To Build or Not To Build

In the past ten years there has been a significant increase in the number of sports stadiums being built in major cities across America. Most of these stadiums are built primarily with government money, in the form of stadium subsidies. Many different groups have voiced their opinions for and against these stadium subsidies. Politicians have been doing the majority of the cheering and social groups have been doing most of the jeering.

What are the actual benefits to a town of building a new stadium? Do these benefits outweigh the heavy costs placed on the local taxpayers? With the recent boom of stadium and arena constructions in the past 15 years these types of questions have become quite prevalent amongst economists. Figure 1 shows the enormous amount of money that it takes to build these stadiums and Figure 2 shows that the over-whelming majority of these stadiums are built with public funds. In fact, “Almost 80 percent of all major league facilities have been built by government, ranging from 90 percent of all stadiums used by the NFL to more then two-thirds of NBA arenas.”¹ Local government and team owners have argued that new stadiums have both direct and indirect economic benefits on local economies that last for years. “All too often, however, the projected economic impact figures are pure guesswork or are based on overly optimistic assumptions. These assumptions fail to calculate costs associated with a project, including foregone opportunity costs of alternative uses of the site, lost tax dollars, jobs lost, and dollars spent elsewhere during construction. As a result, estimates of economic impact most often are those of gross impact rather than of net benefit.”² In the long-run the costs associated with publicly funded stadiums overshadow the actual benefits.
Promoters of professional sports incessantly broadcast the economic benefits that come to places that have major league teams. Most generally, professional teams are seen as stimulating economic activity by increasing the attractiveness of a place for commerce and industry. New facilities usually result in larger crowds and concession sales, which bolster team revenues. Attractive stadiums and higher revenues increase the market value of teams. “Construction of Camden Yards by Maryland produced enormous benefits for the Baltimore Orioles, as attendance and revenues soared at the beautiful ballpark; and riches that flourished from the new stadium were a principal factor in the sale of the Orioles in 1993 for a record $178 million, none of which was shared with the people of Maryland who built Camden Yards.”

Sports teams, along with arenas and stadiums, are extensive enterprises with sizeable payrolls. Games attract people to the place where the home team plays, generating customers for all kinds of business. This all comes from a nonpolluting business that also offers a variety of intangible benefits to a place and its people.

Economic rewards for places from professional sports are both direct and indirect. Direct economic benefits include rent on an arena or stadium, income from suites and other preferred seating, parking fees, concession sales, jobs with teams, local purchases by teams, and tax revenues. Indirect benefits, which typically account for a substantially larger share of the overall economic benefits, encompass general economic activity such as spending on food, lodging and transport. Determining benefits, particularly indirect benefits, of a complex economic activity in a large city or metropolitan area is a difficult assignment. Studies rest heavily on assumptions with lots of guesstimates; further muddying the waters is the fact that most of the guesstimates are made by or for interested parties. Estimates of economic impact vary considerably among places and sports. “A 1983 study for the Montreal Expos indicated that the team accounted for $100 million in direct and indirect economic activity.” In Denver around the same time the chamber of commerce underwrote a study that concluded that major league Baseball would contribute $75 million to the local economy. “Philadelphia’s four major league teams were estimated to produce $343 million in direct and indirect benefits for the city and $576 million for the metropolitan area as a whole.” Additional benefits from the World Series, Super Bowl and
other special sporting events have been estimated for a number of local economies.

"Expectations that out-of-towners would contribute $5 million for each home game led the head of the Atlanta Convention and Visitors Bureau to portent the 1991 World Series as “Economically…a home run for Atlanta.” With fans spending almost four times as much as the average visitor to Los Angeles, the cities convention bureau put Super Bowl in a class by itself, emphasizing that there is not a single convention that come into Los Angeles that compares to the Super Bowl.

However, most money spent on professional sports would be spent on some other form of entertainment or leisure activity if there was no team in town; only expenditures by visiting teams and out-of-town customers constitute a net addition to the local economy. Aside from construction jobs and a relatively small number of executive and administrative posts in team and stadium front offices, most employment are generated by professional sports in low-wage seasonal service jobs.

Along with specific economic benefits generated by teams, professional sports are vigorously promoted as a means of stimulating economic development. Places with professional teams are widely viewed as more attractive business locations. Development goals for specific parts of a city or metropolitan area may be tied to professional sports facilities. Arenas and stadiums are seen as magnets that will bring business and tourists into a particular area, revitalizing decaying neighborhoods, enhancing the appeal of downtown to investors, or promoting economic development in suburbs. Originally ballparks were built in secondary locations because land costs were high at the center of the booming cities with major league teams; and as these cities grew, ballpark sites moved outward. Making ballparks accessible to large numbers of spectators. Downtown development has brought stadiums into the heart of many cities. Downtown stadiums, promoters hope, will attract people to the central business district in the evening and on weekends, in the process bolstering tourism, restaurants and hotels.

