TOURISM IMPACT ON ECONOMICAL ENVIRONMENT DEVELOPMENT

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Abstract: *International tourism has quickly become one of the most important economic industries in the world. The principal motivation for a business or region to serve tourists are generally economic. An individual business is interested primarily in its own revenues and costs, while a community or region is concerned with tourism's overall contribution to the economy, as well as its social, fiscal and environmental impacts. A good understanding of tourism's economic impacts is therefore important for the tourism industry, government officials, and the community as a whole. Tourism economics is unfortunately a technical area, involving concepts, methods, and models that are unfamiliar to most non-economists. In this bulletin I've attempted to define the key concepts and explain the basic methods for estimating the economic impacts of tourism, hopefully in as "non-technical" way as the subject allows. It is equally important to understand who is investing in tourism development and who is profiting.*

Rezumat: *Turismul internațional a devenit rapid una dintre cele mai importante industrii economice din lume. Principala motivație a unei afaceri sau a unei regiuni în a oferi servicii turistice este în general de ordin economic. Un om de afaceri este interesat de profitul său şi de costuri, în timp ce o comunitate sau o regiune este preocupată de contribuția turismului la nivelul economiei şi, de asemenea, de impactul social, fiscal şi de mediu. O înțelegere temeinică a impactului economic realizat de turism este importantă pentru industria turismului, oficialitățile guvernamentale şi pentru comunitate. Economia turismului este din păcate o zonă tehnică, ce implică concepte, metode şi modele ce nu sunt cunoscute de persoanele din afara sferei economicului. În această prezentare s-a încercat definirea conceptelor esențiale şi explicarea într-o manieră non-tehnică a metodelor de bază de estimare a impactului economic indus de turism. Este la fel de important de înțeles cine investeşte în dezvoltarea turismului şi cine profită de pe urma acestui lucru.*

Keywords: *economic impacts, benefit cost analysis, multiplier effects, capture rates, induced effects by tourism*

INTRODUCTION

Tourism is now a global industry involving hundreds of millions of people in international as well as domestic travel each year. The total economic impact of tourism represents more than just the euros a visitor spends in a community. Tourism contributes to sales, income, jobs, and tax revenues. Tourists spend money on a variety of things in a community – lodging, attractions, food and other services - creating a direct effect on the businesses and economy in the form of income that pays wages and taxes. The tourism businessmen in turn are buyers of goods and services required to meet the needs of the visitors, and the direct tourism business receipts are then spent on investments or purchase of goods and services. This spending by tourism businesses as a result of increased tourist visits creates indirect effects by contributing to wages and employment in other local businesses that supply the goods and services to the tourism business.

Public organizations and businesses are increasingly interested in the economic impacts of tourism at national, state, and local levels. One regularly hears claims that tourism supports ***A*** jobs in an area or that a festival or special event generated ***B*** million euro in sales or income in a community. „Multiplier effects" are often cited to capture secondary effects of tourism spending and show the wide range of sectors in a community that may benefit from tourism.

Tourism activity also involves economic costs, including the direct costs incurred by tourism businesses, government costs for infrastructure to better serve tourists, as well as congestion and related costs borne by individuals in the community. Community decisions over tourism often involve debates between industry proponents touting tourism's economic impacts (benefits) and detractors emphasizing tourism's costs. Sound decisions rest on a balanced and objective assessment of both benefits and costs and an understanding of who benefits from tourism and who pays for it.

ECONOMIC IMPACTS OF TOURISM

Tourism has a variety of economic impacts. Tourists contribute to sales, profits, jobs, tax revenues, and income in an area. The most direct effects occur within the primary tourism sectors - lodging, restaurants, transportation, amusements, and retail trade. Through secondary effects, tourism affects most sectors of the economy. An economic impact analysis of tourism activity normally focuses on changes in sales, income, and employment in a region resulting from tourism activity.

Supposing that a region attracts an additional 100 tourists, each spending €100 per day. That's €10,000 in new spending per day in the area. If sustained over a 100 day season, the region would accumulate a million euro in new sales. The million euro in spending would be distributed to lodging, restaurant, amusement and retail trade sectors in proportion to how the visitor spends the €100. Perhaps 30% of the million euro would leak out of the region immediately to cover the costs of goods purchased by tourists that are not made in the local area (only the retail margins for such items should normally be included as direct sales effects). The remaining €700,000 in direct sales might yield €350,000 in income within tourism industries and support 20 direct tourism jobs. Tourism industries are labor and intensive investments, translating a high proportion of sales into income and corresponding jobs.

The tourism industry, in turn, buys goods and services from other businesses in the area, and pays out most of the €350,000 in income as wages and salaries to its employees. This creates secondary economic effects in the region. It might be used a sales multiplier of 2.0 to indicate that each euro of direct sales generates another euro in secondary sales in this region. Through multiplier effects, the €700,000 in direct sales produces 1.4 million euro in total sales. These secondary sales create additional income and employment, resulting in a total impact on the region of 1.4 million euro in sales, €650,000 in income and 35 jobs. While hypothetical, the numbers used here are fairly typical of what one might find in a tourism economic impact study. A more complete analyze might identify which sectors receive the direct and secondary effects and possibly identify differences in spending and impacts of distinct subgroups of tourists (market segments). One can also estimate the tax effects of this spending by applying local tax rates to the appropriate changes in sales or income. Instead of focusing on visitor spending, one could also estimate impacts of construction or government activity associated with tourism.

