



The Confederation of Irish Industry

Speech by Mr Liam Connellan, Director General, Confederation of Irish Industry, at National Tourism Seminar held in Galway. 12 December 1975

The Role of Tourism in the Economy - An Industrial Viewpoint

Economic Importance of Tourism

Although its comparative significance has declined in recent years, tourism is still very important to the Irish economy. The decline in its significance has been mainly due to circumstances outside its control, namely, the disturbances in Northern Ireland, the related adverse publicity and the oil crisis. Table 1. illustrates the growth of tourism since 1960. A peak was reached in 1969 when nearly two million overseas visitors stayed for, at least, one day in Ireland and spent £99 million which is equivalent to £165 million at 1974 prices. The most recent information available indicates that the decline that set in after 1969 has been halted at £129 million in 1974. This was achieved in a period when international circumstances were detrimental to tourism development. The indications are that this recovery has continued into 1975. Also, as the industry surmounts the adverse impact of international circumstances, a continued recovery and new growth seems probable. The future of tourism in Ireland looks bright.

In the context of the Irish economy, tourism contributes a small but significant part. Relating revenue received from tourism to G.N.P. shows that even during the period of tourism's most rapid development i.e. 1966-69, its direct contribution as a proportion of G.N.P. fell. The decline was even more rapid after 1969, until the last year or two, when the tourism contribution seems to have stabilised at just over 4% of G.N.P. This ratio is given in column 4 of Table 1.

Judging the significance of tourism's contribution to the Irish economy by this ratio is too simplistic and it under-rates the importance of tourism. Tourism's high multiplier impact and its role as an important earner of foreign currency increases its relative importance. The regional impact of tourism is also of prime importance.

It has been estimated that the multiplier impact of tourism revenue is between 1.6 and 1.8. This implies that the indirect effects of the tourism revenue are quite large. This comes about through tourists spending their money on goods and services with a high domestic value added content. This tendency has important implications for the other sectors of the Irish economy as it means higher levels of employment and output than might otherwise occur. This is of particular importance to industry, as much of the benefits of tourism filter back to industry. It provides an extra outlet for industrial products at an otherwise slack season of the year.

Bridging the Trade Gap

One of the more important benefits of tourist revenue is that it enables the Irish economy to run a larger balance of trade deficit. The ratio of tourist revenue to total external revenue is given in column 5 of Table 1. This shows that, although the ratio has declined since 1963, tourist revenue is still 10% of foreign earnings. Foreign earnings are very important in the context of the Irish economy and particularly of the industrial sector, which is highly dependent on imports of raw materials and semi-processed goods. Tourism revenue allows these imports to be financed and also permits a higher level of consumption of foreign products. To illustrate the importance of foreign earnings to the Irish economy, let us consider 1973 figures. £860 million of capital goods or materials for further production were imported that year - which was 75% of total imports. The remaining 25% was £275 million of consumer goods. Our total exports were only £870 million, leaving a balance of trade deficit of around £265 million. Tourist revenue of £109 million and other invisible earnings of £80 million went a long way towards bridging this gap between merchandise imports and exports. The net balance of payments deficit on current account was thus reduced to £76 million. This level of deficit is sustainable by the Irish economy, because of large capital inflows into the country in recent years. The same held true for 1974, although the increased oil bill distorted the picture somewhat.

MORE

A merchandise trade deficit of £550 million was reduced greatly by tourism earnings of £130 million and other invisibles of £120 million. In 1975 an even more dramatic picture emerges. Due to the world recession our merchandise trade gap has been narrowed greatly and recent estimates indicate that it may be as low as £250 million. If tourism receipts are as large as anticipated it could imply a near break-even year for the Irish economy on the current account of the balance of payments.

