

# ECONOMIC RESULTS OF TOURISM DEVELOPMENT IN THE MAŁOPOLSKA REGION

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*This paper is aimed to present the effects of increasing revenues generated by tourism industry in the Małopolska region. The traffic of tourists in the region within 2003-2008 were analysed (based on marketing research). The volume of money tourists brought in the voivodship was assessed. Highlighting multifaceted importance of tourism for the economic growth of the region the paper presents the chain of mutually connected economic dependencies and discusses the formula of tourist factor, which is calculated further (based on the information titled "Household budgets in the Małopolska voivodship"). Finally, the author tried to present the overall results of tourism development in the Małopolska region.*

*tourist traffic, extreme propensity for consumption, tourist factor, factor effect*

## 1. INTRODUCTION

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From the angle of tourism, the Małopolska region is one the most attractive areas of Poland. This is both the consequence of the quality of natural habitat, as well as rich history and a wide spectrum of recreational and cultural events offered to visitors. Due to those features tourist traffic is increasing from year to year, and this in turn enhances the development of the Małopolska tourist facilities. However, the impact of tourism on the region's economy has more facets. Owing to factor effects the initial expenditure of a tourist triggers quasi tourist expenditures in seemingly remote areas of economic activity, thus bringing about further leaps in incomes, employment, private and public spending. In short, an economic growth is taking place.

## 2. TOURIST TRAFFIC IN THE MAŁOPOLSKA REGION AND ITS ECONOMIC ASPECTS

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Owing to its natural and cultural features the Małopolska Voivodship may be considered the most attractive region of Poland<sup>1</sup>. Despite its small area (it ranks 12th in Poland with its 15,190 sq km), it has a rich contour of land, starting with Alpine type high mountains (the Tatra mountains), through the Pieniny, limestone range and rolling ranges of the Beskidy, to scenic valleys (*inter alia* of the Vistula, the largest Polish river a natural border separating the hills and the plains). Behind the Vistula watershed we can find Kraków-Częstochowa Jurassic rocks, limestone island rocks, ravines and the Błędowska desert, the only desert in Europe. Natural resources are used for all kinds of active tourism (Seweryn, 2008, pp. 183-186), and climatic conditions as well as therapeutic properties of thermal waters are used for healing all kinds of illnesses (spas such as: Krynica, Muszyna, Piwniczna, Rabka, Szczawnica, Krościenko, Kraków and nearby Swoszowice).

Variety of geographic forms enhances cultural wealth of the region. The Old Town of Kraków, Wieliczka and its historic salt mine, and the monastery complex in Kalwaria Zebrzydowska have been entered to the UNESCO World Cultural and Natural Heritage List. The list includes four wooden churches (in Binarowa, Dębno, Sękowa and Lipnica

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<sup>1</sup> In April 2008 Synovate Agency conducted a Computer Aided Telephone Investigation commissioned by Polska Agencja Rozwoju Turystyki S.A. on a sample of adult Poles aged 18-64. The results indicate that the Małopolska is the most attractive region of Poland (31% of respondents), and Krakow, its capital, is the most attractive city (62% of respondents), (*Małopolska...*).

Murowana), as well as Auschwitz-Birkenau – a tragic testimony of Nazi genocide. It is worth mentioning that the visitors of the Małopolska can also attend cultural events, many of which are international festivals. Particularly large crowds are attracted by the Festival of Mountain Folklore (Zakopane), Week of the Beskidy Culture (the Podbeskidzie), the Jan Kiepura Festival (Krynica), Music in Old Kraków or Jewish Culture Festival.

The special character of the Małopolska determines large interest of tourists in visiting this region.

The analysis of the volume and structure of tourist traffic in the Małopolska has been elaborated on the basis of marketing research commissioned by the Marshal's Office and conducted in the region under the supervision of the Małopolska Tourist Organisation (MOT) in 2003, 2004, 2005 and 2006, as well as by IPSOS in 2007 and by Institute of Tourism in Warsaw (IT) in 2008<sup>2</sup>. The results of the survey afford a statement that the Małopolska is visited by more and more tourists every year (see Figure 1). Only the last year included in the analysis turned out to be worse than the previous (a decrease of 5.65%), which was the result of revealing the economic crises 21st century on the tourist market in region.

