[Joint – Public Hearing: To review the effectiveness of business subsidies and tax incentives in meeting New York State's economic development goals | NY State Senate]

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Thank you for the invitation to contribute to this public hearing on effectiveness of business subsidies and tax incentive on local economic development. I will address my comments directly towards subsidies for professional sports facilities especially as the taxpayers of New York are soon likely to be asked to consider contributing hundreds of millions of dollars to build a new stadium for the Buffalo Bills.

I am a professor of economics at the College of the Holy Cross in Worcester, Massachusetts. I am past president of the North American Association of Sports Economists, editor of Journal of Sports Economics, author of The Economics of Sports, the leading college textbook of sport economics, and an author of over 100 peer-viewed journal articles or book chapters primarily focusing on the economic impact of sports facilities, teams, and mega-events on local economies.

Camden Yards, the Major League Baseball stadium for the Orioles in Baltimore opened in 1992 and ushered in a wave of new stadiums across the country. The opening of Camden Yards was a watershed moment for stadium construction for two reasons. First, it was a beautiful stadium that vastly improved the fan experience leading to substantially improved attendance for the team, higher ticket prices, increased gate revenues and concession sales, and a gigantic increase in the market value of the team. Seeing the success of Camden Yards, fellow team owners, both in baseball and other sports leagues, got cases of stadium envy and began to lobby for their own new and improved stadiums. The other thing that Camden Yards introduced was the idea that stadiums could play a role in revitalizing local neighborhoods and was billed as an economic driver and therefore worthy of significant public subsidies. In the 30 years since Camden Yards over $65 billion has been spent on stadium construction in the Big 5 North American leagues with over $30 billion of that figure coming from taxpayer subsidies.[1]

[1] It should be noted that this figure understates the total taxpayer contribution to spectator sports as excludes subsidies to other leagues (NCAA, minor league baseball, NASCAR, etc., excludes subsidies for major events like the Olympics, Super Bowl, etc., excludes subsidies like property tax exemptions, stadium maintenance subsidies, etc.)

Academic economists have widely studied the issue of the economic impact generated by stadiums, franchises, and major sporting events since the early 1990s. If cities and states were going to be justifying public subsidies under the guise of economic development, it would be good to see whether these promises of economic development were fulfilled. These studies, unlike those of paid consultants often on the payroll of teams, leagues, or other entities with a vested interest in the outcome of the study, have typically looked back at areas that have had a change in their sports landscape to determine if that sports change was actually reflected in a change in other economic variables such as city GDP, personal income per capita, taxable sales, employment or unemployment, visitor arrivals, or hotel occupancy. These studies are nearly all based on actual reported data and were completed by researchers without ties to the leagues or teams involved. Examples of sports changes include the gain or loss of franchises, the construction of new stadiums or arenas, the loss of sports due to labor interruptions, and the hosting of mega-events like All-Star games and league championships. The sum total of this research comprises hundreds of books, peer-reviewed journal articles, and book chapters.

It is the nearly a unanimous finding among these researchers, and complete agreement among economists is something exceedingly rare, that professional sports result in little to no measurable economic benefits on host cities. An IGM Economics Experts Panel poll question stating, "Providing state and local subsidies to build stadiums for professional sports teams is likely to cost the relevant taxpayers more than any local economic benefits that are generated" resulted in 20 Agree, 5 Strongly Agree, and 1 Disagree among the economists who felt qualified to render an opinion. This is among the highest levels of agreement in the history of this panel.

So, why do these studies fail to find much in the way of economic impact from the thousands of fans who, for example, show up every Sunday at Bills' games?

First, the sports leagues seem in the public mind a lot bigger than they are. In fact, the NFL and all of its teams generate about the same revenue as Sherwin-Williams paint stores, but it would be unlikely that the New State legislature would consider subsidies that paid $500 million to establish paint stores across the state. All spectator sports in the US combined are about the same size as Johnson & Johnson. A typical NFL team employs fewer FTEs than a large department store.

