



# Does the World Cup Get the Economic Ball Rolling?

*Assessing the Impact of the World Cup of Soccer on Host Countries' Economies*

John S. Irons, Ph.D.\*

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The Germans are hoping for a successful run this summer in the World Cup—and not just inside the stadium. It is the everlasting hope of countries that host major sporting events that the games will bring about not only sporting glory but also an economic boom. Organizers inevitably claim that hosting a major event will lead to filled hotels, packed restaurants, new construction projects, and a general boost to the economy.

Past experience, however, shows that hosting the World Cup may not be the economic Holy Grail organizers often predict—at least not immediately. The historic experiences of past hosts show that countries are about as likely to see lower economic growth in the World Cup year as they are to see higher growth. In the years immediately following the World Cup, however, the economies of

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\*Director of Tax and Budget Policy, Center for American Progress.

host countries have performed better on average.

A look at the historical experience of World Cup host nations reveals that:

- In seven of the 13 World Cups since 1954, economic growth has been slower in the World Cup year than in the two years leading up to the event.
- On average, economic growth is slower in a World Cup year than in the years both preceding and following.<sup>1</sup>

Yet there appears to be some potential for a comeback. Economic growth in the years following a World Cup appears to be strong:

- In nine of the 13 World Cups since 1954, economic growth has been faster in the two years following the World Cup than in the year of the event.
- On average, economic growth is stronger in the two years following the World Cup than the World Cup year or the preceding two years.

Furthermore, being both the host and winner of the World Cup has led to a triple blessing:

- The four countries that have hosted and won the World Cup have seen an increase in growth rates in the two years following the event.

But here's a warning for Germany. It hosted and won the Cup in 1974, and while growth rates recovered nicely two years down the road, the country had low growth rates both in the year of the competition as well as the year immediately following the event.

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<sup>1</sup>The statements comparing average growth rates are true in an arithmetic sense. Statistical significance, and the lack thereof, is discussed below.

## Potential Impact of the World Cup

There are several ways that a World Cup might benefit the economy of the host country. Prior to the Cup finals, there are often publicly financed capital improvement projects that are undertaken to prepare a country for the influx of the games, such as new or improved stadiums or road construction. Private companies might also work to expand capacity in advance of the World Cup, such as increasing the number of hotel rooms for visitors.

In the World Cup year, host countries might receive an influx of tourists who travel to view the games—although this might be offset somewhat by other tourists who don't visit in order to avoid the hoopla. Still, soccer tourists can mean potentially millions of dollars in additional sales for locals business, including hotels, restaurants, and souvenir shops.

There are also costs, however, associated with the influx of people. For example, there are significant costs for providing security protection to the 32 teams and their fans, which might drain government revenues that could be put to better use. In a world with heightened sensitivity to terrorist activity, these costs can be significant. At the same time, these expenses might provide a temporary boost to the economy through additional hiring of security guards or police.

But there may also be an economic downside. Hosting a World Cup might put a damper on real economic activity as its citizens take time off from work to watch the 64 matches, either in person or on television.

These factors are often seen by many host countries as just a side show. The

greater hope of host countries is that the international exposure of hosting a major sporting event will lead to increased tourism—and enhanced economic growth—for years to come.

In addition to a potential impact on host countries, there could also be a “champion” effect, where the country that wins the World Cup could receive a psychological boost from being crowned world champions in the world’s largest-viewed sporting event. The boost might come from either internal sources, such as a surge in consumer or business confidence, or from external sources, such as increased tourism.

## Historical Experience

One way to assess the impact that a World Cup might have on a country is to look at the historical experience of past hosts.

If the World Cup does provide an economic boost, we might expect to see an increase in the growth rate of a nation’s gross domestic product (GDP) either in the World Cup year or in the immediate aftermath. Table 1 presents the growth rate of GDP in the two years prior to the World Cup (Pre: -2 to WC) and compares that to the growth rate in the World Cup year, as well as the two-year periods following (Post: WC to +2). Figure 1 shows the average and the median growth rates of countries in each of the three years prior to and the four years after the World Cup.