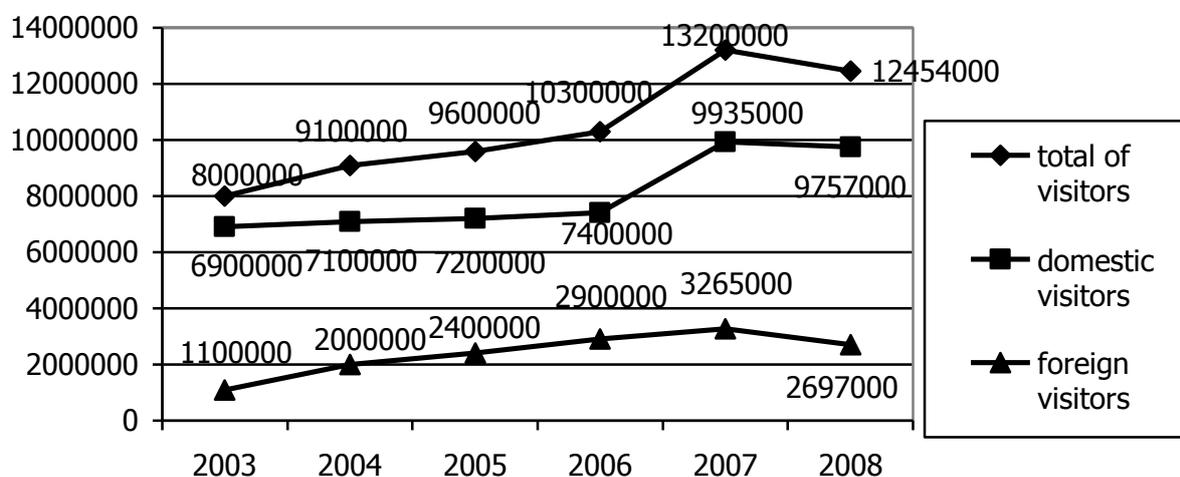


Figure 1 Approximate number of visitors to the Małopolska region within 2003-2008

Source: Author's own on the basis of MOT, IPSOS and IT surveys.

In terms of the structure of visitors, Polish tourists are in majority, even though their percentage was gradually decreasing till 2006 in favor of foreign guests. In the last two years of the marketing research that tendency was reversed – the percentage of domestic visitors bounced back from 72% to 79%. Such trend was the consequence of higher increasing in 2007 (by 34.26%) and smaller declining in 2008 (by 1.79%) number of Polish visitors whereas in the past years such dynamics was characteristic of foreign visitors (in 2007 the increase reached merely 12.59% and in 2008 the decrease by up to 17.40%).

Taking into consideration the economic results of tourism development in the Małopolska region one must not forget about the money spent by the tourists. That is because the transfer of funds from the place of one's permanent address to a tourist destination is an inherent feature of tourism. The results of the analysis allow to calculate (see Figure 2) that the visitors to the Małopolska left till 2007 more and more money in the region with every new year. Only 2008 turned out to be worse in this respect from the previous (up to 20.56 %), what evidently was an effect of the economic crisis, and hence the fall in the number of visitors in Małopolska and amounts of their expenditures.

<sup>2</sup> More on the methods of research and characteristics see: (*Badanie...*, 2003, pp. 5-6), (*Badanie...*, 2004, pp. 5-7), (*Badanie...*, 2005, pp. 7-9), (*Badanie...*, 2006, pp. 5-9), (*Badanie...*, 2007, pp. 3-6), (*Badanie...*, 2008, pp. 4-5).

