

# UNIT 10 INFORMAL SERVICES IN TOURISM

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## 10.0 OBJECTIVES

After reading this Unit you will be able to:

- define and delineate various functions and activities in the informal sector,
- understand the market for souvenirs, the process of commercialisation and its consequent impact on the market, and
- learn about the institution of street guides, its advantages and disadvantages.

## 10.1 INTRODUCTION

Workings of the informal sector services in tourism in developing countries fail to get importance in tourism studies. What is generally stressed is the prospects for the developing countries to get economic benefits from tourism in the forms of foreign exchange earning, creation of job opportunities and generation of incomes, etc. This Unit is therefore planned to familiarise you with the concept of informal sector and its various dimensions. In this Unit, we will look at the market for souvenirs in the informal sector, the process of commercialisation and how trade in this market is influenced by the lack of takers of reliabilities concerning the availability of souvenirs. It will also take into account the institution of street guides (touts), the nature of this institution and an appropriate regulatory mechanism for this institution.

## 10.2 DIMENSIONS OF THE INFORMAL SECTOR

In developing countries it is now widely recognised that there are two distinct economic sectors — the formal and the informal. The conceptual difference between the two sectors rests on two principles — that of **free entry** and the **mode of production**. In the informal sector it is much easier for job seekers to get work and the mode of production of productive units permits the use of 'unstructured' labour, in contrast to the relatively rigid, hierarchically organised labour force in the establishments of the formal sector. However, it must be kept in mind that even the informal sector reproduces the socio-economic inequalities prevalent in a society and the ease of entry is often restricted to a segment of this sector depending on the individual's caste, class or ethnic affiliations. The basic differentiation of the two sectors in terms of the mode of operation of the productive units is:

- The formal sector establishments are seen as making use of modern, often imported technology, that needs the discipline of a structured work force.

- Informal sector establishments employ older, less mechanised techniques.

The difference in earnings between the formal and informal sectors is attributed in part to the difference in **technology** and the consequent **gap in labour productivities**.

The free entry factor implies that **wage earners operate in a flexible wage sector**. With free entry a job-seeker is able to obtain some employment provided his supply-price is below the prevailing wage which means that incomes are generally low and unpredictable. On the other hand if the individual in the informal sector is self-employed then, his labour is always supplied jointly with entrepreneurship and capital. The fixed capital needed in such business might be small, but given the slow rate of turnover in the informal sector, considerable working capital might be required per unit of output.

### 10.2.1 Types of Activities

The **type of activities in the informal sector of tourism** would include the following:

- self-employed guides,
- souvenir business people in open-air stalls,
- guest-house owners,
- small self-employed entrepreneurs used by tourist agencies such as guides, drivers, etc.

A primary sphere of activity in the informal sector is that of **lodging** and the provision of **restaurant facilities**. A large number of tourist lodging in the developing world are guest houses owned by families in the destination area. Most of these families view the lodging of visitors as demanding little work compared to agricultural labour which is normally the alternative source of livelihood. Restaurant business which offers services such as prepared meals, food and refreshments also flourish by using culinary and other skills that are learnt in social institutions such as the family, thus requiring no investment in formal training, and calling for little fixed and working capital to operate. Another important informal sector activity includes souvenir sellers in open-air stalls along the streets. These offer tourists jewellery and other arts and crafts using production techniques that have been virtually unchanged for generations. A final sphere of activity of importance in the informal sector is the employment of **self-employed entrepreneurs** by tourist agencies such as freelancers in the areas of guiding and short-distance local transportation. This sphere of activity also includes craft-related activities such as the making of simple utilitarian objects or music. Activities in the lodging and restaurant part of the informal sector have been the focus of most attention because they are predominant generators of income and employment in this sector.



## 10.2.2 Nature of Informal Sector

In practice, the boundary between formal and informal establishments is based on size and industrial legislation. The formal sector includes establishments that are officially listed in that they possess licences, are registered for taxation purposes, and are eligible for state funding. By contrast, establishments in the informal sector operate without legal recognition and are neither registered nor officially taxed. In the empirical literature the **informal sector is always defined as consisting of units less than or equal to a certain size measured by the number of employees**. In studies on manufacturing industry establishments with less than twenty workers and in some cases those with less than ten workers are taken to be in the informal sector. The availability of data is an important consideration in deciding the cut-off point between the formal and informal sectors. The data on the hotels and restaurant sector in India is available due to an enterprise survey conducted by the Central Statistical Organization of the Ministry of Planning, Government of India in 1983-84. The hotels and restaurants sector covered those enterprises which provided:

- 1) lodging services with or without arrangements for meals, other prepared foods and refreshments (e.g. hotels, dharamshalas, hostels, private lodging houses, etc.) and
- 2) eating and/or drinking services such as prepared meals, food and refreshments, cold and/or hot drinks, etc. (e.g. restaurants, cafes, cafeteria, snack bars, ice cream parlours, etc.).

