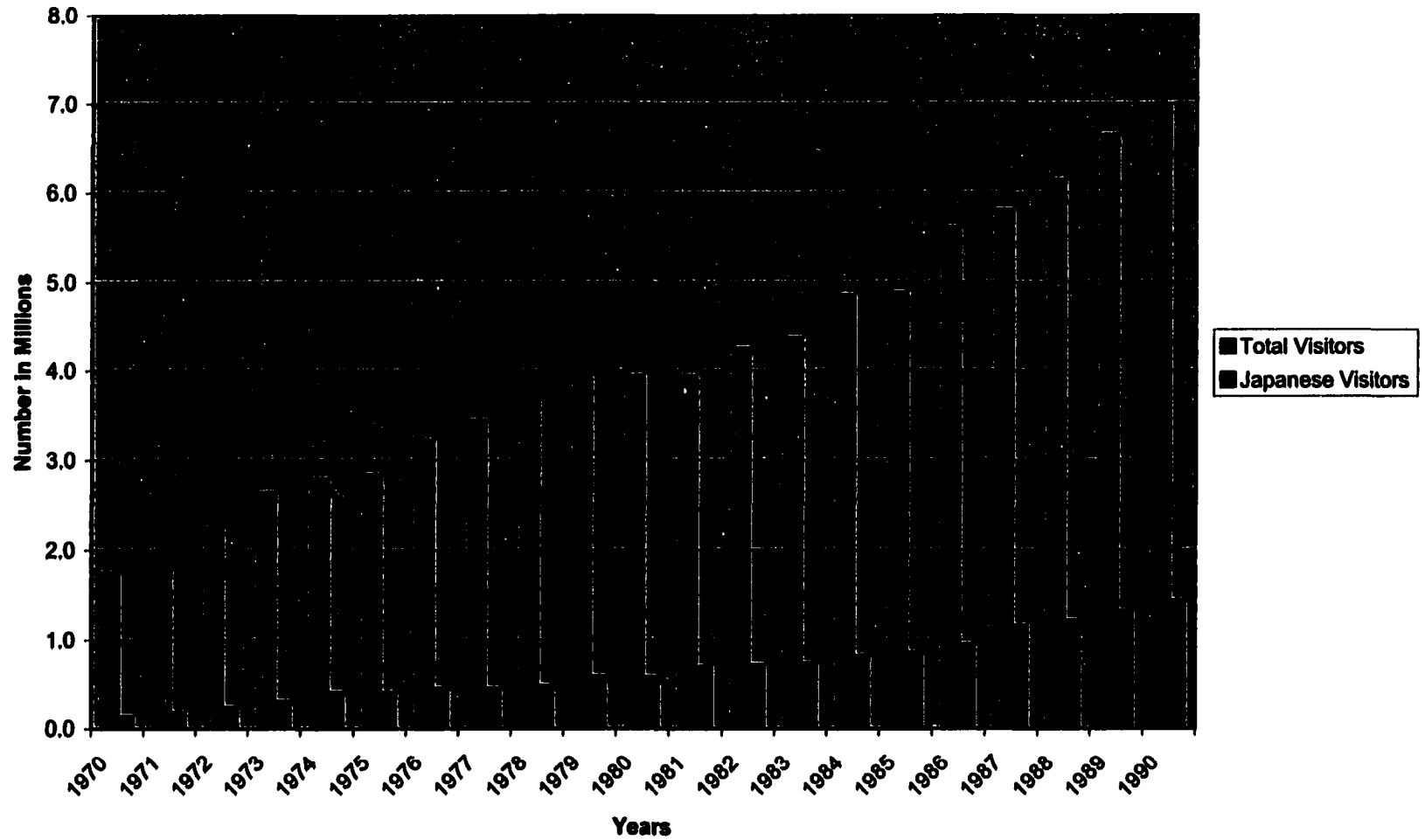
The true economic impact of tourism is measured by visitors' expenditures. The HVB measures the gross value of tourism expenditures, which ignores the fact that a significant part of the goods sold to visitors were imported for resale (DBED&T 1996, 5). A more accurate measurement, used by DBED&T, is the net value of tourism expenditures, or visitor sales less the value of imported products or services. The DBED&T began tracking net visitor expenditures in the 1990s and backtracked to 1985 to learn that visitor expenditures were 26 to 28 percent less than originally reported; these figures were not adjusted for inflation. Nonetheless, it was undeniable that tourism had a huge economic impact on the state.

Issue 3: The Policies Established in the State Plans, and the Degree to which those Policies were Implemented⁵²

The 1970s saw the development of a more formal approach to policy making and efforts to address tourism issues. The 1970 committee provided policy guidance for the

⁵² The State Plans were discussed in Chapter VI.

Figure 7.1
Japanese and Total Visitors, 1970-1990



Source: HVB, Annual Research Reports, 1970-1990 and Records.

development of the 1978 Hawai‘i State Plan. The legislature adopted the Plan (codified as Chapter 226, HRS) that same year, setting the state’s direction and goals for the tourism industry (Keith 1985). Hawai‘i was the first state to have an official State Plan; however, the plan contained a major loophole: state decision-makers were not obligated to follow or implement the plan, just to consider its goals and objectives. Moreover, the statutes, policies, and plan for tourism development were vaguely worded, relying on exhortations like “encourage,” “discourage,” and “attempt”. For example, Act 133 (1976) mandated an “attempt to reconcile” the activities of tourists with the lifestyles of residents, giving preference to residents. The State Plan was designed to be vague and “flexible” so that the legislature would adopt it and adjustments could be made to accommodate changes in the internal and external environment (Keith 2000, Ariyoshi 2001).

Even while the state was busy writing plans, the 1978 study (Executive Summary, 5) noted that “[m]ore often than not, plans are produced and never implemented,” and added that this tendency “may demonstrate the inconsequential nature of planning.” The 1987 auditor’s report (40) charged that the problem was the government’s lack of initiative and leadership concerning tourism. Others felt that the state gave little support to the tourism industry. During the Governor’s Tourism Congress in 1984, Hitch (1985, 83) went so far as to characterize the state’s position as “benign neglect.” The lack of legislative support was not mentioned in the 1987 auditor’s report or in the state studies. However, the Legislative Reference Bureau (1998, 21) did take note of the lack of funding, and added that “the structure and current operation to promote tourism have

been constructed piecemeal which has resulted in a complicated and ambiguous form of policy making.”

The 1978 State Plan identified two main economic development objectives: (1) full employment, improved living standards, and increased income and job choices, which would be obtained through increased and diversified employment opportunities, and (2) a growing and diverse economic base, so the state would not be overly dependent on a few industries. These two objectives share the theme of diversifying the state’s economic base. The 1978 State Plan called for the state to encourage businesses that had favorable financial multiplier effects within Hawai‘i’s economy. The policy was ironic because tourism, the largest industry, had a lower multiplier than either the defense or agricultural industries in the state. Indirect employment from tourism was at least 23 percent less than from agriculture (DPED, 1972).

The 1984 Plan espoused diversity to decrease the damage from economic disruptions in any one industry. BOH (March/April 1984) also recommended diversification by noting that one of the “new strategies for Hawai‘i should be an aggressive search for new business activity.” By 1991, Governor John Waihe`e wrote in his foreword to the 1991 state plan, “We must strengthen our resolve to use tourism as a tool for developing other industries to diversify our State’s economic base.” Planning and intentions aside, diversification of Hawai‘i’s economy was not accomplished during the 21 years covered in my study.

To evaluate public choice (decisions made by the government affecting business and residents), plans and policies set by the government are examined. The evaluation “grade” received by the plans and policies is determined by the degree to which they are

implemented (Palumbo, Fawcett and Wright 1981; Palumbo 1987; Younis and Davidson 1990; and Palumbo and Calista 1990). Many policies were not implemented and can thus be seen not to have been good public policy.

The 1991 plan (Towill, iii) observed that “Tourism growth has renewed attention to environmental issues. An increased focus on cultural tourism and heritage preservation efforts has also emerged. Growth has also raised questions regarding impacts on the community.” All of these issues had been raised in 1970, 1972, and subsequent State Plans and studies, confirming that old plans were ignored, unread, or not implemented.

External Factors

Overall, the state disregarded the effect of external factors on the tourism industry. While such factors were mentioned in plans and studies, the state recommended no actions to defend against or help weather negative effects. As early as 1972, the DPED identified personal income, leisure time, and accessibility and cost of transportation as factors that affect tourism; but the department did not determine the weight of each factor then, and it has yet to do so. The vulnerability of the state economy created by its reliance on tourism was ignored. The 1984 DPED plan (256) stated, “Even though Hawai‘i is highly dependent on tourism and defense spending, these industries are recession ‘resistant’ in that they have tended to experience only modest, if any, decline during recessions.” The 1984 State Plan also assumed that a nonexistent “independence” of westbound and eastbound visitor markets would serve to offset changes in either market, reducing fluctuations in the total visitor count. However, the economies of the west and east were linked.

Reflecting on the past, Cayetano (1999) noted that during downturns in Hawai‘i’s economy, the state and private sector took a “wait until things get better” approach. He suggested that this mentality was based on the belief that external forces, primarily from Japan, drove the state’s economy. The attitude that the state’s destiny was in Japan’s hands was demonstrated through the absence in state plans and objectives of ways in which the State could lessen its vulnerabilities to such outside factors. The plans never addressed how to defend against such dependence, except to recommend diversification, which was never done.

Controlling/Managing Tourism

As a fiscal conservative, Governor Ariyoshi attempted to manage the growth of hotel development. The 1972 DPED impact study reported four different projections of visitor arrivals, and on this basis DPED suggested slower growth. DPED noted that slower growth was logical, especially with tourism having a lower multiplier effect than pineapple, sugar, or government expenditures. However, a comparison of recommended and actual visitor counts reveals that actual visitor counts exceeded the highest DPED projections, and that the controlled growth policy was not carried out. For example, the high projection for 1980 was 3.68 million tourists, but the actual visitor count was 3.93 million. The high projection for 1985 was 4.8 million, but the actual was 4.88 million.

DPED (1972) suggested that the state ensure that planned hotels be evaluated for their benefit to the state as a whole, considering timing, location, amount of capital improvements required, manpower requirements, and external diseconomies or economies. DPED in 1978 warned the government to look at long-term considerations, noting that it was inappropriate for developers to pay low tax rates and for the state to pay

a disproportionate share of infrastructure costs. DPED also warned that overgrowth targets the strongest market, but as a destination matures, lower-quality investment enters the market, and finally, investments become very speculative, leading to overbuilding and short-cuts in construction in order to lower costs.

