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# The effect of professional sports on earnings and employment in the services and retail sectors in US cities

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## Abstract

This paper explores the impact of professional sports teams and stadiums on employment and earnings in specific sectors in US cities. Previous research focused on aggregate measures of income or employment. We find that professional sports have a small positive effect on earnings per employee in one sector, amusements and recreation, and an offsetting decrease in both earnings and employment in other sectors, supporting the idea that consumer spending on professional sports and spending in other sectors are substitutes. This helps to explain the negative total economic impact of sports found in other studies.

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## 1. Introduction and motivation

There has been a significant increase in the construction of new professional sports stadiums and arenas in the past 15 years; over 40 new stadiums and arenas

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have been built for professional football, basketball and baseball teams since the mid-1980s. In some cases, the construction takes place prior to, or concurrent with, a new or relocated franchise moving to the city. This trend shows no sign of slowing. Five new arenas for professional basketball and a new professional baseball stadium opened in 1999, two new professional baseball stadiums opened in 2000 and four additional new stadiums are currently under construction.

Most professional sports construction projects receive substantial government subsidies. Potential increases in employment, income and other benefits often are used to justify these subsidies and prospective ‘economic impact’ studies, commissioned and paid for by proponents of new sports construction projects, claim to quantify these economic benefits. In some cases, prospective estimates of jobs created by these projects run into the thousands.<sup>1</sup> These impact studies often assume that spending at restaurants, bars, hotels, and motels will rise as a consequence of building a stadium and attracting a professional sports team.

Opponents of stadium and arena construction counter that the spending and income generation effects of sports are quite limited. Spending on sports substitutes for spending on other types of entertainment, and on other goods and services more generally, so there is very little new income generated. Indeed, Coates and Humphreys (1999, 2001) provide evidence that professional sports actually reduces local incomes. Key to this argument is the extent to which spending on sports-related activities substitutes for spending on other goods and services.

This paper addresses this substitution by focusing on the relationship between the sports environment and the employment and earnings of workers in those sectors of the economy most closely linked to the sports environment, eating and drinking establishments, hotels and other lodgings, and amusements and recreation, as well as the broader service and retail sectors. Specifically, if the pro-stadium/pro-sports argument is correct, then employment and earnings in each of these sectors should be higher with professional sports than without it. If the anti-stadium argument is correct then one might find decreases in earnings and employment at eating and drinking establishments and in hotels and other lodgings. The effect of sports on earnings and employment in amusements and other recreation is ambiguous, as professional sports is one component of this sector.

We formulate econometric models of the determination of employment and earnings in specific economic sectors in Metropolitan Statistical Areas (MSAs). We estimate these models using employment and earnings data collected from the US Bureau of the Census’ Regional Economic Information System (REIS) and data reflecting the sports environment in these MSAs drawn from a wide variety of sources. In contrast to the results found in most prospective ‘economic impact’

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<sup>1</sup>A 1993 economic impact study of the new Seattle baseball stadium claimed that over 2000 new jobs would be created.

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