

COVID-19: INSTITUTIONAL PREREQUISITES FOR NEW FORMS OF RENT-SEEKING IN THE TOURISM INDUSTRY

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Abstract

This article examines the institutional problems and new forms of rent - seeking in the tourism sector of Bulgaria in terms of changes in the impact of Covid -19 after the declared state of emergency in the country on March 13, 2020. The study applies: (1) analysis of search conditions on rent; (2) the role of Covid -19 and the creation of new forms of rent-seeking; (3) negative economic effects are presented by measuring rents. The impact of Covid-19 measures and legislative initiatives help to create rent-seeking.

Key words: Covid 19, institutional impact, rent-seeking, tourism

INTRODUCTION

The phenomenon of rent-seeking has been of interest to many authors over the past fifty years. The problem has long since acquired an economic, political, environmental and social character. Its continuing relevance is due to the fact that it can be used to assess the negative impact of the economic system, on the one hand, and on the other hand the generation of losses in it. In this regard, the study of rent-seeking must be interdisciplinary.

Tourism is one of the most important sectors of the Bulgarian economy. It occupies 12% of the country's GDP, and 11% are employed in it. Natural capital, unique sites and a favorable climate are a source of income for approximately three hundred thousand Bulgarians. Therefore, the distribution of goods and resources related to this sector is essential. Some of the participants earn unreasonably by using non-market methods and with minimal effort receive a steady income.

Under Covid-19 circumstances, the state has created rules for the tourism sector, triggering the rent-seeking paradox.

The purpose of the paper

The aim of the development is to establish the new forms of rent-seeking in the conditions of Covid-19 in the tourist branch of Bulgaria.

Due to the current state of emergency in the country, the number of cases in which companies in the sector have benefited at the expense of partners and customers, although they have not fulfilled contracts, have not provided services or used freely the money of their customers and more, has gone up.

The stages of the study are:

- Analysis of the prerequisites for rent-seeking in tourism, including the benefits, barriers, results for economic agents;
- The role of Covid-19 in the search for rent-seeking and its new forms;
- Recommendations for improving the environment in order to reduce the rent-seeking in the country's tourism.

MATERIALS AND METHODS

In accordance with the purpose of the study to establish the rules, leading to various forms of rent-seeking - "system error" - is used normative legal analysis. To study the aborted journeys to measure their value and what is the impact used comparative institutional analysis. Graphically and retrospectively are presented the costs related to planning the current activity without expecting income. A graphical comparison of the total losses of tour operators and travel agencies by country. Information from the National Statistical Institute of the Republic of Bulgaria (NSI)

and information from 150 cases presented by 25 companies engaged in tour operator activity were used.

RESULTS AND DISCUSSIONS

Rent-seeking and Service sector

Rent-seeking refers to all unproductive, alienating activities that bring a positive return to the individual, but not to the society as a whole. The allocation of resources for rent-seeking has a cumulative effect on the economic activity in several ways. First, to the extent that rent-seeking is sought from activities such as corruption and tax evasion, lower incentives and opportunities for production and investment, overall economic performance is declining. Second, rent-seeking can compete with productive sectors for scarce economic resources, leading to uneven distribution of labor, capital and talent in the economy.

The rent-seeking has been known for a long time. Levy (1988) [8] describes that an important prerequisite for participation in tax activities in Rome was the availability of sufficient capital, which allowed wealthy Roman citizens to provide funds to rulers and collect taxes. Wade (1984) [13] examines the relationship between administration and farmers in India related to the provision of access to water. Taking the place in the state body was the only opportunity for their relatives to receive from the resource. Water was free, but the farmers had actually paid in advance for the job. In practice, some of the employees in higher positions earned a steady income through these appointments. Baumol (1988) [3] points out that the choice of civil service is related to the possibility of receiving unregulated income. Eventually, officials began to earn more than the wages associated with their daily activities by circumventing the rules. These side incomes in many cases become permanent.

Contemporary authors view the problem in many ways. They come to the conclusion that government activities, ownership, way of resource allocation is not the only condition for the existence for rent-seeking. Rent-seeking is also present in private relations, in

the markets even in the conditions of competition, as mentioned by Tullock (1967) [10].

However, Krueger (1974) [6] is the one who defines the term. According to her, the rent-seeking can be linked to economic payments controlled by the political state system. In this regard, non-market payments even always lead to conditions for rent-seeking. Taxes and subsidies could distort the market and make it less efficient. That is, the rent-seeking is typical for both public and private activities.

Stiglitz (2010) [11] considers specific forms of rent-seeking behavior. For him, the rent-seeking is created by those rules that lead to social inequalities in the economic system. The author says that unfounded rules in favor of someone controlling the economic organization are the cause of negative externalities. He defines that incentives to concentrate wealth are at the core of annuity demand.

Niskanen (1975) [9] believes that bureaucracy creates the conditions for some market participants to gain an advantage. He promotes the notion that bureaucrats are trying to maximize their budgets. Thus they achieve utility. He lists some variables that he defines as "useful", namely increasing his salary, reputation, power. But critics dispute this thesis, saying it is only a personal benefit and has nothing to do with the public interest. On the contrary, other private entities are affected. Even privatized government activities can lead to incentives to rent-seeking.

