

# The Growth Effects of Sport Franchises, Stadia, and Arenas

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## **Abstract**

*This paper investigates the relationship between professional sports franchises and venues and real per capita personal income in 37 standard metropolitan statistical areas in the United States over the period 1969 to 1994. Our empirical framework accounts for the entry and departure of professional football, basketball, and baseball franchises; the construction of arenas and stadia; and other sports related factors over this time period. In contrast to other existing studies, we find evidence that some professional sports franchises reduce the level of per capita personal income in metropolitan areas and have no effect on the growth in per capita income, casting doubt on the ability of a new sports franchise or facility to spur economic growth. We also find evidence that results obtained from estimating reduced-form relationships, a common practice in the literature, are not robust to alternative reduced-form specifications. © 1999 by the Association for Public Policy Analysis and Management.*

## **INTRODUCTION AND MOTIVATION**

In recent years sports franchises have used their monopoly power to extract rents from state and local governments. As the game goes, a franchise owner declares an existing facility unsuitable. Perhaps it is too old, or too small, or does not have enough luxury boxes or suites to raise the necessary revenues to field a championship-caliber team. The owner reminds the local government and business community that many other cities would like to have a team, and those other cities will build a new stadium. Cities all over the country, desperate for a professional sports team, gear up to convince the owner to move. Often the promise of a new stadium convinces the owner to stay.

Part of this process is the commissioning of economic impact studies that purport to show just how much benefit the city or region will reap from a new stadium, a franchise, or both. As Crompton [1995] points out, the results of these studies invariably reflect the desires of those who commission them. Advocates of stadia and

franchises produce impact studies that find large economic impacts, translated as benefits, in building a stadium or enticing a team to enter the city.

A full evaluation of the policy of public financing of professional sports stadia must address two issues. The most obvious of these issues is whether or not the projected benefits for the local economy are realized. The more subtle issue is whether financing a stadium is the most effective use of the public expenditures. Stated differently, one can reasonably ask: If the money spent on the stadium were used differently, would the local economy benefit as much or more than it does when the money is spent enhancing the sports environment?<sup>1</sup>

Because cities or states are generally asked to foot some of the bill for the new stadium out of tax revenues, proponents generally contend that the economic growth the stadium brings with it will generate sufficient revenues to cover the city or state costs. Alternatively, revenues from new, untapped sources are often proposed to cover the expenses. For example, financing for the football stadium built for the Baltimore Ravens at taxpayer expense comes from the Maryland Lottery. Proponents argued that no existing state services would be cut because the lottery revenues were dedicated to stadium finance.<sup>2</sup> This argument misses two critical points. First, the state pays off the bonds sold to raise money for Oriole Park at Camden Yards with lottery revenues. Unless lottery revenues rise substantially, those funds will be insufficient to cover the debt burden from the two stadiums. If this were to happen, the state would have to either collect new taxes or cut services. Second, those lottery revenues could be put to myriad other uses, including offsetting reductions in other tax collections. No one considered whether these alternative uses of the lottery revenues might carry greater returns than would a new football stadium. In San Diego, where the Padres baseball team is pushing for a new stadium, the same mistakes are being made. Funds for paying off the debt the city will incur are projected to come from increases in the taxes collected from hotel and motel room occupancy. Neither the city nor the consultants have addressed the value of the alternative uses of these revenues.<sup>3</sup> In other words, in neither Baltimore nor San Diego have people considered the opportunity costs that arise from using government funds to finance the stadium. The same criticism could be levied at many, if not all, of the processes that lead to new stadium finance by local governments around the country.

Without detailed knowledge of each alternative use of the funds in a local jurisdiction, it is not possible to say with certainty that money spent on a stadium is not the best use. However, one can assess the claims that a stadium will enhance the local economy by increasing the level or the rate of growth of personal income per capita. If the projected benefits for local income from financing the stadium are exaggerated or nonexistent, then one must argue that unmeasured, or nonpecuniary, benefits are sufficient to make the project worthwhile. A literature has developed that evaluates the measurable economic benefits of stadiums, and this paper extends and improves upon the methods of that literature.

Robert Baade and Richard Dye [1990], for example, argue that one way to properly assess the impact of stadia and franchises is to compare the economies of the cities

<sup>1</sup> Noll and Zimbalist [1997b] emphasize forcefully the importance of opportunity costs in this process.

<sup>2</sup> In response to a statement that the state should use the money spent on the football stadium to increase spending on education, one Maryland state senator stated, during hearings on the plan to build the stadium for the Cleveland Browns to entice them to Baltimore, that no school construction is being foregone to build the stadium.

<sup>3</sup> One could also question the assumptions underlying the growth in revenues from the hotel occupancy tax in San Diego. Specifically, the assumption is that the number of hotel rooms will grow at a rate over the next four years that is higher than that of all but one year in the last 20.

or regions where the sports environment has changed with that of cities where it has not changed. Ex ante studies rely on indirect spending as an important source of the economic benefits flowing from a new stadium or sports franchise. The magnitude of indirect spending depends on the size of the “multiplier”—a scaling factor that links dollars spent directly on professional sports to a net effect on the entire local economy—among other factors. For decades, economists have used multipliers to investigate the net effect of specific types of spending on the economy. Multipliers are still a useful pedagogical tool to remind us that a \$10 tip left at a restaurant goes into the waitress’s pocket and is subsequently spent elsewhere, thus providing an economic benefit to many others in the local economy.

Noll and Zimbalist [1997b] discuss some problems associated with using multipliers to evaluate the impact of professional sports on a metropolitan area’s economy. They argue that at best the multipliers used in ex ante impact studies overstate the contribution that professional sports make to an area’s economy by failing to differentiate between net and gross spending and the effects of taxes, among other factors; at worst, they argue, multipliers are completely inappropriate tools for analyzing the effects of small, specialized projects involving an atypical segment of society.

The empirical usefulness of multipliers in macroeconomics came to an end with the “Lucas Critique”<sup>4</sup> [Lucas, 1976], which, in essence, demonstrates that there is no reason to expect an ex ante multiplier to remain unaffected by the very policy change it is being used to evaluate. This criticism of econometric policy evaluation is not a bit of academic minutiae that policymakers should overlook; Lucas was awarded the Nobel Prize in Economics in part for making this very point. We believe that the “Lucas Critique” bears directly on this issue. Unfortunately, the implications of the Lucas critique have not been absorbed by the people that commission and use ex ante economic impact studies. Thus, a careful ex post examination of a local economy for evidence of the net impact of professional sports should be taken as stronger evidence than ex ante impact studies.

In stark contrast to the results reported in most ex ante economic impact studies commissioned by teams or stadium advocates, Baade and Dye [1990] found no evidence that a sports stadium or franchise increased the level of real income in a sample of nine cities over the period 1965 to 1983. In this paper, we extend the research of Baade and Dye in several directions. First, we expand the number of metropolitan areas examined to include all standard metropolitan statistical areas (SMSA) that had a professional football, basketball, or baseball franchise during any part of the period 1969 through 1994; our sample of 37 cities is four times as large as the 9 cities used by Baade and Dye.

Second, while previous studies typically use a dummy variable indicating the presence of a football or baseball franchise and a new or renovated stadium in a given year as the primary measure of the sports environment, we expand the sports environment variables to include franchise entry and exit, stadium construction and capacity, in addition to accounting for the presence of football, basketball, and baseball franchises. We also allow for the impact of a new stadium or franchise to change over time. By expanding the sports environment variables, we hope to better capture the impact of the sports environment on a metropolitan economy.

Third, we estimate alternative reduced-form empirical models, including specifications that include a variety of controls for factors other than the sports

<sup>4</sup> See Sargent [1987, pp. 397–398] for a concise explanation and additional references.

environment that might affect income in a metropolitan area, in order to assess the robustness of both our results and those reported in the literature. Our empirical models, like others in this literature, are reduced-form equations that could be derived from a wide array of structural models of the determination of income in a metropolitan area. Robustness checks are an important diagnostic tool when evaluating the validity and importance of empirical results obtained from reduced-form empirical models, especially in a literature with few empirical studies to draw on. Our analysis shows that the estimated impact on the local economy from a new franchise or a new stadium depends on the specification of the empirical model.