Job Creation

The other important impact that tourism has on the Irish economy is its role as a job creator. Tourism is a very labour intensive industry which is of added importance in Ireland because of its large labour surplus. It has been estimated that tourism directly and indirectly, through its multiplier impact, contributes about 118,000 jobs, thereby giving employment to over 10% of the labour force. 18,000 of these jobs are in manufacturing industry. The regional impact of this employment is also of great importance as it counters to some extent the employment advantages available in the more industrialised parts of the country. An indication of its regional impact can be got from Table 2, which shows the regional distributions of tourism expenditure in 1974. The direct employment effect should follow a very similar pattern. Table 2. shows the regional distributions of tourism revenue per capita. This demonstrates that

MORE

tourism as an industry goes some way towards reducing the regional economic imbalance. The per capita revenue is highest in the West and South - two designated areas and it is also above average in the mid-West. The North-West region is slightly below average, but this region more than most had its tourism development adversely affected by the Northern Ireland disturbances. The Midlands is the only economically underdeveloped region which has significantly below average per capita tourism revenue. Dublin County has the lowest per capita revenue of all.

Interdependence of Industry and Tourism

Tourism is mainly a service type industry and the employment it creates directly and through its multiplier effects are mainly in the service sector in such industries as hotels and catering, transport, distribution and personal services. An estimate of the number of jobs created by tourism directly and indirectly was carried out for 1968, based on a comparison of tourist revenue and disposable household income generated by tourism. A total of 18,000 jobs were in manufacturing industry. This was about 10% of the total manufacturing employment. These jobs were mainly in the food, drink and tobacco industries, but the impact was very widespread as many of the basic inputs into tourism had to be supplied by manufacturing industry.

The link between between tourism and industry is close and important for both sides. Without tourism the Irish manufacturing sector would be much smaller. Tourism also needs
MORE

industry to supply many of the necessary inputs. Without a ready supply of such inputs available domestically, tourism's impact on the Irish economy would be reduced as the importations of the necessary inputs would decrease the size of its multiplier effect. This interdependence between tourism and industry brings advantages to both sides.

Industrial Development Necessary

It is hoped that, despite the present recession, the Irish economy will shortly resume its development. Industry is being looked to, to provide the motor for this expansion. The State's industrial development plans also have as an aim the bridging of the economic gap between regions. Tourism can and does help in this development. Tourism development provides many of the infrastructural facilities such as adequate roads, water supply, recreational facilities and general living conditions, without which industry will not be able to operate efficiently in these less developed regions and without which these regions will not be able to retain their population, even with industrial development. This is one of the great advantages of tourism development. The benefits are not solely confined to the tourists but can be enjoyed, and indeed, are enjoyed, probably to a greater extent, by the resident population. Tourism foots the bill for these developments but everyone reaps the benefits.

MORE

Problems of Seasonality

One of the major problems facing the tourist industry is that of seasonality. The peak tourist season in Ireland lasts only for the month of July and August, with a shoulder season either side in June and September. The remaining eight months of the year are off-seasonality, especially in certain sectors, but the problems are not nearly so severe and more methods of overcoming them are available e.g. in the food industry the level of activity in the low season in the first quarter of each year compared to peak activities in the third quarter is about 34% lower. This is probably the most extreme example available in industry, yet it compares with a swing from a 72% occupancy rate in August to 22% in January and December, a decline of nearly 70%. The seasonality in industry is not of so long duration, it seldom lasts for more than one quarter. This compares with an eight month low season in tourism.

Because seasonality in industry is of shorter duration and less severe, industry is better equipped to overcome the problem. It can do so by varying the amount of overtime worked by its employees or by employing temporary workers at peak periods of activity. These options are not open to tourism. The tourist industry with heavy investment in the training of its workers can only offer employment for a short period of the year to many of them. Table 3. illustrates this seasonal pattern. The hotel industry is most heavily hit by this seasonal swing as it is more dependent on tourism than any

other sector. The examination of the 1968 employment found that 48% of employment in hotels and catering were dependent upon tourism. This was three times more than any other sector except for recreational services.