Overexpansion was generally accompanied by deterioration in quality, which reduced the state's revenue from tourism. Capital improvements (e.g. infrastructure and utilities), usually paid for by the government, increased with overbuilding. The argument that these costs were offset by increased revenue was noted as irrelevant by DPED (1972, 40) "since improvements on the scale demanded would not have been necessary if the expansion and investment process had been more rational in the first place. The experience of Waikiki and other tourist areas indicate that overexpansion is part of the investment process and if left unregulated, the industry will tend to overbuild." The 1978 plan also noted a concern about deterioration of Waikiki. The plan indicated that the problem was that the State and City and County governments let development go unchecked. Yet this overgrowth and overpopulation could lead to the tragedy of the commons

DPED (1972, 41) suggested that the State use zoning ordinances, capital improvement program (CIP) expenditures, land use regulations, property tax law, and capital gains taxes to keep hotel investment to a manageable level. Unfortunately, the state was encouraging overbuilding with its zoning (DPED 1972). For example, the amount of land zoned for hotel development in Hawai'i in 1970, if actually developed, would have produced a total of 105,000 living units (i.e., an addition of 76,000 units to the existing inventory 76,000 units could be added to the inventory). But in 1990 there

were still only 72,237 units in the State, indicating that the government was not using zoning as a way to control growth or overbuilding. Even with an abundance of land zoned for hotels, the state allowed rezoning requests for large resort developments in remote areas (1978 State Tourism Study, Executive Summary).

Until current land use zoning codes became effective in regulating the supply of land, DPED (1972) recommended that taxation be used to regulate land use. However, Hawai'i levied the lowest real property tax on tourist resorts of any state in the United States (DPED 1972). Also, as noted in Issue 1, low wages in Hawai'i's tourism industry caused tourism's share of state and local income taxes to be lower than its share of GSP. Managing the amount and type of tourism development could only be achieved through government action—without such, the power to guide development (i.e., construction of hotels/resorts) would be relinquished to private developers.

Unfortunately, the private sector did not always demonstrate constraint when planning hotel development. The DPED (1972) identified the factors inherent in hotel investment: continued rising costs of construction and appreciation of land values; investors' perception that if demand was growing faster than normal, the situation would continue; and investors' perception that each investor's action would not affect the total market (i.e., each investor is unmindful of others' intention to build). The latter is the concept of maximizing utility, which is the goal of rational decision-making. But the harm from overbuilding or overpopulation does not become apparent until the total system (i.e., the destination) is seen (Hardin 1968). Again, the government was the one institution that could have prevented the market from being overbuilt, if public policy had been followed; in this way, the tragedy of the commons could be avoided.

Government's Role

During his tenure as Director of DPED, Kent Keith (October 11, 2000) wanted the "Office of Tourism to do what nobody else was doing—to focus on public policy issues such as the impacts of tourism, economic benefits of different types of tourism, and long-term tourism policy." Keith saw the department's role as providing research and monitoring the industry to guide decision-makers. "Distinguishing the need for tourism development, not strictly pursuing marketing plans, is the critical element that has been ignored for too long, regardless of its literal evidence in the statutes" (Legislative Reference Bureau 1998, 103). While both DPED and the legislative reference bureau saw a need, the legislature did not provide the necessary funding. Lending credence to the concerns of Keith and the legislative reference bureau, Palumbo (1981 and 1990) noted that to evaluate public choice, analyzing implementation was necessary.

From the public's perspective, the social costs of tourism were important. The 1970 Mathematica study warned that the social costs of tourism would be proportionately higher than the increase in tourist numbers. In 1976, Act 133 mandated that the state government measure the social costs of tourism. In order to accurately assess tourism's sociocultural impact, state policy (DPED, 1978) recommended more studies and development of a methodology for assessing sociocultural effects. But by 1985, Keith noted that funding to measure social impacts was not forthcoming. Six years later, the 1991 plan would also noted the need to measure the sociocultural impact; yet, no funding was ever allocated to conduct an evaluation. Again the state did not implement its own policy (i.e., Act 133).

The 1984 State Plan noted that marketing of the state's tourism was the most important factor for growth. But the marketing role was contracted out to the HVB. The Legislative Reference Bureau (1998, 20) suggested that the state take back marketing⁵³ because the HVB had limited goals that ignored the scope of the state's statutory responsibility to tourism development and to residents. At the very least, the state needed to hold the HVB accountable for its spending, by surveying the effectiveness of its marketing; yet the HVB had never monitored its effectiveness, and the state continued to fund it.

The legislative funding was characterized as ambiguous and inefficient (Legislative Reference Bureau 1998, 21). The one constant in funding was that the amount was approximately 1 to 1.5 percent of GSP. However, the fact that the state provided the majority of funding to HVB was contrary to the legislature's own determination (1984 state legislature) that hotel and tourism industries were to be treated as any other industry. This determination was supported by the 1972 state study and by the Bank of Hawai'i (1984), which strongly recommended that the state not provide special favors or incentives to the hotel industry. Nonetheless, the state's portion of funding for the HVB grew from 74 percent in 1970 to 90 percent in 1990. And data shows that when the state's funding was increased by large dollar amounts, the industry did not follow suit. The timing of the large increases coincided with tourism's peak in the late 1980s, and thus with the rising of GSP.

⁵³ The recommendation for the state to stop contracting to HVB was in direct contrast to the recommendation from the legislative auditor in 1987, noted in Chapter VI.

In sum, the state did not follow the direction set by its own State Plans and studies, and this ad hoc method of policy adherence and implementation was evident in zoning in Waikiki and statewide development, and in the effect of development on residents. The Plans for the most part addressed concerns, but understated the negative concerns and consequences. To produce an overall benefit for the state and its citizens, tourism had to be environmentally sound, socially acceptable, and economically beneficial. But implementing the appropriate policy could not be done without legislative support and funding. Thus, the public policy of the greatest good for the greatest number was overlooked, especially in the long run.

Hawai'i's branches of government did not work together even though the State had a one-party government. State government was increasingly unable to make the decisions that affect the course of economic life (e.g., diversification and control over tourism). The Honolulu Advertiser (Millennium Special, Part Two, January 1, 2000, 26-7) noted that the state's economic fate lay with the "Finance Ministry of Japan, which in effect decides how much Japanese money comes to the Islands for investment or tourism, and with the federal government, which decides how much of a military presence remains in the state."

Issue 4: Japanese Government Policies Affecting Tourism and Foreign Investment

Japanese citizens began traveling abroad in 1970 when their government eased restrictions by granting multiple-use passports. Then in 1971, foreign real estate investment was allowed without government approval, a change from the 1949 Foreign Exchange and Foreign Trade Control Law, which stipulated that the Ministry of Finance

(MoF) and/or the Ministry of International Trade and Industry (MITI) must approve foreign investment (Choi and Dawson 1978, 17). By 1978, there was no ceiling on the amount of money allowed in foreign currency exchange for tourism purposes.

In the mid-1980s, Japan's business practices, domestic land regulations, and government regulations (e.g., in banking) made investing outside Japan very attractive. For example, a 1921 law to stabilize rental costs caused very low yields from real estate investments within Japan. The nation also restricted rural/urban land-use conversion by regulations and laws, such as tax laws providing for low property taxes and special privileges for in-city farm lands, along with building lease laws. In addition, international events—most importantly, the 1985 Plaza Agreement—depreciated the United States dollar, especially against the Japanese yen. The Plaza Accord was seen as the trigger for Japan's acceleration in land values (Renaud 1997, 16). The currency realigned by the accord was joined by negotiations on coordinated stimulus packages and stabilization of exchange rates under the Louvre Agreement. Japan agreed to decrease its discount rate to 3.0 percent and then to 2.5 percent in 1986, which was the beginning of the real estate boom-buying period.

The amended Export-Import Bank Act of 1986 caused the Export-Import Bank of Japan to become a FDI promoter, in contrast to its original position as an export promoter (Huang 1997, 177). The bank gave overseas investment credits to fund Japanese businesses' overseas investments (both equity and debt). In 1987, the amended Export Insurance was renamed the Trade Insurance Act and placed under MITI. The new act added coverage for commercial risks linked to FDI, such as bankruptcy. In 1988, a new agency was established within MITI to reinsure losses from exports and overseas

investments that the government was not able to cover (Huang 1992, 223-4). Thus, the risks in foreign investment declined. It is possible that the Japanese government understood the loan risks, since land wealth in Japan as a share of net worth increased from 55 percent to more than 70 percent between 1985 and 1988; as a share of GNP, land wealth grew from 2.8 to 5 times in the same period (Renaud 1997). The boom in Japan's real estate values caused a tremendous asset appreciation that allowed far too much borrowing by the Japanese for worldwide real estate ventures.

Japan's unique access to cheap money and favorable tax laws, which promoted low returns (i.e., dividends), played a strong role in defining company goals even when companies were located in Hawai'i. Investing in Hawai'i—with its natural beauty, large number of Japanese tourists, and lower cost of land—was, therefore, appealing to the Japanese, and a boom to Hawai'i, which needed outside capital for tourism to grow.

However, the international arena came into play. Noting the undercapitalized banking system, the 1988 Basel Accord set regulations concerning unrealized capital gains from the rapid appreciation of land values. To be implemented by 1993, the Accord established risk-weighted capital standards (i.e., solvency ratios), setting the risk of commercial real estate loans at 100 percent. Given the large volume of loans they held in real estate,⁵⁴ Japanese banks would be forced to change their banking structure. One practice that pointed to the uniqueness of Japanese banking was that loan decisions were based on real estate collateral, not on project quality (Renaud, 1997). Also, the Japanese

⁵⁴ For two decades, real estate lending was about 7 percent of all bank loans. Beginning in 1985, this amount climbed until reaching 17 percent in 1990.

saw real estate investments as having long-term profitability, so short-term profitability was of no concern, which continued with their overseas investments.

Huang's research (1992, 259)⁵⁵ found a strong negative effect of Japanese domestic interest rates in the nation's FDI, implying that most Japanese FDI funding was raised at home. The significant effect of the yen valuation was that it pushed Japanese investment abroad, "mostly due to non-cash flow considerations." Choi and Dawson (1978, 4) also found that many foreign investments were accomplished with no inflow of funds. This non-flow of cash can be seen with transactions in Hawai'i. For example, the Hawaiian Regent Hotel was purchased by Tokyu Corporation in 1972 for \$25 million and renovated in 1979 for \$33 million. In 1986, Tokyu sold the hotel to Otaka for \$207.7 million, and three years later, Otaka sold the hotel to Otaka Ltd. Partnership for \$401 million, almost double the 1986 purchase price. Both the Hawai'i and Japanese governments said nothing about this type of transaction. However, it exacerbated the bubble assets for Japan, and appreciated real estate to an unhealthy level for Hawai'i, which was detrimental to both the industry and the residents.

Japan's laws and regulations for banking and investments aided Japanese FDI, while other changes in Japan's policies had a positive effect on the number of Japanese traveling abroad. Without regulatory and statutory changes, especially the multiple-use passports and allowance of foreign currency exchange, Japanese tourist numbers in Hawai'i would have been dismal. After the changes, the Ariyoshi administration

⁵⁵ Huang examined data from 1957 to 1988.

pragmatically sought to diversify the Hawai'i tourist base. State government looked to the east and determined that the Japanese population was the most likely to travel.