Fourth, we attempt to correct for a potential econometric problem that may be present in the existing literature. Previous studies have included both the level of population in a metropolitan area and a time trend as explanatory variables. While there are certainly many factors other than the population that influence the level of income in a metropolitan area, the inclusion of both a time trend and the population in a regression may not adequately capture these effects, as these two variables tend to be highly correlated over time.

Still, Baade and Dye make a telling point; no matter what the economic impact studies predict, the only way to gauge the actual impact is to develop and estimate a model of the determination of income in the local economy. Motivated by this criticism of ex ante studies of sports-led economic development, we pose two related empirical questions in this paper:

1. Do the changes in the sports environment change the level of real per capita income in a metropolitan area?
2. Do changes in the sports environment affect the rate of growth of income in a metropolitan area?

The difference between these questions is important from an economic perspective, but the discussion of sports-led growth often does not distinguish between the two. A one-time boost in income per capita may not be as valuable as a permanent increase in the rate of economic growth. If proponents of sports as engines of economic growth and vitality are correct, then cities that build stadia or acquire teams should, at minimum, experience an increase in real per capita income. In the best case, the metropolitan area should experience faster economic growth than it would have absent the changes in the sports environment.

Note that our goal in this paper is to expand the empirical evidence on the relationship between the sports environment in a metropolitan area and its economy. We recognize that careful analysis of the policies undertaken by state and local governments aimed at attracting or retaining a professional sports franchise as well as the process by which these policies are selected or developed are important parts of understanding the relationship between sports and the economy. We also believe that this paper is of interest to researchers in these areas. However, it is not our intent to undertake a detailed examination of these policies or the process that generates them; in this paper we focus on evaluating the relationship between the existing sports environment and observable economic outcomes and extending the methods used to understand this relationship.

#### **THE LITERATURE ON SPORTS FRANCHISES AND STADIA AS ENGINES OF ECONOMIC GROWTH**

The literature on the role of sports in fostering economic growth and development has two distinct branches. The first branch consists of economic impact analyses and

case studies to assess the value of a new franchise or a stadium complex to the economic vitality of a city or region. The analysis in this branch is predominantly, but not exclusively, predictive; it consists of ex ante forecasts of the effects on the local economy of the arrival of a new franchise or construction of a new stadium or arena, or the consequences of the departure of an existing franchise.<sup>5</sup> Occasionally the decision to provide aid to a sports franchise by local government is examined using cost-benefit analysis.

The second branch of this literature, to which this paper belongs, uses cross-section or time-series cross-section data collected from the economies of cities, regions, or metropolitan areas in an ex post evaluation of the impact of the sports environment on these economies. This branch of the literature focuses on three primary questions. First, does the existence of sports franchises and stadia influence the trend growth path of the local economy? Second, do changes in the sports environment induce significant, if short-lived, deviations from trend? Finally, is it effective to use a new stadium as the centerpiece of an urban economic development strategy?<sup>6</sup> In this paper we examine each of these questions.

Crompton [1995] reviews the extensive ex ante literature. He suggests that much of current practice in this literature is incorrect either because of improper methodology or because those commissioning the studies expect the results to favor the construction of stadia, the holding or hosting of some event, or the attraction of a franchise. He describes common errors in the methodology, ranging from the use of inappropriate multipliers to ignoring the substitutability of sports attendance for other expenditures in the budgets of consumers and state or local governments. He does not, like some, argue that economic impact studies are useless, however. He contends that the limitations and misuses of these studies should be made clear to decisionmakers, and that correct, unbiased studies can be of great help.

Mark Rosentraub, with a variety of coauthors, has also evaluated the use of sports as a development strategy in several careful case studies. We place these papers into the first branch of the literature. Rosentraub and Swindell [1991] examined the decision of Fort Wayne, Indiana to support, in a limited way, the development of a new stadium for a minor league baseball team. The analysis is careful to account for costs and benefits of the stadium plan. The authors conclude that the local government correctly offered limited financial backing for the plan. The failure of Fort Wayne to provide greater subsidies in part explains the owner's decision not to relocate to Fort Wayne.

The second branch of the literature is much smaller. Rosentraub, Przybylski, and Mullins [1994] assesses Indianapolis's sports-led development strategy of the 1970s and 1980s.<sup>7</sup> Many cities have argued that a new stadium was part of their growth and development plan, but Indianapolis is the one city that had a well articulated strategy along these lines. The authors compare the changes in employment and payrolls between 1977 and 1983 and between 1983 and 1989 for Indianapolis with the same variables for cities that officials from Indianapolis described as their competitors. The evidence is that there was some job growth, especially in the service sector, that

<sup>5</sup> A related literature examines the effect of large sporting events, such as the Olympic Games or World Cup Soccer tournament, on the regional economy. Steiner and Thoni [1996] is an example of this literature.

<sup>6</sup> Thomas V. Chema [1996] criticizes ex post analysis on these grounds. He argues that the effects of suburban stadia will differ from those of the newer stadia that are integrated into the urban growth and renewal plans.

<sup>7</sup> Similar studies performed on different locations have been done by Quirk and Fort [1992], Baim [1992], and Euchner [1993], among others.

could be attributed to the sports-led strategy. Sports-related jobs increased as a share of all employment by 0.03 percent. Given the small size of sports employment (0.29 percent of all employment), this increase is inconsequential. The growth in payrolls rose by about one-quarter of 1 percent in the sports related employments. Growth in sports-related employment was positively and significantly correlated with growth in service employment, which includes restaurants, hotels, and lodging. Comparisons with the other cities were less favorable to the sports-led strategy. Indianapolis's strategy did not result in more growth than was experienced by other Midwestern communities and did not lead to a concentration of higher paying jobs in the region.

Robert Baade and Richard Dye [1990] performed econometric evaluations of the ex post economic impact of stadia and franchises.<sup>8</sup> They estimate two empirical models.<sup>9</sup> In the first model, the real aggregate personal income in an SMSA is explained by population, a time trend, and dummy variables distinguishing years prior to construction or renovation of a stadium from years after renovation or construction, years in which a football team is not present from years when one is, and years when a baseball team is not present from years in which one is. Their second model explains the SMSA's share of the region's income using the SMSA's share of regional population, along with the trend and dummy variables from their first model. These analyses have not been supportive of sports- or stadium-led development strategies.

Baade and Dye find that stadia and new franchises have little discernible effect on the income level of an SMSA—one exception is Seattle, where the Seahawks, a football team, and the Kingdome stadium arrived simultaneously in 1976; here the impact was positive. Unfortunately, the methodology does not allow for separation of the impact of the stadium from the impact of the arrival of the team. For the other cities, the results indicate that the effects of stadia and football franchises on the SMSA's share of regional income are mixed. For all SMSAs except Seattle in 1976, the effect of stadia and franchises is significant and negative; for Seattle it is significant and positive. In no case is the effect of a baseball franchise distinguishable from zero.

### RETHINKING THE EMPIRICAL FRAMEWORK

In this section we describe some alternative empirical models designed to capture the relationship between the level and growth rate of real per capita income in a metropolitan area and that area's sports environment. These alternative specifications address some potential weaknesses in the existing literature; each specification also relates directly to one of our two empirical questions identified above: Does the sports environment in a metropolitan area affect the level of real income per capita or does it alter the growth rate of real income per capita?

Does the sports environment affect the level of real per capita personal income in an SMSA? We address this question using a linear reduced-form empirical model

<sup>8</sup> A third article by Baade and Allen Sanderson [1997] focuses on the effects of stadia and franchises on job creation.