Even though the data does not record the transaction components that are strictly tourism related they are indicative of the dimensions of the informal sector whose characteristics would not vary much with the changes in the proportion of clientele who are tourists or local residents.

Enterprises are divided into three types:

- 1) **Own-account enterprises (OAEs)** are those operating without the help of any hired worker.
- 2) **Directory establishments (DEs)** are those having six or more workers including both household and hired.
- 3) **Non-directory establishments (NDEs)** are those having less than six workers including both household and hired.

To complete the definitions on the basis of which data was collected in the Enterprise Survey, a hotel is defined as an enterprise which provided temporary lodging accommodation with or without arrangements for meals, other prepared food and refreshments. An enterprise which was generally an eating and drinking place and where prepared meals, other food and refreshments and snacks were sold for immediate consumption without any provision for lodging was classified as a restaurant. For our purposes we will define Non-directory establishments and Own-account enterprises as belonging to the informal sector, i.e. **an enterprise that has less than six workers, household or hired, will be considered as an informal sector enterprise**.

The Enterprise Survey found that 12% less of the total number of establishments were DEs, 34% were NDEs, and 54% were OAEs. This means that **88% of the total establishments in the hotel and restaurant sector in the Indian economy belong to the informal sector**. About 97% of the total enterprises in the hotels and restaurants sector are restaurants and the remaining 3% constitute hotels, dharamshalas etc. 99.4% of OAEs, 93.2% of NDEs, and 86% of DEs were restaurants and the number of establishments in the informal sector that were restaurants (OAEs and NDEs) was 97.8% of the total. Hence, the **informal sector is predominantly in the restaurant business and marginally in the hotels business**. It must be kept in mind that households which had paying guests were excluded from the survey and these constitute a large chunk of the informal sector.

## 10.2.3 Productive Capital, Emoluments and Profits

All enterprises need productive capital which is the total monetary requirement for running the business. **Productive capital is the sum of the values of fixed assets and working capital**. Fixed assets include assets of the enterprise such as building, machinery, refrigerators, room cooling equipment, lighting equipments, furniture and fixtures, transport equipments, etc. Working capital is the total capital of durable and semi-durable nature locked up in the stock of food, refreshments, drinks and other materials (crookery, linen) for use of the enterprise and

is net of the amount receivable (money due to the enterprise for sales, security deposits, etc.) and amount payable (short-term loans, outstanding wages, sales taxes on purchases, etc.). 79.2% of the total enterprises in the informal sector had productive capital of less than Rs. 5,000 in 1983-84 and in the formal sector the figure was 29.6%. Only 5.2% of informal sector enterprises had a productive capital of more than Rs. 20,000 whereas 30.9% of formal sector enterprises had such productive capital. Thus, **informal sector enterprises have a low productive capital base.**

Another important indicator is the **distribution of total emoluments** which includes salaries, wages and allowances, bonus paid, contribution to social security etc. between the formal and informal sectors. In the restaurant sector the average emolument per enterprise was Rs. 24.37 thousand in the formal sector and Rs. 4.91 thousand in the informal sector. (i.e. NDEs). In the hotels sector the average emoluments per enterprise was Rs. 33.62 thousand in the formal sector and Rs. 5.72 thousand in the informal sector. 6.2% of formal sector enterprises as opposed to 59.1% of NDEs in the informal had total emoluments less than Rs. 4,000. 47.6% of formal sector enterprises and 39.6% of NDEs in the informal sector had total emoluments between Rs. 4,000 and Rs. 20,000. Finally, 46.2% of formal sector enterprises and 1.3% of NDEs in the informal sector had total emoluments greater than Rs. 20,000. The average emolument per hired worker was Rs. 38.42 in the formal sector and Rs. 30 in the NDEs of the informal sector. Thus, on the average emoluments were 28% higher in the formal sector. On the whole, given the high percentage of informal sector enterprises with low total emoluments, **workers in the informal sector eke out a hand to mouth existence.**