Comparing the timing of Japanese investment and Japanese visitor increases,⁵⁶ Figures 7.2 and 7.1 illustrate that the increase in Japanese tourists came first. In fact, the huge hotel investment with few exceptions did not come until 1986. The investment spike in 1974 saw large increases in tourists in the three previous years as well as in 1974. The 1979 spike in Japanese investment coincided with a large increase in Japanese tourist numbers. Finally, the huge spike in Japanese hotel investment from 1986 to 1990 coincided with the increase in the number of Japanese tourists in 1986 and 1987. Japanese tourist numbers in Hawai'i only increased at a moderate rate from 1988 to 1990; nonetheless, there was a trend showing an increase in the number of tourists followed by an increase in Japanese investment. In fact, there were a number of Japanese hotels that catered primarily to Japanese visitors. Governor Ariyoshi (2001) noted that when he joined the Hawaii Prince Hotel,⁵⁷ he was concerned about the hotel's dependency on Japanese tourists; he encouraged the hotel to diversify its customer-base, which it did through increasing the number of other Asian visitors.

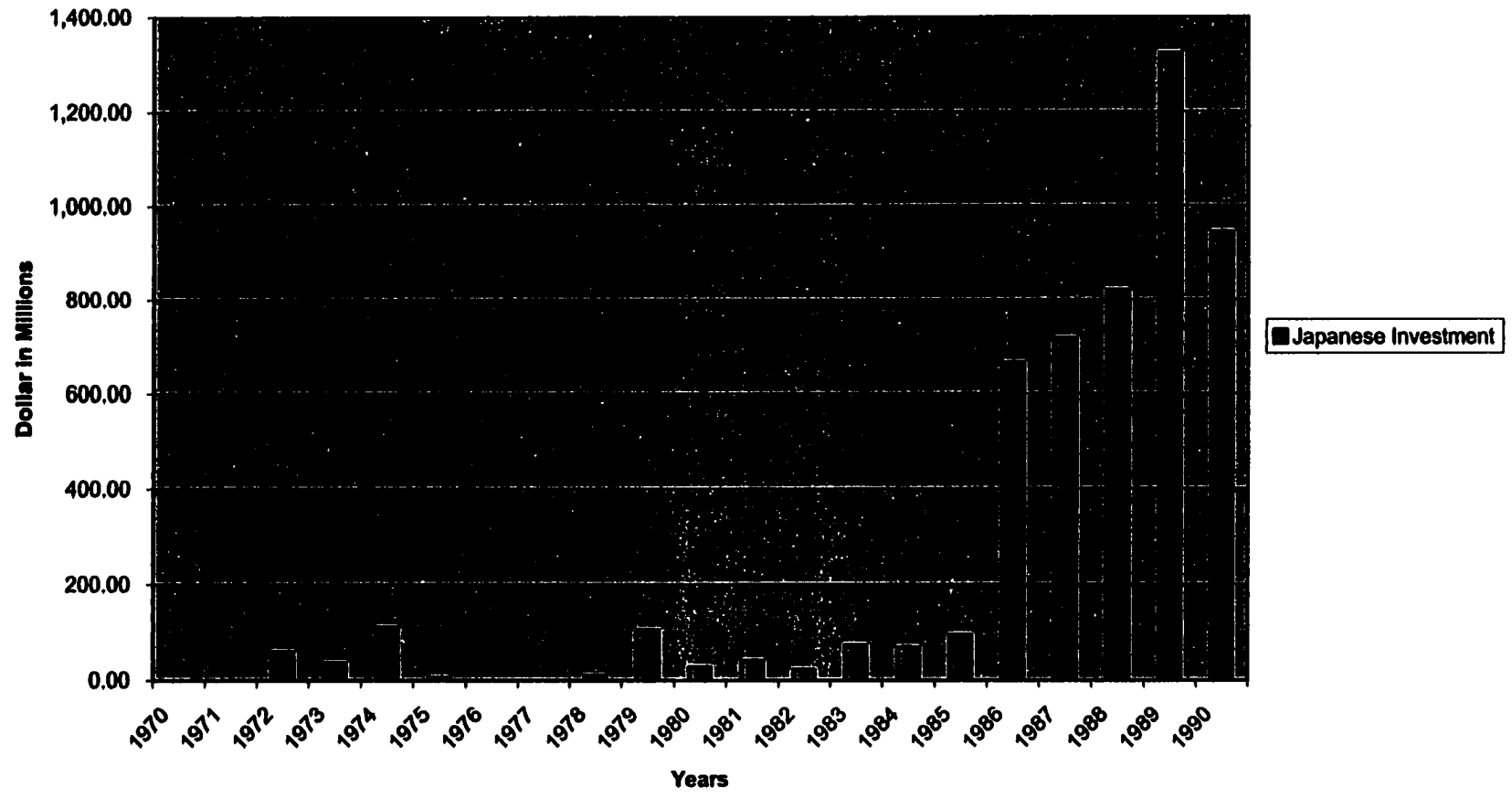
Figure 7.2
Japanese Hotel Investment in Hawai'i, 1970-1990

A final example of Japanese government policy is the national policy and goal of economic growth, which permitted high prices for goods sold in Japan. Although not

⁵⁶ While regression analysis was done, the results of the multiple regression analysis produced multicollinearity (the variables all correlated with each other). The outcome of the analysis is shown in Appendix C.

⁵⁷ The Hawaii Prince Hotel was opened in 1990.

Figure 7.2
Japanese Hotel Investment in Hawaii, 1970-1990



Source: Adapted from State of Hawaii, DBED and T. "Foreign Investment Activities in Hawaii and the United States; 1954 through 1998 by Country," 1999.

directly related to tourism development, the high costs of goods in Japan⁵⁸ added to the economic value of Japanese tourism in Hawai‘i, as goods in Hawai‘i were a comparative bargain to Japanese travelers.

A number of factors played strong roles in Japanese ownership of Hawai‘i hotels, including:

- Japan's laws, policies, and way of doing business;
- Japanese businessmen's characteristics;
- the economic and political position of the United States and Hawai‘i;
- the global economy; and
- Hawai‘i's natural beauty.

But without the changes in Japanese laws and policies, any action by the Hawai‘i government would have been futile. Moreover, the Japanese way of doing business created a competitive advantage even in Hawai‘i. As Porter (1990, 148) noted, a “nation’s successful industries are usually linked through vertical or horizontal relationships.” These vertical (buyer/supplier) and horizontal (common customers, technology, channels, etc.) relationships certainly existed with Japanese ownership of Hawai‘i hotels. For example, the package deals—bought from Japanese travel agencies by a majority of Hawai‘i-bound Japanese tourists—included many other Japanese-owned businesses. Also, the inflated hotel prices paid by one Japanese business to another—including subsidiaries and other members of the seller’s keiretsu—were allowed only because of permissive or absent Japanese banking regulations. Nonetheless, the Japanese

⁵⁸ The high cost of Japanese goods within its domestic market financed the exporting by Japanese companies was sanctioned by the Japanese government.

were able to create synergy among tourism-related industries owned by Japanese in Hawai'i.

Issue 5: Japanese Investors' Adherence to Hawai'i Policies

Porter (1990, 262-3) noted that the "pull-through effect of a large number of increasingly multinational Japanese firms is now benefiting Japanese banks and construction firms." With the purchasing companies that are complementary to Japanese hotels, synergy among Japanese owners resulted.

By 1990, the Japanese had established Hawai'i-based subsidiaries in construction and car rental companies, an insurance company, a dry cleaning chain, a dairy company, at least 21 independent restaurants and 4 bakeries, at least 20 shopping centers, and a minimum of 21 golf courses. The synergy created by these complementary companies in Hawai'i gives credence to Porter's (1990) suggestions that the Japanese created their own system, capturing visitors' dollars not only for hotel rooms but also for eating, shopping, golfing, and entertainment. The buying spree of the aforementioned companies was contrary to Hawai'i's policy of discouraging closed development, which Governor Ariyoshi (December 27, 1973) mentioned as a safeguard for the state's economic health. Yet the state allowed the partially closed system created by Japanese investments.

The hotel industry offered limited employment and upward mobility. There is no evidence that Japanese developers retained upper management positions for indigenous Japanese; while some hotels did hire top managers from Japan, the number of such jobs was minimal. The majority of labor needed in hotels was unskilled or low-skilled, which received low pay. The state was well aware of this predicament (witnessed by its 1970

and 1972 studies), but allowed the domination of the industry within the state. Thus, the industry alone cannot be held responsible.

The problems shown in the case studies in Appendix A were problems between the developers and citizens, not with the state. For example the Nukoli'i development was not in a designated tourist area, but two local powerbrokers were involved. Prior to the zoning change, Masaru Yokouchi, Governor Burns' campaign organizer on Maui, formed a *hui* (a group of people) and purchased the land. Within eight months, the *hui* sold the land—with no changes to the land or its zoning—for more than \$4 million in profit. Wally Fujiyama, an attorney and powerbroker, represented the developer before the county planning board. Both the state and county governments supported the development but citizens were against it. The Hawai'i Supreme Court upheld the citizen's referendum. Hoping to have the decision reversed, the governor's office went so far as to request the United States Supreme Court to hear the case, but the request was denied.

A second example was The Four Seasons Hotel at Hualalai, which was in a designated area but encountered problems with dredging and blasting on Hawai'ian lands. The court found that the State Land Use Commission had improperly delegated its statutory obligation to protect historic properties and cultural resources to the developer, an act that was also in violation of the Hawai'i State Constitution.⁵⁹

A final example was the Makaha Inn, which initially refused to renew local residents' golfing and tennis privileges. The exclusion of locals was in violation of Act

⁵⁹ Article XII, Section 7 required the state to preserve and protect all gathering and access rights of native Hawai'ians.

133, which mandated that the State attempt to reconcile tourist activities with the lifestyles of residents, extending preference to residents. Yet, the State Government did not get involved in the situation, only the City and County of Honolulu did. When Mayor Fasi said the city would not grant any permits for construction and modifications, the company reversed its decision. Overall, when the Japanese investors did not adhere to the state's policies, the state allowed or helped the Japanese developers.

Issue 6: The Effect of Tourism on the Residents of Hawai'i

By the late 1970s, Hawai'i had fully transitioned to a service economy composed of industries directly and indirectly related to tourism. "The situation, briefly, is that Hawai'i is absolutely dependent on tourism, not only to support the economy, but to support all levels of government here, both State and County" (Hitch 1985, 82). From 1970 to 1986, government employment increased by 24.1 percent (BOH, January/February 1988). In 1986, government accounted for 20.5 percent of the State's total employment, compared to 16.7 percent in the nation. The growth in public workers continued under the Waihee administration. For example, State government employment increased 26.4 percent from 1980 to 1990; during the same period, local government employment increased only 3.6 percent. However, extensive government employment helped keep Hawai'i's unemployment rate low; as of October 1987, the rate was 3.8 percent, compared to 6.0 percent nationally.

