

Upon Further Review: An Examination of Sporting Event Economic Impact Studies

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Introduction

As pointed out by Soonhwan Lee (2001) in a recent issue of *The Sports Journal*, there exists a great deal of debate about the validity of economic impact studies on sporting events. Economists widely believe that league and event-sponsored studies exaggerate the economic impact of professional franchises and large sporting events on local communities.

These overstatements are a result of several factors.

First, the studies often ignore the substitution effect. To the extent that attendees at a sporting event spend their money on that event instead of on other activities in the local economy, the sporting event simply results in a reallocation of expenditures in the economy rather than a real net increase in economic activity.

Next, studies usually ignore the crowding out effect. Many large sporting events are staged in communities that are already popular tourist destinations. If hotels and restaurants in the host city normally tend to be at or near capacity throughout the time period during which the competition takes place, the contest may simply supplant rather than supplement the regular tourist economy.

Third, the studies may fail to address whether the money spent at a sporting event stays in the local economy. Much of the money spent by out-of-town visitors goes towards hotel rooms, rental cars, and restaurants. To the extent that these firms are national chains, profits earned during the event at these businesses do not increase the welfare of citizens in the local economy but rather accrue to stockholders around the country. Similarly, revenue from ticket sales is often paid to the league or the sport's ruling body instead of local organizers.

Fourth, non-economic costs such as traffic congestion, vandalism, environmental degradation, disruption of residents' lifestyle, and so on are rarely reported (Lee, 2001).

Finally, since economic impact studies are often used by sports boosters to justify public expenditures on sports infrastructure, ultimately, the real question faced by any observer is whether an analysis conducted by agents with a vested interest in the outcome of the study can ever be considered an objective examination of the true economic impact of an event.

Empirical Analyses of Economic Impact Statements

It is one thing to point out the potential biases that can potentially be introduced into impact studies. It is another thing altogether to examine whether actual economic impact studies are truly flawed in practice. One tool that can be used to determine the accuracy of economic impact studies is ex post comparisons of the predicted economic gains to the actual economic performances of the host city. Empirical studies have been conducted both on the observed economic impact of large sporting events and on the construction of new sports facilities.

On the sports facility side, numerous researchers have examined the relationship between building new facilities and economic growth in metropolitan areas. (Baade and Dye, 1990; Rosentraub, 1994; Baade, 1996; Noll and Zimbalist, 1997; Coates and Humphreys, 1999) In every case, independent work on the economic impact of stadiums and arenas has uniformly found that there is no statistically significant positive correlation between sports facility construction and economic development. (Siegfried and Zimbalist, 2000) This stands in stark contrast to the claims of sports teams and leagues who assert that the large economic benefits of professional franchises merit considerable public expenditures on stadiums and arenas.

On the events side, nearly every national or international sporting event is accompanied by claims of huge benefits that accrue to the host cities. For example, the National Football League typically claims an economic impact from the Super Bowl of around \$400 million (National Football League, 1999), Major League Baseball attaches a \$75 million benefit to the All-Star Game (Selig, et al, 1999), and the estimated effect of the NCAA Men's Basketball Final Four ranges from \$30 million to \$110 million. (Mensheha, 1998; Anderson, 2001) Multi-day events such as the Olympics or soccer's World Cup produce even larger figures. The pre-Olympics estimates for the 1996 Games in Atlanta suggested that the event would generate \$5.1 billion in direct and indirect economic activity as well as 77,000 new jobs in Georgia. (Humphreys & Plummer, 1995)

In many cases, the variation in estimated benefits alone is enough to question the validity of the studies. A series of studies of the NBA All-Star game produced numbers ranging from a \$3 million windfall for the 1992 game in Orlando to a \$35 million bonanza for the game three years earlier in Houston. (Houck, 2000) The ten-fold disparity in the estimated impact for the same annual event serves to illustrate the ad-hoc nature of these studies. Similarly, the 1997 NCAA Women's Basketball Final Four was estimated to have an economic impact of \$7 million on the local economy of Cincinnati, but the same event was predicted to produce a \$32 million impact on the San Jose economy just two years later. (Knight Ridder News Service, 1999) Such increases cannot be explained by changes in general price levels or an increasing popularity of the tournament. Instead, the differences are explained by the fact that the economic impact studies are highly subjective and subject to significant error or manipulation.

In other cases, the size of the estimates themselves strain credulity. The Sports Management Research Institute estimated the direct economic benefits of the U.S. Open Tennis tournament in Flushing Meadows, New York at \$420 million for the tri-state area, more than any other sports or entertainment event in any city in the United States. This sum represents 3% of the total annual direct economic impact of tourism for New York. (United States Tennis Association, 2001) It is simply impossible to believe that 1 in 30 tourists to New York City in any given year are visiting the city solely to attend the U.S. Open. The projected \$6 billion impact of a proposed World Cup in South Africa in 2006 suggests that soccer games and their ancillary activities would represent over 4% of the entire gross domestic product of the country in that year. (South Africa Football Association, 2000)

As in the case of sports facilities, independent work on the economic impact of mega-sporting events has routinely found that the effect of these events on host communities is either insignificant or an order of magnitude below the figures espoused by the sports' promoters. In a study of six Super Bowls dating back to 1979, Porter (1999) found no increase in taxable sales in the host community compared to previous years without the game. Similarly, Baade and Matheson (2000) found that hosting the Super Bowl was associated with an increase in employment in host cities of 537 jobs for a total impact of approximately \$32 million, less than one-tenth the figure trumpeted by the NFL. In a study of 25 Major League Baseball All-Star Games held between 1973 and 1997, Baade and Matheson (2001) found that the All-Star Game was correlated with worse than expected employment growth in host cities and was associated with an average reduction in taxable sales of nearly \$30 million in three All-Star Games held in California in 1987, 1989, and 1992. Finally, Baade and Matheson's (1999) examination of the Olympic Games held in Los Angeles (1984) and Atlanta (1996) found total observed increases in economic activity of \$100 million and \$440 million to \$1.7 billion respectively. While the economic impact for Atlanta exhibits a great deal of uncertainty, even the most favorable figure is only one-third of the amount claimed by the host committee.

Discussion and Recommendation

The evidence suggests that not only are there theoretical reasons to believe that economic impact studies of large sporting events may overstate the true impact of the event, but in practice the ex ante estimates of economic benefits far exceed the ex post observed economic development of host communities following mega-events or stadium construction. The best recommendation is simply that cities view with extreme caution any economic impact estimates provided by sports franchises, sponsoring leagues, or event organizing committees.

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Source; <http://www.thesportjournal.org/2002Journal/Vol5-No1/studies.htm>