Finally, if we look at profits, 4.7% of enterprises in the formal sector and 2.1% of those in the informal sector incurred losses in the year 1983-84. 21.4% of formal sector enterprises and 89.8% of informal sector enterprises had profits of less than Rs. 10,000. Finally, 73.9% of formal sector enterprises and 8.1% of informal sector enterprises had profits greater than Rs. 10,000. The average profit per enterprise was Rs. 35 thousand in the formal sector. The differential profitability between the formal and informal sectors is associated with the following factors:

- Firstly, profit per enterprise is seen to rise with the amount of productive capital in the enterprise and the formal sector as we have seen has a high productive capital base.
- Secondly, the productivity of labour is much higher in the formal sector. The output-labour ratio is Rs. 24.7 thousand for the formal sector and around Rs. 12 thousand for the informal sector.
- Finally, the capital-labour ratio is also higher in the formal sector making it more capital-intensive than the informal sector.

#### **10.2.4 Social Factor in Informal Sector**

An aspect of the informal sector in tourism that is still not rigorously studied is the dual aspect of the sector which is a result of what may be called the **cultural division of labour**. Certain services offered in the informal sector are exclusively the domain of certain castes or communities and this has led to a segmentation of the informal sector. Thus, social and institutional constraints restrict the options of many workers who, because of these restrictions of job choice, have access only to low status and low wage employment even though they may have educational qualifications. For example, in Khajuraho it is found that there is a close association between caste and occupation — a large number of downtrodden castes have taken to rickshawpulling whereas car drivers and owners of buses for tours are from the higher castes. In Ladakh a certain segment of the informal sector, such as trade in souvenirs in open-air stalls, is pursued exclusively only by Tibetans and no other community is involved in this sphere of tourism. Mobility within the informal sector is therefore restricted and the sector is segmented with jobs in certain segments having a fixed status in the social hierarchy of the work place. Also, low status jobs are done by those who are termed as “socially inferior” and so the type of job done is historically determined by custom and is unresponsive to economic factors and choice. Over time, then, the informal sector has become divided into self-contained segments of non-competing groups of workers.



Souvenir Shops

**Check Your Progress 1**

- 1) List out five major areas of difference between the formal and the informal sector in tourism.

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- 2) Explain the three different types of enterprises.

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- 3) What do you understand by cultural division of labour?

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**10.3 SOUVENIR SELLERS IN OPEN-AIR STALLS**

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In this Section we take a look at the phenomenon of souvenir business people who operate from open-air or make-shift stalls. They are involved in the business of selling ethnic arts and crafts products to an audience that is typically unfamiliar with the cultural and aesthetic criteria of the

society which produces these artifacts. Owing to the geographical and cultural hiatus that often separates the producers from the consumers of such artifacts, their production is influenced by the sale process. Here souvenir business people who determine the preferences and demands of the market, control the quality of products and in some instances circulate prototypes of objects to be copied by local artisans. Such objects accordingly may be totally unrelated to the cultural background and aesthetic criteria of the producers' society. In this Section we look at the processes and types of commercialisation of these products, the nature of the exchange process in such a market and the problem of quality control.