Like most legislation, many of the laws and regulations regarding tourism (e.g., restricting the number of people at Hanauma Bay each day) were often enacted after the damage had been done. But there were some who saw these government actions as harmful. For example, local powerbroker and attorney Wallace Fujiyama, who

represented several Japanese developers, disapproved of banning tour buses to Hanauma Bay and prohibiting jet skis in some areas (Honolulu Advertiser, November 25, 1991, A19). In addition, he felt that the State should provide more activities for Japanese visitors and should treat Japanese investors better. Thus, a division between the state's priorities for tourists and residents can be seen. Nonetheless, the effect of tourism on residents is the domain of the government and cannot be ignored.

Sociocultural Factors

Act 133 (1976) raised concern about the sociocultural effects of tourism on the community. The 1978 State Tourism Study, Executive Summary (31) attempted to complete the research but found that the sample size was too small, the research design inadequate, and the analysis imprecise. To date, the sociocultural effects of tourism have not been addressed by the State. As noted by DBED&T (1991, 8), the "causal relationships between tourism and Hawai'i's 'quality of life' have yet to be determined in a definitive manner" (DBED&T 1991, 8). Thus, legislating but not funding an implementation may just be the nature of politics. However, Buchanan's public choice theory in such a situation would recommend that the government be reformed.

Residents' Income

The 1978 State Plan had two main objectives: achieve full employment to improve living standards, and seek increased income and expanded job choices through increased and diversified employment opportunities. However, the growth of tourism brought just the opposite, an effect first shown in the 1972 State impact study.

Pai (1984, 11-13) of First Hawaiian Bank noted that the significant feature of the shift to a tourism-based economy was the increase in low-wage industries. For example,

the State Department of Labor and Industrial Relations reported that 61 percent of the increase in total employment between 1960 and 1982 was in retail trade and services. In 1982, average earnings in retail were 63 percent below the state all-industry average, while overall service-sector earnings were 15 percent below average. Hotel workers were 40 percent below the state wage average. The decline in high-wage industries (i.e., construction, sugar, and manufacturing) saw the average annual wage for workers—adjusted for inflation—decline by 13 percent between 1970 and 1982. And Hawai‘i’s average wages were already low by national standards; in 1982, Hawai‘i was 32nd in the nation at \$15,361, 9 percent below the national average of \$16,732.

Bank of Hawai‘i’s “Hawai‘i 1984 Report” supported Pai’s findings by noting that job growth occurred in the lowest wage categories. Yet, job creation covered only one-quarter of 1984 high school graduates. From 1972 to 1982 wages increased 93 percent, while inflation rose 117 percent. The bank predicted that the standard of living in Hawai‘i would decline and that more highly skilled citizens would need to leave the state for jobs matching their skills. Overall, BOH (1984, 9) suggested that the shortage of jobs at all levels would continue to lower both income and productivity.

More importantly for residents and taxpayers, the overall average wage in Hawai‘i in 1986 was \$18.69; this was an increase of 144 percent from 1970, but when adjusted for inflation, the real average wage was 7.7 percent below the 1970 level. The phenomenal growth of tourism shifted the state’s entire economy toward a low-wage service base. This growing segment of the labor market—along with growth in secondary labor market in sales, clerical, and service occupations—combined with the high cost of living in Hawai‘i to create a difficult situation. Pai (December 1985, 166) noted the above

“factors have contributed to a fall in real income for both individuals and families in the economy and increases in the overall level of social and economic pressures experienced by the resident population.” He suggested that this situation might add to the social problems associated with tourism, while the State was still insisting that tourism was “more compatible with Hawai‘i’s goals and environment than many other forms of economic activity” (DBED&T 1991, 8). How this was known by the State, given the lack of information on other potential industries, was not revealed through my research.

Residents’ Educational Levels

In the one or two generation(s) after the plantation era, the educational level of Hawai‘i residents rose (see Table 7.1). The match between educational attainment and tourism was a poor fit, especially with tourism as the primary industry in the economy. Tourism does not offer enough job opportunities for college graduates. To fulfill the one objective set by HRS, Chapter 226-6 with regard to residents, the DPED (1978) noted that the state should encourage labor-intensive activities that were economically satisfying.

Table 7.1		
Percentage of Hawai‘i Residents’ Education Attainment, 1960-1990		
	High School Graduate	College (4+ years)
1960	46.1	9.0
1970	61.9	14.0
1980	73.8	20.3
1990 (a)	80.1	22.9
Source: <u>DBED&T Data Book, 1993, 85.</u> (a) percent of high school graduates or above.		

BOH (September/October 1989, 2) noted that while Hawai'i had relatively low levels of unemployment, its work force had a high degree of underemployment (partial use of a worker's productive ability), which came with lower income. BOH (ibid.) suggested a "rearrangement of workers among more appropriate occupations, not to mention the introduction of new technology" to reduce underemployment. The bank added that enabling the workers to their highest potential might cause some initial inconvenience and pain, but if changes were not made, underemployment and limited career opportunities would persist.

Most jobs in the tourism industry do not require a college degree. In fact, many positions (e.g. housekeeping, reservations, and grounds keeping) can be successfully completed without a high school diploma, as mandated under Griggs v. Duke Power Company, a 1971 United States Supreme Court decision. Yet 80 percent of Hawai'i residents had at least a high school diploma. With the increase in educational levels in the state, and tourism as the largest employer, underemployment and an exodus of recent college graduates was inevitable. The State (1984 plan, 257) recognized this problem by stating that diversification of economic activities would provide youths with more employment opportunities.

Public choice theory demands questioning of the appropriateness of tourism as the dominant industry, especially given the state's educated populace. The public good was not served with out-migration of educated people and underemployment of those who remained. Thus, while tourism may be an economic driver for the state, the State needed to look at other industries for the betterment of Hawai'i citizens. The State's biggest

problem may be the decision to stay with the status quo, rejecting a diversified economy. As noted by Hardin (1968), selecting the status quo is a decision, and as such, advantages and disadvantages of the present industry and of any proposed reform (e.g., adding other industries to the state) must be examined. The State did not do this.

Residents' Attitudes

Fukuoka Block (Prefecture Council) of the Japan Junior Chamber of Commerce sponsored one of the first studies of residents' attitudes. Kuroda, Kuroda, and Murfin (1973)⁶⁰ designed and conducted the survey and analyzed the results. One of the first questions asked was if respondents knew about foreign investment in Hawai'i, and if they believed it was necessary for Hawai'i's future economy. Thirty-nine percent of respondents thought FDI was necessary, while 44 percent said it was not necessary. Interestingly, a greater percentage said Japanese investment was good (50 percent) than those who said foreign investment was necessary. However, this could be a consequence of the order of the questions asked.

Juanita C. Liu and Turgut Var's (1986) survey results indicated that residents felt that the economic benefits of tourism outweighed the negative social effects, but that environmental protection outweighed the economic benefits. Yet, environmental protection was never a priority in State Plans. Five years later, the 1991 plan noted that the environment would be an issue for the future.

A 1988 DBED&T survey showed that 60 percent of respondents did not want more tourism jobs, and 70 percent did not want more hotel development. The noted

⁶⁰ The English version of the results was published by Hawai'i International Services Agency, 1974.

exceptions were from Moloka‘i and East Hawai‘i (Big Island), where the economies were in trouble. Traffic, cost of living, cost of housing, and crime were the problems noted by respondents.

As shown by the surveys, the residents’ views changed dramatically by the mid-1980s. The State continued to ignore that residents felt an imbalance between tourists and themselves. Yet, the 1970 Mathematica study and the 1972 State impact study warned about increasing social costs. In 1976, the State enacted Act 133, which mandated continuous monitoring and evaluation of social costs versus social benefits. The 1978 State study acknowledged the State’s responsibility to protect the quality of life for its citizens, but indicated this was being done through jobs.

The State continued to assert (1978, 1991) that the lack of measurement instruments was a valid reason for the lack of data on the social effects. While the evaluation of tourism’s social and cultural effects was more complex, and information on those effects was limited, the State had ample time to fulfill the requirements of the 1976 statute that mandated collection of impact information. However, the legislature did not provide the funding necessary to assess the situation. As noted by Kent Keith (1985, 77), “We do not have the funds in our budget to do that kind of work, all of our money in tourism goes to the HVB and they do marketing rather than social or economic policy analysis.” In many cases, the funding to HVB was earmarked by the legislature. Thus, the legislature made a conscious decision to not fund its own mandates.

Migration in and to Hawai‘i

When tourism grows, facilities increase, mass tourism develops, and migrants begin to constitute an increasing proportion of the labor force. Migration is more

prevalent when large resort projects are developed in sparsely populated areas with little or no previous tourist activity (de Kadt 1979, 42). West Hawai'i, in particular, saw migration, as did the Wailea region of Maui— and both were target areas of the 1960 study, with little or no infrastructure in place.

Migration within the state is not the only concern. The increase in foreign-born or recently-arrived workers was evident in hotels, restaurants, transportation companies, and other establishments, according to United States Census data for Hawai'i. For example, 49 percent of all hotel workers and 55 percent of workers in eating and drinking establishments were foreign-born or recently arrived in Hawai'i (Schmitt, December 1985a, 163). Immigration created an added burden on the state. In addition, with the increase of non-Hawai'i-born residents, Schmitt (December 1985b, 167) questioned what would happen to the "aloha spirit" when half of the people in Hawai'i were either tourists or recent immigrants.

The effect of tourism on residents was many and varied. Although tourism bought jobs to the state, the jobs did not match the level of education of many of Hawai'i's people. The low skill level required for most tourism-related jobs forced outward migration and inward migration by low-skilled level people, who ultimately filled almost half of the hotel and dining jobs in the state. The low income levels from tourism indicate by themselves that the State ignored the overall health of its economy and residents. The literature on tourism warned of the migration situation, but the State did not heed the warnings. The inability of the State to measure social effects does not give the State *carte blanche* to ignore the issue.

Hawai'i residents were quite clear in their desire for no more development and tourism jobs, but the State continued to allow building, especially by Japanese developers in the late 1980s. Sociocultural problems truly surfaced in the 1980s with the boom in hotel development. Environmental concerns were also raised loudly in the 1980s, and again the State ignored the desires of its citizens and indicated that the environment would be addressed in the future.

A central theme of George Ariyoshi's administration was "they [locals] still were not masters of their own destiny." While Ariyoshi's government did attempt to control the growth of tourism, Governor Waihe'e's administration saw the Japanese willingness to develop in Hawai'i as an opportunity, and allowed it to occur without knowing the consequences for the residents of the state. None of the Hawai'i's governors attempted to diversify the economy, and while tourism is a good industry for Hawai'i, it should not be the primary industry. Some residents are underemployed in tourism or are leaving the state for better jobs and a lower cost of living. For the government to advocate only tourism and ignore other industries constitutes failure under the scrutiny of public choice theory.