<sup>9</sup> Baade [1996] also extends this literature, although there are some potential methodological problems with this second line of research. The dependent variable, real per capita income in an SMSA, is transformed with a complicated function that includes both first differences and averages of aggregated first differences across the sample of cities in order to "facilitate a comparison of the economic growth in [the] cities" in the sample. Although first differencing *may* facilitate this comparison, differencing can also lead to serious econometric problems, including misspecification bias and the introduction of moving-average errors onto the empirical model. Any potential gain from first differencing is not clear in this context; without a thorough evaluation of the univariate time series properties of the data, differencing may be inappropriate. See Hamilton [1994, p. 651] for a discussion of this issue.

that relates the level of real per capita personal income in a metropolitan area in a given year,  $y_{it}$ , to a vector of variables describing the economic and business climate in that area during that year,  $x_{it}$ ,<sup>10</sup> and to a vector of variables that capture the role of stadia and franchises in the determination of economic activity,  $z_{it}$

$$y_{it} = \beta x_{it} + \gamma z_{it} + \mu_{it} \quad (1)$$

$\beta$  and  $\gamma$  are vectors of parameters to be estimated and  $\mu_{it}$  is a disturbance term. If the  $\gamma$ 's are statistically significantly different from zero, then the sports environment does influence the level of real per capita personal income. If the  $\gamma$ 's are not different from zero, then sports are unrelated to the level of income.

This alternative empirical model differs from those found in the literature in several ways. First, size differences among the SMSAs are controlled for by scaling real income by the population rather than including a measure of size, like population, as a regressor. This allows for the use of a time trend to capture unobserved SMSA-specific factors that influence income while avoiding the inevitable multicollinearity that would arise between population and the trend term.

Rather than the single equation estimation used in the literature, where equation (1) or similar equations are estimated separately for each city, we add structure to the disturbance term. In particular, we assume that the disturbance term takes the form

$$\mu_{it} = e_{it} + v_i + \mu_t \quad (2)$$

where  $v_i$  is a disturbance specific to SMSA  $i$  that persists throughout the sample period,  $\mu_t$  is a time  $t$  specific disturbance that affects all areas in the same way, and  $e_{it}$  is a random shock in jurisdiction  $i$  at time  $t$  that is uncorrelated across jurisdictions and over time. Estimated this way, the regression purges the effect of national events on each jurisdiction in a given year and generates an SMSA-specific impact. In other words, the level of income at any point in time is determined by time- and location-specific events and the circumstances regarding sports franchises and stadia.<sup>11</sup> Model specifications that place additional restrictions on the  $\gamma$ 's are described in the following section.

We also address this question using an event study methodology. The event study is a common method of addressing questions of the impact of changes in the law or regulations on the value of firms in the finance and regulation literatures. Stock market information is gathered to track the daily return on stocks in some specific industry and the market return. Dummy variables are constructed for different events, such as announcements by regulators, passage of legislation, or some other exogenous event. A regression model is estimated in which the deviation of the return on the chosen stock from the market return is explained by the events or announcements. This methodology can be readily extended to the question at hand.

Suppose that the level of income in a city or metropolitan area is explained by the average level across cities plus dummy variables for certain events, say construction and opening of a new stadium, or arrival or departure of a franchise. Statistical significance of one of these dummy variables indicates that this event explains some of the deviation from the average.

<sup>10</sup> Among the  $x_{it}$  there may be variables that do not vary over time or across jurisdictions.

<sup>11</sup> On the other hand, no variables can be included in the equation that do not vary across SMSAs and across time. For example, we cannot use regional dummy variables as regressors, since these variables are perfectly collinear.

The formal event study model is

$$g_{it} = \alpha + \beta \bar{g}_t + \sum_{k=1}^3 \gamma_k D_{kit} + \varepsilon_{it} \quad (3)$$

where  $g_{it}$  is the level of real per capita income in jurisdiction  $i$  at time  $t$ ;  $\bar{g}_t$  is the average level of income at time  $t$ ;  $D_{kit}$  is a dummy variable indicating the occurrence of event type  $k$  in metro area  $i$  during time  $t$ ;  $\alpha$ ,  $\beta$ , and  $\gamma_k$  are parameters to be estimated; and  $\varepsilon_{it}$  is a random error. If  $\gamma_k$  is statistically significant, then events of that type influenced the economic growth of cities; if not, then those events had no impact on city economic growth.

Note that in the event study framework, the average level of income across all cities in the sample is an explanatory variable. This approach lets the data determine the value of  $\beta$ , whereas Baade's [1996] model forces  $\beta$  to equal one. Although  $\beta = 1$  is certainly possible, there seems to be no compelling a priori reason to expect  $\beta$  to take this value. An advantage of the event study methodology in this instance is to allow the data to determine the relationship between variation in the level of real per capita income in the SMSAs in the sample and variation in the average level of real per capita income.

Further, comparing the level of real per capita income in SMSA  $i$  to the average level of real per capita income in all 37 cities in the sample is in some ways more appropriate than a comparison to other cities without professional sports franchises, or to a larger geographical region containing the SMSA. Without careful matching of sociodemographic characteristics, the selection process for the "control" cities is arbitrary and may lead to sample selection bias. The process of defining an appropriate larger geographic region is a difficult, if not impossible, procedure, but if each larger geographical region is not comparable in its relationship to the SMSA contained by that area, it may be difficult to make useful comparisons. Consider Miami and New York City. Professional sports franchises located in Miami probably draw a large portion of their revenues from the state of Florida. The variation of real income in the Miami SMSA relative to variation in real income in the state of Florida might contain some useful information about the role this metropolitan area plays in the larger economy. But New York City lies within a short drive from densely populated parts of New Jersey and Connecticut and a many-hours drive from parts of upstate New York. What can be inferred from the variation in real income in New York City relative to the variation in real income in the entire state of New York?<sup>12</sup>

Note also that what is of interest here is not the number of franchises or the number of stadia, but whether or not a city experienced a change in either of those circumstances. The distinction is important to understanding the relationship between a metropolitan area's sports environment and its economy. For example, let  $D_{1it} = 1$  if the  $i$ th city experienced in year  $t$  a loss of a franchise, zero else; let  $D_{2it} = 1$  if that city in year  $t$  experienced the arrival of a new franchise, zero else; and let  $D_{3it} = 1$  if in year  $t$  the  $i$ th city had a new stadium under construction or opened in the last  $x$  years. This technique allows for the estimation of the marginal impact of these events on the local economy rather than a change in the average level of sports offerings.

<sup>12</sup> Noll and Zimbalist [1997b] discuss the importance of "arbitrary line drawing" in the estimation of net benefits.

In the event study methodology, structure is given to the regression error as it was above. The disturbance term is assumed to take the form  $\varepsilon_{it} = \varepsilon_i + v_t$ , where  $v_t$  is a disturbance specific to SMSA  $i$  that persists throughout the sample period. In other words, the model includes the SMSA-specific dummy variables as additional regressors. However, because the regression includes the average level of income as a regressor, it cannot have the year-specific effects. The average variable is the same for all SMSAs during a given year. Hence, inclusion of both year effects and the annual average would not allow estimation of the model because the variables are perfectly correlated.

The second question we pose is: Does the sports environment influence the growth rate of real per capita personal income? To answer this question, we simply use the growth rate of real per capita income as the dependent variable in our analysis. In the event study approach, the average rate of growth in income in year  $t$  replaces the average level of real per capita personal income as an explanatory variable.

## DATA AND RESULTS

In this section we discuss the data and the results of our analysis. The data cover the period 1969 to 1994. Income and population data were taken from the Regional Economic Information System, distributed by the U.S. Department of Commerce, Bureau of Economic Analysis. Data on sports franchises and stadia come from Noll and Zimbalist [1997a], Quirk and Fort [1992] and the *Information Please Sports Almanac Information* [1996].

As a general matter, our data and variable specifications represent an important extension to the existing literature. The 37 cities in our sample constitute the universe of SMSAs that had either a professional football, basketball, or baseball franchise during the period 1969 through 1994. Second, our vector of explanatory variables  $x_{it}$  includes lagged real per capita personal income or its growth rate and the change in population.<sup>13</sup> Where possible,  $x_{it}$  also includes an SMSA-specific time trend and year-specific dummy variables. These variables control for factors other than the sports environment that affect current real per capita income in each SMSA.

