

## **Externalities: how to define and internalise the effects linked to the sporting spectacle?**

### **Definitions**

The notion of external effects was introduced into economic theory by Alfred Marshall who, to explain the increasing returns in industry, put forward two elements: internal economies of scale (size of the production apparatus) and external economies of proximity (the industrial district). Subsequently, economists will have ever more recourse to this notion with the rise of environmental concerns and the appearance of negative externalities linked to it. It was Cecil Pigou in particular who, as early as 1926, proposed the internalisation of negative externalities by introducing a tax equal to the value of the damage caused. It was not until Ronald Coase and his Social Cost Theorem (1960) that another form of internalisation was introduced through the negotiated exchange of property rights on the market.

Sport has not evaded this issue. It produces positive externalities (social peace, social ties, job creation, etc.) but also negative ones (hooliganism, doping, etc.). Remember that an externality is the impact of an individual's actions on the well-being of others, without this impact being taken into account by the market. If this impact is negative, it is called a negative externality or external diseconomy; if the impact is positive, it is called a positive externality or external economy.

Applying this definition to sport, amongst the most representative positive external effects, we can retain certain social consequences of sporting practices such as the improvement of health, the extension of life expectancy, the reduction of absenteeism, sick leave at work, social integration and the reduction of social pathologies. At the level of the sporting spectacle, the improvement of the social link, the national identity and the image of the host territory are usually considered. Amongst the most significant negative externalities are: the damage caused by sporting activities in sensitive natural areas or by mega-sports events in natural areas (noise, erosion, trampling, pollution, etc.); certain consequences of intensive sporting activities (doping, accidents, illnesses, etc.); nuisances linked to the presence of large infrastructures (noise, visual nuisance, urban integration, etc.); nuisances linked to the sporting goods industry (pollution, etc.). As this field of externalities is too broad to be dealt with in this article, we will limit ourselves solely to the example of the sporting spectacle. For the externalities linked to sporting practices, we refer the reader to the article "value".

- **Positive externalities**

Overall, the sporting spectacle produces two main types of positive externalities: social ties and territorial dynamics.

The social tie created during a sporting spectacle depends on the size of the event, the type of sport and the public it attracts - including its location. It can nevertheless be admitted that sporting events generally improve social cohesion, community spirit, and even produce social recognition (ethnic minorities, young people from underprivileged areas, women, etc.). This is due to the fact that sport conveys universal values that can be disseminated on a large scale thanks to the media.

In terms of territorial dynamics, externalities can take the form of positive social consequences resulting from the economic impact of the sporting spectacle (reduction of tensions linked to unemployment, delinquency, drugs). These externalities can also consist of the improvement of the brand image of the territory from both an economic and social point of view, which can reinforce its attractiveness. There is also a sense of pride amongst the local population that can be a factor in improving productivity, as well as synergy effects because the sporting spectacle can bring together actors who are not normally used to working together.

- **Negative Externalities**

As before, these also concern social relations and territorial dynamics but affect them negatively.

The negative impact of the sporting spectacle on social cohesion takes the most common form of hooliganism but also of the loss of credibility due to covert abuses (doping, cheating). Thus, the sporting spectacle either reveals the rejection of others or relegates sport to being just another economic activity.

From the point of view of territorial dynamics, negative externalities take many forms: expropriation of residents and destruction of working-class neighbourhoods; forced displacement of the population as well as spatial segregation and gentrification.

## **Modalities of internalisation of external effects**

- **Constraints**

Both sporting and non-sporting institutions can use a variety of instruments to internalise sporting externalities. Traditionally, a distinction is made between regulatory instruments (standards, authorisations, bans, etc.) and economic instruments (taxes, subsidies, loans, etc.). We will confine ourselves here to giving just a few illustrations of these instruments.

Since the 1st World Conference on Sport and the Environment held in Lausanne (1996), the IOC has officially embarked on a policy

of internalising environmental externalities in several ways: raising awareness of environmental issues at all levels of the Olympic family; taking the environment into account in the awarding of the Olympic Games through the Olympic Charter, and complying with the Sustainable Development Goals (SDGs) established by the UN.

The international federations have affirmed their desire to impose new environmentally-friendly operating rules on their affiliated national federations. The proposals concern, for example, the choice of location for mega-sporting facilities; measures to limit and strictly regulate competitions in the natural environment; the grouping of sporting facilities for energy-saving and proximity purposes; the revision of the formats of sporting competitions to minimise travel and reduce greenhouse gas emissions; the integration of the environment in the specifications for the organisation of mega-sporting events (water, energy, waste, transport).

At the European level, one could imagine a system of equalisation between professional and amateur sport. As the sporting-spectacle industry benefits greatly from the externalities generated by amateur sport, it may be legitimate to set up equalisation instruments between these two sectors. Two sources of revenue could be taxed: sporting abuses (doping, lack of academies in clubs, speculative player transfers, etc.) and commercial products of the sporting spectacle (TV broadcasting rights, by-products, sponsorship, sport betting). Yet such a system does not exist!

- **Voluntary agreements**

It is certainly in the direction of voluntary agreements that the organisers of sporting spectacles should commit themselves to in order to give credibility to competitions marred by multiple allegations of doping, match-fixing, fixed betting, corruption, etc. The organiser would undertake to respect a charter or code of good conduct. In such a context, doubts may arise about this type of instrument, which is considered to be intended to divert the vigilance of consumers and public authorities. This means that to be effective, voluntary commitments must meet at least two conditions:

- it is necessary that third parties exert credible threats: spectator boycotts or suppression of sponsor support.
- the implementation of actions must be monitored by independent inspectors and a sanction mechanism must be established in the event of non-compliance. We are therefore seeing increasing non-governmental organisations (NGOs) (WWF, Greenpeace, etc.) taking part in monitoring operations, for example, for the Olympic Games. In the event of non-compliance, the organiser runs the risk of a media campaign that would damage its reputation. Nike has experienced this concerning the issue of child labour.

### **Further information:**

Jean-François BOURG et Jean-Jacques GOUGUET, *Economie du sport*, Repères, 3<sup>ème</sup> édition, La Découverte, Paris, 2012.

Julie DUCHÂTEL (Dir.), *La coupe est pleine ! Les désastres économiques et sociaux des grands événements sportifs*, Genève, CETIM, 2013.

Gregory MANKIW, *Principes de l'économie*, Economica, Paris, 1998.

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