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Tourism and economic development: Which investments produce gains for regions?

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ABSTRACT

Across three decades numerous metropolitan regions have made substantial investments in different tourist amenity packages. These investments were made to either capture a portion of the growing tourism market or establish an image that attracted the human capital needed to advance economic development. This article analyzes the returns for the tourism industry and for economic development from different amenity packages and finds those related to sports and amusements generated the most significant gains for regions.

1. Introduction

Tourism's growth across the second-half of the 20th century and even in the years after the September 11th terrorist attacks continues at an astonishing pace. The World Tourist Organization (WTO) estimated that in 1950 25 million tourists visited other countries. That number grew to 842 million in 2006 illustrating the enormous interest in international travel despite the attacks of September 11th, devastating bombings in London, Spain, and India, and other incidents of terrorism. The Office of Travel and Tourism Industries (OTTI) estimated that all forms of tourism produced more than $700 billion in direct output and $1.2 trillion in total output for the US economy in 2006.

The scale of tourism and its growth has attracted the interest of a large number of state/provincial and local government officials who have tried to determine if their communities could capture a larger portion of this economic activity. There has been even greater interest from regions with little population growth, shrinking employment levels, and images as declining areas. Leaders in many of these slow-growth or declining communities – influenced, in part, by the work of Richard Florida (2002) – have invested scarce resources in tourism, sports, and entertainment complexes. These areas hope that revitalized downtown areas and upscale amenities will also appeal to highly skilled workers and entrepreneurs who create or attract new businesses. A focus on tourism replete with the building of entertainment and cultural amenities to attract the human capital needed to propel economic growth and visitors has become a policy staple for most cities and regions (Eisinger, 2000).

Across three decades in efforts to capture an increasing portion of the tourist market and attract the "creative class (Florida, 2002)" cities have built festival marketplaces, sports facilities, and performing arts centers in downtown areas. A related goal of this building activity has been to slow the movement of economic activity to suburban areas (Law, 1992; Levere, 1996; Papson, 1979). Frequently, to create these new tourist attractions public investments are needed and some of those commitments have exceeded $500 million (Rosentraub, 1999; Zimbalist & Long, 2006).[1] In other instances where private investors are willing to make large investments to enhance tourist attractions the public sector is still asked to make accommodations regarding zoning and land use decisions yielding substantial control to developers (Foglesong, 2001). While the concessions to the Disney Corporation for the building of Disney World may be the most extreme example, similar concessions have been given to developers in areas such as Columbus, Ohio and San Diego (Chapin, 2002; Curry, Schwirian, & Woldoff, 2004).

As a result of the large public investments or the ceding of land use controls to private developers substantial attention has been

[1] For this analysis tourism included such things as sports facilities, theatres, natural attractions, gaming, and the performing arts. The analysis that follows considers local, regional, national, and international tourist activity as measured by several different economic indicators.

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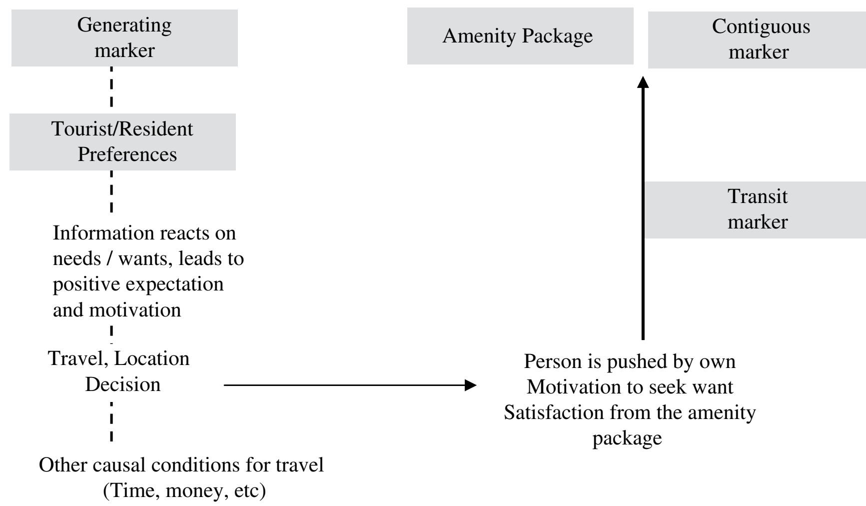

