9 The Economic Impacts of Tourism

Introduction

For approximately 40 years from the early 1960s, the 'impacts of tourism' was the most researched topic in tourism, and economic impacts were more researched than any other type in this period. When, in the late 1980s, Pearce discussed research on tourism impacts, he stated that the geographical focus of this research, was the tourism destination. As Pearce (1989:2) indicated:

> Studies of the impact of tourist development on a destination or destinations have been the largest single element of tourism research … and has concentrated on the effects of income and employment.

Despite this quotation coming from nearly 30 years ago, and taking into account the development of many different research areas in tourism since then, it is still the case that economic impact studies are a key focus in tourism research. Although, as has been stated in Chapter 6, economic impacts of tourism are linked to, and cannot easily be separated from, other types of impact, largely in an attempt to assist with understanding, economic impacts are discussed in this chapter separately from other tourism impacts.

Key perspectives

Chapter 6 provided a general indication of the key influences on the impacts of tourism, but of particular importance in relation to economic impacts are:

- Scale of tourism activities
- When tourism occurs (particularly whether tourism is a seasonal activity)
- The historical development of tourism (with a particular emphasis on infrastructure for tourism) (Mason, 2016).

Measuring the economic impacts may appear at first sight to be an easy process. If, for example, a tourist buys an ice cream at an ice cream parlour in a tourism destination, then it should be obvious that the owner of the shop will financially benefit. They will receive the price of the ice cream (in economic terms they will derive revenue) and, simply stated, will make a profit, if the price exceeds the cost of producing and selling the ice cream. However, the amount of revenue gained may depend on a number of factors, including where the ingredients come from and how easy they are to source, be they local, from another part of a country or overseas, the cost of the ingredients, where the ice cream is made, whether the staff selling the ice cream are part-time or full-time, seasonal or permanent, and if the ice cream parlour is open all year, or just during the tourist season. It is therefore likely that the revenue and hence profit will vary according to different combinations of these factors.

The focus on an ice cream parlour is an example of micro-economics, and as should be clear in the discussion above, it affects just one individual business. However, data and statistics on economic aspects of tourism are usually expressed in what are known as macro-economic terms. These are factors that affect a whole economy. Hence they will be, for example, at the national or possibly regional level. Such information can be then compared internationally and an indication of the importance of tourism, (or any other economic activity) to a specific country's or region's economy, be gained. Such economic factors will include jobs (or employment), regional development and what is known as Gross Domestic Product (GDP).

These macro-economic activities are particularly important economic measures as they add together, or *aggregate,* individual economic activities. Hence, GDP is an aggregate of the total productivity of a country's economy and provides an indication of the size of the economy. GDP is the value of goods and services produced domestically and is usually indicated over a specific time period, such as a year (Tribe, 2011). The International Monetary Fund defined GDP :

> *GDP measures the monetary value of final goods and services - that is, those that are bought by the final user - produced in a country in a given period of time (say a quarter or a year) (IMF, 2014).*

GDP may be given as a total figure, using a currency such as dollars, euros or pounds. Alternatively it may be the total figure in monetary terms, divided by the total number of people living in a country. In this way it as expression of productivity per inhabitant, or *per capita*.

There is a great variation in GDP geographically, partly because some countries are spatially very large, including the USA, China and India, while others are small, including islands such as Fiji and Mauritius. GDP also varies because some countries produce manufactured goods, others make agricultural products, and yet others have an economy dominated by services, including banking and insurance. Tourism would be included as a service industry. In the past, economies where manufacturing is important would have high *per capita* GDP. However, in the past 30 years or so, economies with a significant proportion of service industries have had high *per capita* GDP. The stage at which an economy is found can also affect the amount of GDP, with some countries having a history of several hundred years of significant economic activity accompanied by high manufacturing activity, whilst others are at a far earlier stage of such development.

In relation to GDP and tourism there are great variations in tourism's share of this economic measure internationally, but in 2014 when taking all countries into account, it exceeded 3% of total global GDP (WTTC, 2015). Several European countries obtain at least 5% of their GDP from tourism, which makes it particularly significant in these countries (WTTC, 2015).

Positive economic impacts

As was discussed in Chapter 6, different forms of tourism impacts can be considered under the headings of either positive or negative. In relation to economic impacts the following have been considered to be positive effects (Lickorish, 1994):

- Contribution to government revenues;
- Contribution to foreign exchange earnings;
- Generation of employment;
- Contribution to regional development.