What can be done to alleviate the effects of this seasonal pattern? Irish tourism suffers from a climate disadvantage in that pleasant weather lasts for such a short period. Many of the attractions for which tourists come to Ireland are enhanced by good weather e.g. touring, angling, golf, and festivals. This dependence on the weather is the main cause of the seasonal problem. It is necessary to develop amenities independent of weather conditions to attract tourists in the off-peak periods. One effort in this direction in recent years has been the attraction of business conventions to Ireland. These are mainly off-season visitors and their numbers have increased from 22,400 in 1972 to 33,000 in 1974 - a quite remarkable performance. Winter tourism tends to depend more on urban-type activities and the majority of conferences take place in the major cities. The answer to alleviating the effects of seasonality on the regions has not yet been found.

Prices in Ireland are among the lowest in Europe. We are also possibly among the least well known of Community countries to the average citizen of the EEC. WE know that Scandanavians are now going on week-end shopping trips to British provincial cities. Why not to Dublin, Cork or Limerick? There is little to lose in developing a pilot project for European shoppers with the combined help from the tourist, retail transport and
MORE

manufacturing sectors, all of which stand to gain from its success. Is it not possible for Ireland to develop a niche as the shopping centre for Europe in selected product areas?

Conservation

Conservation is one area where a possible clash of interests between tourism and industry might occur and on which there has been much public discussion recently. The environment is all important to tourism and indeed the present state of the environment is one of the major attractions of Ireland. This must be preserved. The best way to ensure this is adequate consultation, discussion and indeed public debate between all interest parties. In a recent publication, Bord Failte have stated that :

"In theory, there should be no conflict between the needs of tourism and those of industry. It is not a matter of choosing between jobs and scenery ... of all countries in Europe, Ireland is almost unique in still being able to plan the complementary development of its natural resources and industrial growth."

Industry would certainly endorse this attitude. Industrial expansion is needed in the regions to bridge the economic gap. Tourism alone cannot achieve this. Uncontrolled industrial expansion would probably do more harm than good, but there is no reason why industrial expansion should inhibit tourism development once there has been careful planning of the siting of

MORE

the industry and adequate pollution safeguards imposed. The best way to achieve this balance between industry and tourism is for adequate consultation to take place at a regional level. The organisations are probably already in existence in the regional development organisation and the regional tourist organisations. Both industrial and tourist development are needed in each region, and it should rightfully be left to regional bodies to decide how any conflict that might arise should be resolved.

There have been calls recently for the setting up of a separate ministry of tourism. It appears that there would be some clear advantages to grouping state functions related to tourism, conservation and recreation under the control of a single Government Department.

Outlook

Looking to the future, as I said before, the prospects for tourism look bright, despite the fall off in tourist numbers since 1969. At present most tourist traffic is generated by the developed countries - twelve countries with 1/8th of the world's population, account for 75% of all tourist traffic. Only 200 million people travel abroad each year i.e. only 5% of the world population. Thus as the benefits of economic development become more widespread, a phenomenal increase in world tourism could take place. Ireland can expect to benefit from this. Nearer home we can expect increases in real incomes and the amount of leisure time available in

MORE

developed countries of North America and the Common Market from where 95% of tourists to Ireland come. This implies that the number of tourists from these markets will continue to expand for some time to come. The era of two foreign holidays a year has already arrived for some. Some forecasts have suggested that the number of tourists to Ireland might double to 2.8 million by 1980.

Certain international circumstances have been detrimental to the growth of tourism in recent years. The oil crisis and the subsequent recession in the developed world being of prime importance. It has taken world tourism a few years to adjust to this shock, especially since it affected the cost of transport so severely. When this readjustment is completed, a growth trend will re-emerge in tourism.