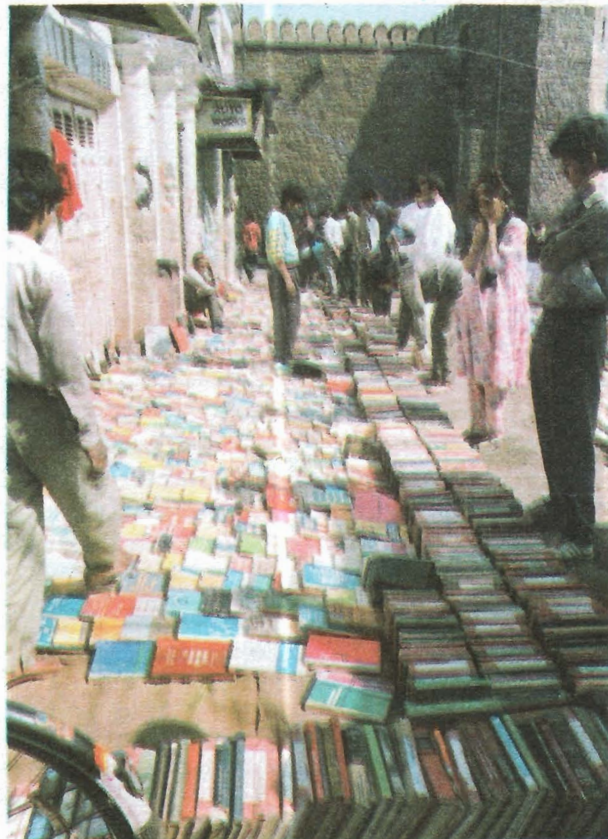
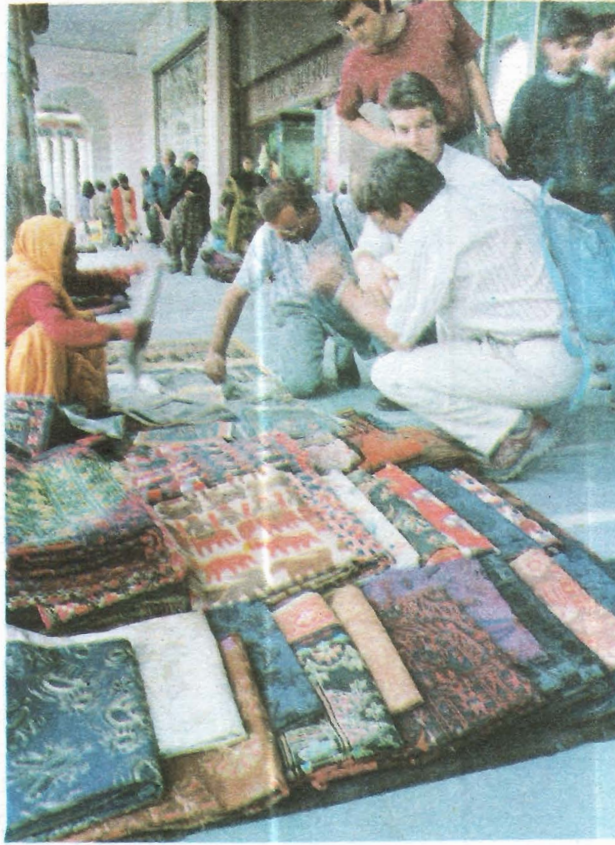
### 10.3.1 Commercialisation

The commercialisation process of ethnic arts is either **spontaneous or sponsored**. The former is a response to outside demand for local products by travellers and tourists and the products become only gradually adapted to market demand since the producers are typically unaware of the taste and demands of alien consumers. In the case of sponsored production there is initially little or no contact between producers and consumers. Here, outside entrepreneurs utilize the technical skills of local artisans to order products according to their specifications and these are often unrelated to the culture and aesthetic criteria of the artisans' own society. For souvenir business people in open-air stalls the commercial process is spontaneous. **The emergence of a market in ethnic arts in pseudo-ethnic wares due to tourism has often been a major factor in the preservation and revival of these often declining arts and crafts** in the host population. In some cases, however, instead of being under the danger of disappearing these local crafts are still viable. Under commercialisation the adaptation of these arts to the tourism market may also mean that the products and styles of these artifacts may get integrated into the producers' own culture. Sometimes we may also have a process of what may be called **induced commercialisation** — where the tourist-host population interaction results in the emergence of completely novel crafts, unrelated to the culture and arts of the producers but developed in response to the new opportunities offered by the tourist market. In Goa, for example, new products have emerged such as souvenirs like a toilet soap in the shape of a fish on a rope, and in other places there are instances of designed wax candles being produced for the tourist market.

From the point of view of tourists, they are often on the look out for products which are commercialised replications of local customs. Tourists are often searching for products produced in unusual social and cultural conditions. At the extreme this implies **searching out one-of-a-kind or rare craft items**. This does not imply that each product should be unique but definitely that there should be only a few existing and that product duplication should be within limits. The craft items should not have carbon copies but may be similar, differing from each other in size, shape and texture. The items should have no equivalents in the tourist's past travels or home community and should be peculiar to the tourist location. In short, **the souvenirs should not be commonplace, but exotic**. Secondly, tourists pay **attention to craftpersons and their training** by privileging souvenirs made by artisans who were trained by original methods and that had been handed down through a family for generations. The knowledge used in production, that is given importance by a tourist, is that which is gained across a lifetime of training. **The use of indigenous materials** such as clays or grasses increases its eligibility as a souvenir and the production should be handmade by a person with the use of at most a rudimentary technology. Accordingly, crafts that are handmade, take a long time to produce and exhibit an attention to detail are valued highly. **The use value of the souvenir is not important** as it is for ordinary commodities. Here it is the **design and crafting of the product that gives it its value**.







