

Economic Evaluation Issues in Tourism

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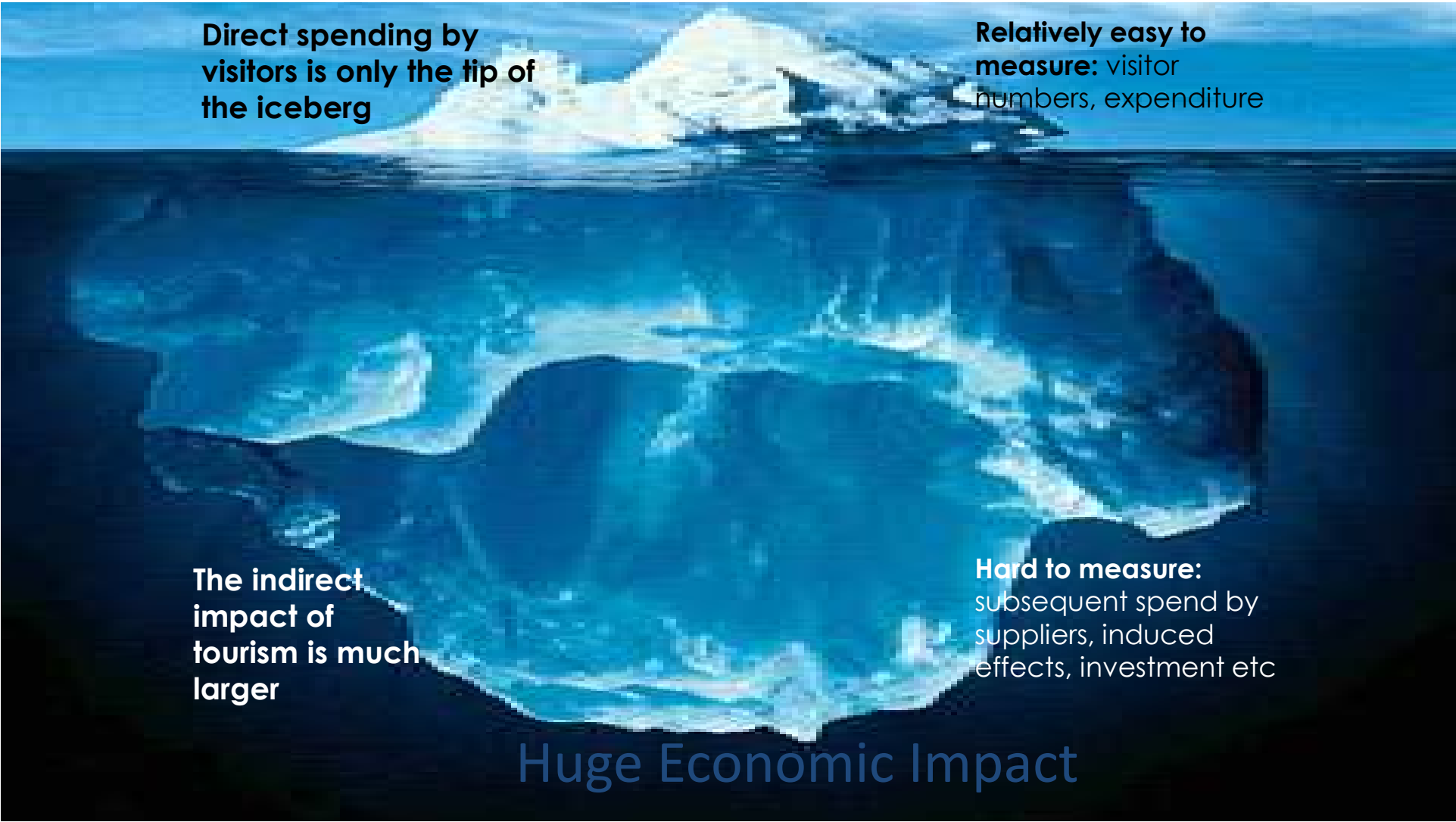
Expenditure Yields - - of limited value !!!