Both presentations of the economic data show an interesting pattern. While these results are not conclusive (see Appendix below), we see that the hypoth-

Table 1: CUMULATIVE GROWTH IN REAL GROSS DOMESTIC PRODUCT HOST COUNTRIES (1954-2002)

| Year   | Host        | Pre: -2 to WC | World Cup | Post: WC to +2 |
|--------|-------------|---------------|-----------|----------------|
| 1954   | Switzerland | 4.4%          | 5.5%      | 6.4%           |
| 1958   | Sweden      | 2.6%          | 2.9%      | 4.2%           |
| 1962   | Chile       | 4.8%          | 4.7%      | 4.3%           |
| 1966   | England     | 2.1%          | 2.0%      | 3.3%           |
| 1970   | Mexico      | 6.6%          | 6.9%      | 6.3%           |
| 1974   | Germany     | 2.5%          | 0.3%      | 1.8%           |
| 1978   | Argentina   | 1.5%          | -3.2%     | 4.2%           |
| 1982   | Spain       | 0.6%          | 1.2%      | 1.8%           |
| 1986   | Mexico      | -0.5%         | -3.1%     | 1.5%           |
| 1990   | Italy       | 2.4%          | 2.0%      | 2.5%           |
| 1994   | USA         | 3.3%          | 4.0%      | 3.1%           |
| 1998   | France      | 2.2%          | 1.9%      | 3.1%           |
| 2002   | Korea/Japan | 2.8%          | 3.6%      | 3.2%           |
| 2006   | Germany     |               |           |                |
| Mean   |             | 2.7%          | 2.2%      | 3.5%           |
| Median |             | 2.5%          | 2.0%      | 3.2%           |

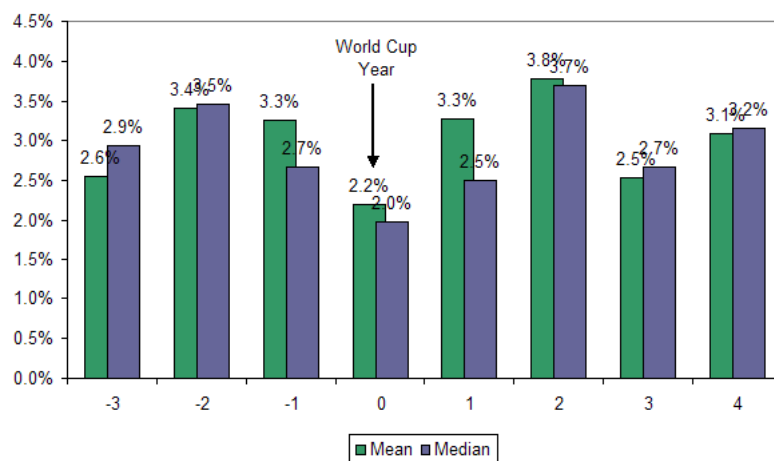
Source: IMF/IFS, <http://ifs.apdi.net/imf/logon.aspx>, and author's calculations. Host countries that are also Cup winners are in bold.

esized economic benefits of the World Cup in the year of the event do not manifest themselves in this macroeconomic data. On average, World Cup hosts have seen a negative impact on economic growth in the year of the event. With the World Cup games lasting about one month in total, the distraction of such a large sporting event might be enough to slow economic growth.

But there is a silver lining. The data suggests that host countries might recover nicely in the two years immediately following the World Cup with average growth rates that are higher than the years immediately preceding it. This is especially true for countries that have been both hosts and were crowned champions.