Summary

Tourism is the most important private sector industry in the state of Hawai'i, as discussed in Issue 1. The number of tourists to the state increased dramatically from 1970 to 1990 (Issue 2). Through HVB, the State promoted the islands to increase the number of tourists. From the increase, it could be assumed that HVB was effective in its promotion, but the bureau's effectiveness was never tracked. In addition, the increase in the number of Japanese tourists to the islands (Issue 4) can definitely be attributed to

statutory and regulatory changes by the Japanese government; without these changes, the Japanese could not easily visit the islands.

Japan's domestic political environment and banking policies along with the appreciation of the yen against the dollar made Hawai'i an attractive place to investment. Without the availability of money, the investments would not have taken place. The State's role in Japanese hotel ownership was minor. Governor Ariyoshi said the State did not attempt to attract investors; the State tried to attract tourists and the investors followed, especially the Japanese (Issue 4).

The State set policies for investors primarily through State Plans (Issue 3). But these Plans were not statutory mandates, and as such the State could not order the public or private sectors to adhere to them. When the State Plan (1978) became law, it contained a loophole that allowed public decision-makers to look at goals and objectives without having to pursue or implement them. Enactment of the Plan was therefore futile, because it could not be enforced. Many of the goals and objectives set by the State were not implemented, mainly due to a lack of interest and funding. The lack of funding can be seen in measurement of the sociocultural effect of tourism, as required by Act 133. While the state constitution and Act 133 required protection of traditional Hawaiian rights, some developers ignored the requirement, and the State either supported the violation or did nothing, as seen in my Case Studies appendix. And because the government allowed violations of State policies, developers cannot be held solely accountable for the results (Issue 5).

Finally, the effect of tourism on residents cannot be definitively stated. While tourism in its initial stages was good for the state, the industry became too dominant in

Hawai‘i’s economy. Some factors inherent to the industry (e.g., low wages, low-skilled labor, and a lower multiplier effect) exemplify the problems with excessive dependence on tourism. And with the increasing level of education attained by Hawai‘i residents, tourism did not offer the type of jobs needed in the developing state.

Even when residents of the islands said they did not want more tourism, the State ignored their desires and failed to measure the social, cultural, and environmental effects of the industry. The government did not seriously attempt to balance economic objectives with social and environmental objectives, and it therefore appears that achieving a balance was a goal only in the rhetorical sense. The 1991 Plan illustrates this failing, in that, 19 years after the 1972 Plan, it was still necessary to advocate a balance between the needs of residents and the needs of tourists.

The government’s repeated goal of diversifying the state’s economy was never seriously attempted from 1970 to 1990. The State had little success in attracting other industries because the government did not investigate which other industries could come into the islands, or analyze the advantages and disadvantages of alternative industries. Although Lundberg, Stavenga, and Krishnamoorthy (1995, 43) noted that if other industries could provide more for the state, “the other industries would probably already be there,” their suggestion ignores the State’s ability to encourage relocation and establishment of new industries in the state. Ironically, Hawai‘i in the meanwhile developed a reputation as a business-unfriendly state, in part because of its higher cost of doing business, but also because of its tendency to bureaucratize and “over-regulate” business initiatives.

In sum, Hawai'i's government policies to attract investment were inconsequential to Japanese hotel investment in the state, and counterproductive for the state's economy, especially at the end of my study.

CHAPTER VIII CONCLUSIONS AND DIRECTION FOR FUTURE RESEARCH

The problem statement for my study is "Were Hawai'i government's policies to attract investment inconsequential to Japanese hotel investment in Hawai'i or counterproductive for the economy of the Aloha State from 1970-1990?" To address my problem statement, I defined six areas of concern; applied the public choice and rational choice theories; reviewed tourism literature; and provided background information on tourism, development, and the Hawai'i State Plans. Chapter VII explains the results of my research to answer the problem statement posed. Finally, Chapter VIII provides:

- a summary of my findings;
- an explanation of how my findings relate to existing literature and theory;
- an explanation of how my studies contribute to the existing literature;
- a discussion of the implications of my findings; and,
- suggestions for future studies.

Summary of Findings

Of the six issues examined, the first two were 1) the overall tourism industry, in particular in the State of Hawai'i, and 2) the number of tourists coming to Hawai'i. Chapters IV and V illustrate the continued growth of tourism and the number of tourists visiting the islands from 1970 to 1990; the industry was strong and by 1972 had become the largest in the state. However, the State never planned for a serious decline in tourism, so when Japan's bubble economy burst, Hawai'i was unprepared. Given the importance of tourism to the state, and the degree of outside control of the industry (as suggested by

my literature review and State studies), the State should have planned for a downturn in tourism.

The State (DPED 1984) indicated that tourism was “recession resistant,” and in the same study noted that the national diversity of tourists would offset changes in visitor counts from either direction. While there was some diversity in visitor origins, Japanese tourists came to predominate, growing from 8 percent of all visitors in 1970 to peak at 21 percent in 1990. And the eastbound market did not change dramatically: eastbound visitors represented 24 percent of all tourists in 1970, and 32 percent in 1990.

The third issue necessitated an examination of the policies in the State Plans, and the degree to which those policies were implemented. For the most part, the State Plans specified that tourism should grow, but this growth policy was counterproductive for the economy, because in terms of its overall economic contribution, tourism paid less in taxes than it contributed to GSP. In spite of this, the State government promoted no other industry like it did tourism. Also, while the State diversified its tourist base, the State did not indicate a preference for any one investor group. In fact, the State Plan, many tourism-related statutes, and zoning for tourism were already in place when Japanese investment was still minor.

The State Plan mandated that decision-makers consider all stakeholders and each of the Plan’s objectives with a goal of taking fair and balanced action. However, decision-makers seemed to ignore this mandate and proceed without regard for which groups gained and which groups lost. The Plans were not implemented according to the terms of their own mandates, which public choice theory indicates is poor public policy. In addition, the legislature did not fund implementation or coordinate with other

branches, it was not publicly criticized. The only agency that was openly critical of the lack of legislative action was the legislative reference bureau.

In all the State studies, marketing was promoted as the most effective tool to increase the number of visitors; yet, first-time visitors decreased during the years of my study (1970-1990). Given the increase in overall repeat visitors (33 percent in 1970 to 48 percent in 1980 to 51 percent in 1990) and the increase in repeat Japanese visitors⁶¹ (20.2 percent in 1977 to 39 percent in 1990), advertising was either not as necessary or as effective as assumed. In spite of this, funding of the HVB increased substantially in the late 1980s.

Overall, the State Plans did not consider the negative economic or social consequences of tourism. In addition, the State knew that an economy with one dominant industry was vulnerable, as the legislature and the State Plans repeatedly mentioned the need for economic diversification. But in spite of this, a wholehearted effort was never made, and this failure was acknowledged by Governor Waihe'e in his Foreword to the 1991 State Plan. Finally, as noted by the 1970 Mathematica study, the State enjoyed diminishing returns, from increases in the number tourists visiting the Islands.

The fourth and fifth issues dealt with Japanese government policies affecting tourism and foreign investment, and with the extent to which Japanese investors adhered to Hawai'i policies. Without the changes made in Japan's policies, Japanese tourists and hotel investors would not have come to Hawai'i in such large numbers. Japanese investment in Hawai'i was supported by increased numbers of Japanese tourists

⁶¹ The HVB did not indicate the number of repeat Japanese visitors prior to 1977.

worldwide and by appreciation of domestic real estate values, the opening of Narita airport, Japanese banking and business practices, and the appreciation of the yen following the Plaza Accord. From the perspective of developers, little or no development would have occurred if tourist demand were absent.

The failure of the State to enforce the mandates or implement the policies in its Plans had consequences for both foreign and local constituencies. Japanese investors and developers, as demonstrated by the case studies in Appendix A, were usually supported or ignored when they violated State policies. And local investors and developers benefited when the State continued to approve land-use conversions even though adequate lands had already been zoned for tourist activity. The final issue dealt with the effect of tourism on Hawai'i residents, the most neglected concern in all tourism studies and plans. Although the State knew of the lower incomes that prevail in tourism-related industries, the need for jobs (especially with the precipitous decline of agriculture) seems to have influenced decision-makers to support growth in tourism. This growth soon conflicted with steadily rising education levels in Hawai'i, as tourism employs a workforce that needs relatively little advanced education, resulting in extensive underemployment and outward migration of educated job-seekers, compounded by an inward migration of low-skill workers.

From a public choice perspective, the State, by allowing tourism to dominate its economy, created too many low-wage, low-skill jobs, forcing more members of each household into the workforce. The increase in the number of tourists was ignored by the State, as was its impact on residents' quality of life. For example, increased congestion on highways and at beaches clearly indicated overuse of resources due to overpopulation,

but these social effects were never measured. In sum, Hawai'i government implemented few policies for the betterment of its citizens, and no policies to manage the effect of tourism on residents.

The Relationship to Existing Literature

The literature on tourism that was surveyed for my study reflected the reality of tourism in Hawai'i. It indicated that there was little debate about pros and cons when the huge increase began in the scope and value of tourism. It indicated that tourism had positive economic benefits, such as creation of new jobs and infrastructure, along with increased tax revenues, but that these benefits were compromised by the low quality of jobs, by problematic development of infrastructure, and by declining GSP. Criticism began with the huge growth of Japanese investment, but the criticism was directed toward tourism as a whole, not toward the Japanese. And concern about investors only began as development grew and some investors ignored the needs and values of affected communities.

The literature further suggested that negative effects grew with growth in tourism. In Hawai'i, these effects became too large to ignore with the explosion of resort and hotel investment in the late 1980s. The crime rate rose along with real estate and consumer prices (e.g., food prices). Immigration, emigration and relocation within the state all grew, and much of the emigration removed recent college graduates to the Mainland for jobs.

Another area of concern in the literature was the State's failure to measure the environmental and social costs of tourism. Given the low wage scale of tourism and the high cost of living in the state, it was apparent in the literature that tourism would bring

social costs, and overcrowding and overuse of resources indeed could be readily seen. Thus, the negatives mentioned in the literature were amply evident in Hawai'i, and not least among these was the disparity between tourism's contribution to tax revenues and its contribution to GSP.⁶²

The government played a role in tourism by attempting to plan, regulate, and stimulate tourism through its State Plans, but as noted previously, implementation of the Plans was lacking. The State also did nothing to shield its economy from economically adverse world events, so these came to play a larger role in the development of tourism than even the State itself. Hawai'i government did not heed warnings about the dangers of overreliance on tourism, a failure that is not surprising given the nature of politics, and the legislature's tendency to take the path of least resistance. And given the increase in the number of residents born outside the state, it was naïve to believe that the "aloha spirit," a local phenomena, would be prevalent enough to give the state some competitive advantage.