- ❑ Gross expenditure data does not in itself provide information on what products tourists purchase and so gives no indication of the business sectors that receive the sales revenues.
- ❑ tourist expenditure is not an indicator of profitability to firms. Profit comprises only a small proportion of visitor expenditure and is not uniform across industries.
- ❑ gross tourist expenditure does not inform us about the import content of the goods and services purchased by tourists (leakages)
- ❑ gross tourist expenditure does not inform us about the contribution of expenditure to tourism output, tourism gross value added, tourism employment (need a **Tourism Satellite Account (TSA)**)
- ❑ expenditure measures ignore the economic impacts of tourist expenditure to the wider destination such as change in Gross Domestic (or regional) Product, Gross Value Added, and employment, or any industry interactive effects (need **an economic model**)
- ❑ does not provide information on the geographic spread of revenues
- ❑ expenditure injections *per se* tell us nothing about the economic, social or environmental costs and benefits associated with different visitor market segments. Different tourists purchase different types of goods and services, and display different behaviour, resulting in different social and environmental impacts

TOURISM SATELLITE ACCOUNT

- The problem with measuring the economic contribution of tourism spending is that 'tourism' does not exist as a distinct sector in any system of economic statistics or of national accounts
- TSA provide an internationally recognized and standardized method of assessing the scale and impact of tourism spending and its links across different sectors, allowing tourism's role in an economy to be identified and compared with other sectors.

- TSA highlight the contribution that tourism makes to each other sector of the National Accounts. TSA help to:
 - identify a tourism industry
 - measure key economic variables
 - measure tourism's interrelationship with other industries
 - provide support for inter-industry comparisons of economic contribution
 - provide support for international comparisons
 - give international credibility to estimates of the economic contribution of tourism
 - provide a tool for tourism research and policy analysis



Direct spending by visitors is only the tip of the iceberg

Relatively easy to measure: visitor numbers, expenditure

The indirect impact of tourism is much larger

Hard to measure: subsequent spend by suppliers, induced effects, investment etc

Huge Economic Impact

Determinants of economic impacts of a particular expenditure shock

- The size of the shock (positive or negative)
- The industries that are the recipients of the direct, indirect and induced expenditure
- Strengths of the business linkages between the different industry sectors.
- The extent of factor constraints (supplies of land, labour, capital).
- The import content of consumer goods and inputs to production.
- Changes in the prices of inputs and outputs.
- Changes in the exchange rate.
- The workings of the labour market.
- The government macroeconomic policy stance.

These issues are addressed using Computable General Equilibrium (CGE) models

Factors reducing economic contribution of Cruise tourism

- ❑ A good proportion of cruise related expenditure may 'leak out' of the destination
- ❑ Vessels make relatively few purchases in transit ports, reducing the potential injected expenditure into the destination
- ❑ Cruise ship companies increasingly provide onshore sightseeing opportunities for passengers to pre-purchase on-board in direct competition with local providers
- ❑ The traditional leakages issue has evolved to encompass 'off-shoring', a collective term to capture the movement, relocation and concealment of resources used by multinational firms
- ❑ Leakages are particularly large for island ports of call (eg FP).
- ❑ The leakages are larger if the inputs used to produce the goods and services purchased are imported.
- ❑ Leakages also occur via regional and federal taxes that are not retained locally

Designing for Well-being

- Satisfaction indicators are often developed to *complement* key destination performance indicators.
- However, taking seriously the view that the ultimate goal of tourism development is resident well-being, well-being outcomes cannot be regarded merely as *complementary* to standard performance measures
- Rather they must be regarded as the ultimate measures of destination performance
- Recent research suggests development of a ***Well-being Lens***, comprising both subjective and objective measures can act as a ‘filter’ or ‘prism’ to identify potential current and future well-being outcomes associated with tourism developments
- Well-being outcomes help to inform policy trade-offs and provide better information for tourism stakeholder decision making than standard performance measures.