
8

Economic Impact Assessment

Learning objectives

- Learn important principles for conducting economic IA
- Know the main potential costs and economic impacts (both positives and negatives) of events and tourism, and how to maximise local benefits
- Be able to plan and implement economic IA, including appropriate methods
- Learn how to forecast and estimate the direct economic contribution of events

8.1 Introduction

Concepts for understanding economic impacts, and valid methods of assessment are well developed. In fact, there is so much information available that this is the largest chapter in the book – not the most important. A thorough and accessible reference on the subject is the book *Tourism Economics and Policy* by Dwyer, Forsyth and Dwyer (2010) as it contains a full chapter on events. *Event Tourism* (Getz, 2013) also covers economic impact assessment in detail.

There have been well-documented problems with economic impact assessments for tourism and events (Matheson, 2002; Matheson and Baade, 2003; Crompton and McKay, 2004; Tyrell & Ismail, 2005; Crompton, 2006; Davies et al., 2013), pertaining to both how they are done and the purposes they serve. Dwyer and Jago (2014, p.130) identified three main types of criticisms associated with the assessment of the economic impacts of events, commencing with the exaggeration of benefits owing to either deliberate manipulation or faulty methods. Attention has often focused on the use of Input-Output tables to formulate ‘multipliers’, a practice which leads to exaggerated benefits, with a number of scholars preferring Computable General Equilibrium (CGE) modelling.

Most fundamental is the frequent failure to consider all costs and benefits, leading to calls for more comprehensive cost-benefit analysis (CBA). Most economic IAs have utilized only a narrow range of metrics, but even more unfortunate is the continued reliance on multipliers and econometric models, as these ‘black-box’ approaches tend to exaggerate imputed benefits while ignoring costs and equity issues. This is certainly not in keeping with principles of social responsibility and sustainability.

Dwyer et al (2010, p. 421), based on Blake (2005), developed a list of neglected issues pertaining to IA of large events, summarized below – to which I have added some additional comments:

- ◆ Commercial success has been declared even when huge debts have accumulated; taxation might increase to cover debt.
- ◆ Infrastructure is often viewed as a benefit, but at what (opportunity) cost?
- ◆ Full costs are seldom considered in IA: typically omitted are security costs and the costs associated with co-opted civil servants.
- ◆ Many claims of employment gains are exaggerated because of assumptions made about underemployment in economies; most events are too short to generate new jobs; construction does generate work, temporarily, but it might also ‘steal’ labour and resources from other parts of the economy and lead to shortages or to wage inflation.
- ◆ Distributional effects are seldom considered: who gains and who pays?
- ◆ Tax and lottery funds devoted to venues and events could be used elsewhere (again, opportunity costs).
- ◆ Displacement of tourists and residents is generally ignored.
- ◆ There is often deliberate exaggeration of imputed benefits or of projected revenues.
- ◆ Environmental costs are often ignored or under-estimated, especially congestion, local pollution, and greenhouse gas emissions contributing to climate change.

Another major misuse of feasibility studies, impact assessments and economic impact forecasts in particular is to exploit them to ‘sell’ an idea like bidding on a mega event, or to convince politicians to support a particular event or venue, or events and tourism in general. In this approach claims of benefits can be made and exaggerated, costs minimised, and potential negative impacts ignored completely. Post-event and retrospective impact assessments might then be avoided completely, or narrowly defined in order to avoid a direct comparison of prior claims with post-event reality.

8.1.1 Basic principles of economic IA

Several assertions are made below about what evaluators and researchers need to know and do, and these should be considered to be guiding principles.

- 1 As emphasized by Dwyer et al. (2010), the economic impacts of events and tourism are not necessarily benefits; impacts can positive, negative, neutral or disputed. This means that economic impact assessment should NEVER stand on its own when evaluating events and tourism.
- 2 It is essential to consider all tangible and intangible costs and benefits; the distribution of those impacts (who gains and who pays or loses?), and the

different stakeholder perceptions of the impacts and their importance. This is essential for the implementation of sustainability and social responsibility.

- 3 There is no point in examining economic impacts if nothing is to be done about them! All impact assessments are to be used as inputs to evaluations and planning, including the formulation of mitigation for costs and negatives and advancement of strategies for continuous improvement.
- 4 Only the forecasting and post-event estimation of the direct economic contribution of events and event tourism is necessary; the use of econometric models and multipliers is an unnecessary complication and is prone to abuse, but no doubt there will remain political interest in seeing them used.
- 5 Standardized methods and measures of economic impacts are needed for comparative purposes, and for meta-analysis that can shape theory and planning. Standardization is becoming essential for legitimacy in the minds of politicians and the public.

8.2 Potential economic impacts of events and tourism

As summarised in Figure 8.1, economic growth and development is the dominant theme.

This is a very big category, encompassing events as tourist attractions, animators, image makers and catalysts for change and development. Events in this context can be conceptualized as a 'business' sector contributing to economic growth and prosperity for all. Or it can be viewed as an 'export industry' generating foreign revenue by attracting tourists and generating new income for a city, region or country. At the national level, event tourism should be 'export ready', meaning events that play an economic development role should be attractive to international tourists, and ready to purchase from anywhere on the planet – in other words, a product to sell.

If events and tourism are to be sustainable, a lot of change is necessary, starting with comprehensive and valid impact assessment. O'Sullivan and Jackson (2002) called for greater comprehensiveness in economic impact assessment, specifically to examine the roles of events in capacity building, training, community enterprise, responsible business practices, equitable access to jobs, and local procurement. To these goals can be added a fuller set of aims arising from principles of sustainable development and social responsibility.

8.2.1 Costs and negative impacts

Investments are expected to have a return that exceeds costs – but what if the costs are social, cultural or environmental? Externalities occur beyond the usual accounting framework of events, but they can be real costs, including the negative effects of pollution, crime or noise. Another question pertains to opportu-