In relation to these effects, **contribution to government revenues** is particularly important. This can be recognized and measured, for example, in relation to the amount of taxes paid by businesses that are directly involved in tourism, such as hotels and airlines. Government revenues can also be the result of, for example, value added tax that is paid by tourists who buy food and drink in a bar or public house. However, depending on the circumstances, it may be difficult to assess whether the revenue has come from local residents or visitors. It may also be a problem to separate revenue gained from international visitors from that obtained in relation to domestic visitors.

The **contribution of tourism to foreign exchange earnings** is usually regarded as the amount of money obtained by governments, and input to the economy, from international visitors. It may be represented in government accounts as an export, as it is in effect a sale of a home-produced commodity to an overseas buyer. The difference between this form of export and conventional exports is that the commodity has not been purchased overseas, but the international buyer (the tourist) has travelled overseas, visited the country and made the purchase as a tourist. However, as tourism is usually recoded as an export, it can be very important in what is known as the balance of payments. The balance of payments is the relationship between what a country exports and what it imports. If a country sells more products and services overseas than the goods and services it imports from overseas, then it will have an economic surplus. If, however, it imports more than it exports then it will have an economic deficit.

Generation of employment appears a straightforward economic impact to understand and, therefore, measure. However, this may not necessarily be the case, as some jobs may be part-time rather than full-time. Also as we have already noted earlier in the book, tourism is a seasonal activity and therefore a significant number of tourism jobs are likely to be only available for a part of the year. Calculating the number of jobs created by tourism is yet more complicated because not all jobs are solely tourism related. For example, a waiter in a bar or café may serve both locals and tourists. This means that those assessing the effects of tourism on jobs use terms such as direct effects and indirect effects, where direct effects are in relation to purely tourism jobs. The case study of the importance of tourism to the Spanish economy below, discusses the nature of direct and indirect effects in more detail.

As indicated earlier in the book, tourism takes place in specific locations which are referred to as destinations. These places that attract tourists can act as locations that provide revenue, taxes and jobs to a local area. This means that they may be important in helping areas that have suffered from recent economic decline recover. Or tourism can help open up remote areas and in this way **contribute to regional economic development**.

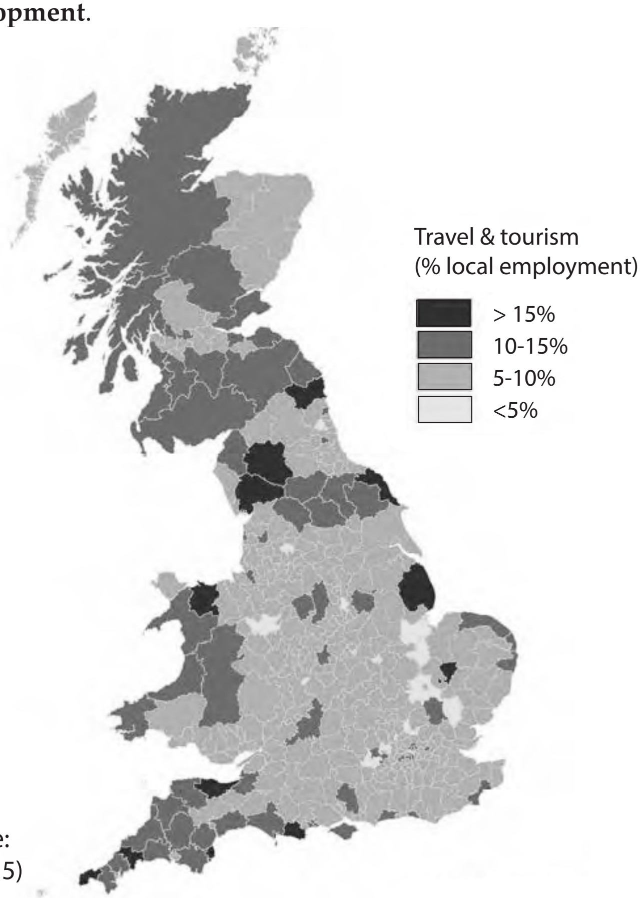

Figure 9.1: Employment in Tourism in Great Britain in local areas, as a percentage of all employment (source: World Travel and Tourism Council, 2015)

Figure 9.1 shows the distribution of employment in tourism within Great Britain. The map indicates areas where a relatively high percentage of those in work are employed in tourism and those areas where this is not the case, in other words, in these areas the percentage working in tourism is relatively low. Note that Figure 9.1 does not show the total number of those in work in tourism in any one area, but the percentage of the entire working population who are employed