Overall, the literature review accurately represented tourism in Hawai'i, even with the State Plans and studies. Like most destinations, the primary focus of Hawai'i's government was on the economic benefits of tourism, not on the negative consequences on residents and the great vulnerability of tourism to a variety of external factors.

The Relationship to the Theories Used

The decisions made by Hawai'i government regarding tourism were examined using rational choice and public choice theories. Rational choice theory prescribes a

⁶² The destinations in most research were either economically developed with diverse economies or developing regions that had lower overall wages. Hawai'i's uniqueness of being developed, yet a one-industry state, would account for the contribution disparity between GSP and tax revenues.

process consisting of steps; Hawai'i's goal was increased tourism, and the State did look at numerous ways (Step One) to increase tourism, including diversification of the points of origin for tourists. However, the State did not (Step Two) estimate the cost of obtaining the information needed to evaluate the issues it identified in its State Plans, such as positive (and especially negative) effects on residents. More importantly, the State did not (Step Three) rank alternatives to its own weighted criteria.⁶³ The State did not follow the prescribed process mainly because of a lack of coordination between the legislative and executive branches, but also because of loopholes in its State Plans. Finally, by limiting the scope of its rational choice analysis to an evaluation of tourism alone, the State ignored the potential of other industries to aid economic growth.

Public choice is the heart of the second part of my problem statement: "Were Hawai'i government's policies counterproductive for the economy of the Aloha State from 1970-1990?" Reliance on one primary industry made Hawai'i's economy highly vulnerable, yet the State's reluctance to diversify was manifest in its State Plans. The lower income to citizens working in tourism was not good public policy. Measurement of social costs was mandated in statutes, but left unfunded by the legislature. Ironically, then, State government was the principle violator in a broad and deliberate ignorance of the mandates of relevant legislation and regulations.

Finally, the abandonment of some political decisions to the private sector enabled certain politicians and powerbrokers to make personal fortunes. While my study does not discuss this in detail, many of these powerbrokers and their political collaborators are exposed in the book, Land and Power in Hawai'i. Public choice theory demands that the

⁶³ The state never ranked or weighted the criteria, except for ranking economic growth as No. 1.

public good be given higher priority than the convenience or personal gain of public officials, but this demand was often ignored.

It appeared initially that the State was trying to strengthen its economy and help its people, but once it saw strong growth in tourism and an attendant growth in revenue, the State government maintained the status quo. As Boulding (1986a, 255) noted, “What is designed to be an instrument of social justice turns out to be an instrument of economic development from which social justice, as a by-product, may eventually emerge.”⁶⁴ In Hawai‘i’s case, some social justice emerged, but not for all of its citizens.

Overall, the theories gave direction to my analysis. Rational choice and public choice theories allowed for the analysis of decision-makers’ actions, the appropriateness of those actions, and the benefits (or lack thereof) resulting from policies set by the State. Overpopulation and overuse of resources were inevitable given the State’s focus on growth, and in fact were illustrated by the increase in population that came with growth in tourism and the attendant need for immigrant workers. Hawai‘i in my opinion can, therefore, serve as an example of the tragedy of the commons.

Study’s Contribution

My study had an unusual focus: the government’s role in the growth of tourism, particularly Japanese hotel investment. My study went beyond economics to include social and cultural effects, which the Hawai‘i State Plans mentioned, but which were not measured by the State. Analyzing the State Plans and adherence to the Plans, which were to be enforced by the government, is another new area of research. My study showed that planning for tourism can still bring many negative consequences, especially when Plans

are not implemented. Even with all of its studies and directives in hand, the government played little or no role in attracting Japanese investors, or in fulfilling the objectives set in its State Plans (with the exception of growth in tourism). Unfortunately, even this growth was influenced more by external factors than by Hawai'i government policy, and in the end, my analysis shows that harm was done by the State's lack of implementation and deferment of its responsibility to protect citizens. This too is a new area of study, especially within an economically developed state.

Implications of Findings

The findings of my study show that tourism development, if not controlled, can have a strong adverse effect on a destination's overall economic, environmental, social, and cultural health—that is: a tragedy of the commons. Hawai'i's plans and statutes addressed these issues to some extent, but were never fully implemented, and planning without implementation is useless. Although I believe the outcome would have been better with adherence to State Plans, the tourism industry is highly volatile, as outside factors control much of its success. Thus, it is not surprising that my study revealed a host of problems that can occur when a destination places too much reliance on a single industry, in this case tourism.

Government control of tourism should be an imperative, as government is the primary institution capable of controlling the growth of tourism and the problems that accompany that growth. The failure of Hawai'i government to reconcile changing demographics in the state to growth in tourism caused many problems, including underemployment and out-migration. Findings in the tourism literature were valid for

⁶⁴ Boulding wrote this when speaking about minimum wage. However, the same can be said for tourism and jobs.

Hawai'i, and other governments should learn from the error of Hawai'i's failure to heed appropriate warnings or implement its own controlling policies. Thus, perhaps the most important conclusion of my study is that it is more important to evaluate a government's actions than its plans or policies.

Suggestions for Future Studies

The findings of my research suggest several potential new topics for future research:

- 1) An analysis of the government's performance and the net economic outcome of an initiative, especially since most studies ignore the government's role and focus on gross economic results. An examination of social, cultural, and environmental effects should be integral to this analysis to assure that the full impact of any initiative is made obvious. If more studies considered net results, the benefits and problems of an initiative would be more obvious, and governments would be better able to make informed decisions about tourism development under the requirements of public choice theory.
- 2) Studies of how a government determines what level of tourism growth is appropriate for a region. Such studies could assist governments by helping to establish an "appropriate" amount of government involvement, and by investigating the importance of compliance with government requirements.
- 3) An analysis of the changes that are likely within a destination and for its residents when an initiative is undertaken. Do the changes require imported labor? Do they effect the appropriateness of tourism?
- 4) An investigation of alternative ways (including nongovernmental) to stimulate tourism growth in a controlled and responsible manner. For example, could new airlines, hotels and/or theme parks attract a greater number of tourists? What truly promotes tourism growth.
- 5) A study of whether and/or how unfulfilled objectives in government plans might be put to use by other entities. For example, could government plans be used by private developers to guide hotel development?
- 6) A study of similar situations involving tourism in other destinations, especially on other islands. For example, American Samoa has failed at tourism because its government did not provide the necessary infrastructure and support; in contrast, Western Samoa provided incentives

for tourism and saw growth. Could different political structures influence the success of tourism? American Samoa is a trust territory and receives 80 percent of its revenue from the United States government, whereas Western Samoa is an independent nation.

7) A study of the “ultimate winners” in Hawai‘i tourism, such as the powerbrokers and politicians profiled in Land and Power in Hawai‘i, would be helpful to set standards and regulations for public servant conduct. A study should be completed on pre-tourism and post-tourism; and for established destinations, a longitudinal study should be conducted that takes into account ongoing change in the destination, investors, and tourists, to help define tourism’s pitfalls and how to avoid them.

8) A study of the converse of the tragedy of the commons, which is people or businesses displaced from a common area when it becomes private land. For example, the Nukoli‘i development on Kaua‘i displaced local people from land they had historically used. And in Honolulu, many small businesses were displaced when the buyers of a property near Ala Moana Shopping Center demolished their buildings in hopes of getting more rent from new tenants (the land remains vacant).

The above suggestions indicate that more thorough research is needed on tourism and its effects, as well as on why some destinations are more successful than others.

Summary

My study does not analyze the intentions of decision-makers, but does look at the process and the results of deciding what industries to attract. Hawai‘i may benefit more from attracting and nurturing many small industries that provide skilled jobs in fields that coincide with the state’s educational, geographic and cultural strengths.

My study painted a picture of socioeconomic decision-making based on background information about:

- tourists (total and Japanese);
- Japanese hotel ownership;

- **policies of the State of Hawai‘i, and the extent of adherence to those policies; and,**
- **Japanese government policies.**

My conclusions are that the policies instituted by Hawai‘i government to attract investment were inconsequential to Japanese hotel investment in the state, and counterproductive to the economy of the Aloha State from 1970-1990. The latter was not apparent at the beginning of my study, but became obvious after research revealed a variety of negative effects on Hawai‘i’s economy and its residents.

APPENDIX A CASE STUDIES

If planning—as recommended by the 1960 study (Part 2, 4)—has been successful, it is in the neighbor islands and their county governments control and maintenance of the tourism planning for their respective islands. The outer islands tended to keep the Hawai`ian style; the most notable exception was the Waikoloa on the Big Island, which has a strong European motif and little Hawai`ian feel. The case studies of Hawai`i hotels indicate that planning can decrease the barriers to access of full information to the hotel investors. The following case studies represent each island.

Island of Kauai

The 1960 study indicated three regions in Kauai for development; these included Port Allen (Poipu Resort Regions), Hanalei Resort Region, and Lihue (Wailua River Resort Region). Only the Lihue region had hotel development in 1960. Perhaps the most controversial hotel development was on Kauai. Nukolii, on the southeast coast of Kauai, was originally owned by AMFAC and was classified as agriculturally poor. Although Nukolii is near the Lihue area, it was not designated as a tourist area. The area was used by locals for recreation (i.e., surfing, picnicking, and camping). AMFAC sold the land to a local *hui* (i.e., limited partnership), which included Masaru Yokouchi of Maui—“a powerful guy” (Cooper and Daws 1990, 325) and Earl Stoner—an AMFAC executive—among others. The land purchases took place in June 1973 and January 1974 for a total of \$1.2 million. In 1974, the land was redistricted for urban use. As noted by Cooper and Daws (1990, 325), a land use commissioner stated that with the powerful man from Maui, the redistricting was going to pass. The *hui* then sold the land for \$5.25 million¹ to Pacific Standard Life, which planned a 1,500-room, three-hotel resort. In the late 1970s, the

¹ The *hui* made no improvements to the land and the rezoning to hotel had not yet occurred; however, a profit of \$3.05 million was made.

rezoning for the resort was passed by one vote. By 1980, Pacific Standard Life sold its share to Hasegawa Komuten, which became the sole owner of the Nukolii land. The controversy over the resort led to the possible downzoning of Nukolii with the issue being placed on the November 1980 general election ballot. A questionable use—albeit, legal use—of absentee ballots was initiated to prevent the downzoning. The opposition group, Citizens to Save Nukolii (CSN), filed three court actions to slow the project. The day before the election was held, the county issued the hotel building permit. In February 1981, Kauai Circuit Court ruled that the developer's rights had been vested. In October 1982, the Hawai'i Supreme Court overturned the Circuit Court's ruling. The Supreme Court upheld the people's power of referendum and ruled that the developer had proceeded illegally and in bad faith by continuing to build prior to the vote. In sum, the Court stated the developer did not have vested rights and thus, all work was done at the developer's risk. In November 1982, Hurricane Iwa hit Kauai. In 1983 Hasegawa Komuten wanted the U.S. Supreme Court to hear the case. Governor Ariyoshi had the State Attorney General urge the Court, which nonetheless refused to hear the case. Given the downturn in the Kauai economy—primarily from the hurricane—a special election gained momentum. By the summer of 1983, there were enough signatures to grant the election in February 1984. The election resulted in a victory for the developer with a vote of 8,476 to 5,917. By 1984, the State Legislature amended the absentee ballot law to prevent another 1980-type usage. In 1985, the State Legislature passed a law to clarify when vesting occurs.