Sunday Book Bazar — Daryaganj - Delhi

### 10.3.2 Problem of Quality Control

As ethnic crafts become commercialised and paying business propositions, copycats from outside the original producers' group begin to crowd into the market. These may be members of other ethnic groups or even of the majority population. The penetration of the market by these groups is facilitated by the informal nature of the market which does not grant legal protection to ethnic styles and products. In a formal market, these various product-styles would have been given brand names and copying would have attracted penalties. This penetration of the market often results in low quality products, which are offered as 'genuine' ethnic wares to **undiscerning** tourists. Sometimes the original producers themselves begin to produce low quality products when they realize that the buyers do not have the knowledge to evaluate quality. A peculiarity then of souvenirs produced and marketed in the informal sector is that the **quality and valuation of the good is not standardized** and this means that reliability is at stake in the trade in these goods. This is because of an asymmetry in information regarding the quality of the goods being traded. One side of the market — the sellers side — is better informed than the buyers in the market about the properties of the souvenirs being traded. This aspect of the situation is pronounced because it is unlike other similar instances of the same problem where the informed side of the market deals on a regular basis with the less-informed side (e.g., local grocers, barbers) thus leaving little incentive for the informed to take advantage of their superior information.

Given that we are dealing with an informal market there is no room for intermediaries such as specialists or some government agency to provide the requisite information at a relatively low cost by, say, making available a Consumer Guide and making it possible for consumers to select the better quality product. Nor is it possible for sellers of higher quality products to adopt activities that operate as a 'signal' to potential buyers. Because of the limited turnover in informal sector markets the seller faces higher signaling costs per unit of sales than the seller in the formal market who signals quality and reputation by advertising, getting experts to certify quality, credit-ratings, etc. The premium that buyers in formal sector markets attach to tokens of reliability allows for this signalling of quality to be performed because its cost can be recovered by charging a higher price by the seller.

In formal sector markets, relevant knowledge about products is biased in favour of the sellers side of the market. As the buyers who are on the less informed side of the market have no way of obtaining information about products, the implication is that **price is the only variable that buyers may use to distinguish quality**. In addition, the better-informed seller is in no position to transmit relevant information to the buyers because the incentive premium to do so is not prevalent in the informal sector. This peculiarity of the market where the uninformed buyers cannot acquire information and the informed sellers cannot use signals about quality may result in a situation where some sellers of better quality products do not find a buyer and thus find that they are rationed in their sales.

We can view such a market as having a variety of souvenirs with a varying random quality. A seller who can directly identify the quality of his souvenir will sell it only if the price he receives reflects the quality of his product. Accordingly, at low prices only some of the souvenirs — those of low quality — will be available in the market and as the price rises the better quality souvenirs will be put up for sale. Accordingly, the volume of souvenirs offered for sale in the market will increase with the price. The total supply for any given price then is the number of souvenirs whose quality, when valued in terms of the prices by the sellers who are in the know about the quality, is less than the given price. As the price increases the extra souvenirs that are put up on the market for sale will be of that quality which exceeds the quality of the souvenirs sold prior to the price increase.

The tourist who is souvenir hunting forever, is uninformed and has limited expertise about how to evaluate the quality of the souvenirs that are offered for sale. He knows, however, that there is a dispersion in the quality of the souvenirs but being unable to discriminate observes only the main attributes and expects that on making a purchase will get a souvenir of average quality of the souvenir that is being sold at that price. The purchase of the souvenir will accordingly only be made if the price at which it is being offered is less than the relative value that the tourist attaches to buying a souvenir of average quality. The total demand then is dependent on the number of buyers in the market who attach a value to purchasing a souvenir of average quality that is greater than the price offered by sellers.



An interesting feature of trade in such a market is that there may not be a unique price and different pairs of sellers and buyers may trade at different prices. This can easily be demonstrated by noting that with an increase in the price sellers find it worth to bring more higher quality souvenirs into the market for trade. In an informal market with a large number of sellers, who undergo economic hardship and thus cannot continue in the market for long without constantly replenishing their cash balances, any small proportionate increase in the price brings forth in response a greater than proportionate increase in the supply of souvenirs to be traded. As what is being offered at higher prices is souvenirs of higher average quality, any small proportionate increase in the price is an incentive in an informal market for suppliers to offer a proportionately greater average quality of souvenirs for sale. Recollecting that the benefit of a purchase to a buyer depends on both the price and the average quality, the buyer finds that though there is a disbenefit because the price has risen, this is more than compensated for by the greater increase in the average quality of product being offered. As the decision rule for the buyer is to purchase as long as the price is less than the value placed on the average quality of souvenirs being offered, he will purchase more of the product in this case.

