Economic assessment of special events: a perspective article

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Abstract
Purpose – This paper aims to provide a perspective on the economic assessment of special events.
Design/methodology/approach – Three main approaches to the economic evaluation of special events are distinguished. These are: standard economic impact analysis, computable general equilibrium modelling, and cost benefit analysis. An historical account of the use of these approaches is given together with a discussion of the advantages and limitations of each.
Findings – An important conclusion is that the evaluation of special events should go beyond economic impact analysis in favour of a more comprehensive “hybrid” assessment.
Originality/value – The paper puts event evaluation into perspective and points to a promising future direction of study. An expected outcome of the use of hybrid models is a narrowing of the divide between practitioners and theorists regarding best practice event evaluation to the benefit of all stakeholders.
Keywords Impacts, Economic assessment, Cost benefit, Special event
Paper type General review

Introduction
Special events are widely recognized to have a range of impacts – economic, social and environmental. Increasingly, event assessment is used by policy evaluators such as public sector finance departments to inform policymakers as to whether allocating resources in support of some event is appropriate and, if so, to what extent. To make informed choices, public sector agencies increasingly demand greater rigour in evaluation techniques. Where public funds are used to support an event, the cost of these funds must be compared to the expected benefits. Ideally, governments should fund events only if they create net benefits to the community. The problem faced by researchers is to provide techniques that give accurate results while at the same time having practical use for the different stakeholders.

Economic assessment: past perspective
Three main approaches to the economic evaluation of special events may be distinguished, namely, standard economic impact analysis (EcIA), computable general equilibrium modelling (CGE) and cost-benefit analysis (CBA).

Standard EcIA, employed in event evaluation for over the past three decades, takes event-related injected expenditure to generate direct, indirect and induced effects, leading to increased economic activity in the host destination. Standard EcIA traces the flows of spending associated with tourism activity in an economy through business, households and government, identifying the resulting changes in economic variables such as sales, output, government tax revenues, household income, value added and employment. The relationship between injected expenditure and output, income, value added and employment is described by multipliers, the size of which depend upon the type of model.
used. Over the past decade, standard EcIA approaches to evaluation have been heavily criticised for their use of input-output (I-O) models with unrealistic assumptions, narrow focus and exaggerated estimates of economic impacts and for their lack of a welfare measure to inform public policy (economic impacts are gross measures, not net benefits measures).

Increasingly, event researchers now use CGE models to estimate economic impacts, particularly for larger events. CGE models represent best practices in assessing the economy-wide economic impacts of changes in visitor expenditure. Like standard EcIA models, CGE models simulate the effects of an event-related expenditure shock on economic variables, such as GDP, prices, wages, income, employment and investment in the event destination. CGE models recognise that the greater resource requirements associated with event-related expenditure are likely to result in lower resource use and output in other industrial sectors. Factor constraints result in higher input prices, including wages, discouraging production of other goods and services. In open economies with flexible exchange rates, increased event-related spending by foreign visitors puts upward pressure on the exchange rate, discouraging export- and import-competing sectors. These “inter-industry” effects, with implications for income distribution in the wider economy, must be accounted for in an overall assessment of event impacts. In addition to local effects, public sector funding agencies need to know the state- or region-wide impacts as well as any nation-wide effects. CGE modelling of major events such as Olympic Games and World Cup football reveal that positive economic impacts on the host region are substantially offset by losses in other regions in the national economy. For smaller events, the assumptions of I-O modelling should be relaxed to provide more accurate economic impact assessment.

The third approach, CBA, is a comprehensive economic appraisal technique that compares the benefits associated with an event with the associated costs, present and expected in the future. The objective of CBA is to assess whether a destination economy is better or worse off from hosting an event, estimating the community welfare effects in monetary units. A welfare effect is simply any cost or benefit experienced by a member of the relevant community. In event assessment, these include benefits and costs experienced by consumers and producers of the event(s), as well as by other members of the community who may be neither consumers nor producers of these events but who, as third-party participants, experience costs and benefits. In contrast to EcIA and CGE approaches that treat resident expenditure as simply “transferred money” having no economic effect, CBA takes serious account of community values. For a special event to be socially acceptable, the sum of the (private and social) benefits must exceed the sum of the (private and social) costs to society, and represent the best use of limited funds, when alternative calls on these funds exist.

Economic assessment: future perspective

While economic issues have generally been the focus of event evaluation, a growing number of stakeholders now argue that the evaluation of special events should go beyond EcIA in favour of a more comprehensive assessment. Researchers are now attempting to merge the best aspects of each of the three approaches in some “hybrid” approach, which has greater flexibility and coverage than any single approach. The approach that holds most promise is that which combines the advantages of CGE modelling with those of CBA.

The holistic approach displayed in Figure 1 recognises the “triple bottom line” (economic–environmental–social) impacts of events and the benefits of merging two essential evaluation techniques, CGE and CBA. The CGE approach, in principle, captures all the event-related economic effects, direct and indirect. This informs the stakeholders regarding the economic effects of alternative resource allocation, policy, management or tourism development strategies. Complementing this, CBA estimates the surpluses to event consumers, residents, producers and labour that are also essential to event economic assessment. CBA also represents the most advanced approach to value the social and
environmental effects associated with events. The holistic approach recognises the importance of economic impact estimates alongside values of residents of the host destination, and the extent to which events meet wider community values and goals.

Conclusion

To date, much event evaluation still falls well short of “best practice”. Long-term evaluation of leveraging and legacy effects is needed, together with an examination of the extent to which special events foster community and wider economic development goals. While promising substantial gains in the process of event evaluation, “holistic” models must be rigorously tested in valuing real-world events. An expected outcome of the use of hybrid models is a narrowing of the divide between practitioners and theorists regarding best-practice event evaluation to the benefit of all stakeholders.

Further reading


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