Need to Plan Ahead

To ensure that the maximum advantage is taken of the expected increase in numbers, adequate planning of development is needed to make sure the amenities are available prior to the arrival of the tourists. It is reassuring to see this need recognised by Bord Failte. We, in industry, know that consumer satisfaction determines the long term viability of the product, and the product itself determines the satisfaction of the consumer. This applies to tourism as well as to industry.

MORE

The five year plans have critically examined the existing stock of amenities and pointed out the developments necessary to enable Ireland to compete successfully with other countries trying to attract tourists. Here another very important similarity is highlighted between tourism and the manufacturing sector. Both have to be competitive on international markets if they want to expand, since the home market is of limited potential. Thus, general inflation and a too rapid increase in labour cost hinders tourism from realising its potential. Labour cost increases are more significant to tourism than industry, as it has a higher labour content and has less opportunity to bring about off-setting increases in productivity. On the other hand, improved competitiveness in the tourism sector can have a major effect on its development and job creation potential.

Conclusion

Tourism's future is bright if the correct development can be brought about. Such development is beneficial, not only to the tourist, but even more so to the resident population. Because of this it is underestimating the importance of tourism to measure it simply by the amount of revenue received. Its intangible benefits could be even more important. Many of these benefits accrue to the industrial sector. It has been estimated that the spending power of tourists is equivalent to

MORE

150,000 extra home population. In fact tourism expands industry's home market by more than the 5% which this figure represents of the domestic population, because the propensity of tourists to spend on imports is less than that of the domestic population.

Each tourist visiting this country for any period of time, generates the need for almost one job in the Irish economy for a similar period. The tourist industry has, therefore, a very important role to play in assisting the drive to create the 37,000 net new jobs each year in our economy to achieve full employment by 1986.

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Table 1 - Growth in No. of Tourists and in tourist receipts

	Total Revenue £m		No. of <u>Tourists</u>	Tourist Revenue at <u>% G.N.P.</u>	Tourist Revenue No. % of total <u>external receipts</u>
	<u>current value</u>	<u>constant 1974 value</u>			
1960	41.0	100.5	1.37	6.1	16.1
1963	57.1	127.7	1.51	6.8	17.7
1966	77.7	150.6	1.70	7.2	17.3
1969	98.7	164.8	1.95	6.5	15.6
1970	99.1	152.7	1.82	5.9	14.0
1971	103.9	147.2	1.82	5.5	13.2
1972	91.4	119.0	1.46	4.1	10.1
1973	108.7	127.1	1.62	4.1	9.7
1974	129.4	129.4	1.63	4.4	9.9

Table 2 - Regional impact of Tourism 1974

	(1)	(2)*	(3)	(4)	(5)
<u>Region</u>	<u>£m</u>	<u>% Share</u>	<u>Pop. Share</u>	<u>Population</u>	<u>£ per capita</u>
Dublin	19.9	20.0	28.6	849,552	23.4
East	9.2	9.3	9.6	284,317	32.4
South- East	11.5	11.6	11.0	327,792	35.1
South	21.1	21.2	15.6	464,676	45.4
Mid-West	9.2	9.3	9.1	269,308	34.2
Midlands	8.3	8.4	11.2	331,399	25.0
West	13.7	13.8	8.7	257,717	53.2
North- West	5.9	5.9	6.3	186,549	31.6
Total	998m	100.0	100	2,971,230	33.6

* excludes carrier receipts

Table 3 - Seasonal Pattern of Tourism

	<u>% Hotel occupancy 1970</u>	<u>Tourist Arrivals 1971</u>	
		<u>No.s</u>	<u>% Distribution</u>
January	21	75,000	4.7
February	25	64,000	4.0
March	32	57,000	3.5
April	35	85,000	5.3
May	44	113,000	7.0
June	52	134,000	8.3
July	66	164,000	10.2
August	72	322,000	20.0
September	55	303,000	18.8
October	39	158,000	9.8
November	28	89,000	5.5
December	22	44,000	2.7