The quality of souvenirs actually offered depends on the number of buyers/sellers expect and would demand a souvenir at each price. Whether or not the expectations of one side of the market are confirmed therefore, depends upon the expectations of the other side, and vice versa. It is thus possible that there are a **number of prices at which trade can occur** in this market and there is **no unique single price towards which the market will gravitate**. The reason for this multiplicity of prices observed in such markets is mainly due to the informational asymmetry where the seller is better informed than the buyer about the nature of the goods being transacted. This is coupled with the informal nature of the market where the premium on tokens of reliability is too costly and also the need for frequent sales in order to replenish depleting and meagre cash balances. These structural reasons for the variety of prices observed for what are normally considered to be souvenirs or goods of around the same quality and authenticity are normally overlooked by commentators who view the existence of a spread of prices to be the result of the bargaining power of the buyer and seller when they hang over the price. This explanation neglects the possibility that tourists may want to pay a lower price and may well bargain for it, but not if it is at the cost of receiving a product that is shoddy and of low quality. For the tourist there is a tradeoff between higher price and a reduction in the chance of selling a product. The interaction of these two tradeoffs by buyers and sellers is the defining characteristic of trade in these sorts of markets.

**Check Your Progress 2**

1) What led to commercialization of ethnic arts?

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2) What are the problems of commercialization?

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3) How are the tourists misled in the market of souvenirs?

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## 10.4 STREET GUIDES (TOUTS)

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The purpose of this Section is to look at the phenomenon of **street guides** (disparagingly referred to as ‘**touts**’) with a view to understanding the genesis of this business institution, the functions it performs, and then to evaluate what sort of regulation would be appropriate.

### 10.4.1 Role and Function of Street Guides

Consider the case of a tourist who has not come on a package tour, who disembarks at his destination and is on the look out for accommodation that is not expensive and hence not in the formal sector. It is natural to assume that the tourist will be on the look out for dwelling units which may be spare rooms in homes as well as sleeping places, distance from the main tourist spots, etc. In short, the tourist will be interested in striking a bargain that is as much below what he considers to be the highest price he would be willing to pay for accommodation — what we can call his **frontier price**. He is thus interested in knowing which dwelling places have vacancies besides offering a given quality of rooms at the lowest price.

Getting information on prices and vacancies for particular service qualities however involves **costs of information** which depend on the number of types of dwelling units and guest houses available, the information technology (tariff pamphlets, advertising, directories of hotels), and the prior knowledge of the tourist. The average duration of stay of tourists varies from a day or two to a week or more depending on the type of tourist — recreational/diversionary or experimental/existential — and given the limited time available on hand, tourists are in a hurry to complete transactions. If information were perfect, i.e., the relevant details about prices were freely and easily available, then, this **search cost** would not have been borne. It is because of the presence of **imperfect information** that the tourist has to compare the costs of obtaining additional information on tariff rates with the chance that after incurring the cost he will find a place to stay with an even lower tariff rate than he had hitherto found. Given that with each additional effort spent in searching he may not be lucky enough with each successive place he visits to make inquiries that it has lower tariff rates than the ones previously visited. He may be led to stop searching before the place with a tariff rate that is farthest away from his **frontier price** is found. Hence, the tourist has to determine how long to search before settling in somewhere. Search has a cost in terms of time and foregone activities and that beyond a point to continue the search may be more costly than the gain that is to be expected from it in terms of information of tariffs and vacancies.

Now, suppose the way the tourist obtains the information he’s seeking differs in the following way. Imagine the presence of an intermediary (interchangeably with touts/street guides) who serves to alleviate the information problem facing the tourist. Whilst tourists have some monetary resources, they lack social resources such as knowledge of the local language, price levels and local customs. Street guides (touts) possess these social resources and use this to advantage by offering services for a price. The tout’s very existence is promoted because of the properties that information as a commodity possesses. Firstly, a piece of information once produced, can be used repeatedly. To take an example, a book such as the one you are currently reading contains information in the ideas it seeks to impart. The ideas were costly to produce in terms of the intellectual skills and labour-time involved in producing them. However, once they have been produced they can be used over and over again and each successive use does not diminish the information and ideas of the book. This property of information means that once made available the ideas of this book can be reproduced and sold at a price depending on selling costs alone which is independent of the costs of producing the book.