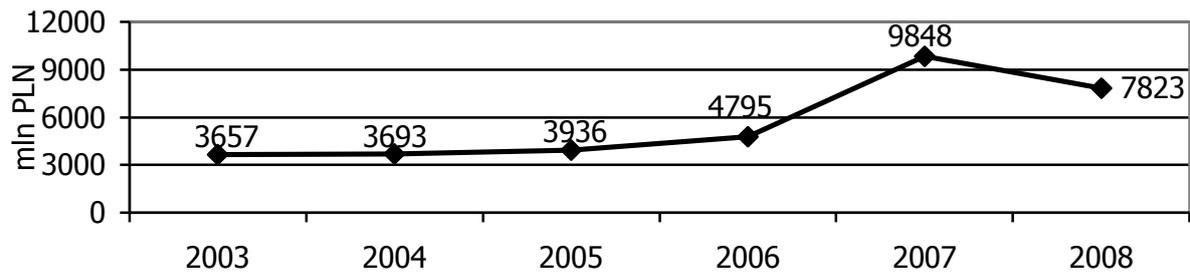


Figure 2 Estimated volume of money left by the tourists in the Małopolska region within 2003-2008 (in million PLN)

Source: Author's own on the basis of MOT, IPSOS and IT surveys.

Beyond any doubt money facilitates the economic development of the region.

### 3. THE IMPACT OF TOURISM ON THE ECONOMIC DEVELOPMENT OF REGIONS

Coming to their destination and satisfying the needs created by the decision to travel, as well as other needs normally satisfied at the place of permanent residence (in museums, boarding houses, catering facilities, petrol stations and other service premises) the visitors put into circulation the money they brought with them. That way they activate an additional flow of funds that passing through various sectors of local economy generates new financial results in all stages of economic turnover. The first beneficiaries in that process are tourist enterprises. Making use of the resources contributed by tourists they pay their employees, purchase current assets spent in the process of rendering services, invest in fixed assets (both as a replacement and to develop their line of business), and pay taxes on their revenues. Then the personnel of tourist agencies spend the money they earned (unless they save it) purchasing all kinds of goods and services in their region, thus helping to grow the demand for staple products (clothing, food, municipal services) and for higher rank needs (cars, lots for homes, furniture, education, entertainment, culture, etc). Owing to this the companies that provide those goods and services to the market note a higher turnover, hence they increase investment (unless they accumulate funds) and pay higher taxes to the state budget. By the same token the suppliers have higher revenues generated by providing fixed and current assets to tourist agencies, and they also pay higher taxes to the state budget. Increasing revenues of tourist agencies, the manufacturers, suppliers and caterers encourage investors to engage resources within the area of reception, thus increasing the flow of cash to the local budget. Increased budgetary flows pay for the upgrading and development of municipal, technical, cultural, entertainment, and recreation infrastructure. This not only enhances the attractiveness of an area, but also raises the standard of living of local communities. What is more, all new investment (contributed by tourist agencies, manufacturers, providers, external capital and local budget) generates new working places (i.e. in banks, commerce, mass media, as well as in food, clothing, sports, household appliances industries and in contracting) augmenting the incomes of local communities. This money is earmarked for basic and higher rank needs, which once again brings additional revenues to the producers and providers. Once they see increased demand for goods and resources, also the suppliers benefit, and more taxes flow to the budget, there is more external capital and more investment. The beneficial impact of tourist expenditure can be recycled many times and it may encompass a wider and wider area. Still, it is more and more difficult to pinpoint a real dependency between that increase and economic effects taking place in the areas that are quite remote from tourism. Beyond any doubt, the consequence of the initial impulse manifested by spending money by the passers-by is an accelerated development of economy (Walker, 1996, p. 67; Konieczny-Domańska, 2007, pp. 136-138).

The factorial models of economic effects measure the scale of impact of tourism exerted on regional development. There are various models to be found in literature (Niemczyk – Seweryn, 2008, pp. 258-260). Author experience shows that the volume of effects depends on the following factors:

1. the volume of cash from the outside that is spent by the visitors and the number of transactions made during the time that cash is circulated within the local economy (it also partially depends on local supply);
2. propensity of local community to spend the earned cash on consumer goods and investment (extreme propensity for consumption of residents);
3. demand for local investment from local entrepreneurs.