Most importantly, our vector of sports environment variables is richer than what has typically been used in this literature. We employ a wide variety of dummy variables to capture some of the rich variation in the sports environment in each of the 37 SMSAs in our sample over the past 25 years. This includes: dummy variables indicating the presence of a football, basketball, or baseball franchise; variables indicating the 10-year periods following all football, basketball and baseball franchise entries and exits; variables indicating the 10-year period following construction of a stadium or arena; variables indicating whether the stadium is of a single- or multiple-use type. We also include the seating capacity of all football, basketball, and baseball stadia and those capacities squared among the sports environment variables. We include

<sup>13</sup> By including a lagged dependent variable as a regressor, the empirical model becomes a dynamic panel data model. It is well known that inclusion of a lagged dependent variable leads to bias in the parameter estimates and that the size of this bias decreases with  $T$ . However, Monte Carlo evidence presented in Judson and Owen [1997] suggests that this bias affects the parameter on the lagged dependent variable but not the parameters on the exogenous variables, which are the parameters of interest in this paper. Kiviet [1995] reports similar results for panels with time dimensions 20 percent the size of ours. In both cases, the estimated bias on the exogenous variables is positive, so if present this bias suggests this study underestimates the negative impact of professional sports and stadia on local economies.

**Table 1.** Variable definitions, means, and standard deviations.

Variable	Mean	Std. dev.	Definition
DPOP	0.013	0.014	Percent change in population
RPCPI	13,718.0	2242.4	Real per capita income, real 1992 dollars
BBCAP	36.287	31.446	Baseball stadia capacity, thousands
FBCAP	48.449	34.585	Football stadia capacity, thousands
BACAP	10.255	9.825	Basketball stadia capacity, thousands
Dummy variables			
BAE1	0.23	0.421	First basketball franchise entered, last 10 years
BAE2	0.025	0.156	Second basketball franchise entered, last 10 years
FBE1	0.101	0.301	First football franchise entered, last 10 years
FBE2	0.010	0.101	Second football franchise entered, last 10 years
BBE1	0.068	0.251	First baseball franchise entered, last 10 years
BBE2	0.021	0.143	Second baseball franchise entered, last 10 years
BBD1	0.023	0.150	First basketball franchise left, last 10 years
BBD2	0.010	0.101	Second basketball franchise left, last 10 years
FBD1	0.053	0.224	Football franchise left, last 10 years
BAD1	0.108	0.311	First baseball franchise left, last 10 years
BAD2	0.010	0.101	Second baseball franchise left, last 10 years
BBCO	0.025	0.156	Baseball stadium constructed, last 10 years
FBCO	0.107	0.309	Football stadium constructed, last 10 years
BBFB	0.104	0.305	Baseball/football stadium constructed, last 10 years
BACO	0.214	0.410	Basketball arena constructed, last 10 years
BBF	0.615	0.487	Baseball franchise present
FBF	0.705	0.456	Football franchise present
BAF	0.598	0.491	Basketball franchise present
BBE	0.088	0.284	Any baseball franchise entered, last 10 years
BAE	0.253	0.435	Any basketball franchise entered, last 10 years
FBE	0.111	0.315	Any football franchise entered, last 10 years
BBD	0.033	0.179	Any baseball franchise left, last 10 years
BAD	0.118	0.323	Any basketball franchise left, last 10 years
FBD	0.053	0.224	Any football franchise left, last 10 years

these capacity variables in order to better capture the idiosyncratic nature of each individual venue, as well as to reflect the effects of renovation.<sup>14</sup>

Table 1 presents variable definitions and descriptive statistics. Table 2 lists the SMSAs and several descriptive statistics for each. The entry, exit, and construction variables take on a value of 1 in each of 10 years, the year a franchise moves, or the year a stadium or arena opens, and the 9 subsequent years. One might question the choice of this metric as ad hoc. We defend it on the basis of the length of time it takes for the

<sup>14</sup> A referee pointed out that including capacity might reflect reverse causality: higher real per capita income causes higher expected demand and leads to larger stadium or arena capacity. This may be true. However, many of the new stadia built in the 1990s are *smaller* than the facilities they replaced, Oriole Park at Camden Yards is smaller than Memorial Stadium in Baltimore, Jacobs Field is smaller than Municipal Stadium in Cleveland, and the recently completed renovation of the stadium in Anaheim reduced the seating capacity.

**Table 2.** Mean values 1970 to 1994.

City	Population (thousands)	Real per capita personal income (1992 \$)	Growth of real per capita personal income
Atlanta	2447.568	13629	0.007
Baltimore	2259.248	13772	0.007
Boston	5460.224	14063	0.007
Buffalo	1248.592	12592	0.005
Charlotte	1023.184	12158	0.008
Chicago	7312.228	15326	0.006
Cincinnati	1485.208	12810	0.007
Cleveland	2277.776	13950	0.005
Dallas	2228.376	14859	0.007
Denver	1471.192	14675	0.007
Detroit	4349.66	14401	0.006
Green Bay	180.612	12346	0.008
Houston	2861.528	14759	0.007
Indianapolis	1328.724	13173	0.007
Kansas City	1488.528	13437	0.006
Los Angeles	7911.088	14353	0.002
Miami	1689.584	12879	0.004
Milwaukee	1408.944	14096	0.006
Minneapolis	2293.94	14732	0.007
New Orleans	1278.26	11706	0.006
New York	8571.412	15362	0.006
Oakland	1862.384	15740	0.006
Orange Co.	2027.172	15797	0.005
Orlando	923.556	12116	0.006
Philadelphia	4853.132	13636	0.007
Phoenix	1747.652	12593	0.006
Pittsburgh	2530.68	13194	0.007
Portland	1351.768	13360	0.005
Sacramento	1074.872	13251	0.005
St. Louis	2449.964	13805	0.007
Salt Lake City	936.808	10878	0.006
San Antonio	1159.776	10883	0.007
San Diego	1999.62	13501	0.004
San Francisco	1536.432	19729	0.007
Seattle	1730.98	15274	0.006
Tampa	1705.592	12302	0.008
Washington	3738.092	16105	0.007

novelty of a new franchise or stadium to wear off, as has been reported in this literature [Baade, 1996], or for the despair from losing a team to subside.<sup>15</sup> One set of entry and

<sup>15</sup> Baade and Sanderson [1997] estimate the novelty effect for 10 cities. They find effects in the range of 7 to 10 years.

departure variables (BBE1, BBE2, FBE1, BAE1, BAE2, BBD1, BBD2, FBD1, BAD1, BAD2) allows for a differing effect on per capita income in each instance of an arrival or departure of a franchise. A second set of entry and departure variables (BBE, FBE, BAE, BBD, FBD, BAD) combines these multiple entries and departures, implicitly forcing an equal effect on each event.

Unlike the existing literature, which imposes a time-invariant effect of franchises, our analysis allows for variable effects over time through inclusion of dummy variables indicating the presence of a franchise and the entrance or exit of a franchise in the last 10 years. We also allow for both the existence and the entrance and exit of franchises in three major professional sports, thus allowing for the effects of a franchise in one sport to be net of the effects of goings on with other sports or other franchises in the same sport. Our specification does not, however, control for any symbiotic or mutually detrimental effects of franchises in more than one sport. We control for construction of new facilities with dummy variables and, combined with the presence of a franchise, which must have had an existing facility, we address the issue of whether a new stadium replaces an old stadium or a new stadium is constructed where none previously existed. Additionally, one of the construction variables controls for multiple-sport facilities, as was common in the 1970s. The wide variety of our explanatory variables controls for the gamut of sports environments experienced in the United States. Because we examine the effects of entrance and exit of franchises over a 10-year period, few SMSAs have no variation in these explanatory variables. For example, a city that obtained its first football franchise in 1965 has a value of 1 for FBE1 for 1969 through 1974, and zero thereafter. This differs from the existing literature, where such an observation would have value 1, indicating the presence of a football franchise, for every year in the sample.