It should be noted that drawing a firm, general conclusion from this kind of

Figure 1: AVERAGE AND MEDIAN GROWTH IN REAL GROSS DOMESTIC PRODUCT HOST COUNTRIES (1954-2002)



Source: IMF and author's calculations.

data is very difficult. Different nations have had a variety of experiences, and generalizing from a limited set of data is very risky. Since 1954 there have only been 13 World Cups, and so we are very limited in what can be said definitively about the impact of the event (see Appendix for further discussion).

## Beyond Economics: Peace, Love, and Understanding?

If the pattern suggested by the data above is true, then this is just one of several factors that countries should take into account when deciding whether or not to make a bid to host. The most plausible explanation for a possible slowdown—that the nation is distracted by a month of sport—is also reason to believe that

the World Cup might have significant non-monetary benefits to the hosts as well as to the rest of the world.

Because soccer truly is a global sport with worldwide viewers measured in the billions, it's hard to underestimate the potential impact of a common experience and the potential for the games to foster cross-cultural interaction and understanding. The ideal that every country has a chance to participate, through regional qualifiers to perhaps reach the final 32-team competition, is one of inclusiveness and respect that can bring nations together through peaceful competition.

As a sport, soccer has been credited with a number of advances towards peace and reconciliation (as well as some setbacks). Most recently, the qualification last year of the Ivory Coast for its first World Cup berth seems to have catalyzed a truce and brought warring factions to the negotiation table.<sup>2</sup>

While the global sport does not have a spotless record, by any means, it does remind us that not everything of value can be measured in dollars, yen, or euros.

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<sup>2</sup>See "The Soccer Wars," Washington Post, June 4, 2006, for a bit of both sides of the debate of whether soccer has had a positive influence overall, including the Ivory Coast case.

## Appendix: Statistical Discussion

As stated above, drawing firm, general conclusion from this kind of data is very difficult. Different nations have had a variety of experiences, and generalizing from a limited set of data is very risky.

The approach taken here is to describe the historical experience of countries that have hosted or won the World Cup—and to specifically compare growth rates of real gross domestic product (GDP) averaging across countries, or within individual countries.

The discussion above should be interpreted as being suggestive of possible trends, not as conclusive evidence one way or the other about the causal impact of the World Cup on national economies.

Further analysis could compare impacts within countries across time with an attempt to control for other macroeconomic factors that might impact GDP. Alternatively, an analysis could make use of a broader set of countries to compare the growth experience of host countries with neighboring economies. Either of these methodologies comes with their own set of issues and complications. When dealing with a very limited set of observations, it becomes difficult to draw strong conclusions.<sup>3</sup>

Further, as popularity of the sport has increased worldwide, we might expect a changing impact of the World Cup on economies, so the past is not necessarily

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<sup>3</sup>These issues are similar to those faced in the analysis of political economy data—specifically for the impact of presidential elections, which also occur every four years in the U.S. See J. Faust and J. Irons (1999) “Money, Politics and the Post-War Business Cycle” *Journal of Monetary Economics*, vol 43(1), pp. 61-89. The analysis is even more problematic in this case since the host country changes.

a good guide for the future.

Not surprisingly, therefore, statistical tests of the difference between years in the mean growth rates across countries shows that we cannot reject the hypothesis that there is no difference in World Cup years when compared to the years before and after. In particular, according to the macroeconomic data and methodology employed here, there is no statistically significant evidence that World Cups boost economic activity in the year of the event.

Also, while it may be hard to find a large and significant increase in the economy using broad measures of GDP, there may still be real impacts on individual sectors or specific regions. First, the World Cup might result in shifts of economic activity across sectors (e.g., towards tourism or construction) at the expense of other economic sectors. Second, while World Cup impacts might not leave a lasting mark on nationwide GDP measures, it might help boost local economies impacted by the games.

The impact of the games might also be sensitive to the timing of the games. A country that is operating below capacity might receive a much bigger boost from the games than an economy that is already growing. Given the limited number of data points, it would be difficult to precisely measure this impact without more sophisticated analysis.