Similarly, there are important **economies of scale** to be realized by an intermediary who first collects information about tariffs and room availability and then sells it to tourist buyers wishing to find suitable accommodation that bills them at below their frontier price. The profitability of such informational intermediation by touts depends on the importance of the costs of selling the information to the tourist. Generally speaking, for any given cost of selling, the more expensive it is to produce information the greater is the economies of scale and it is more likely that touts will spring up to perform this function of making information available. Secondly when a tout decides to produce this information, he will take into account the fact that he can sell the information to a large number of tourists. He can **spread the costs** of the production of information over a number of buyers. As a consequence he will **produce much more detailed information than each tourist can take individually**.

The tout, in order to get into the business of being an information intermediary, has to decide the number of lodging establishments whose prices and room availability positions he will disseminate to tourists. The number of establishments' prices in the 'menu' offered to tourists will depend on the costs of selling the information. The **selling costs** can be factored into three components:

- 1) **Set-up costs per period**, which are independent of both the number of establishments in the 'menu' offered and the number of tourists to whom such services are sold. These are the costs of getting started in the business which are generally low because touts are mainly otherwise unemployed.
- 2) **Fixed costs per tourist** who consumes these services, which are invariant with respect to the amount of information on prices collected and offered in the 'menu'. These are the costs of negotiation, bargaining and 'catching' a tourist.
- 3) **Variable selling costs** which increase along with the number of establishments in the 'menu' that the tout is imparting information on. These are the costs of managing bigger 'menus'.

The entry of the tout has certain implications for the functioning of the market in information about tariff rates in lodging establishments. Firstly, the tout's 'menu' will have a larger number of prices listed than the average tourist could ever gather information on through direct search by himself. This is because of the additional cost of producing information privately. Even though the tout has to incur selling costs (which raises his costs because of the nature of information as discussed above) he can spread his search costs over a large number of tourists, whereas each tourist searching privately has to bear the whole search costs himself. If the cost of search is the same for an individual tourist and for a tout (if it is say Rs. 100/= per tariff rate), then, as the tout can sell this information to a large number of tourists (say 10), his costs per tourist is exceedingly small (Rs. 10/= in this example). As the additional cost of search for more information on tariff rates for a tout is an exceedingly small fraction of that for an individual (one-tenth in the above example), he can provide much more information about a variety of tariffs than the individual tourist can ever hope to get by himself. In fact, the larger the number of tourists, the more it pays the tout to provide this information because the search costs more will be spread more. As a result, because of this intermediary function performed by the tout, **individual tourists will be better informed** than they would otherwise have been and this is a direct gain for the tourist. The higher the costs of information search the more pronounced will be the gain to tourists, as the presence of these high costs will deter them from private search and make them use the service of the tout who because of the ability to spread search costs, will promote a more informed tourist with respect to the range of prices of services and various facilities.

When the economies of scale in the production of information about tariffs are large it pays to have touts present in a tourism area. Besides tourists being better informed another gain stemming from the presence of touts is that the larger 'menu' of tariffs that a tout presents is made available at **lower costs to the tourists**. This surprising feature results of course only when selling costs are not large relative to search costs, and the number of customers that buy information from the tout is large so that the search costs of the tout get divided over this large number of customers. As a result the price the tout charges each customer for the information sought becomes lower with each additional tourist who is provided the benefits of these services.

## 10.4.2 Negative Impact of Street Guides

These obvious advantages of the services of touts are often overlooked because of a salient characteristic of the informal sector — that guest-house proprietors cheat on the quality of services promised and so often the tourists is left worse off than he would have been without having availed the services of touts. The advantages of better information and expanded markets are offset by the disadvantages of the variable and poor quality of service in the guest-house it is claimed. In order to evaluate this proposition we must first understand that touts get a commission from guest-house owners for every day that a tourist stays. Though it is not always the case the incomes of guest-house owners and street guides usually covary in the same direction resulting a tacit collusion between them as to the rent charged. As the guest-house owner's income is reduced because some of the rent goes into the pocket of a tout, he may be prompted to cheat on the quality of accommodation. Very often, for example, running hot and cold water is not available even though it's promised as part of the contract, or linen is dirty and not replaced after the previous customer checked out, etc.

One of the reasons why touts and guest-house owners may deal in services with low and variable quality is that the market they function in is a **one-shot marker**. Tourists do not make repeated purchases and as they are unlikely to visit a destination again for a considerable time-period, they cannot punish dishonest guest-house owners by not buying their services and similarly cannot reward honest ones by demonstrating a willingness to pay for the quality they offer. A second reason for the lack of an incentive to maintain a reputation for high quality services is due to the ease of entry into the market for touts resulting in a tendency for a multiplicity of touts to set up in the business. This combined with the uneven flow of tourists into any tourist destination implies that there are large random **fluctuations in the returns that touts and guest-house owners receive** for their services. Even though touts enter the business because they can spread costs, this spread is narrow when there are few tourists and the spread is wide when there is a large volume of tourist flow. The random fluctuations in tourist arrivals puts an upward pressure on their costs and the ease of entry into the market for such information intermediation puts a downward pressure on the prices they can charge for their services. As a result the profit-margins derived from the business are squeezed.