Table 3 shows the results of estimating equation (1) to assess the effects of the sports environment on real income per capita in the SMSAs. The left panel of the table reports results for the single entry and exit variables model, and the right panel contains the multiple exit and entry model. In both cases, the year-specific intercepts and SMSA-specific time trends are omitted.<sup>16</sup> Our discussion of the results will focus on the single entry and exit variables model because F-tests favor it over either the multiple entry and exit model or a model with no sports variables included. Note that this last statement indicates that even after accounting for lagged real per capita income, population change, city-specific time trends, and year-specific fluctuations, our results suggest that the sports environment in an SMSA affects real per capita income in that metropolitan area.

The fact that the sports environment is found to matter for real income per capita may not please advocates of sports-led development. Among the sports environment variables only four, baseball stadium capacity, baseball stadium capacity squared, basketball arena construction, and basketball team entrance, are individually significant at the 5-percent level in a two-tailed test. The entrance of a basketball franchise carries with it a rise in real per capita income of about \$67 per person. No franchise variable is significant, and the closest of these to significance, baseball, carries a negative coefficient, indicating that the presence of the franchise costs the SMSA almost \$400 per person per year in real income.

Additionally, an increase in the capacity of a baseball stadium in an SMSA with a baseball franchise is associated with a rise in real income per capita in the SMSA, though the size of that effect is rather modest. For example, at the mean stadium

<sup>16</sup> Each model was estimated with both fixed and random effects for each SMSA. A Hausman test indicates that the random effects model is preferred.

**Table 3.** Entry and exit effects—Dependent variable: Real per capita personal income.

Variable	Single entry and exit effects		Multiple entry and exit effects	
	Coefficient	t-Stat.	Coefficient	t-Stat.
C	779.23	5.36	792.69	5.39
RPCPI <sub>-1</sub>	0.92	70.21	0.92	69.43
DPOP	2033.73	2.46	2027.21	2.43
BBCAP	17.36	2.49	18.11	2.51
FBCAP	-1.67	-0.26	-1.83	-0.28
BACAP	4.96	0.42	4.68	0.39
BBCAP <sup>2</sup>	-0.11	-2.49	-0.12	-2.51
FBCAP <sup>2</sup>	0.01	0.34	0.01	0.34
BACAP <sup>2</sup>	-0.08	-0.36	-0.08	-0.35
BAFR	-88.03	-0.72	-81.69	-0.66
FBFR	28.12	0.11	43.93	0.17
BBFR	-394.48	-1.57	-430.86	-1.63
BBCO	-98.23	-1.64	-99.16	-1.64
FBCO	39.93	1.26	40.74	1.28
BBFBC	-47.23	-1.36	-43.49	-1.24
BACO	-72.96	-2.23	-73.39	-2.19
BBE	39.63	1.04	—	—
FBE	31.05	0.86	—	—
BAE	67.20	2.09	—	—
BBD	-4.16	-0.07	—	—
FBD	29.47	0.58	—	—
BAD	-38.28	-1.16	—	—
BBE1	—	—	41.26	1.01
BBE2	—	—	30.32	0.36
FBE1	—	—	24.15	0.65
FBE2	—	—	97.03	0.90
BAE1	—	—	67.37	1.99
BAE2	—	—	66.57	1.04
BBD1	—	—	29.65	0.37
BBD2	—	—	-90.29	-0.76
FBD1	—	—	26.08	0.48
BAD1	—	—	-45.29	-1.33
BAD2	—	—	84.20	0.64
R <sup>2</sup>		0.991		0.991
$\bar{R}^2$		0.990		0.990

capacity, the additional real income per person of an increase in capacity by 1000 is only about \$9.40. Stadium capacity for football and basketball have t-statistics less than 0.5 in absolute value, clearly indicating that these capacity effects may be ignored.

Advocates of new stadia and arenas often argue that these structures will stimulate the local economy and pay for themselves via multiplier effects. Three of the four construction variables in our analysis have negative coefficients and each of them has a larger t-statistic than the lone variable with a positive sign. Basketball construction is significant at the 5-percent level in a two-tailed test and indicates

that each person loses almost \$73 in each of the 10 years following the construction of the arena. Note that combined with the \$67 gain from entrance of a basketball franchise, the net impact on average income in an SMSA that successfully attracts a new franchise by constructing a new venue for that express purpose is a net loss of about \$6 per person.

To better understand how large an impact a franchise with a new stadium might have on the metropolitan economy, we compute the contribution to real income per capita of an existing baseball franchise playing in a stadium with the average capacity, about 37,000.<sup>17</sup> The effect is to reduce per capita income by a bit over \$10 per person per year. By comparison, Hamilton and Kahn [1997] estimate that Oriole Park at Camden Yards, generally considered a bright example of the contribution a stadium can make to a local economy, costs each Baltimore metropolitan area household \$14.70 per year.

Finally, we note the important roles of lagged real per capita income (t-statistic of 70), the proportionate change in the population of the SMSA (t-statistic of 2.5), and the year-specific intercepts, which are not reported, but all but four of which have t-statistics larger than 2 in absolute value. Among the city-specific time trends, three are significant at the 5-percent level (Los Angeles, San Francisco, and Washington, DC) and one is significant at the 10-percent level (San Diego). Seven others have t-statistics over 1, indicating that they increase the  $\bar{R}^2$ . These results suggest that the model does a good job of controlling for the variation in the real per capita income that is not attributable to the sports environment.

The general picture that emerges from Table 3 suggests that variation in the vector of sports-related variables  $z_{it}$  helps to explain observed variation in the level of real per capita income, and that the overall impact of the sports variables reduces real per capita income. This result raises two questions that are important to assessing the empirical evidence in this paper:

1. By all accounts, professional sports franchises generate large revenue streams (and perhaps monopoly rents) for the claimants on these revenues. If these funds have no statistically evident positive effect on local economies, then where do they go?
2. How can the professional sports environment reduce the average level of real per capita income in an SMSA?

Many answers to these questions can be found in the existing literature and we are not the first to point them out. One answer to the first question is suggested by Noll and Zimbalist [1997b], who point out that taken individually, sports teams are actually smaller businesses than other, less prominent enterprises. Without counting the indirect benefits associated with attending and watching sporting events, the direct benefits generated by a team or stadium may be negligible in a metropolitan economy.

A second answer may be that a large fraction of the expenditures of a professional sports franchise go to salaries of a relatively small number of players who may not be residents of the city, into scouting and player development costs that flow out of the SMSA, and to “management fees” paid to owners of the franchise. Nearly all professional sports teams are privately held concerns without publicly traded equity,

<sup>17</sup> We use baseball because the baseball stadium capacity variables are statistically significant and of theoretically sensible signs, neither of which is true for the football or basketball capacity variables. Additionally, the baseball franchise and construction variables are more nearly statistically significant than the variables for the other sports.

and very little is known about the true financial condition of these organizations. The residual, about which the public also knows very little, would primarily affect the value of the franchise, which is infrequently and imperfectly observed.<sup>18</sup>

The second question has many possible answers. A recently published volume edited by Noll and Zimbalist [1997c] contains a number of essays that examine in detail the relationship between a metropolitan area's sports environment and its economy. These explanations fall into several broad categories.