Fig. 1. Leiper's tourist attraction systems. Source: adapted from Leiper (1990).

directed towards understanding which, if any, mix of investments in entertainment, cultural, sports, and tourism generates positive returns for a community. While some regions or destinations will always attract more visitors (Formica & Uysal, 2006), determining what works best is important to cities that attempt to (1) capture a larger share of the expanding tourism market, (2) create a new image, or (3) attract highly skilled workers through enhancement of the built-environment. The goal of the research in this paper is to help communities understand which, if any, investments in the built-environment to enhance the level of available amenities can (1) generate jobs in the tourism sector and (2) produce positive economic returns. Given the billions of dollars invested by local communities in tourism facilities across the past 25 years insights into the results or payoff is essential. In terms of the paper's theoretical contribution, the work presented deals directly with a fundamental issue of economic development that shapes public policy by assessing the relationship between investments in tourist and entertainment amenities and enhancements of a region's economy.

Creating the needed data to properly inform the selection of tourism policies and programs to advance a region's development requires an understanding of (1) the demand for tourism within a region, (2) the built-environment assets that have the potential to attract visitors, and (3) the association between any built-environment asset and more educated workers. Supply side studies – those that focus on the sets of amenities a community could build and their impact on attracting tourists and entrepreneurs – are also needed as they identify what has worked for different types of communities relative to demand. With both sets of data a community could understand which amenities,

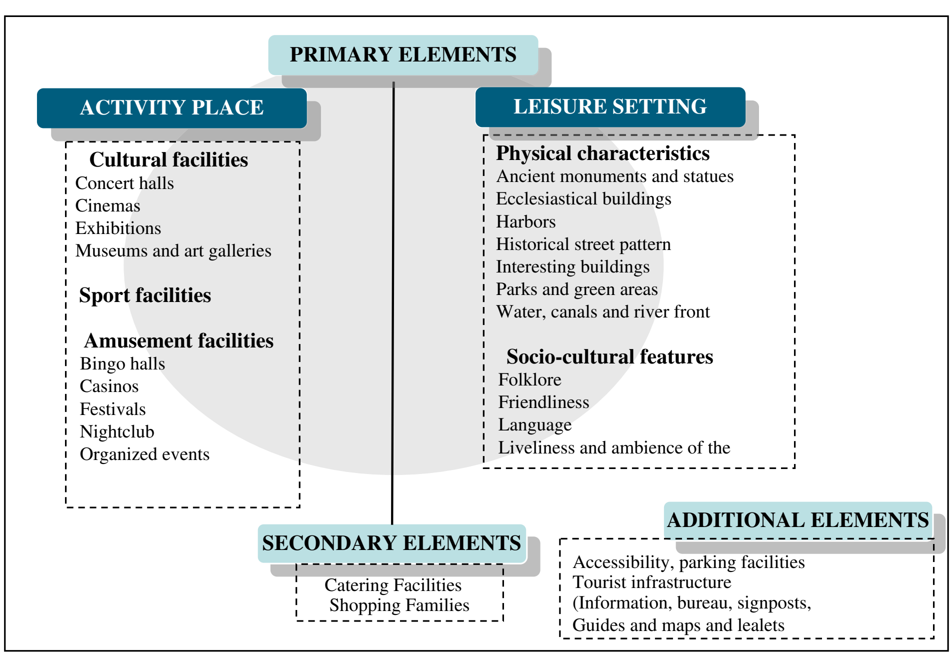

Fig. 2. Supply-side classification schemes for tourist amenities. Source: modified from Jansen-Verbeke (1986).