Island of Hawai'i

On the Big Island, several areas were targeted as tourism development regions. The 1960 study recommended Kona Resort Region, Kawaihae (Puako Resort Region), and Hilo Resort Region. Of the three areas, one (i.e., Kawaihae) had no development by 1960. The 1972 Tourism Impact Study, Volume II, indicated that West Hawai'i needed

tourism development; four areas (i.e., North Kohala, South Kohala, North Kona, and South Kona) were planned for development. The first major development in the Kohala region (i.e., Kawaihae) was the Mauna Kea Resort. Given the state's designation of the area, infrastructure funding for water, roads, recreation, and marina facilities was approved.

Tokyu and Mitsubishi Corporations purchased the land for the Mauna Lani Bay Hotel in South Kohala in 1972 for \$18.6 million from the Brown family. The hotel opened in 1983 at a cost of \$72 million. The construction and opening of the hotel went smoothly. The primary reasons seemed to be that the area was targeted for development, the Kohala Sugar company closed in 1975, the population shifted from the east to the west of the Big Island in the 1970s and early 1980s, the developer demonstrated a conscientious plan for preserving the archaeological resources in the area, and the strong relationships established with well-placed political figures (e.g., Kenneth Brown). As noted by Daws and Cooper (1990), Brown assisted Tokyu in getting through the maze of regulations.

Even when developing within the designated areas, problems can arise. Similar to Nukolii, cultural and local custom can get in the way. For example, the Four Seasons Resort—Hualalai had little communication with the local community, which ultimately got a court injunction to halt construction. A major concern arose when the hotel received a permit to dredge issued by the U.S. Army Corps of Engineers on a Thursday night and then began dredging at 4:30 a.m. (Command, 1996). The dredging and blasting went against the environmental and cultural rights of the Hawai`ian people. The court concluded the Land Use Commission (LUC) had the burden of proof to preserve and to document the significance of any historic properties and cultural resource. The court added that the LUC had improperly delegated its responsibility to protect the historic properties and cultural resources to the fee owner (Appellants' Joint Proposed Findings of

Fact and Conclusion of Law, Army Corps of Engineers and the Hualalai Development Company (HDC), 1996). Also, under Section 6E, HRS, the legislature directed the Department of Land and Natural Resources (DLNR) to preserve the historical land. Yet, DLNR also approved the blasting at the shoreline. The constitution of Hawai`i also addresses the issue of Hawai`ian rights in Article XII, Section 7, which requires the “state to preserve and to protect all gathering and access rights of native Hawai`ian who have customarily and traditionally exercised the same for subsistence, cultural and religious practices” (Appellants’ Joint Proposed Findings of Fact, Conclusions of Law, Decision and Order, 1996, 15-16). With the court’s findings, Four Seasons began to work with the community. Four Seasons was fined for their violation and the destruction of the berm.

In the Mauna Lani Resort Area, the Ritz-Carlton (jointly owned by Shimizu Land Corporation, Mitsui Corporation, and the Ritz, the latter put in very little money) was opened in 1990 for a total cost of \$175 million. The loan obtained was intended to cover all of these costs; unfortunately, for the hotel, the loan did not cover \$25million of the costs. On the other hand, the project had little trouble with its development.

The Island of Maui

The two regions: Kaanapali (Lahaina Resort Region) and Maalaea (Wailea Resort Region), targeted by the 1960 study, were basically undeveloped. Kaanapali began to be developed in the early 1960s, but the more distant Wailea had a slower planning stage due to the lack of roads and water. In 1971, Wailea Land Corporation joined with Northwestern Mutual Insurance Company to form the Wailea Development Company (WDC). The WDC had its plan approval delayed for one-year, due to the lack of beach access. Mayor Elmer Cravalho and the Maui Planning Commission stood fast. Finally, WDC agreed to five beach access areas with showers, parking, restrooms, and picnic areas. Another problem was solved by the joint venture between the WDC and the county to develop the Kihei Waster Water Treatment Facility and the Central Water

Transmission and Source Development. The water treatment cost \$7.7 million, of which \$2.3 million was contributed by WDC. For the water transmission, the county paid \$4 million while WDC and Seibu Real Estate Company, a large landowner in Makena, paid \$7 million. The \$7 million was an interest-free loan to the county. A third agreement mandated that the WDC and Kahului Development, Seibu Real Estate, and Wailuku Sugar Company develop water sources in the West Maui mountains (Honolulu Advertiser, July 9, 1974, B1). Mayor Cravalho did not see this as an exaction but as a compromise. The article quoted Cravalho as stating “. . . having developers finance off-site development costs, such as water lines, reduces the need for an increase in real property tax rates.” Thus, it was seen as paying now for lower future costs (i.e., property tax). Cravalho also instigated the rider in the legislative appropriations bill that stated the waterline not be released until evidence shows development was underway. The careful planning, included hotels, condominiums, recreational areas, and beach access, came after seeing the problems that rose in Waikiki and Kaanapali. With the infrastructure and strategic plans in place, the Wailea Beach Resorts had little opposition as the plan specified the number of hotels and amenities.

Island of Oahu

Oahu had two designated areas for development. The most noted was Honolulu Resort Region (i.e., Waikiki and border areas) and the second was the Waianae Resort Region. The most famous of Hawai`i regions, Waikiki appeared to be overbuilt. In 1976, the City Council passed the Waikiki Special Design District Ordinance, which created a policy restricting development through zoning. The plan (Waikiki Master Plan 1976, 12) capped the number of hotel rooms in Waikiki to 26,000. However, transient condominium units had no limit.

Nonetheless, there were rooms available when HOLEKULANI proposed an enlargement and a major renovation. Completing the changes, the hotel re-opened in

1984. The owner, Mitsui Real Estate, spent a total of \$81 million including land. The owners seemed to have no real opposition to the hotel rebuilding, especially given that the main building was tastefully preserved and the hotel was actively involved with the community.

Another rather smooth development occurred during the boom period. The Kaiser Hospital was demolished in 1987, and the Hawai`i Prince Hotel opened in April 1990. The area had the right permits, designation, and connections (e.g., Governor Ariyoshi is on the board of Prince Hotels in Hawai`i). Although Waikiki was a planned area, it was loosely planned. As noted previously, the success of an urban area can be obtained if the area has a niche (e.g., Hawai`ian feeling). Some hotels (e.g., Halekulani and Royal Hawai`ian) continued the Hawai`iana look while many other hotel were similar to those found around the world.

Discussion

These cases demonstrate that building within the designated areas aided in faster completion without work stoppage due to local complaints. However, there were no guarantees; for example, the Four Seasons Resort - Hualalai. The government, at times, ignored the local population's concerns or perhaps the concerns were considered inappropriate and, thus, easy to ignore. The government was not alone with ignoring the community. The developers that encountered the most problems were the developers that did not work with the people and ignored the Hawai`ian cultural aspects.

APPENDIX B
Questions for Interviews

Problem Statement: What was the extent and manner of Hawai'i government role in Japanese investment in Hawai'i hotels?

1. What was the pivotal event(s) for tourism growth?
2. In hindsight, were (1) developers, (2) state government, (3) forces outside of Hawai'i, or (4) the location and beauty of Hawai'i the most responsible for tourism growth?
3. In hindsight, did the government have a preference for any particular group(s) of foreign investors?
Specify: _____

4. Overall, the State oversaw and mandated adherence to the State Plans with all tourism developments.

1	2	3	4	5	6	7
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

5. The State enacted laws and policies to reinforce the State's Plan and objectives.

1	2	3	4	5	6	7
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

6. The coordination among different parts of the government (e.g., executive, legislature, courts, agencies, and counties) to achieve the objectives set by the State plan was adequate.

1	2	3	4	5	6	7
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

7. The State's laws, policies, objectives, and the funding to achieve the objectives were complementary.

1	2	3	4	5	6	7
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

8. There were no differences in the upward mobility of local employees among owners of different foreign direct investment (FDI) groups.

1	2	3	4	5	6	7
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

9. There were no differences in the amount of community activity among owners of different FDI groups?

1	2	3	4	5	6	7
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

10. There were no differences in the respect for the environment and natural beauty of Hawai'i among owners of different FDI groups?

1	2	3	4	5	6	7
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

11. In hindsight, the State government influenced tourism growth so that the benefits have outweighed the costs in the *short run*.

1	2	3	4	5	6	7
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

12. In hindsight, the State government influenced tourism growth so that the benefits have outweighed the costs in the *long run*.

1	2	3	4	5	6	7
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

13. In hindsight, the State handled hotel and tourism growth to the betterment of any particular group(s) of people.

1	2	3	4	5	6	7
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

14. The role the State played in the Japanese ownership of hotels in Hawai'i was very active.

<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

15. I believe that the government targeted Japanese as investors for Hawai'i hotels.

<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

16. The government did more for Japanese investors than for other investors.

<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

17. Overall, the State oversaw and mandated adherence to the State Plans:

a. On employment by local personnel by Japanese developers.

<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

b. On community involvement by the Japanese developers.

<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

c. On environmental protection by the Japanese developers.

<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

d. On infrastructure issues by the Japanese developers.

<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>
Strongly Disagree	Disagree	Somewhat Disagree	Neutral	Agree	Somewhat Agree	Strongly Agree

Specify: _____

APPENDIX C DATA AND STATISTICAL ANALYSIS

The examination of the state plans and studies in Chapter VI illustrated State policies. But the government policies address only part of my problem statement. Thus, this appendix looks at the hypotheses' variables to ascertain relationships between the variables outside of government policies and tourism growth in the state. Establishing a relationship between increased Japanese hotel investments with other variables (i.e., tourist numbers and occupancy rates) indicates the role of Hawai'i's government was low or high depending on the results of the Pearson's correlation.

The hypotheses were deduced from observation of the tourism industry and tourism studies that indicate that tourism development increased with increased tourist numbers and occupancy rates. It was assumed—but not verified—that advertising (i.e., HVB's role) would increase the number of tourists and then investment would increase. Revenue generators (i.e., Transient Accommodation Tax) are considered in a hypothesis, as it can be assumed that as development costs increased for infrastructure and the like, exactions, impact fees, and/or taxes would increase. And finally, if State Plans are developed, it can be assumed that the State would play a larger role in tourism development. If not, why were plans developed?