Second, sports entails very high leakages and low multipliers. Normally when a person makes a purchase at a local establishment, say a restaurant, that original purchase has large ripple effects throughout the economy as the restaurant owner or server spends their earnings at other local establishments, say a beauty salon, and that hairdresser spends their earnings again, say at the local hardware store, and so on and so on. However, spending on professional sports is much less likely to recirculate through the local economy. Fewer than 20% of professional athletes live full-time year round in the city in which they play meaning that their earnings don't get respent locally. And billionaire owners tend to amass wealth spending a much smaller percentage of their income on restaurant meals, haircuts, or trips to the local hardware store than the typical consumer. Thus, spending on sports is less beneficial to local economies than most other types of spending.

Third, sports have high substitution effects. The vast majority of fans at most professional sports contests, especially in the NFL, tend to be local residents. In the absence of professional sports, these local residents will simply spend their money elsewhere in the local economy. There is little evidence that cities with professional sports franchises spend significantly more on leisure and entertainment than cities without big-time sports, and there is little evidence that NFL teams in particular generate much in the way of tourist stays. While NFL teams do generate millions of dollars in entertainment spending, this spending tends to be in place of other spending rather than supplementing the spending that is normally occurring in a city. In other words, professional sports tend to simply shuffle around where money gets spent in a city rather than generating new economic activity in a city. Despite not having top division professional sports franchises, Rochester, Syracuse, and Albany all have levels of employment in the leisure and hospitality sector similar to that of Buffalo.

Substitution effects also explain why most academic economists dismiss local neighborhood effects from consideration when discussing economic impact. There is some economic research that uncovers increases in property values in the immediate vicinity of a sports venue, but these increases dissipate rapidly within less than a mile from the stadium. But to the extent that this is driven from economic activity relocating from one part of the city to another, stadiums become and expensive way to simply move economic activity a mile or two down the road.

It is also common for stadium proponents to argue that these facilities benefit other people besides the owners of the primary tenant. Fans don't necessarily benefit from new stadiums as the evidence suggest that team capitalize on the improved stadium experience by raising prices. It is also argued that the stadium can be used for more than just professional sports. While this may be true for indoor arenas like Madison Square Garden, it tends to not be true for NFL stadiums. The typical NFL stadium in the US is used for fewer than 2 major non-sporting events per year.

It is possible to justify some level of public subsidy due to the amenity effects of stadiums. For example, research performed for Jacksonville roughly a decade ago suggested feel-good effects for the NFL's Jaguars (not captured by the team) of roughly $30 million. Of course, the team received over $130 million in subsidies for the team.

It is also reasonable for state and local governments to provide infrastructure assistance for private projects. The otherwise privately funding Gillette Stadium for the New England Patriots benefitted from $25 million in road improvements that improved traffic access to the stadium (but which also generally improved traffic conditions for all motors who drive in the area.)

Since the Great Recession of 2008, cities and states have appeared to have begun to rethink stadium subsidies in some ways. Between 1992 and 2007, the average professional sports facility was paid for by 2/3 public and 1/3 private money. Since 2008, those percentages have reversed themselves although the skyrocketing costs of stadium construction, which are due to the increasingly luxurious facilities demanded by owners not due to increasing general construction costs, have sometimes led to city paying higher dollar amounts for stadiums and arenas despite paying a much lower percentage of total construction costs. While most economists, including myself would not support stadium subsidies that cover even one-third of total stadium costs, any figure above that would not only run contrary to the advice of professional economists but all exceed what the combined city/state subsidies for a sports facilities have averaged over the past decade.

Over and over again, cities have always said, “But this time is different. Our project is special.” But the vast majority of those cities have found that they are not special and that their stadium project is no different than the taxpayer giveaways that economists suggested they would be.

The sum total of the independent evidence does not suggest that sport subsidies standing alone produce social value in excess of their social costs. As part of a larger redevelopment plan, expenditures on teams, facilities, and sports mega-events may induce an increase in economic activity in the urban core, but that generally comes at the expense of other parts of the metropolitan or regional economies. Professional leagues are extremely effective at exerting their monopoly power to pit city against city and neighborhood against neighborhood. Cities can and should take steps to prevent sports from “playing” cities rather than the other way around.

It is the overwhelming consensus of academic economists studying the issue that

1960 Buffalo was 18th largest MSA in the US, currently 49th
There are 7 MSAs in the US with at least twice the population of Buffalo without franchises.