However, due to high capital consumption rate and long investment cycle, the latter factor may exert an impact within a more extensive period of time. What is more, its results translate into growing incomes of local community. Hence, economic results of the growth of tourism may be just as well calculated with the use of J.M. Keynes's investment factor formula adopted by H.G. Clement for tourism purposes (McIntosh – Goeldner, 1990, p. 16):

$$EM_t = \frac{1}{1 - \frac{\Delta C}{\Delta Y}} * W_t$$

where:

$EM_t$  – factorial effects of tourism,

$\Delta C$  – growth of consumption of local community,

$\Delta Y$  – growth of income of local community,

$\Delta C/\Delta Y$  – extreme propensity for consumption of local community,

$W_t$  – tourist's expenditure (or an expenditure made on his behalf by an institution) to meet the cost of a visit to a destination.

Such formula to calculate tourist factor indicates the effect to be reached by a region from each unit of currency spent by the visitors on purchase of local goods and services, before that unit is transferred beyond local turnover.

#### **4. THE RESULTS OF ACCELERATED REVENUE FROM TOURISM IN THE MAŁOPOLSKA REGION**

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While attempting to assess the factorial results of tourism development in the Małopolska region, two issues should be raised at the outset:

1. the desired results will be reached providing local community spend the earned money within the region (Koniczna-Domańska, 2007, pp. 142-143),
2. expenditures must be borne only by the visitors who do not live within the region.

That is why two elements of the above mentioned H.G. Clemens's formula were modified:

1. the expenditure of the Małopolska region residents was decreased by the sums they spent on tourism to other destinations; that is because tourism is not a separate sector of the economy, and the structure of expenditures does not include a category of "tourism expenditure"; it has been assumed in this paper that such expenditures include "hotel accommodation and restaurants";

- the volume of money brought to the Małopolska region by the visitors was adjusted with the sums spent by the "local visitors", i.e. the Małopolska residents travelling within their region.

The information furnished by the Census Office in Krakow derived from "Household budgets in the Małopolska region" was used for the purposes of calculations. Average incomes and expenditures of residents within 2002-2008 (2002 was used to determine the increment in 2003) are presented in Table 1. It shows an increase of monthly incomes of the Małopolska region residents, yet the dynamics of changes is significantly varied. Monthly expenditures display even greater diversification – they even dropped in 2005 (by 1.16%) which translates into the growth of savings. The expenditures of the Małopolska region residents earmarked for tourism (hotels and restaurants) also show significant changes – after significant increments till 2004 they started to decline, and even though there were the increases in two last years included in the analysis, they never reached the record level of 2004 (5.32% below). Extreme propensity for consumption of the Małopolska region residents was sustained at a similar level – 70-82%. The only exception was 2005 when overall expenditures, not just those earmarked for tourism were reduced, hence the extreme propensity for consumption equaled 0.

Table 1 Average incomes and expenditures, and extreme propensity for consumption of the Małopolska region residents within 2002-2008 (in PLN)

Specification	2002	2003	2004	2005	2006	2007	2008
Average disposable monthly income ( $Y$ )	631,65	641,66	717,61	732,27	765,10	864,37	1000,74
$\Delta Y$		10,01	75,95	14,66	32,83	99,27	136,37
Total monthly expenditure ( $C$ )	607,54	615,67	680,77	672,77	702,48	776,58	889,44
Average monthly expenditure on hotels and restaurants	9,63	10,69	15,97	13,78	12,31	14,29	15,12
$\Delta(C - C_t)$		7,07	59,82	0	25,37	72,12	112,03
Extreme propensity for consumption $\Delta(C - C_t)/\Delta Y$		0,7063	0,7876	0	0,7728	0,7265	0,8215

Source: Author's own calculations on the basis of: (*Budżety...*, 2004), (*Budżety...*, 2005), (*Budżety...*, 2006), (*Budżety...*, 2007), (*Budżety...*, 2008), (*Rocznik...*, p. 178).