- Information asymmetry
- Intensive and diverse institutional changes
- Problems of coordination structure
- Problems of distribution of property rights

Institutional prerequisites for rent-seeking in tourism in Bulgaria

Akerlof (1970) [1] identifies some serious problems affecting markets, characterized by asymmetric information. According to a contemporary theory, uncertainty is largely due to information asymmetry - the uneven and unequal distribution of information in conditions of limited rationality and opportunism leads to the rent-seeking. In the

tourism of Bulgaria we observe a great number of such examples.

The reduction of some indirect taxes has led certain players in the tourism sector to benefit from the distribution of rights. This distribution of profits is not transferred as value to consumers at the expense of price. It becomes an annuity for the service seller.

The country's legislation introduces new, numerous rules in tourism, which have been repeatedly changed and are still being amended during the state of emergency. They made it easier for some players to adjust and for others to get confused. In practice, the administration's measures allowed the larger players in the tourism industry to benefit at the expense of the smaller ones.

Activities were suspended after the imposition of the state of emergency. This disrupted coordination. Some market participants took advantage of the situation, albeit for a short time. They withheld not small sums at their own expense. Others have suspended operations indefinitely. This has led not only to an outflow of tourists, but also to significant economic losses.

Forms of rent-seeking in tourism in connection with Covid-19

Description of the forms

The alternative order of taxation. On the one hand, hoteliers are taxed for accommodation with a 9% VAT rate, according to The Amendment to the Law on Value Added Tax (VAT) - entered into force on 1 July as amended and ext. DV. issue 55 of 19 June 2020 [2].

On the other hand, tour operators (TO) and travel agents (TA), when performing the same service, are taxed at 20%.

It is known that a Tour operator (TO) is a specialized organization that creates tourist products and organizes the provision of tourist services.

Also, a travel agent (TA) is an organization that sells the services and packages of other companies (Tour Operators). TA acts as an intermediary between the client and the Organizer of the trip itself.

In the cases when a company, the addressee of the service, chooses to use it directly by the hotelier, he refunds the tax payment in full.

According to the text of Art. 86 of the VAT Act - in the case of tax delivery for tour operators and travel agents - the latter has a "zero rate".

This puts the first group of actors in a better position than the second. Profit from the advantage is capitalized as a new form of rent-seeking.

Practice for advantage through unenforceable clauses. In the contracts concluded between a tour operator and a consumer during the crisis with Covid-19, emerged a new practice - a tour operator imposes an agreement in which a clause for "withdrawal from the contract without the consumer to pay a penalty" can be activated only in extremely short time - 24 hours. These deadlines are unenforceable for consumers. A contractual relationship where "unreasonable" time limits are introduced under EU law is a breach of the principle of effectiveness. However, the same is a prerequisite for rent-seeking.

Money withheld in case of cancellation.

In case of refusal of consumers to pay extra for a service - organized tourist trip - under the emergency legislation related to Covid-19, the Bulgarian authorities allowed tour operators to withhold payment for canceled trips for a period of 12 months. Although in the event of an unrealized trip, the TO is obliged to offer an alternative (to change the date of the reservation or to choose another destination) or to return the money in many cases, the TO refuses the alternatives, justifying its possibility to cancel the contract and to withhold the amount paid in advance as a form of "contract termination costs". Retained money is a new form of rent-seeking. The same goes for airlines. The latter can also withhold money from unused plane tickets. Carriers believe they can withhold these amounts in full.

Error when searching in the reservation system

International Air Transport Association (IATA) accredited agents have the right to sell airline tickets to most airlines. Accreditation requires strict compliance with the rules imposed by the international organization on the number and qualification of staff, volume of activity, security of payments, work with

the Billing and Settlement Plan system and others.

It is known that BSP is a system designed to facilitate and simplify sales, reporting and control procedures of IATA accredited travel agents. It improves financial control and cash flow for airlines.

The global system, covering 177 countries and territories, serves approximately 350 airlines. Gross sales volume: \$ 249 billion. (IATA, 2013) [5].

In this system, the BSP is organized by algorithms that suggest the right way to search for airline tickets.

IATA has a monopoly on access to information. According to it, in case of a "search error" there is a violation of the airline's rules, which is expressed in the incorrect use of information in the electronic format of the system, which harms the carrier.

Tour operators cannot circumvent these rules and have to pay the amounts requested by the airline for breach of contract. The information is disseminated asymmetrically and, in addition to IATA, carriers and licensed agencies have information that the ordinary tour operator does not have access to. That is, because of IATA's market power, there is a lack of transparency, which becomes a form of rent-seeking. At the time of the survey, we had no information on whether the airlines were actually part of an informal coalition with IATA and whether they were taking advantage of these amounts.

Self-inflicted bankruptcies

This is another entirely new form rent-seeking in tourism. Many tour operators have difficulty supporting themselves, as they have incurred costs in the last few months that are inherently difficult to reimburse.