There are several other categories of economic impacts that are not typically covered in economic impact assessments, at least not directly. Some of these would be:

- Changes in prices - tourism can sometimes inflate the cost of housing and retail prices in the area, frequently on a seasonal basis.
- Changes in the quality and quantity of goods and services - tourism may lead to a wider array of goods and services available in an area (of either higher or lower quality than without tourism).
- Changes in property and other taxes - assess to cover the cost of local services may be higher or lower in the presence of tourism activity. In some cases, taxes collected directly or indirectly from tourists may yield reduced local taxes for schools, roads, etc. In other cases, locals may be taxed more heavily to cover the added infrastructure and service costs. The impacts of tourism on local government costs and revenues are addressed more fully in a fiscal impact analysis.
- Economic dimensions of „social” and „environmental” impacts - There are also economic consequences of most social and environmental impacts that are not usually addressed in an economic impact analysis. These can be positive or negative. For example, traffic congestion will increase costs of moving around for both households and businesses. Improved amenities that attract tourists may also encourage retirees or other kinds of businesses to locate in the area.

Benefit cost analysis and economic impact analysis are frequently confused as both discuss economic “benefits”. There are two clear distinctions between the two techniques. B/C analysis addresses the benefits from economic efficiency while economic impact analysis focuses on the regional distribution of economic activity. The income received from tourism by a destination region is largely off-set by corresponding losses in the origin regions, yielding only modest contributions to net social welfare and efficiency. B/C analysis includes both market and non-market values (consumer surplus), while economic impact analysis is restricted to actual flows of money from market transactions.

An economic impact assessment (EIA) traces changes in economic activity resulting from some action. An EIA will identify which economic sectors benefit from tourism and estimate resulting changes in income and employment in the region. Economic impact assessment procedures do not assess economic efficiency and also do not generally produce estimates of the fiscal costs of an action. For many problems economic impact analysis will be part of a broader analysis. Environmental, social, and fiscal impacts are often equally important concerns in a balanced assessment of impacts.

THE TYPICAL APPROACHES FOR AN ECONOMIC IMPACT ASSESSMENT

At the simple, *"quick and dirty"* end of the spectrum are highly aggregate approaches that rely mostly on judgement to determine tourism activity, spending and multipliers. Such estimates can be completed in a couple hours at little cost and rest largely on the expertise and judgement of the analyst. At the other extreme are studies that gather primary data from visitor spending studies and apply the spending estimates to formal regional economic models for the area in question. In between are a wide range of options that employ varying degrees of judgement, secondary data, primary data, and formal models.

Different levels of detail and corresponding expense (time and money) and accuracy are possible for each of the three steps - estimating tourist volume, spending, and multiplier effects. Four typical approaches illustrate the levels of detail that are possible and the associated methods (see *Table 1*).

- Subjective estimates that rely mostly on expert opinion
- Secondary data in aggregate form, adapting existing estimates to suit the problem
- Secondary data in disaggregate form, permitting finer adjustment of data to fit the situation

Primary data and/or formal models, usually involving visitor surveys and regional economic models.

Table 1.

Approaches to Tourism Economic Impact Assessment

Level	Tourism Activity	Spending	Multipliers
1- Judgement	Expert judgement to estimate tourism activity	Expert judgement or an "engineering approach"	Expert judgement to estimate multipliers
2	Existing tourism counts for the area or total estimates from a similar area or facility	Use or adjust spending averages from studies	Use or adjust aggregate tourism spending multipliers from a similar

		of a similar area/market	region/study
3	Estimate tourism activity by segment or revise estimates by segment from another area	Adjust spending that is disaggregated within particular spending categories & segments	Use sector-specific multipliers from published sources
4- Primary data	Visitor survey to estimate number of tourists by segment or a demand model	Survey random sample of visitors to estimate average spending by segment & spending category	Use an input-output model of the region's economy

One can employ different levels of aggregation in visitor segments, spending categories, multipliers, and economic sectors to finely tune the data and models to a particular application and also yield more detailed information about the economic impacts. For example, spending data from previous surveys may be adjusted over time using consumer price indices (CPI). If spending is itemized in several categories, distinct CPI's may be used for food away from home, lodging, or gasoline. If not, an aggregate CPI, which may not reflect the mix of goods that tourists purchase, must be used. Data for distinct tourism market segments is also valuable in tailoring secondary data to a particular application. For example, separate estimates of the average spending for day users and overnight visitors allows one to adjust the spending estimate to reflect a given mix of day users and overnight visitors.

CONCLUSIONS

The most important information for estimating tourism impacts is a good estimate of the number of tourists. This requires clearly defining what one wishes to include as "tourism" and the region of interest.

Secondly, that tourists must be divided into distinct subgroups (segments) with distinct spending patterns and likely reacting differently to various policy and marketing actions. In particular, local customers should be distinguished from visitors from outside the region and day users from overnight visitors.

Thirdly, focus most of your effort on estimating the direct effects of tourism, usually as tourist spending in the area. Multiplier effects are not nearly as important in most cases, as their use in tourism would suggest and multipliers tend to introduce complexities that most users of the results do not fully understand. Even if multiplier effects are important to the study purpose, remember that any errors in estimates of the direct effects will also be multiplied by any multiplier.

Finally, I recommend income or value added as the best measures of economic impacts to report. Sales and job impacts can be quite misleading, as sales may go largely to buy parts from outside the region and job estimates are distorted by part time and seasonal positions, not to mention quite different wage rates across industries. Income or value added are the best measures of the economic gain to the region from tourism. It follows that income multipliers (of the Keynesian type) should be used instead of sales multipliers.

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