One possible answer, suggested by Hamilton and Kahn [1997], is that professional sports franchises do not directly reduce the level of real per capita income in an SMSA. Instead, the observed effect is a "compensating differential" related to the presence of sports teams and stadia. Residents of cities with professional sports teams derive nonpecuniary benefits from the presence of these teams and are willing, in equilibrium, to accept lower real income, other things equal, because of these nonpecuniary benefits. Thus, a recent college graduate, considering taking a job in either a city that has a professional sports franchise or a city that does not, might be happier taking a lower paying job in the city with a professional sports franchise, if the nonpecuniary benefits she received from the sports environment in that city were large enough. Therefore, we may observe lower real per capita income in SMSAs with a baseball franchise because the residents of that city are willing to accept lower wages or salaries to have access to that franchise. Interestingly, if one accepts this explanation for the reduced income in the SMSA with sports franchises, the extent of this reduction is an estimate of the value of the nonpecuniary benefits of franchises. A valid assessment of the stadium project versus an alternative use of the funds could compare these nonpecuniary benefits with the measurable net benefits of the alternative project.<sup>19</sup>

Still another possible explanation for this empirical result is substitution in public spending. Public funds are frequently used to subsidize sports teams and the stadia or arenas that they play in. These public funds might otherwise be used to maintain the local infrastructure, attract new businesses, increase public safety and health, or provide for better public education in the metropolitan area. In this case, the deteriorating public capital stock reduces the ability of the local economy to produce other, nonstadium-related goods and services. Alternatively, these subsidies are paid from taxes, either immediately or over time as public debt is retired. The social cost of these taxes is a reduction in net production, and this reduction could be reflected in our empirical results.

John Siegfried suggested yet another explanation for our results. Specifically, he proposed that our results might indicate a substitution of consumer spending away from goods with relatively high local multipliers, such as trips to bowling alleys and movie theaters, to goods like stadium events with relatively low local multipliers. The income of owners and players, driven by stadium revenues, escapes the local economy more than the income of locally owned recreation and entertainment facilities does. This is, of course, closely related to Crompton's [Crompton, 1995] and Noll and Zimbalist's [1997b] criticism of the use of multipliers.

Finally, this empirical result may reflect the negative effects of professional sports on productivity growth in areas with professional sports teams. If workers spend

<sup>18</sup> See Sheehan [1996] for a careful study on the value of a number of sports franchises, including college athletic departments.

<sup>19</sup> One could argue that this nonpecuniary "compensating differential" or external benefit motivates local governments to subsidize stadia that have no measurable effects on economic growth or development. We thank an anonymous referee for raising this point.

**Table 4.** Event study—Dependent variable: Real per capita personal income.

Variable	Single entry and exit effects				Multiple entry and exit effects			
	Common intercept Coefficient	t-Stat.	SMSA specific effects Coefficient	t-Stat.	Common intercept Coefficient	t-Stat.	SMSA specific effects Coefficient	t-Stat.
C	-1358.01	-2.58	—	—	-1761.35	-3.38	—	—
PCIBAR	0.96	25.97	0.98	63.21	0.98	26.87	0.99	64.28
DPOP	12,284.60	3.49	22,909.00	11.10	15,263.20	4.30	22,778.30	11.25
BBCAP	58.42	2.50	43.53	1.48	65.67	2.86	55.72	1.93
FBCAP	-66.73	-3.57	-9.41	-0.78	-54.33	-2.94	-8.65	-0.73
BACAP	75.67	1.51	-7.41	-0.32	62.02	1.22	-0.67	-0.03
BBCAP <sup>2</sup>	-0.21	-1.21	0.00	0.01	-0.27	-1.58	-0.01	-0.05
FBCAP <sup>2</sup>	0.30	2.64	0.10	1.54	0.26	2.33	0.10	1.50
BACAP <sup>2</sup>	-1.29	-1.35	0.08	0.18	-1.09	-1.13	0.03	0.07
BAFR	-546.49	-1.00	20.58	0.08	-423.28	-0.76	-146.51	-0.59
FBFR	3537.04	4.63	-8.39	-0.02	2839.33	3.71	-56.52	-0.11
BBFR	-929.36	-1.20	-2186.97	-2.15	-930.41	-1.22	-2862.61	-2.87
BBCO	85.78	0.27	-268.35	-2.10	-61.60	-0.20	-239.83	-1.89
FBCO	150.68	0.93	-135.11	-2.00	90.72	0.57	-153.25	-2.31
BBFBC	-811.30	-4.53	-81.61	-1.01	-915.95	-5.15	-111.20	-1.38
BACO	-143.75	-0.95	6.98	0.11	-197.64	-1.30	25.38	0.40
BBE	310.06	1.56	-90.81	-1.09	—	—	—	—
FBE	72.78	0.42	203.35	2.60	—	—	—	—
BAE	-59.45	-0.44	-68.77	-1.17	—	—	—	—
BBD	1136.90	4.01	135.67	1.11	—	—	—	—
FBD	697.43	3.16	-153.52	-1.50	—	—	—	—
BAD	694.57	4.51	-114.16	-1.56	—	—	—	—
BBE1	—	—	—	—	-454.85	2.14	-247.82	-2.76
BBE2	—	—	—	—	205.78	0.47	60.48	0.32
FBE1	—	—	—	—	210.10	1.20	284.39	3.57
FBE2	—	—	—	—	-877.18	-1.74	-298.13	-1.33
BAE1	—	—	—	—	21.25	0.15	-2.81	-0.05
BAE2	—	—	—	—	-295.47	-0.98	40.43	0.29
BBD1	—	—	—	—	408.28	0.94	402.11	2.26
BBD2	—	—	—	—	2692.81	6.03	-838.57	-4.10
FBD1	—	—	—	—	740.95	3.28	-65.62	-0.63
BAD1	—	—	—	—	906.85	5.78	-17.52	-0.24
BAD2	—	—	—	—	-1507.34	-3.53	-458.18	-2.16
$R^2$		0.65		0.96		0.67		0.96
$\bar{R}^2$		0.64		0.95		0.66		0.95

work time discussing the outcome of last night's game, organizing an office pool, or other such activities, the growth rate of total factor productivity is affected. Differences in productivity growth are well-documented sources of variation in real per capita income.

Table 4 reports the effects of stadium construction and entrance or exit of franchises in an event study framework. It is important to recognize that the event study methodology rules out the use of the year-specific intercepts and the city-specific

time trend variables; these would be collinear with the annual average real per capita income (or growth rate in the latter analysis). It is clear from the table that the SMSA-specific effects, which are not reported but are available on request, are jointly significant. The  $\bar{R}^2$  rises from 0.64 to 0.95 after their inclusion. Most of these effects have t-statistics over 1 in absolute value, and more than half have t-statistics over 2.

In this case, F-tests at the 5 percent level reject the single entry and exit effects for the multiple entry and exit effects model. Consequently, the following discussion focuses on the results in the last column of Table 4. The sports environment variables tell an interesting story. Two of the four construction variables are statistically significant, at the 5-percent level and the 10-percent level, respectively, and negative; three of four have negative signs. Construction of a football-only stadium reduces per capita income by \$153, and construction of a baseball-only stadium reduces it by \$240.

The capacity of a baseball stadium has a significant (at the 10-percent level) and positive effect on real per capita income, raising it by \$56 for each increment of 1000 in stadium capacity.<sup>20</sup> No other capacity variable is close to significant at conventional levels. Among the franchise variables, only the baseball variable is significant. According to this result, the presence of a baseball franchise reduces per capita real income in an SMSA by more than \$2860. Even counteracting this with the stadium capacity effects, a baseball franchise playing in the average-size stadium costs the SMSA more than \$850 per person per year.

The entrance and exit of franchises also afford little consolation to proponents of sports-led development. Among the 11 entrance and exit variables, 5 are statistically significant at the 5-percent level. Among these, the entrance of the first football franchise and the departure of the second baseball and second basketball franchises have signs favorable to sports as a development tool. The first football team to enter the SMSA raises per capita real income by \$284. The departure of the second baseball or basketball franchise results in a loss in income of about \$840 and \$430, respectively. On the other hand, the entrance of the first baseball franchise costs each resident in an SMSA slightly less than \$250, while a departure benefits the SMSA slightly more than \$400 per person.

