Testimony of
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on
Public Financing for Construction and Operation of Sports Stadiums and Economic Revitalization and Development in Urban America

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Chairman Waxman, Chairman Kucinich, and other members of the committee: thank you for giving me the opportunity to testify on the issue of public financing for the construction and operation of professional sports stadiums, and the impact of sports stadiums on revitalization and development in American Cities. I am an economist and professor at the University of Illinois at Urbana-Champaign. One of my areas of specialization is the economic impact of professional sports on urban economies.

Local, state, and federal government has historically provided large subsidies for the construction and operation of professional sports facilities in the United States. These subsidies take the form of direct monetary support for land acquisition and physical plant construction, direct monetary support for physical plant operation and maintenance, in-kind donations of land, construction of infrastructure like roads, sewerage, and public transportation facilities, indirect subsidies in the form of special tax treatment for property, operating income, special tax treatment for bonds used to finance facility construction and other subsidies. Since 1990, the total value of the subsidies for construction of sports facilities alone in the United States has been about fifteen billion dollars in inflation adjusted terms. There are currently a large number of proposed new sports facilities in the planning phase around the country. The most common justification for these subsidies is that professional sports facilities and franchises generate significant, tangible economic benefits in the form of higher income, earnings, employment and tax revenues, for the local economy thus contributing to the revitalization of American cities.

Do Professional Sports Generate Tangible Economic Benefits in American Cities?

It is often said that economists cannot reach a consensus on matters of economic policy. While this might be accurate in areas like tax policy or international trade policy, it is clearly not the case when assessing the economic impact of professional sports facilities. There currently exists a large body of evidence published in peer-reviewed academic journals concluding that professional sports facilities and franchises have no positive tangible economic impact on income, earnings, employment, and tax revenues in American cities. This literature has examined regular season and postseason sporting events in all of the major North American professional sports leagues, as well as special events like All-star games and the Super Bowl.

The research supporting this consensus examined economic performance in every U.S. city that hosted a professional sports team over the past thirty years. This research uses economic and statistical modeling to explain the overall performance of local economies, in terms of income, employment, and other economic indicators in metropolitan areas. The basic approach assesses how much of the variation in local income and employment, as well as earnings and employment in specific sectors of the local economy like hotels, restaurants and bars, can be explained by variation in sports-related variables as well as by variation in other factors that economic theory predicts help determine the state of the local economy.

Again, the consensus from this substantial, carefully conducted, peer-reviewed body of academic research strongly supports the conclusion that professional sports facilities and franchises do not produce tangible economic benefits in the surrounding local economy. Based on the economic performance in every U.S. city with a professional sports team over the past thirty years, professional sports facilities and franchises were not associated with higher levels of local income; they were not associated with greater employment in any sector of the local economy except the small sector containing sports enterprises; they were not associated with higher tax revenues; they were not associated with faster growth rates of local income or employment. Professional sports facilities and franchises cannot be used to revitalize the economy in American cities. Subsidies for the construction and operation of professional sports facilities cannot be viewed as a viable economic revitalization strategy for our cities. Dozens of papers published in peer-reviewed academic journals support this consensus conclusion.

Some astute observers might question this conclusion. After all, millions of Americans attend professional sporting events each year, and there is clearly a great deal of economic activity going on in and around sports facilities. Bars and restaurants near ballparks, stadiums, and arenas are packed on game day. Parking lots near these facilities are full. Vendors outside and inside the facilities do a brisk business and many facilities operate at or near capacity. Any person attending a sporting event can see this with her own eyes. Clearly, this economic activity must have some affect on the local economy.

And it does, of course. But the economy in an American city is much larger, more varied, and more complex, than a spectator at a sporting event can observe. The economic activity that takes place in and around a modern professional sports venue does not translate into additional new economic activity in cities because most of the spectators are residents of the metropolitan area and all consumers face a limited budget to spend on necessities like food, clothing, and shelter as well as on other factors like entertainment. All household spending, including spending on entertainment like professional sporting events, is constrained by available household income.

Money spent on tickets, parking, and concessions in and around a sports facility represents money not spent on other entertainment activities elsewhere in the metropolitan area. Nearly all the economic activity observed taking place in and around professional sports facilities would have taken place somewhere else in the metropolitan area at some other point in time.

Professional sporting events concentrate economic activity at a specific location at a particular point in time. This fact is easily observable to the casual observer attending a sporting event. But sporting events only concentrate spending, they can not generate new spending. The casual observer taking in a ball game does not observe economic activity that might take place in other parts of the city at other times. And the economic activity that takes place in and around a stadium represents lost revenues to other entertainment industry businesses located in other parts of metropolitan areas. The casual observer cannot observe the transactions that do not take place because of the presence of a professional sport team, but the existence of household budget constraints strongly implies that this occurs.

Economic research on the impact of professional sport on the local economy does not count attendance at sporting events or survey consumer spending at these events. Economic theory predicts that money spent at a sporting event would alternatively be spent somewhere else in the local economy, at some other point in time, even if the city did not use taxpayer money to build a new sports facility. A substantial body of research carried out over decades supports this prediction.