My investment data and the HVB funding amounts were adjusted for inflation, and a time lag for HVB funding to the number of tourist arrivals was used. However, with or without adjusting for inflation and the assumed lag, the correlations were very similar (i.e., no significant difference in the correlation results). All of the following hypotheses were significant at a 5 percent level. Table C.1 shows the results of the analysis using the Excel program to obtain the results of Pearson correlations and probabilities with and without the adjustments.²

² Professor Reg Worthley (University of Hawai'i, College of Business Administration) reviewed the statistical evaluations.

Table C.1
Pearson Correlations and Probabilities Printout

Pearson Correlations

	JapaneseInv	Visitors	OccRate	FVEBudget	ILandR	TAI
JapaneseInv	1.000	0.853	0.527	0.928	0.817	0.897
Visitors		1.000	0.528	0.909	0.984	0.810
OccRate			1.000	0.453	0.539	0.447
FVEBudget				1.000	0.900	0.914
ILandR					1.000	0.764
TAI						1.000

Pearson Probabilities

	JapaneseInv	Visitors	OccRate	FVEBudget	ILandR	TAI
JapaneseInv	-	0.000	0.014	0.000	0.000	0.000
Visitors		-	0.014	0.000	0.000	0.000
OccRate			-	0.039	0.012	0.042
FVEBudget				-	0.000	0.000
ILandR					-	0.000
TAI						-

Pearson Correlations

	JapaneseInv	Visitors	OccRate	FVEBudget	ILandR	TAI	Reza
JapaneseInv	1.000	0.867	0.543	0.937	0.828	0.907	
Visitors		1.000	0.528	0.909	0.984	0.810	
OccRate			1.000	0.453	0.539	0.447	
FVEBudget				1.000	0.900	0.914	
ILandR					1.000	0.764	
TAI						1.000	
Reza							1.000

Pearson Probabilities

	JapaneseInv	Visitors	OccRate	FVEBudget	ILandR	TAI	Reza
JapaneseInv	-	0.000	0.011	0.000	0.000	0.000	0.000
Visitors		-	0.014	0.000	0.000	0.000	0.000
OccRate			-	0.039	0.012	0.042	
FVEBudget				-	0.000	0.000	
ILandR					-	0.000	
TAI						-	
Reza							-

Thus, the number of tourists and occupancy rates (i.e., factors that the Hawai`i government does not totally control) played a role in Japanese hotel investment in Hawai`i. However, regression analysis does not show cause. The results of the simple regression³ for each hypothesis is as follows:

For hypothesis No. 1(a):

H_A: As the number of Japanese tourists increases in Hawai`i, Japanese hotel investment in Hawai`i will increase.

H_O: As the number of Japanese tourists increases in Hawaii, Japanese hotel investment in Hawaii will not increase.

The Pearson correlation was 0.867, showing a moderately strong relationship between the number of Japanese tourists increasing and Japanese hotel investment increasing.

For hypothesis No. 1(b):

H_A: As the number of tourists increases in Hawai`i, Japanese hotel investment in Hawai`i will increase.

H_O: As the number of tourists increases in Hawaii, Japanese hotel investment in Hawaii will not increase.

The Pearson illustrated a correlation of 0.839, showing a moderately strong relationship between the number of Japanese tourists increasing and Japanese hotel investment increasing. Although Japanese visitors had a higher correlation (0.028), the difference is statistically insignificant. Thus, the number of tourists, whether Japanese or not, had a strong relationship with Japanese investment. The raw data on tourist numbers and investment dollars show tourists came first. The investors followed the tourists, which was also suggested by Governor Ariyoshi, who stated that the state targeted Japanese visitors and the Japanese investors followed the tourists.

³ The results of the multiple regression analysis produced multicollinearity (the variables all correlated with each other).

For hypothesis No. 2:

H_A: As occupancy rates in Hawai'i hotels increase, Japanese hotel investment in Hawai'i will increase.

H_O: As occupancy rates in Hawaii hotels increase, Japanese hotel investment in Hawaii will not increase.

The Pearson correlation was 0.543, showing a weak to moderate correlation between increasing occupancy rates in Hawai'i and increasing Japanese hotel investment. But as previously discussed in Chapter V, the hotel development was higher than predicted by DPED 1972's link with Hawai'i's occupancy rates. The lower relationship suggests that Japanese investment was more influenced by factors outside of the state's control, such as Japanese developers' business practices and bank loan procedures and by international events, such as the Plaza Accord.

For hypothesis No. 3(a):

H_A: As the Hawai'i Visitors Bureau's marketing funding increases, the number of tourists to Hawai'i will increase.

H_O: As the Hawaii Visitors Bureau's marketing funding increases, the number of tourists to Hawaii will not increase.

The Pearson correlation came out to 0.875, showing a moderately strong correlation between increasing the HVB marketing funding and the number of tourists in Hawai'i.

For hypothesis No. 3(b):

H_A: As the Hawai'i Visitors Bureau's marketing funding increases, the number of Japanese tourists to Hawai'i will increase.

H_O: As the Hawaii Visitors Bureau's marketing funding increases, the number of Japanese tourists to Hawaii will not increase.

The Pearson correlation was 0.909, showing a strong correlation between increasing the HVB's marketing funding with number of Japanese tourists and total number of tourists to Hawai'i. The HVB's relationship to the number of tourists, while statistically significant does not illustrate that HVB's promotions increased the number of tourists. As previously stated, simple regression does not show cause. Since the state and HVB never

tracked the effectiveness of the promotions, as advertising agencies do, the state just assumed the promotions were effective when tourist numbers increases. An important factor to the number of Japanese tourists and HVB advertising is that the amount of repeat visitors increased. Overall, repeat visitors do not require advertising to get the visitors to return to the islands. Also, it is possible that with the increase in visitors, the HVB budget was increased; thus, the promotion budget increase followed the increase in visitor numbers. The raw data supports this assumption.

For hypothesis No. 4:

H_A: As Japanese hotel investments in Hawai`i increase, the number of the Hawai`i government's exactions and taxes will increase.

H_O: As Japanese hotel investments in Hawaii increase, the number of the Hawaii governments' exactions and taxes will not increase.

The Pearson correlation was 0.907, showing a strong correlation between increasing Japanese hotel investments and the number of Hawai`i government taxes (i.e., TAT beginning in January 1987).⁴ Bonham, Fujii, Im, and Mak (1992)⁵ found that the Hawai`i hotel room tax had a negligible effect on real hotel revenues.

While my study included only the TAT, Leventhal (1988a) noted that the state was increasingly exacting affordable housing⁶ from commercial developers as a condition of project approval, which came with the boom in investment.

Some proposed exactions were merely threats, as they were never implemented. For example, Mayor Fasi of Oahu discussed a \$100 million golf course exaction but never implemented the exaction as the property owner went bankrupt. While some called the proposed fee an impact fee, it was not, as an impact fee must have a relationship to

⁴ Using a dummy variable represented by 0 for pre-TAT years and 1 for 1987 to 1990.

⁵ Their article, "The Impact of the Hotel Room Tax: An Interrupted Time Series Approach," used an interrupted times series approach.

⁶ For example, affordable housing (i.e., being developed or fees paid) exactions were demanded for project approval on Westin Maui (opened in 1987), Embassy Suites Maui (opened in 1988), Hyatt Regency Waikoloa—Big Island (opened in 1988), Grand Hyatt Maui (opened in 1991), Mauna Lani Resorts—Big Island (opened in 1988), and Four Seasons Maui (opened in 1990). Leventhal, however, did not report exact data.

the capital facilities needed for the golf course development. However, \$100 million was far above the capital facilities needed; thus, Mayor Fasi's threat was an exaction.

Comparing exactions to impact fees,⁷ it was found that most impact fees in Hawai'i were limited to sewer and water connection along with building permit fees, the latter being the most common. The state passed the Hawai'i's Impact Fee Law (Chapter 46, HB 3787) in 1985 to set the stage for each county to adopt fair and reasonable impact fees. But no county had implemented a plan by 1991. The statewide total dollar amount of impact fees is not readily available, as the Hawai'i state and county governments do not publish the information. Thus, each development would have to be examined, but obtaining the actual dollar amounts would be difficult.

One can see that the state and county were late in establishing exactions and impact fees upon developers. In addition, exactions (excluding the TAT) and impact fees were administered in an ad hoc manner with no specific policies or procedures in place (Nicholas and Davidson, 1992). One Hawai'i example discussed in Appendix A is Maui County's Wailea Beach Resort developers, who paid \$2.3 million for water treatment. But for water transmission, the developers gave the county a \$7 million interest free loan.

For hypothesis No. 4:

- H_A:** As state plans are developed, Hawaii government involvement in the hotel industry will increase.
- H_O:** As state plans are developed, Hawaii government involvement in the hotel industry will not increase.

To analyze the above hypothesis, the state plans and the extent to which the plans were followed are examined. Hypothesis No. 4 is the only qualitative hypothesis and is discussed in Chapter VI.

⁷ Nicholas and Davidson (1992,10) noted the use of impact fees were common in the several states: Arizona, California, Georgia, Florida, Maryland, Oregon, Texas, Utah, Vermont, and Washington. They added that to a lesser extent Idaho, Illinois, Maine, Nevada, New Jersey, New York, North Carolina, Tennessee, West Virginia, and Wisconsin were using impact fees. Recently, Nicholas and Davidson added Hawai'i to the list of states using impact fees on developers.

A dummy variable (i.e., the Plaza Accord in 1985) was measured.⁸ The regression analysis showed a regression analysis of 0.9411, which is significant. However, the problem with dummy variables is that any event used as a dummy variable at that date would have similar results. Thus, the statistical results did not give exact information. However, expert opinions support the notion that the Plaza Accord played a role in Japanese investment in Hawai'i hotels. For example, Governor George Ariyoshi and Attorney Richard Lachmann felt that the Accord played a major role in the increase of Japanese investment. Renaud (1997, 16) noted that the Plaza Accord triggered the Japanese asset boom, which greatly increased company borrowing power and the bank's willingness to grant low-interest loan. In addition, "The Impact of the Hotel Room Tax: An Interrupted Time Series Approach," study (Bonham, Fujii, Im, and Mak, 1992) supported the belief, as the authors found that the depreciation of the dollar from the Plaza Agreement had a significant impact on travel to Hawai'i.

In sum, the variables tested indicated that factors outside of the Hawai'i's control significantly contributed to the increase in the number of tourists and the number of Japanese hotel investments. However, my study did not include possible variable. The variables would be too numerous, and many are not operational and, thus, cannot be quantified in a meaningful way.

As noted by Von Bertalanffy (1968, 28) "Advantages and shortcomings of mathematical models in the social sciences are well known. Every mathematical model is an oversimplification, and it remains questionable whether it strips actual events to the bones or cuts away vital parts of their anatomy. On the other hand, so far as it goes, it permits necessary deduction with often unexpected results which would not be obtained by ordinary 'common sense.'"

⁸ Using a dummy variable represented by 0 for pre-Plaza Accord years and 1 for 1985 through 1990.

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