Careful readers will note that the results of Table 3 and Table 4 are quite different from each other. We tend to place more trust in the results of Table 3. The reason is simply that we believe that the event study misspecifies the relationship, forcing the average level of real per capita income to carry too much of the weight. Recall that in the analysis of Table 3 we include year-specific effects and city-specific time trends. The event study methodology cannot include these variables because of collinearity. But some of their influence is picked up by the included regressors. For example, the city-specific time trends are intended to capture such things as the flight from the north (Rust Belt) to the south and west (Sun Belt) and urban decline. These variables would certainly be correlated with entrance and departure of franchises, as entrance tends to occur where cities are doing well, departure where they are not. Additionally, few SMSAs experienced entrance or departure of two franchises from a given sport. Consequently, these variables tend to pick up effects that are specific to one or two SMSAs rather than to some more general phenomenon.

Nonetheless, the picture that one gets from this analysis reported in either Table 3 or Table 4 is different from any painted by the advocates of sports-led growth. Far from being engines of economic growth, these results indicate that at best SMSAs get nothing

<sup>20</sup> This calculation ignores the effect of the baseball capacity squared because it is clearly insignificant with a t-statistic of -0.05. Note, however, that incorporating this effect would tend to reduce the growth impacts of baseball stadium capacity.

from their sports franchises; at worst they pay dearly for professional athletic franchises. These results also differ from those in the published ex post evaluation literature. Baade and Dye [1990] and Baade [1996] find little or no effect, positive or negative.

At this point, we turn to an examination of the effects of stadia and professional sports franchises on the growth rate of real per capita income. By so doing, we intend to address the issue of whether sports and stadia can influence the rate at which income rises rather than the level of real income in an SMSA. Since much of the public debate on the benefits and costs of sports and stadia seems to focus on issues pertaining to economic growth, this seems to be the best direction for research in this area.

Table 5 reports results of the random effects estimation of the effect of our sports environment variables on the growth rate of real income per capita.<sup>21</sup> The most important information from this analysis is that neither the single nor the multiple entry and exit variables model is supported by the data. That is, F-tests at conventional significance levels lead to the conclusion that the sports environment variables have no effect on the rate of growth of real income per capita. Indeed, examining Table 5, one sees that few of the sports environment variables have t-statistics over 1 and none is even remotely close to significant at conventional levels. The lagged value of the growth rate in the SMSA and the year-specific effects provide all the explanatory power in the model.

Table 6 shows the results of event study regressions. Recall that there is an annual average rate of growth that is common to all SMSAs in a given year. The idea here is to determine if changes in the sports environment account for any of the discrepancy between the SMSA growth rate and the national average growth rate. As in the case of Table 5, the sports environment variables add nothing as a group to explaining the growth rate of real per capita income in an SMSA once the average growth rate in the nation is controlled for.

#### **POLICY IMPLICATIONS OF THE EMPIRICAL RESULTS**

The empirical analysis described in the previous section found that the sports environment in cities had a negative impact on the average real level of income per capita and that changes in the sports environment had no measurable impact on the growth rate of real per capita income over the period 1969 to 1994. These results differ from others in this literature in that while others have found no measurable impact of cities' sports environment on local economies, we have found a negative impact using a larger sample of cities, a longer sample period, and a wider array of variables to describe the sports environment. During this period many cities waged long, costly campaigns to attract new sports franchises and others spent large amounts of public funds on refurbishing existing stadia and building new stadia in order to keep existing sports franchises. A number of other authors cited above have argued that public finance theory provides little justification for this kind of government expenditure when there is no measurable public benefit. We agree wholeheartedly and point out that if there is no justification for public expenditure on projects that have no effect on the local economy, then there must be even less justification for undertaking a project that will be a net drain on the local economy now and in the future.

<sup>21</sup> The SMSA fixed effects were tested, and rejected, against the random effects specification. This result means that differences in the growth rates across cities are not related to any of the variables used in our analysis; the differences are random or unpredictable with any of the variables we have used.

**Table 5.** Entry and exit effects — Dependent variable: Growth in real per capita personal income.

Variable	Single entry and exit effects		Multiple entry and exit effects	
	Coefficient	t-Stat.	Coefficient	t-Stat.
C	0.0185	4.6505	0.0177	4.14
GRPCPI <sub>-1</sub>	0.1837	5.39	0.1831	5.35
DPOP	-0.0313	-0.52	-0.0347	-0.57
BBCAP	0.0006	1.14	0.0006	1.11
FBCAP	-0.0003	-0.55	-0.0003	-0.57
BACAP	-0.0006	-0.75	-0.0007	-0.79
BBCAP <sup>2</sup>	0.0000	-1.27	0.0000	-1.25
FBCAP <sup>2</sup>	0.0000	0.41	0.0000	0.41
BACAP <sup>2</sup>	0.0000	0.88	0.0000	0.92
BAFR	0.0043	0.48	0.0048	0.53
FBFR	0.0111	0.55	0.0119	0.57
BBFR	-0.0146	-0.78	-0.0152	-0.78
BBCO	-0.0027	-0.61	-0.0028	-0.64
FBCO	0.0013	0.58	0.0014	0.61
BBFBC	-0.0016	-0.67	-0.0014	-0.59
BACO	-0.0033	-1.42	-0.0034	-1.42
BBE	0.0016	0.58	—	—
FBE	0.0009	0.34	—	—
BAE	0.0029	1.26	—	—
BBD	0.0008	0.20	—	—
FBD	-0.0004	-0.11	—	—
BAD	-0.0031	-1.32	—	—
BBE1	—	—	0.0019	0.63
BBE2	—	—	-0.0001	-0.02
FBE1	—	—	0.0005	0.17
FBE2	—	—	0.0054	0.70
BAE1	—	—	0.0029	1.19
BAE2	—	—	0.0035	0.76
BBD1	—	—	0.0032	0.55
BBD2	—	—	-0.0038	-0.40
FBD1	—	—	-0.0008	-0.20
BAD1	—	—	-0.0033	-1.37
BAD2	—	—	0.0002	0.02
$R^2$		0.660		0.660
$\bar{R}^2$		0.608		0.606

Still, government decisionmakers have pursued these policies in the past and continue to pursue these policies even today. According to public finance theory, government decisionmakers in a city that chooses to attract a new professional sports franchise or build a new stadium to retain an existing professional sports franchise must value the total consumption benefits, including the value of all nonpecuniary benefits accruing to residents of this city, more than the opportunity cost associated with attracting a new professional sports franchise or building a new stadium for an existing franchise. This opportunity cost includes the direct expenditure on the