Their counterparties virtually suspend all payments - which leads to consider these amounts as recoverable. In the medium term, their average variable costs cannot be covered, which makes them consider their bankruptcy foreshadowed (Fig.1).

Regarding their future activity in the short term in August, 36.4% of the managers plan to continue with their current activity, 35.2% of them expect to continue their activities, with reduced volume, 23.0% foresee to

suspended activity temporarily, and 4.2 % predict to discontinue it.

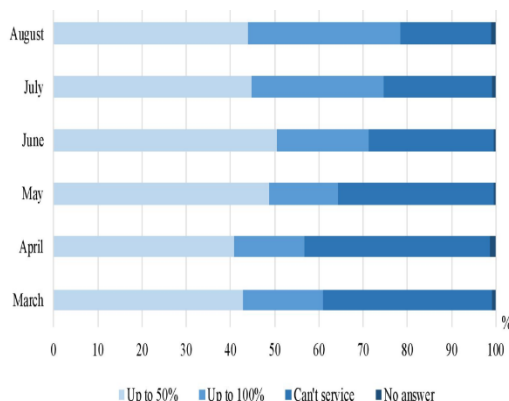


Fig. 1. Opportunity to serve the cost of the activity with your own funds in short term (one month) by month
Source: A graph showing the NSI survey, Activity and condition of accommodation in the conditions of an epidemic situation from March to August 2020, pp.2-3 [12].

Despite this, they continue to accept money for new bookings knowing that they will not reverse the service, if they will not return the money because they will probably be insolvent under Chapter Four of the Commercial Act of Bulgaria [4].

In this situation, we believe that through the amounts they provide an unjustified benefit - rent-seeking.

Measurement of rent-seeking in tourism in connection with Covid-19

Following the declared epidemic, many countries have closed their borders to travel and tourism.

Others introduced general quarantine. Many airlines have cancelled flights. Group visits to landmarks were also collected. Tourism found itself in a difficult situation and ceased operations.

But the money of the tourists remained in the travel companies, although they could not make their trips. The Bulgarian government has passed a law to withhold these payments for 1 year. It is about Law on Measures and Actions during the State of Emergency, announced by a decision of the National Assembly of March 13, 2020 and on overcoming the consequences (Title supplemented, SG No. 44/2020, effective 14.05.2020 d.) [7].

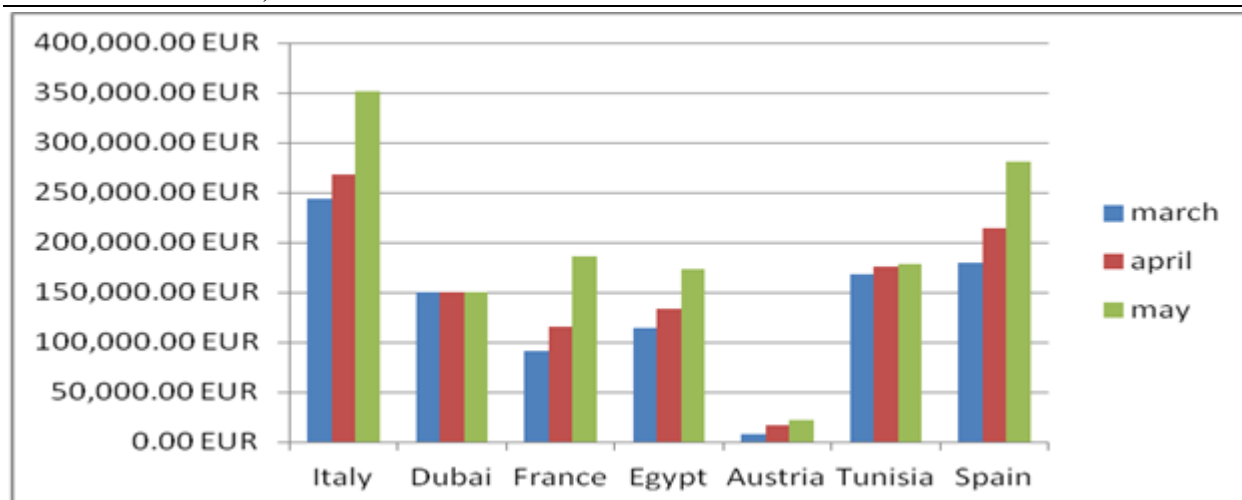


Fig. 2. The money withheld by travel companies for failed organized tourist trips in different countries
Source: own concept based on several travel agencies.

CONCLUSIONS

The conditions easily identify Covid-19 forms of rent-seeking. Information asymmetry creates opportunities for certain entities in the sector to present their behavior as legitimate, although this is not the case. Accordingly, they mislead consumers and thus manage to secure sustainable rents during the crisis. These rent-seeking distort the incentives of economic agents to invest.

The special legislation regarding the pandemic cannot contradict the special legislation related to the protection of absolute rights. That is, rights can be limited only temporarily. They cannot be taken away.

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