Clearly, to the extent that a professional sports facility and franchise attracts out of town visitors to a city for the express purpose of attending a sporting event, the local economy will benefit from the spending by these visitors, and this spending will ripple throughout the local economy creating additional economic benefits. But most spectators at professional sporting events are residents of the metropolitan area. From a national perspective there can be no net economic benefit from this spending, because a hundred dollars spent on baseball in Baltimore and a hundred dollars spent on baseball in Washington DC make an identical contribution to the nation's Gross Domestic Product. Why should billions of tax dollars subsidize an activity that reallocates a small amount of consumer spending from one city to another?

Categories of Evidence on Economic Impact and the Importance of the Peer Review Process

Evidence about the economic impact of professional sports comes from two sources: academic research, and "promotional" economic impact studies sponsored by professional sports teams, leagues, and other entities interested in obtaining government subsidies for professional sports. These two categories of evidence use widely different methodologies, undergo different levels of scrutiny, and reach strikingly different conclusions.

"Promotional" studies, primarily carried out by consultants hired by professional sports teams or their boosters, always conclude that building a new sports facility will add substantial sums to local income, often hundreds of millions of dollars each year, and will create many new jobs in the local economy. Sometimes the forecasted jobs created run into the thousands. Of course, all this additional income and employment is forecasted to substantially raise state and local tax revenues. Academic research on the economic impact of professional sports concludes that new facilities and franchises have either no measurable impact on local income and employment, or in some cases a small but negative impact on the local economy.

"Promotional" studies are economic forecasts. They predict how much local income or employment will rise in the future, after a new facility is built, and perhaps a new team attracted to the city. These studies forecast the number of spectators that will attend games in the new facility, and use multipliers to further estimate the wider impact of spectator's spending on the local economy. In economic jargon, they make use of "input-output" models to predict the total economic impact flowing from a sporting event. Put simply, they apply a multiplier – a scaling factor greater than one – to increase the forecasted direct economic activity associated with a sporting event to a larger number reflecting the forecasted total effect on the entire metropolitan economy. Since "promotional" economic impact studies are forecasts, they have the same inherent weaknesses as any other economic forecast, like a forecast of the growth rate of GDP over the next five years. But "promotional" economic impact studies always project a high degree of precision. Rather than being stated in terms of a predicted value plus or minus some margin of error, the forecasts in these studies are always a single number, implying a higher degree of precision than other economic forecasts, even though there is no evidence that they are more precise.

Academic research on the economic impact of professional sports is retrospective. Researchers begin with the historic performance of metropolitan economies, in terms of economic indicators like income, earnings, and employment, and use statistical methods to understand why the local economy performed the way that it did. Although this approach is not experimental in nature, there has been a tremendous amount of variation in the professional sports environment in metropolitan areas over the past thirty years which resembles the variation that an experiment might generate. Franchises moved; old facilities were torn down and new ones built; labor disputes resulted in the cancellation of large numbers of games, or even entire seasons in professional sports leagues. Academic research exploits this variation in the sports environment over time to understand the overall economic impact of professional sports on metropolitan economies.

Unlike sports team owners and others with a vested interest in the sports industry, academic researchers do not stand to benefit financially from research on the economic impact of professional sports. The owner of a professional sports team could see the value of his franchise increase by hundreds of millions of dollars if the local government builds him a new facility using public funds. Local businesses near the new facility will see increases in their business. Local media companies may see increases in revenues due to increased interest in the new team in town. Local financial institutions that underwrite the bond issue used to finance construction earn millions in fees. All stand to profit from a new publicly financed sports facility and all are interested in justifying these subsidies on the grounds of the tangible economic benefits created by sport. In contrast, journals that publish academic research on the economic impact of professional sports *charge* researchers submission fees to consider their papers for publication. They do not pay royalties to research who write the papers they publish. A researcher in this area has no personal financial stake in the outcome of the research.

The most important difference between evidence from academic research and evidence from "promotional" economic impact studies is the degree of scrutiny they undergo. "Promotional" studies are typically carried out by consultants. They are released with great fanfare in the local media, and typically get widespread coverage for a brief time. The press releases and sound bites associated with these studies are typically short on details and long on large round numbers. Very few people ever read the entire reports. The vast majority of these "promotional" studies disappear within a few days of their release. The methodology used in "promotional" studies, and the results, are not reviewed or evaluated in any way. I do not know of a single instance where the predicted outcomes from a "promotional" economic impact study have been systematically evaluated for accuracy after a sports facility was completed.

In stark contrast, academic research on the economic impact of professional sport published in scholarly journals goes through a rigorous peer review process. In this process, the papers are distributed to other experts in the field, often stripped of identifying information about authorship, who are asked to anonymously evaluate the quality of the research. Academic economic impact studies judged as flawed or incompetently executed are not published. In some instances flaws judged as serious are removed from the paper or revised to correct the deficiency. The peer-review process provides important oversight for research in this area, as other experts in the field have examined the methodology, data, and results in detail and found it to be credible.