The pressure on profit-margins which is a characteristic of informal sector activities reduces the benefits of continued operation. As the continuation of business operations is the major incentive for maintaining goodwill and reputation as a high quality provider of services, the absence of this incentive does not allow the market to sustain quality and reliable services. **When profit-margins are squeezed, reputation and goodwill is sacrificed.** The intermediary and guest-house owner is faced with the problem of whether to provide high quality services or to cheat which is akin to the decision of choosing between the alternatives of maintaining a reputation and eroding reputations but absorbing the short-run gains from producing a low quality of service. The decision goes against maintaining reputation in informal sector markets with many small sellers of information (touts) and dwelling units on rental basis (guest-house operators). This is because the smaller and more numerous the sellers are, the greater is the demand uncertainty of each seller about the flow of buyers. This depresses the profit-margin with the outcome that a continuation of this state of affairs will force the tout/guest-house operator to exit from the market altogether. By sacrificing on quality they are able to continue in the business.

## 10.4.3 Mechanism to Regulate Street Guides

Given the nature of the problem it is obvious that **banning** the institution of touts is **not a solution** to the problem at hand. Low quality provision of services and cheating is the result of informal sector activities that face the twin conditions of fluctuating demand and ease of entry with its consequent large number of sellers. As the fluctuating demand problem is inherent in the nature of tourism as an activity, public policy must focus on the ease of entry condition that is responsible for the quality problems in the informal sector of tourism. A feasible intervention by government would be to partially restrict entry into the market for information intermediation in order to help resolve the quality problem. An **entry restriction such as licensing fees** acts as a form of sunk costs, reduces the number of sellers in the market, and the resultant increase in the concentration of sellers in the markets allows each seller to charge more for his services. This automatically raises the profit-margin and the corresponding premium for the provision of higher quality services for the availability of which the required incentive has now been provided through the making of licensing fees mandatory. As a

supplementary check, the government may issue licenses only on an annual basis and subject the renewal of these licenses to there being no complaints from tourists regarding the quality of services provided. This arrangement of licensing fees need not be applicable only to touts in the business of providing information on accommodation but also to those who are in the business of ticketing for tourists.

**Check Your Progress 3**

1) Why the street guides are required?

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2) What are the reasons for lack of credibility of touts in the market?

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3) Do you think that touts should be banned?

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**10.5 LET US SUM UP**

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In this Unit an attempt has been made to explain you how the informal sector has a significant role to play in tourism along with the formal sector. We have first discussed the difference between the formal and the informal sector in terms of nature and functions of the informal sector services. Then we have discussed the market for services in the formal sector, the process of lower quality of goods in the market in the absence of proper mechanism of quality control. Finally, the institution of street guides, its advantages and disadvantages have also been explained. As a tourist professional it is important for you to understand all these dimensions of the informal sector in the context of tourism industry as a whole.

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**10.6 KEYWORDS**

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**Aesthetic** : Sense of beauty.

**Commercialisation** : It is used to describe the practices of glowing profit making trend in the market of crafts and artifacts.



**Ethnic arts** : It has been used to explain those arts which carry regional, tribal or traditional imprint.

**Exotic** : Something striking or attractive.

**Souvenir** : An item which is bought or taken by tourist during visits to different places in order to remember the place.

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## 10.7 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

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### Check Your Progress 1

- 1) See Sec. 10.2.
- 2) See Sub-sec. 10.2.2.
- 3) See Sub-sec. 10.2.4.

### Check Your Progress 2

- 1) Commercialisation of ethnic arts is the result of various factors and this you will learn in Sub-sec. 10.3.1.
- 2) Decline in quality, unhealthy competition, etc. See Sub-sec. 10.3.2.
- 3) Tourists are generally not much informed about the local market. Lack of information makes the tourists an easy prey to sellers in the local market. See Sub-sec. 10.3.2.

### Check Your Progress 3

- 1) Importance and necessity of street guides has to be stressed. See Sub-sec. 10.4.1.
- 2) See Sub-sec. 10.4.2.
- 3) Read Sub-sec. 10.4.3. and give your own arguments.