**Table 6.** Event study—Dependent variable: Growth in real per capita personal income.

Variable	Single entry and exit effects				Multiple entry and exit effects			
	Common intercept Coefficient	t-Stat.	SMSA specific effects Coefficient	t-Stat.	Common intercept Coefficient	t-Stat.	SMSA specific effects Coefficient	t-Stat.
C	0.0018	1.11	—	—	0.0011	0.65	—	—
GRBAR	1.0025	36.94	1.0037	36.79	1.0032	36.94	1.0042	36.69
DPOP	-0.0036	-0.08	0.0533	0.77	0.0137	0.31	0.0531	0.77
BBCAP	0.0001	0.36	0.0027	2.74	0.0002	0.62	0.0028	2.77
FBCAP	-0.0004	-1.74	0.0001	0.36	-0.0004	-1.55	0.0001	0.37
BACAP	-0.0001	-0.16	-0.0001	-0.09	0.0001	0.21	0.0000	-0.01
BBCAP <sup>2</sup>	-0.0000	-0.49	-0.0000	-2.88	-0.0000	-0.77	-0.0000	-2.9
FBCAP <sup>2</sup>	0.0000	1.39	-0.0000	-0.39	0.0000	1.34	-0.0000	-0.39
BACAP <sup>2</sup>	0.0000	0.44	0.0000	0.24	0.0000	0.11	0.0000	0.19
BAFR	-0.0015	-0.22	-0.0027	-0.33	-0.0040	-0.59	-0.0036	-0.43
FBFR	0.0166	1.78	-0.0086	-0.51	0.0145	1.51	-0.0086	-0.51
BBFR	-0.0009	-0.10	-0.0717	-2.11	-0.0028	-0.29	-0.0738	-2.16
BBCO	-0.0042	-1.09	-0.0028	-0.65	-0.0041	-1.03	-0.0030	-0.69
FBCO	0.0040	2.02	0.0022	0.97	0.0034	1.73	0.0020	0.9
BBFBC	0.0000	0.02	-0.0007	-0.27	-0.0004	-0.17	-0.0009	-0.35
BACO	-0.0024	-1.29	-0.0033	-1.62	-0.0029	-1.54	-0.0035	-1.63
BBE	0.0018	0.72	0.0027	0.96	—	—	—	—
FBE	-0.0013	-0.61	0.0013	0.50	—	—	—	—
BAE	-0.0003	-0.17	0.0015	0.79	—	—	—	—
BBD	0.0006	0.16	0.0011	0.26	—	—	—	—
FBD	-0.0027	-1.01	-0.0032	-0.93	—	—	—	—
BAD	-0.0044	-2.35	-0.0046	-1.88	—	—	—	—
BBE1	—	—	—	—	0.0010	0.38	0.0029	0.94
BBE2	—	—	—	—	0.0046	0.83	0.0000	0
FBE1	—	—	—	—	-0.0002	-0.10	0.0017	0.61
FBE2	—	—	—	—	-0.0116	-1.84	-0.0020	-0.26
BAE1	—	—	—	—	0.0004	0.24	0.0020	0.97
BAE2	—	—	—	—	-0.0005	-0.12	0.0013	0.28
BBD1	—	—	—	—	-0.0023	-0.44	0.0031	0.51
BBD2	—	—	—	—	0.0022	0.39	-0.0015	-0.21
FBD1	—	—	—	—	-0.0013	-0.45	-0.0025	-0.7
BAD1	—	—	—	—	-0.0036	-1.82	-0.0045	-1.76
BAD2	—	—	—	—	-0.0105	-1.97	-0.0055	-0.75
$R^2$		0.61		0.63		0.61		0.63
$\bar{R}^2$		0.60		0.60		0.60		0.60

construction of a new stadium, the present discounted value of future debt obligations incurred by the government, and any measurable or unmeasurable benefits that might have flowed from alternative government economic development projects that were forgone in order to attract a new professional sports franchise or build a new stadium. Cities that have not attempted to attract a new or existing professional sports franchise or have decided not to build a new stadium for an existing professional sports franchise must have concluded that the net increase in consumption benefits is smaller than

the opportunity cost. The overall consumption benefits cannot be measured directly; our results suggest that in order for these policies to make sense, these total consumption benefits must be larger than was previously imagined.

In contrast to studies that find no measurable impact of the sports environment on local economies, our empirical results could be interpreted as an estimate of the size of the unmeasurable component of the total consumption benefits realized by residents of a city with one or more professional sports teams, if this estimated negative impact is interpreted as representing the “compensating differential” discussed in the previous section. However, this measurable negative impact on average real per capita personal income is observationally equivalent to the deadweight loss resulting from local government officials pursuing inefficient economic development policies like the attraction of a professional sports franchise or the construction of a new stadium.

It could also be an overestimate of the total consumption benefits if local government officials have decided to try to attract a new professional sports franchise or build a new stadium for an existing franchise even though the expected opportunity cost associated with this action outweighs the expected overall benefits.<sup>22</sup> Such a situation could arise under several possible conditions. One such situation is when the proponents of attracting a new professional sports franchise and the opponents of such a policy have asymmetric information. The often documented false claims made by privately commissioned “economic impact studies” are one such example of attempts to create these information asymmetries. See Baade and Dye [1988] for a review of occurrences and implications of this effect.

The overall policy implications of our results are no different from those reported in many other papers in this literature but they still bear repeating here. At best, the overall consumption benefits enjoyed by residents of cities with professional sports franchises, including nonpecuniary benefits which cannot be directly measured, are equal to the opportunity cost of the policies that attract and retain these franchises. In this case, the measurable negative impact in this study is an estimate of the value of the nonpecuniary benefits, and the residents of these cities are just as well off as they would have been without professional sports. However, in some circumstances franchises may be attracted and stadia built even though the opportunity cost outweighs the overall benefit. In this case, the residents are worse off. In either case, there is no evidence that attracting a professional sports franchise or building a new stadium will be a successful economic development strategy, because our results suggest that this policy will have a negative impact on average real income per capita in that city.

## CONCLUSIONS

This paper investigates the connection between a metropolitan area’s sports environment and its economy. We have extended the existing literature that empirically tests for the influence of sports and stadia on both the level and the growth rate of real income per capita. Our approach has been to respecify the relationship between the sports environment and the dependent variable of interest in two ways. First, we propose alternate functional forms for the relationship. Second, we redefine the independent variables to more accurately capture the sports environment.

Our empirical results suggest answers to each of our empirical questions. First, the sports environment significantly influences the level of real income per capita in an

<sup>22</sup> We wish to thank an anonymous referee for pointing this out to us.

SMSA. This is an affirmative answer to our first question. Our evidence indicates, however, that the size and significance of the effect of the sports environment on the level of real income per capita depends on the specification of the empirical model. Unfortunately for proponents of sports-led development strategies, the general nature of this impact is negative. This is a different conclusion from those found in published studies using ex post evaluation methods, which suggest no impact of the sports environment on metropolitan economies. One possible explanation for our observed negative effect might be that residents of SMSAs with sports franchises are willing to accept lower real income because of positive nonpecuniary benefits derived from the presence of these franchises. Advocates of the sports-led development strategy might view this interpretation favorably; it suggests that companies will be able to offer employees relatively lower wages and salaries if these firms are located in or near a metropolitan area with a full complement of professional sports. A second possible explanation is that public subsidies to these franchises and the stadia they occupy reduce public spending on local infrastructure, public safety, education, and other forms of economic development or increase taxes.

A third possible explanation is the way the sports environment relates to unobservable productivity growth in an SMSA. For example, the presence of a team might induce greater wastage of time as fans spend work time commiserating or celebrating the recent game or handicapping the upcoming contests.

Our second conclusion is that the sports environment, or changes in that environment, has no impact whatsoever on the growth rate of real income per capita. This is a negative response to our second question. This latter point is rather comforting. Economic theory suggests that growth in an economy is dependent on expansion of the physical and human capital stocks and on technological change. The link between these fundamentals and the sports environment is tenuous at best.

Finally, our answers to these two empirical questions lead naturally to an important related issue. Sports-led development strategies may not be effective engines of economic growth, but the presence of professional sports in a city may increase the overall well-being of the residents. Although unmeasurable, these nonpecuniary benefits are also indisputable. A considerable amount of anecdotal evidence, along with personal experience, strongly supports the existence and importance of these nonpecuniary benefits. And analytical evidence on the size of such benefits also exists. For example, Hamilton and Kahn [1997] argue that the subsidy paid annually by each Baltimore household for Oriole Park at Camden Yards amounts to \$14.70. By contrast, they state that a household is likely to be willing to pay about \$72 a year for one fewer rainy day per year.<sup>23</sup> Hamilton and Kahn conclude that people in Baltimore probably would be willing to pay a similar amount to keep the Orioles in town. If that is true, then each Baltimore household derives considerable surplus from the presence of the team.

While there is no evidence that either the level or the growth rate of real per capita personal income is enhanced by construction of a sports arena or stadium, attracting a franchise from any professional sport, or providing incentives for current professional sports teams to remain in the SMSA, our results do not invalidate the contribution of sports to the sense of community and overall satisfaction enjoyed by residents of metropolitan areas. Rather, our results suggest, as do the papers in Noll and Zimbalist [1997c], that efforts to attract or retain a professional sports franchise

<sup>23</sup> The estimate of \$72 a year comes from a study by Rosen that is not included in Hamilton and Kahn's list of references.

should be motivated and justified by these factors, and not by false claims of economic benefits flowing from professional sports.

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