“The development of three stadiums and an arena in downtown Atlanta contributed to the expansion of the central business district.”

The bottom line for major league teams and their facilities is that at best they make modest contributions to the economies of cities and metropolitan areas. Almost always, the
alleged benefits in terms of jobs, tax revenues and general economic development are overstated, and the costs are understated. With rapidly rising price tags for sports projects, particularly those located in central business districts, economic benefits have become even harder to realize.

Costs typically receive far less attention than benefits in studies of the economic impact of professional sports. Costs include public operating expenses for arenas and stadiums, and paying off stadium debt and subsidies. There are also several indirect and often overlooked costs. “Costs for additional police protection, traffic control, and sanitation rarely are calculated.”

Most studies about benefits of publicly funded stadiums do not take into consideration certain factors such as risks and opportunity costs. Each one of the publicly funded facilities has had to obtain the approval of local or state governments or of the electorate itself, so there is an important political component to the building boom. Further, the publicly funded facilities all invariably involve substantial subsidies to the terms housed in them, through “sweetheart” rental arrangements that shift almost all of the costs of the facility to taxpayers while reserving all or almost all of the revenues for the team. A prime example of this was in 1997 when the Washington state legislature voted to fund a new stadium for the Mariners, committing the team to staying in Seattle until 2020 but along the way burdening the taxpayers with a huge potential liability. “But six months later the citizens voted to give the Seahawks and their new owner a new stadium too. This was also after they had funded Key Arena to house the Seattle Supersonics. After all the smoke cleared, the taxpayers of the state had taken on a contingent liability of something approaching $1 billion to subsidize their sports teams. It was as though the citizens of the state had decided to spend the next twenty years with signs on their backs reading “Kick Me.”

Those in favor of stadium subsidies have also attempted to use economic analysis to show the benefits of new sports facilities. “Advocates argue that new stadiums spur so much economic growth that they are self-financing: subsidies are offset by revenues from ticket taxes, sales taxes on concessions and other spending outside the stadium, and property tax increases arising from the stadium's economic impact. Unfortunately, these arguments contain bad
economic reasoning that leads to overstatement of the benefits of stadiums."\textsuperscript{10} Besides using poor reasoning these arguments also tend to overlook several key factors. As Arthur T. Johnson notes, the “Assumption of economic benefit appears to be blind to auxiliary costs which diminish or eliminate positive economic impacts.”\textsuperscript{11} These studies by the teams and local governments also tend to be exceptionally biased. As well known consumer advocate Ralph Nader put it in a recent article, “Studies done by independent economists, not those paid for by stadium proponents or the professional sports cartel, show that there is no real economic benefit from public subsidies of sports stadiums. A study done by Robert Baade of Lake Forest College studied 30 cities over 30 years and found that 27 experienced no significant impact from new stadiums while three cities experienced a negative economic impact.”\textsuperscript{12} In the long-run there is only one group that is truly benefited from stadium; the owners. “Team owners enjoy windfall profits when they turn around and sell. Last fall, the Cleveland Indians were sold for $320 million by Richard Jacobs, who had bought the team in 1986 for $45 million.”\textsuperscript{13} Even our nation’s president has gotten in on the fun, “After a $136 million subsidy for the Texas Rangers’ new ballpark turned George W. Bush’s $600,000 investment into $14,000,000 when the team was sold, Bush said: "I think that when it is all said and done, I will have made more money than I ever dreamed I would make."”\textsuperscript{14}

So do the benefits of publicly funded stadiums outweigh the costs? Absolutely not! Any “benefits” that local governments, team owners, and hired economists derive from their studies are over-estimated and inaccurate. Stadium subsidies don’t benefit the taxpayers, they don’t benefit the city, and they definitely don’t benefit the local economy. They only benefit the previously wealthy owners. People are finally starting to realize this and speak out against subsidies, but unfortunately it has fallen on deaf ears. This has been shown in the debate over subsidies for a new baseball stadium in Boston, “Despite polls indicating that voters are nearly 2-1 against public subsidies, a well-financed lobbying campaign is underway to support hundreds of millions of dollars in state and local subsidies to benefit Major League Baseball and the owners, developers, and financiers of a new stadium.”\textsuperscript{15} It appears that at least for the moment the rich
will continue to get richer and taxpayers will continue to bear all the costs associated with stadium
subsidies.


Bibliography

4.) Moffatt, Matthew. [economics.about.com/liberty/weekly/aa020303d.htm](http://economics.about.com/liberty/weekly/aa020303d.htm). October 22nd, 2003
Figure 1

Original Cost* (millions)

Stadiums

Bank One Ballpark, Cobo Field, Spectrum, Enron Field, Tropicana Field, Key Arena, FirstEnergy, Coors Field, Rose Garden, Trans World Dome, Quik Center, Oakland Coliseum, United Center, San Jose Arena, Arrowhead Pond, Georgia Dome, Delta Center, Target Center, Thunderdome