It is imperative that those who make decisions on sports subsidies understand this important difference in the evidence about the economic impact of professional sports. Results that have been through the peer-review process should be given much more credence by decision makers than "promotional" economic impact studies. We do not make health policy decisions based solely on the claims of pharmaceutical companies, and we should not make decisions on subsidies for professional sports based solely on the claims made by professional sports team owners and others proponents of these subsidies.

The consensus conclusion that emerges from peer reviewed research on the economic impact of professional sports facilities and franchises on the urban economy is clear: professional sports are not an engine of economic growth. The contribution of professional sports to the economic wellbeing of American cities is negligible. Using sports subsidies to revitalize the economy in urban America is not sound economic policy. When cities decide to spend hundreds of millions of dollars of taxpayer's money to build new sports facilities for billionaire sports team owners and millionaire professional athletes, they are making poor economic policy decisions. This money would be better spent on activities with a higher overall return, like education, public health and safety, or infrastructure.

However, professional sports clearly provide important non-economic benefits to urban America. The presence of a professional sports team is often said to bestow "big league" status on a metropolitan area. The residents of American cities derive a great deal of civic pride and sense of community from the presence of home town professional sports teams. Rooting for the local team provides an important touchstone to the residents of American cities and brings together society in ways that few other civic institutions can. These factors are all important to American cities. To the extent that civic pride, "big league" status, and sense of community are important and valuable to the residents of American cities, the large public subsidies for the construction and operation of professional sports facilities may be justified.

Although professional sports cannot revitalize the economies in American cities, they may be able to revitalize the residents of American cities, and improve the quality of life in urban America. However, valuing "big league" status and professional sports' contribution to the sense of community in urban America is difficult to value, in monetary terms. The limited amount of existing academic research on valuing the non-monetary benefits generated by professional sports suggests that the value placed on these intangibles by the residents of American cities is not as large as the subsidies, but more research is clearly needed in this area.

Professional sports facilities and franchises may generate one specific type of non-traded economic benefit. Evidence from recent economic research, some of it not yet peer-reviewed, suggests that residential property values may be higher in cities with professional sports teams. If this turns out to be the case – and at this point the evidence is both mixed and preliminary – then some subsidies for the construction and operation of professional sports facilities may be justified on economic ground. However, the overall effect of higher residential property values on social welfare, particularly on the social welfare of lower income groups, is unclear, even if sports facilities can raise property tax revenues.

Why Do We Continue to Subsidize Professional Sports Facility Construction and Operation?

The process of determining how much to subsidize the construction and operation of professional sports facilities involves a complex negotiation between many different groups: team owners, state and local politicians, local businesses, and taxpayers, including team fans. Sometimes the process includes one or more referendums on these subsidies, but the referendum process is not a perfect vehicle for the determination of subsidies.

No matter how they are determined, cities have shown a willingness to provide these subsidies in the past, and continue to provide them today. Why does this continue to happen? Cities may continue to subsidize sports facility construction because the non-pecuniary benefits outweigh the costs in taxpayers' minds. They may continue because proponents of these subsidies are more successful in publicizing the results of their "promotional" economic impact studies than academics are in publicizing their research, leading taxpayers and other decision makers to make ill-informed choices. Local politicians and other elites may derive more private benefits from professional sports than the cost to taxpayers and take action to force them on unwilling taxpayers.

Whatever the reason, it is important to realize that government policies, including government economic policies, have an important impact on the relative amount of influence that each of these groups is able to bring to bear during the negotiation over subsidies for sports facility construction and operation. In particular, the anti-trust protection that this Congress has extended to professional sports leagues provides the owners of professional sports teams with a clear upper hand in these negotiations, and clearly increases the size of the subsidies that professional sports are able to extract from state and local government.

The anti-trust protection extended to professional sports leagues by the Congress allows sports leagues to operate as effective monopolies, or cartels in economic terms. Sports leagues behave exactly like economic theory predicts that cartels will behave: they restrict output in order to earn profits above the level that would prevail if there were competition in the market for professional sports franchises. Restricting the number of franchises means that cities that could support a professional sports team cannot have one. It also implies a loss of social welfare for the residents of cities that want a professional sports team but cannot get one because of leagues' monopoly power. This explains why Los Angeles has been without a National Football League team for over a decade. It also explains why the London, England metropolitan area, with a population of 7.5 million in 2005, can support nine professional soccer teams at the top level, and scores more professional soccer teams at lower levels of competition, while the metropolitan New York area, population 18.7 million in 2005, is home to only nine top-level North American professional sports teams. Professional soccer in the U.K. operates under a promotion and relegation system that allows freedom of entry into the professional sports team market.

American professional sports leagues do not. Professional sports leagues in the U.S. operate as cartels, thanks to the special anti-trust protection provided to these leagues by Congress. The artificial scarcity of professional sports teams generated by this anti-trust protection means that the owner of any professional sports team will always have a viable alternative city to threaten to move to when negotiating for a new publicly financed stadium or arena. The possibility of a team moving to another city provides sports team owners with a huge advantage when negotiating for sports facility construction subsidies, and allows team owners to continue to extract subsidies, even though they are not justified on the basis of tangible economic returns to the taxpayers who provide them.