Calculations to date allow to determine the value of tourist factor for the Małopolska region within 2003-2008 (see Figure 3).

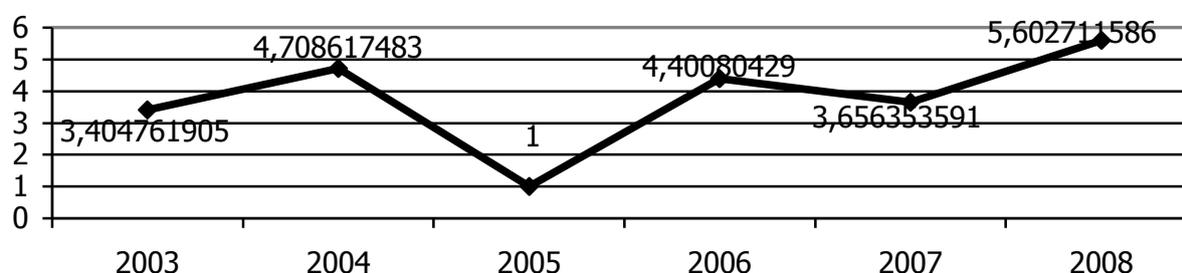


Figure 3 The value of tourist factor for the Małopolska region within 2003-2008

Source: Author's own calculations.

Needless to say, the value of extreme propensity for consumption of local goods and services bears on tourist factor value. Hence, in the last year included in the analysis (2008)

it was the highest. It was not much lower in 2004 and 2006. The remaining years of the analysis displayed slightly lower acceleration index. Only in 2005, owing to zero extreme propensity for consumption the factor equaled 1. If we accept the factor value assumed by WTTC approx 3 (Radkowska, 1996), then the Małopolska region factor is much higher, hence tourism plays here much more important role than in other regions of the country.

Having learnt the value of tourist factor it is feasible to assess the total outcome of the growth of tourism in the Małopolska region within 2003-2008 with the prior assumption that we must deduct the sums spent by the locals on tourist purposes from the volume of money left in the region by the outside visitors. The results of calculations are presented in Figure 4.

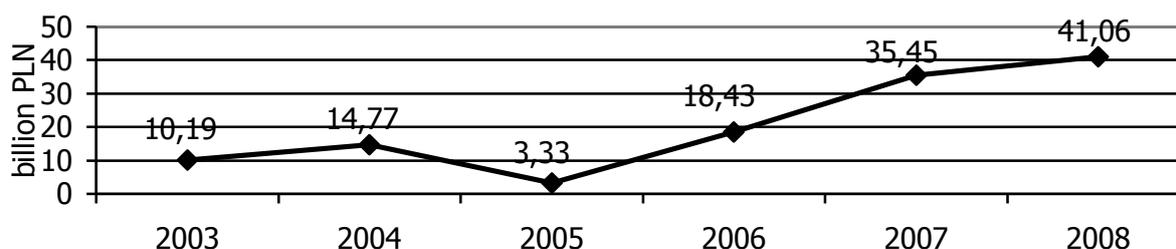


Figure 4 Approximate results of the growth of tourism in the Małopolska region within 2003-2008 (in billions PLN))

Source: Author's own calculations.

The analysed information shows that 2008 was the best year for the Małopolska region – even though number of visitors and their expenditures were dropped in that year, a high tourist factor translated into accelerated economic growth. Years 2004 and 2006 and even 2007 were less advantageous, but the worst year was 2005, mainly owing to zero extreme propensity for consumption of the local community, hence no factorial effects making impact on the growth of tourism.

It goes without saying that the approximate effects of accelerated revenues generated by tourism cannot be exact since they do not include (due to insufficient data) the so-called leaks, i.e. imports of food and consumer goods demanded by tourists and local community, repayment of loans and interest, transferred earnings of hired personnel to serve the tourists, expenditure on construction, transportation, etc. Nevertheless, the results show that growth of tourism within the areas endowed with tourist attractions facilitates their complex economic and social growth and increases their competitiveness on the market, both in the sphere of tourism as well as in any other area.

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